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**INTERNAL MARKET ORIENTATION:
CONSTRUCT, MEASUREMENT AND
CONSEQUENCES**

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To My Parents

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INTERNAL MARKET ORIENTATION: CONSTRUCT, MEASUREMENT AND CONSEQUENCES

Abstract

This thesis contributes to the paucity of marketing research into the area of internal marketing. Drawing from knowledge developed in a diverse range of marketing and management literatures, the domain of internal marketing is clarified and a new concept, internal market orientation is developed. A new instrument, measuring the internal market orientation, is developed and subjected to standard scale development procedures. Six dimensions of the construct are confirmed; collegial interaction, group interaction, formal interaction, external environment, wage flexibility and job flexibility. A sample of 766 UK retail store managers are surveyed to identify levels of internal market orientation and external market orientation in large UK multi-product, multi-site retailers and the structural relationships between internal market orientation, external market orientation and company performance are examined. The external market orientation construct is applied to the local retail market and established measurement instruments adapted to this purpose. Three measures of performance are employed in this study. The structural relationships between the six dimensions of internal market orientation and the three dimensions of external market orientation are examined employing structural equations methodology, using LISREL 8.3. and the impact of internal market orientation on external market orientation and company performance is measured. The study finds no direct link between internal market orientation and financial performance but does identify the moderated role of internal market orientation on financial performance. Significant relationships between three of the six dimensions of internal market orientation and the three dimensions of external market orientation are identified and the impact of internal market orientation on the retention of employees and their behaviour is also identified. The research findings contribute to marketing theory by providing empirical evidence to support the long held assumption that internal marketing has an impact on marketing success and offers an explanation of the mechanism by which this influence operates. For marketing practitioners, the research findings offer additional information on which services marketing strategies may be formulated.

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1 Introduction

In 1981 Booms and Bitner neatly summarised the shifts occurring in marketing thinking at that time. They rephrased the merger of services production and service marketing, found in the literature into a 7Ps framework. In this framework the original 4Ps marketing mix, product, price, promotion and place, is complemented by the addition of a further 3Ps, people, physical evidence and process. This expansion of the marketing mix represents the evolution of marketing management to subjects traditionally considered to be in the remit of other departments in the firm, in particular the human resources department with the inclusion of people in the services marketing mix. It also makes explicit the need for marketers to manage internal factors, people and process, as well as the external factors represented by the traditional marketing mix. This need for service marketers to balance the management of internal elements with external elements has been extensively discussed in the services marketing literature. See for example Azzolini and Shillaber, 1993, Bak et al, 1994, Bhote 1991, Davis 1992, Foreman and Money 1995, George, 1990, Grönroos 1985, Gummesson, 1987, Harari 1991 and 1993, Harrell and Fors 1992, Piercy and Morgan 1990 and 1991, Piercy 1995 and in the strategic management literature, see for example Pfeffer, 1994; Bharadwaj et al, 1993; Hall, 1992; Andrews, 1997; Foss, 1997.

In today's markets the service element of a product is suggested to be the single most important factor in determining long run market share and profitability (Doyle, 1994). Due to the instrumental nature of customer contact employees in influencing customers' perceptions of this quality (Baker et al, 1995; Bitran and Hoechs, 1990; Bailey, 1994; Booms and Bitner, 1981) there is a pressing need to incorporate an internal orientation, focusing on the firms' employees, into the marketing philosophy. This need is particularly emphasised in the retail management literature, and such is the perceived need to focus on employees that the first pillar of marketing (customer focus) is openly challenged (Gummesson, 1994), (Turock, 1998).

According to the DTI (<http://www.dti.gov.uk/comp/benchmark/sects/11ret.htm>), retailing is one of the UK's top service sector industries, directly employing in excess of 2.3

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million people. The level of service provided by the retailer is vital for its success; and, as will be seen, the management of staff is a crucial element of delivering quality services.

Despite the recognised need for retailers to focus on the wants and needs of their employees, much of the investment in the retail sector has been focused on new technology for example increasing use of electronic data interchange, laser and self-scanning, and other point-of-sale equipment. Many of these innovations have a direct impact on the levels of service offered by the retailer and influence the behaviour of customer contact staff. The impact of new technology is identified by the Retail and Distribution Foresight Panel as a major impact on customer needs and expectations, and the skills and training requirements of customer contact staff, (<http://www.dti.gov.uk/comp/benchmark/sects/11ret.htm>). Whilst these and other technological and social developments will have a major impact on traditional retailing methods, the need to provide service to an increasingly discerning market will continue to represent both a challenge and an opportunity to the retail sector.

For this reason there is a pressing need to examine the factors that can influence the service levels experienced by retail customers. As has been indicated above, the impact of customer contact personnel is a major factor in determining this service level. Managerial practices influencing the behaviour of customer contact personnel should be of primary concern to the retail organisations, to the extent that the traditional focus on external markets may now be inadequate in the modern retail context, (Turock, 1998).

Parallel to this body of conceptual research, there is increasing evidence on the positive impact of external marketing orientation on organisational performance (e.g. Narver and Slater, 1990) and the internal barriers to achieving market orientation. Harris, (1999) reviews the literature discussing many barriers to market orientation and concludes that *the attitudes and actions of employees is the strongest influencer of high levels of market orientation*. In this context internal marketing implementation (or internal market orientation) has been posited as one of the major determinants of external marketing (Piercy and Morgan, 1990) and business

performance (Heskett et al, 1994). Piercy and Morgan assert that the underlying purpose of internal marketing is to develop a marketing programme aimed at the internal marketplace of employees, that parallels and matches the marketing programme for the external market place of customers and competitors. As such, there is a need to examine the impact of internal marketing on external marketing (market orientation) and company performance for the further development of marketing theory and managerial practice.

1.1 Performance: An Overview

The need for retail companies to develop strategies aimed at increasing the level of service that they provide has been discussed above, and the evaluation of such a strategy is required to estimate its impact on the performance of the retailer. The view that the role of strategic management is to formulate and implement strategies that have a direct effect on firm performance is commonly held. For example, Barney, (1997) views strategy as patterns of resource allocations that enable a firm to improve or maintain its performance, and Bromily, (1990) argues that strategy is the description of factors associated with superior performance. Schendel and Hofer, (1979) also argue that performance is paramount and is the ultimate test of any strategy. Arising from this belief is the view that the evaluation of business performance is crucial to the business community. This is reflected in the size of the discourse addressing empirical research, which indicates that firm performance is overwhelmingly the dominant dependent variable in management research, (Crowther, 1996).

Financial performance is the most commonly used measure of a firm's performance, and in operationalising financial performance, researchers generally use measures of either accounting performance or market performance to estimate the firm's level of financial performance (cf Rowe and Morrow, 1999). The dominance of these two views of financial performance in the strategic management literature has led to an implicit consensus that the financial performance construct has two dimensions: accounting performance and market performance. However, more recently, some scholars have employed a potential third dimension when operationalising firm financial performance, subjective measures of financial performance. (See for

example; Cannella & Hambrick, 1993; Dess & Robinson, 1984; Fryxell & Wang, 1994).

Rowe and Morrow, (1999) argue that financial performance is a three-dimensional construct, consisting of accounting, market and subjective measures, and that each of these three measures tap the underlying construct of financial performance. They argue that subjective measures of a firm's financial performance are valid indicators of a firm's financial performance, especially when objective measures are unavailable, for example in the case of private firms, not-for-profit organizations, and strategic business units of public firms. Furthermore they argue that subjective measures seem to be theoretically distinct from objective measures in two important aspects:

- Subjective measures have no specific temporal perspective so it is possible to obtain retrospective and/or prospective subjective assessments of a firm's performance.
- Subjective measures can represent the views of stakeholders other than managers and shareholders.

It appears therefore that subjective measures of performance offer benefits over both accounting and market measures of performance and tap the same underlying performance construct.

Financial performance, although important, is only one dimension of a firm's overall performance. Chakravarthy, (1986) suggests that financial measures of performance are inadequate for the evaluation of (overall) strategic performance. He suggests that rather than the conventional perspective of market-based evaluation of performance, alternative perspectives are needed which recognise the need for the firm to satisfy multiple stakeholder groups. Rowe and Morrow, (1999) also point to the limitations of measuring only financial performance, and suggest that other dimensions of performance be measured. They further argue that subjective performance measures may be used to tap these other dimensions of a firm's performance, specifically social performance. The limitations of using financial performance measures are also

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discussed by (Kimberley et al, 1983), who argue that relying solely on financial performance measurement may lead to inadequate and misleading evaluations of performance. They assert the need for multi dimensional measures of performance and maintain that traditional perspectives tend to ignore the fact that organizations perform in other, less observable arenas, than in the financial domain. Furthermore they suggest that paradoxically competence in the less observable arenas may be interpreted as incompetence by those whose judgments are based solely on traditional criteria, most notably in the case of organizations serving the interests of more than one stakeholder. However, notwithstanding the potential for misinterpretation of performance in non financial arenas, Kimberley et al, (1983) argue that performance in these arenas may, in some cases, be more powerful shapers of the future of the firm than performance on traditional criteria. Child, (1983) also supports this view that multiple dimensions of performance are important to the continued success of the organisation.

Crowther, (1996) argues that it is the ability to identify suitable dimensions of performance to measure, which is of critical importance to the firm. In determining which dimensions of performance are important to measure, one must take into account the fact that organizations consist of people, who plan, control and manage a business and also interact with one another. Likert, (1967) acknowledges this in advocating that the human element of management be recognised. The theme of recognising the human element of management is further expanded by Ouchi, (1981), who identified that management styles that include communication, involvement of people, and trust in relationships were present in the best-run American companies and were missing from others.

It appears therefore that subjective measures of financial performance, although reflecting the underlying financial performance of the firm adequately, do not truly reflect the overall performance of the firm. Measures of other dimensions of performance should be employed to complement financial measures and these other dimensions of performance may also be based on subjective evaluations.

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As has already been noted, performance refers to how well strategies have been formulated and implemented. In the retail context, and at the customer interface, the managers of a retail outlet will have a degree of input into the strategy formulation process depending on the level of structure of the organisation. In highly centralised companies this input is likely to be minimal, in highly decentralised companies the input of the manager into the strategy formulation process is likely to be more extensive. Notwithstanding the input to strategy, the role of these managers will include implementing and monitoring the success of the strategy in their outlet, i.e. they will be implementing strategy and monitoring the performance of his or her store, against the corporate strategy on a day-to-day basis. Therefore, many of the day-to-day decisions of the store manager will be based on their subjective evaluation of how well they are doing, compared to corporate targets. In making these decisions, store managers have to balance the sometimes-conflicting needs of various stakeholders, employees, customers, head office with their own individual motivations and objectives (Crowther, 1996)

Hill and Jones, (1992) also identify the central role of managers in reconciling the divergent interests of stakeholder groups. They assert that managers are the only group of stakeholders within the firm who have direct control over the decision-making apparatus of the firm. (p134)

The evolution of management thinking, and the gaining acceptance of the need to satisfy divergent stakeholder groups is also increasingly recognised in the marketing literature. (See for example Mitchell, Agle and Wood, 1997; Rowley, 1997; Greenley and Foxall, 1996, 1997 and 1998.) Accepted marketing thinking elevates the necessity of meeting the needs of customers and focusing on the external environment of competitors and market conditions. However this external focus is increasingly being challenged in scholarly writings and there is a call to re-address this myopic view of marketing and augment the external focus of the firm with an internal focus on employees Gummesson, (1994).

In summary; the measurement of business performance is essential for the evaluation of the strategies that the firm employs to meet its objectives. Furthermore the firms'

strategies for balancing the needs of divergent stakeholders cannot be assessed simply by financial measures, as these are measures of just one aspect of performance. Other performance measures need to be employed to assess how well the firm is performing in meeting the needs of its other stakeholders, such as employees and customers. The use of objective measurements of performance may not provide the most accurate predictor of future managerial behaviour, especially when managers have to make day-to-day decisions based on their subjective evaluations of performance in several dimensions. In such instances subjective measurements may provide a more accurate predictor of future behaviour than objective ones.

Chapter 2 introduces the concept of market orientation as one of the strategic choices available to managers in meeting the wants and needs of important external stakeholders, customers. This is followed by a review of the literature relevant to meeting the needs of one important internal stakeholder, employees in chapter 3. Prior to discussing these two major themes in detail, an overview of the main concepts involved is presented below.

1.2 Market Orientation: An Overview

The notion of market orientation can be traced to the marketing concept and it is rooted in the implementation of that concept. However, as Tuominen and Möller, (1996) suggest, the marketing concept has been more the subject of academic debate than a practical basis for managing business activities, and ironically, for such a commonly used notion the marketing concept has not yet achieved clarity of definition (cf Kohli and Jaworski, 1990). The American Marketing Association (AMA) provides the most widespread definition of marketing found in marketing textbooks.

'Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.'

Marketing is essentially concerned with the development and maintenance of an external orientation and sensitivity rather than an internal orientation (cf Anderson,

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1982; Gummesson, 1994, 1998). Conceptually, marketing is concerned with the development and maintenance of mutually beneficial relationships with external constituencies, it is seen as market driven and customer focused. This conceptualisation of marketing is called marketing orientation to differentiate it from sales orientation or profit orientation (Hooley et al, 1990; Hunt and Morgan, 1995)

In more recent literature market orientation has been differentiated from marketing orientation with its single external focus on the customer. Market orientation, in contrast, puts the marketing emphasis on both customers and competitors as well as on organisational issues. Hunt and Morgan, (1995) stress that market orientation is not the same as, nor a different form of, nor the implementation of the marketing concept, it should be conceptualised as a supplementary to the marketing concept. (Greenley, 1995) asserts that the concept of market orientation is the cornerstone of both marketing and strategic management. It has been defined empirically and validated as a way of improving business performance. However, the literature dealing with market orientation shows remarkable inconsistency in defining and operationalising the concept.

Webster, (1988) defines the market oriented concept as a philosophy involving; customer-oriented values and beliefs, supported by top management, integration of the market and customer focus into the strategic planning process, the development of strong marketing managers, the creation of market based measures of performance and the development of customer commitment throughout the organisation. Shapiro, (1988) argues that effective communication and coordination across departmental barriers is essential to becoming customer oriented, a view supported by Narver and Slater, (1990), who define market orientation as a three-dimensional highly interrelated construct consisting of customer orientation, competitor orientation and interfunctional coordination. Customer and competitor orientation involve all the activities required to acquire information about customers and competitors and disseminate it throughout the firm, interfunctional coordination is based on the market information and involves coordinated activities necessary to create superior value for customers. Kohli and Jaworski, (1990) propose that market orientation comprises three sets of activities: organisation wide information generation of market

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intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and an organisation wide responsiveness to it.

Several studies explore the relationship between market orientation and some output measure such as profitability or customer satisfaction, see for example McCullough, Heng and Khem, (1986); Narver and Slater, (1990); Naidu and Narayana, (1991); Ruekert, (1992); Wong and Saunders, (1993); Day and Nedungadi (1994); Pelham and Wilson, (1996); Chang and Chen, (1998) and Vorhies, Harker and Rao, (1999). Perhaps the most significant finding for theorists and practitioners is the consistent evidence that being market oriented does improve organisational performance. This has been found to be true for large firms (Jaworski and Kohli, 1993; Day and Nedungadi 1994) as well as for small firms (Pelham and Wilson, 1996) for product producers, (Narver and Slater, 1990; Vorhies et al, 1999), as well as service suppliers (Naidu and Narayana, 1991; Chang and Chan, 1998 and Vorhies et al, 1999) and for-profit (Slater and Narver, 1994) as well as for not for profit (Wrenn, LaTour and Calder, 1994), low tech (Decker, 1995) and hi tech (Ruekert, 1992) firms.

Adopting a market orientation is also suggested to provide significant internal benefits in addition to the external benefits of increased business performance. Chang and Chen, (1998) report that market oriented firms perform significantly better in terms of new product development, Sigauw, Brown and Widing, (1994) report market orientation positively impacts on employees' levels of customer orientation, job satisfaction and organisational commitment and negatively impact employees' role stress. Jaworski and Kohli, (1993) also report a positive relationship between the firms' market orientation and the employees' commitment to the firm.

In addition to the internal consequences of market orientation, Jaworski and Kohli, (1993) identify several internal; antecedents to market orientation. These include:

- Top management support
managers must continuously emphasise the need for tracking and responding to market intelligence,

- **Interdepartmental connectedness**
the accessibility and communication between departments, irrespective of rank or position influences the level of market orientation in the firm. Employee must be comfortable with employees from other departments and managers must encourage discussions between employees in different departments.
- **Interdepartmental conflict**
the level of shared goals between departments and the ease with which employees interact with each other influences market orientation in the firm.
- **Reward systems**
rewarding employees for their sensitivity to market information facilitates the adoption of market orientation in the firm.

1.3 Internal Marketing: An Overview

The relationship between internal aspects of the firm and market orientation is also discussed in the internal marketing literature. Important antecedents to market orientation, such as appropriate reward systems and interdepartmental connectedness are identified as elements of internal marketing, (Tansuhaj, Wong and McCullough, 1987; Heskett et al, 1994).

Internal marketing also has similar consequences in terms of, employee satisfaction, commitment and customer orientation and external market performance, as does market orientation, (George, 1990; Gummesson, 1990; Piercy, 1995; Bowen, 1996).

Recent literature has discussed the need for marketing organisations to focus not just on customers and competitors, as discussed in the market orientation literature, but on a broader range of stakeholders. For example Greenley and Foxall, (1996 and 1997) find that a company orientation on internal and external stakeholders results in observable consequences in company performance. The need for both internal and external orientation to achieve marketing success is supported by, amongst others, Lucas and Maignan, (1996) and Flipo, (1986). Greenley and Foxall, (1996) report

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that external (consumer) orientation predicts an internal (employee) orientation, suggesting that the internal and external orientations are causally linked.

The relationship between internal and external orientations, in the marketing organisation is the focus of the internal marketing literature. The concept of internal marketing has been variously defined within the literature. (See for example Azzolini and Shillaber, 1993; Bak et al, 1994; Bhote, 1991; Davis, 1992; Foreman and Money, 1995; George, 1990; Grönroos, 1985; Gummesson, 1987; Harari, 1991 and 1993; Harrell and Fors, 1992; Piercy and Morgan, 1990 and 1991; Piercy, 1995; Mohr-Jackson, 1991). However, despite this attention there is still confusion over the scope and nature of the subject, (Rafiq and Ahmed, 1993). Common to all discussions of internal marketing is the basic proposal that marketing like techniques applied to customers inside the firm can affect performance in the external market.

The recognition that internal aspects of the firm should take equal importance to external factors has been discussed by several authors and represent a shift in the marketing paradigm. (See for example Azzolini and Shillaber, 1993; Bak et al, 1994; Bhote, 1991; Davis, 1992; Foreman and Money, 1995; George, 1990; Grönroos, 1985; Gummesson, 1987; Harari, 1991 and 1993; Harrell and Fors, 1992; Piercy and Morgan, 1990 and 1991; Piercy, 1995) and in the strategic management literature, (See for example Pfeffer, 1994; Bharadwaj et al, 1993; Hall, 1992; Andrews, 1997; Foss, 1997).

Gummesson, (1994) suggests that this shift in the marketing paradigm is a natural evolution of marketing thinking, which has constantly been modified and amended since it was first considered worthy of study. He asserts that a myopic external focus has replaced the myopic internal focus of the firm, this he terms a *service marketing myopia*. Gummesson further argues that the transition from a dominant internal focus, marketing myopia 1, (Levitt's (1960) marketing myopia) to a dominant focus on the external market, marketing myopia 2 or service marketing myopia, is no progress, (Gummesson, 1998). Gummesson further argues that quality management must be approached externally, from the market and internally, from the organisation. Morgan, (1990) also identifies inherent weaknesses in the exclusive

focus of marketing thinking and attention on customers. He argues that developing strategies to exploit the market is often not enough on its own to achieve the implementation of the marketing strategy. Morgan, (1990) proposes the development of an internal marketing programme to achieve the organisational change necessary to realise the external marketing strategy.

The myopic external focus of the firm is also identified within the strategic management literature. Here the importance of considering both internal and external aspects of the firm when developing strategies is recognised, but the view that external factors are the most important of these considerations still dominates. Andrews, (1997). The need to balance the internal and external foci of strategic management thinking is discussed by Foss, (1997), who stresses the need for a unified rigorous approach to strategy that can satisfactorily accommodate the basic idea that *both internal and external aspects should be featured on an equal footing*.

Other authors have discussed the need to focus on employees if a successful market orientation is to be developed (Kelly, 1992; Miller and Lewis, 1991; Canning, 1988; Masiello, 1988; Shapiro, 1988; Day, 1994).

It appears therefore that the firm's internal focus has the potential to impact the performance of the firm in the market, both directly by improving service quality, customer satisfaction, performance and profit, and indirectly by improving market orientation.

1.4 The Research Gap – Internal Marketing, Local Market Orientation And Performance

Despite considerable attention to the role of employees in the development of a market orientation, (Grönroos, 1981; Stauss, 1990; George, 1990; Gummesson, 1990; Slater and Narver, 1994; Jaworski and Kohli, 1993; Sigauw et al, 1994; Tuominen and Möller, 1996; Mengüç, 1996) and an increasing recognition that internal marketing has a role to play in external marketing (Grönroos, 1990) there remains a paucity of empirical or conceptual evidence to demonstrate the relationship between this internal orientation and external market orientation (Conduit and

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Mavondo, 2000). This scarcity of systematic research into the role of internal marketing and its impact on company performance, both directly and by facilitating market orientation in the firm, suggests the need for information concerning the internal marketing – market orientation link.

Before the influence of internal marketing on market orientation and company performance can be fully determined it is necessary to develop a clear conceptualisation of its domain. Internal marketing remains ill defined and definitions range from viewing internal marketing as either a concept, a philosophy or a management practice, (e.g. Grönroos, 1985; George, 1990 and Wilson, 1991), as either relating to human resources management, (e.g. Berry and Parasuraman, 1991; Berry, 1981, 1983 and 1984; Van Haastreht and Bekkers, 1995 and George, 1990), services marketing (e.g. Gummesson, 1987 and Grönroos, 1985), or change management, (Piercy, 1995). The question to be addressed here is to identify how internal marketing has been conceptualised and how have these conceptualisations been operationalised.

Therefore a critical examination of the current conceptualisation of internal marketing is needed in order to establish a clear domain of the construct. Furthermore, any measurement instrument used or developed must be relevant to this domain.

A third issue concerns the measurement of market orientation in the local setting. The majority of the market orientation research to date has conceptualised market orientation as a corporate level construct; where either the survey respondents have been executives or managers of firms with national and/or international customers (see for example, Narver and Slater 1990; Ruekert 1992; Greenley 1995). The respondents in this study will be retail managers who will have a dominant focus on their local customers and competitors, rather than the national and international markets, which would be the focus of the head office executives. It will therefore be necessary in this research to re-examine the market orientation construct and establish its validity in the context of local markets. In this context local market orientation refers to the activities of store managers in identifying and reacting to

local customers current and future wants and needs, (which may be different to the national or international picture) and the activities of competitors in the local market.

1.5 Objectives

The objectives of this study follow from the above discussion and are centred on the empirical evidence concerning internal market orientation in the retail context. The main objective of this research is to examine the impact of internal market orientation (the implementation of internal marketing) in the retail context. More specifically the impact of internal market orientation on external market orientation and company performance will be examined.

Objective 1

To assess the impact of internal market orientation on important organisational factors, specifically market orientation and performance.

Prior to any examination of the impact of internal market orientation on organisational factors it is necessary to clarify the internal marketing construct and its implementation (internal market orientation) and to develop a valid and reliable instrument to measure internal market orientation. This gives rise to two further main objectives of the study.

Objective 2

To define the domain of internal marketing and to specify the conceptual parameters of a new concept; internal market orientation.

And

Objective 3

To develop a valid and reliable measure of the internal market orientation concept.

In addition to the three primary objectives stated above, the project has three further secondary objectives, relating to the nature of external market orientation. In order that information about any impact of internal market orientation on external market orientation and company performance can be obtained in this study it is necessary to a) examine the applicability of the external market orientation construct to the retail context, and b) identify the structural relationships between external market orientation and company performance in this research context. Also in order to identify which dimensions of external market orientation are influenced by internal market orientation, the external market orientation construct will be modelled as three separate dimensions. This will also allow the structural relationships between the external market orientation dimensions to be examined, an area highlighted by Kohli et al (1993) as requiring further investigation.

Objective 4

To provide additional evidence of the generalisability of the market orientation construct to different contexts, namely UK local retail markets.

Objective 5

To provide additional evidence of the market orientation-performance link in different contexts, namely UK local retail markets.

Objective 6

To examine the potential causal relationships between the dimensions of external market orientation in this research context.

In addressing these research objectives this project will contribute to marketing knowledge at several levels. At the theoretical and methodological level the project will clarify the concept of internal marketing and develop an instrument to measure its implementation (internal market orientation). The structure of internal market orientation will be revealed and the structural relationships between the dimensions

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of internal market orientation and the dimensions of market orientation and important organisational performance indicators in the UK local retail context will be elucidated. Further evidence of the market orientation-performance link will be provided adding to the extant body of knowledge in this area. Finally the structural relationship between the dimensions of external market orientation will be uncovered.

At the managerial level the project will contribute to marketing knowledge by providing managers with a straightforward pen and ink instrument to identify levels of internal market orientation in retail stores. This can be used to ascertain the need for management training in important areas of internal market orientation and will demonstrate the direct and indirect financial and non-financial benefits of such internal market orientated behaviour.

In addressing these research objectives this thesis adopts the following structure. Market orientation is discussed in Chapter 2, the domain of the construct, and how it is operationalised, is explored. Chapter 3 examines the extant literature relating to internal marketing and explores the role of internal marketing in developing an internal orientation to complement the external focus of market orientation. Chapter 3 concludes with the development of a new construct, internal market orientation, which is presented. Conceptual models of internal market orientation and its impact on market orientation and performance are developed. At this juncture, general propositions about the relationships between internal market orientation, market orientation and company performance are presented. Specific hypotheses relating to the relationships between these constructs are not developed until in chapter 6, after the dimensions of internal market orientation have been identified and tested and the dimensions of market orientation and performance have been confirmed in chapter 5.

Prior to the identification of and testing of the internal market orientation dimensions and the development of specific hypotheses, Chapter 4 discusses the issues pertinent to the appropriate choice of methodology to undertake the research required to examine the internal market orientation construct and to explore its relationship with market orientation and performance.

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The internal market orientation construct is operationalised in chapter 5 and a valid and reliable measurement instrument is developed and presented. In chapter 6, specific hypotheses relating to the structural relationships between the six discovered dimensions of the new internal market orientation construct and the market orientation and performance of the firm are developed and tested using structural equations methodology.

Chapter 7 discusses the managerial and theoretical implications of this research, explores the limitations of the current study and develops research directions to expand on the knowledge generated in this project.

2 Market Orientation

Prior to any discussion of market orientation, it is necessary to examine and define the terms used. Shapiro, (1988) identifies that several different phrases, with few important distinctions between them, are used. These phrases include 'market oriented', 'marketing oriented', 'customer oriented', 'close to the customer' and 'market driven'. These terms are most often used to mean the implementation of the marketing concept. However, as Kohli and Jaworski, (1990) argue, market orientation has a more holistic emphasis and focuses on the broader market, it should therefore be used in preference to these other phrases.

Wrenn, (1997) proposes a standardised nomenclature for research into the market orientation construct and, differentiates between the marketing concept, marketing orientation and market orientation. In line with other researchers (see for example, Deshpandé and Webster, 1989; Wong and Saunders, 1993; Hunt and Morgan, 1995), Wrenn suggests that the marketing concept is best considered as a philosophy of doing business that defines a distinct organisational culture, putting the customer in the centre of the firm's thinking about strategy and operations. Marketing orientation is considered the implementation of the marketing concept.

In contrast to the marketing concept, and its operationalisation in marketing orientation, market orientation is concerned with both customers and competitors (see for example, Narver and Slater, 1990; Day and Nedungadi, 1994; Slater and Narver, 1994) and is 'not the same thing, nor a different form of, nor the implementation of, the marketing concept' (Hunt and Morgan, 1995). Kohli and Jaworski, (1990) define the market orientation concept as just that which Hunt and Morgan state that it is not, the operationalisation of the marketing concept. Kohli and Jaworski, (1990), state

Market orientation is the organisation wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation wide responsiveness to it.

This is clearly operationalising marketing through market-orientated behaviour.

As can be seen from the above discussion, conceptualisations of market orientation are mixed. It is variously considered in the literature as a set of management behaviours, (see for example Narver and Slater, 1990; Kohli and Jaworski, 1990; Jaworski and Kohli, 1992; Slater and Narver, 1994; Kohli et al, 1993), or a business philosophy directing behaviour and action, and which translates the philosophy into business strategies. (See for example Webster, 1988; Hooley et al, 1990; Lichtenthal and Wilson, 1992; Tuominen and Möller, 1996).

In an attempt to elucidate the market orientation concept the two categorisations, market orientation as a philosophy and market orientation as a behaviour, are discussed below.

2.1 Market Orientation as a Business Philosophy

The philosophical perspective to market orientation is based on the underlying principle that the marketing concept and market orientation are the same (cf Brunning and Lockshin, 1994) Therefore, market oriented firms are those for whom the marketing concept is the driving business philosophy.

Lichtenthal and Wilson, (1992) argue that market orientation should be a ‘visible hand’ that guides managerial and individual behaviour. Webster, (1988) states several requirements of the concept. Customer oriented values and beliefs, supported by top management; integration of market and customer focus into the strategic planning process; the development of strong marketing managers and programmes; the creation of market based measures of performance; and the development of customer commitment throughout the organisation. These requirements of the market oriented firm, emphasise the need for the organisation to adopt the philosophical concepts of customer oriented values and beliefs, market and customer focus and customer commitment.

In academic discourses the philosophical perspective has also been adopted. Narver and Slater, (1990) define market orientation as

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The organisational culture...that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business.

However, Narver and Slater, (1990) also suggest that the important dimensions of market orientation are customer orientation, competitor orientation and interfunctional coordination. These represent behavioural components of market orientation as will be seen later.

Hooley et al, (1990) also adopt a philosophical perspective, viewing marketing as a guiding philosophy for the whole organisation. They suggest that by guiding the development of attitudes and values within the organisation, business performance outcomes will be improved. This view of marketing as a guiding philosophy is well adopted in the academic marketing discourse, see for example (Hooley et al, 1992; Wong and Saunders, 1993; Sui and Wilson, 1995; Turner and Spencer, 1997; Wright, Pearce and Busbin, 1997)

The underlying assumption of the philosophical perspective of market orientation is that organisational attitudes, values, and beliefs influence the behaviour of the firm, and ultimately its performance.

2.2 Market Orientation as a Behaviour

In contrast to the philosophical approach to market orientation discussed above, the behavioural approach to market orientation focuses on the activities and processes undertaken by the firm, it is considered to be the implementation of the marketing concept (McCarthy and Perreault, 1990). The assumption of the philosophical approach is that changes in attitudes, values, and beliefs will result in behavioural change. However, the relationship between changes in attitudes, values, and beliefs and changes in behaviour cannot be assumed. As such the adoption of the marketing concept as a philosophy does not necessarily predict market oriented behaviour. Examining market orientation from the behavioural perspective requires that the actions are measured, rather than beliefs. In essence, while adoption of the marketing

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philosophy may be important in determining market-orientated behaviour, it is not considered market oriented of itself.

As has been previously noted, market orientation is considered by some to be the implementation of the marketing concept (Kohli and Jaworski, 1990) and has been argued by others to be not the same thing, nor a different form of, nor the implementation of, the marketing concept' (Hunt and Morgan, 1995). Despite this confusion over the exact nature of the market orientation concept Pulendran and Speed, (1996) report that the distinction between the business philosophy (marketing concept) and the specific activities required for implementation of that concept (market orientation) has now been widely accepted within the research community.

Several common themes arise within research adopting the behavioural perspective. As has been noted earlier Narver and Slater, (1990) suggest that market orientation is a philosophy of doing business but also emphasise the behaviours associated with that philosophy. The dimensions of market orientation that they identify, customer and competitor orientations, and interfunctional coordination, are discussed in terms of the behaviours appropriate to achieve them. Examples of customer orientation would be the extent of monitoring of employee commitment to customers, competitive strategy based on understanding customer wants and needs, and management understanding of how the business can create customer value (Pelham, 1997). Examples of competitive orientation are the extent of salespeople sharing competitive information with other functions, the extent of top management discussion of competitive strengths and weaknesses and strategies, and the frequency of the firm taking advantages of targeted opportunities to take advantage of competitor weaknesses. Day, (1990) suggests that market orientation represents superior skills in understanding and satisfying customers as well as understanding competitors and reports that market driven firms balancing these two orientations achieve better performance than those that focus on either orientation, (Day and Nedungadi, 1994). An example of Narver and Slater's third dimension of market orientation, interfunctional coordination, is the sharing of customer and competitor information in order for all departments and individuals to develop an adequate understanding of customer wants and needs and to develop plans to cope with the

competition. Slater and Narver, (1994) suggest that this interfunctional coordination is necessary because all employees, in all departments, have the potential to contribute to customer value.

In an alternative operationalisation (Kohli and Jaworski, 1990), market orientation is considered to consist of three conceptually similar but different dimensions; the organisation wide generation, dissemination and responsiveness to market information.

As the above discussion indicates, although the specific nomenclature may vary, there appears to be consensus that market orientation involves the collection of market information, its analysis and dissemination and an appropriate response to that information. See for example Day and Wensley, (1988); Narver and Slater, (1990); Kohli and Jaworski, (1990); Deng and Dart, (1994); Hunt and Morgan, (1995); Siguaw et al, (1996) and Wright et al, (1997). Furthermore, responsiveness has been further defined as composing of two distinct activities, response design, using market intelligence to develop plans, and response implementation, executing those plans (Kohli, Jaworski and Kumar, 1993).

The details of information acquisition, dissemination and responsiveness as behavioural dimensions of market orientation are discussed in more detail below.

2.2.1 Generation of Intelligence

Market intelligence, in the context of the behavioural conceptualisation of market orientation, has a broader meaning than in the philosophical approach. The philosophy of market orientation involves customer focus, coordinated marketing and profitability, the three pillars of marketing. As Kohli and Jaworski, (1990) explain, this traditional view of marketing perceives customer focus as collecting information from customers about their needs and preferences. Market intelligence is, however a broader concept. Narver and Slater, (1990) and Day, (1990) recognise this and argue that information about customer wants and needs, and competitor activities is required of the market-oriented firm. Kohli and Jaworski, (1990) broaden intelligence generation still further and suggest that it involves consideration of (1)

exogenous market factors (e.g., competition, regulation) that affect customer needs and preferences and (2) current as well as future needs of customers. Kohli and Jaworski, (1990) stress that these extensions do not challenge the spirit of the first pillar of the marketing concept, customer focus, rather, they reflect practitioner's broader, more strategic concerns related to the customer.

Kohli, Jaworski and Kumar, (1993) suggest that their expanded emphasis of market orientation, generating and disseminating intelligence about the market, overcomes limitations inherent in the conceptualisations proposed by Day and Wensley, (1988) and Narver and Slater, (1990) which focus on customers and competitors only. Kohli, Jaworski and Kumar, (1993) argue that the demands made on the firm by customers and competitors need to be balanced with the needs of other external stakeholders and the forces that shape the underlying needs and expectations of the marketplace.

Jones and Sasser, (1996) advocate listening to the customer to facilitate the acquisition of market information, and propose five mechanisms to do this. These are:

1. Using customer satisfaction indices.
2. Using feedback in the form of comments and questions.
3. Using market research, in particular interviewing customers when they join and when they leave the company.
4. Strategic activities, such as using customers as a target group for employment within the firm and involving customers in new product development.
5. Using front line personnel.

Jones and Sasser, (1996) stress the use of front line personnel as a '*...superb means of listening.*' However, they also stress the importance of training these front line personnel to listen properly and to put processes in place to capture and disseminate the information collected.

2.2.2 Dissemination of Intelligence

Narver and Slater, (1990) stress the need for interfunctional coordination in developing a market orientation and suggest that this interfunctional coordination is necessary because all employees, in all departments, have the potential to contribute to customer value. These employees require customer and competitor information to be shared so that they can develop plans to do this Slater and Narver, (1994).

Kohli and Jaworski, (1990) suggest that interfunctional co-ordination takes on a specific meaning in the context of market orientation, namely *co-ordination as it relates to market intelligence*. They note in their exploratory examination of the market orientation construct that for an organisation to adapt to market needs, market intelligence must be communicated, disseminated and perhaps even sold to relevant departments and individuals in the organisation. Furthermore, although Kohli and Jaworski recognise the importance of formal procedures in disseminating intelligence, they emphasise the power of informal discussions in this process.

2.2.3 Responsiveness

Kohli and Jaworski, (1990) identify that unless the organisation responds to the market information that has been collected and disseminated, little is accomplished. They suggest that market oriented responses include selecting customer targets and offering and promoting products and services that meet current and expected needs. Virtually all departments are involved in this process, not just the marketing department.

2.3 Antecedents and Consequence of Market Orientation

In their review of market orientation, Tuominen and Möller, (1996) summarise the antecedents to the construct. They identify that organisational and individual behaviours are important factors in developing and maintaining a market orientation, in particular management's role in developing appropriate systems and structures for market orientation. These include, the use of appropriate human resources policies, (recruitment, training and rewards systems) to foster market oriented attitudes and beliefs, a market oriented culture, and to reduce interdepartmental conflict and barriers, and develop interdepartmental coordination and communication. Cadogan

and Diamantopoulos, (1995) also share the view that human resources policies have an impact on market-oriented behaviour, however they argue that this is a moderating effect and not a direct antecedent role.

2.3.1 Internal Consequences of Market Orientation

The role of market orientation in improving business performance will be discussed later, however at this point it is salient to discuss the internal consequence of market orientation. Adopting a market orientation can have significant internal benefits to the firm in addition to the external market performance benefits attributable to its adoption (Wrenn, 1997). Kohli and Jaworski, (1990) assert that market orientation impacts internally on employees and externally on customers. This view is also reflected by Lichtenthal and Wilson, (1992) who assert that market orientation impacts internally on organisational and individual behaviour. Specifically the internal benefits of adopting a market-oriented behaviour are suggested to be employee commitment (Jaworski and Kohli, 1993; Siguaw et al, 1994), esprit de corps (Jaworski and Kohli, 1993) and job satisfaction (Siguaw et al, 1994). The role of employee commitment and esprit de corps as consequences of market orientation is not, however, universally accepted. Tuominen and Möller, (1996) argue that these factors have a more complex role as antecedents, moderators and consequences of market orientation.

The effect of market orientation on employees is further examined by Mengüç, (1996) who determines that in market oriented companies sales people show more customer orientation, less role ambiguity and less role conflict. Role stress, (both role conflict and role ambiguity) is associated negatively with job satisfaction and employee commitment. Mengüç, (1996) finds that improving the market orientation of the organisation increases levels of job satisfaction and employee commitment, and the sales force becomes more customer-orientated.

2.3.2 Internal Antecedents to Market Orientation

Martin, Martin and Grbac, (1998) maintain that to effectively engage in market oriented activities requires the involvement and participation of employees at all levels and in all functions. They assert that this is not a marketing problem but a

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problem of implementing a culture throughout the organisation. However, Martin et al, (1998) also declare that the question of how to involve employees in marketing and to motivate them to autonomously make decisions that can more effectively satisfy customer needs (customer orientation) remains unanswered. Some insight into the solution to this problem may be provided by Jaworski and Kohli, (1993), who report that, compared to the other antecedents studied, organisational reward systems have the strongest impact on market orientation. They argue that by adopting the correct reward system managers can facilitate all three elements of market orientation, information generation, dissemination and responsiveness.

In terms of responsiveness to market needs, Mengüç, (1996) asserts that the relationship between the market orientation of the organisation and the customer orientation of personnel is not straightforward. He reports that levels of customer orientation among sales people can be significantly different to levels of market orientation in the firm. This difference in the focus of the organisation and its employees can give rise to role conflict in these front line personnel. Mengüç, (1996) concludes that the greater the difference between the market orientation of the firm and the customer orientation of the sales people the greater their role conflict and hence the lower their job satisfaction and organisational commitment.

Decentralising decision making may also have a positive impact on market orientation, Jaworski and Kohli, (1993) report that centralised decision making inhibited market orientation. However, it was not clear whether intelligence generation or dissemination was inhibited by centralising decision making.

The internal factors impacting on market orientation are presented in Table 2-1 below.

Table 2-1 Internal and External Antecedents to Market Orientation, Adapted from Tuominen and Möller, (1996)

Internal antecedents to market orientation	Human resource policy	Organisational resources	Coordinating mechanisms	Reward systems	Training	Recruiting	Senior management	Organisational systems	Information processing	Interfunctional relations	Organisational structure	Values and Attitudes	Business Philosophy	Internal hierarchies
Ruekert et al, (1985)														
Lusch & Laczniak, (1987)														
Hooley et al, (1990)														
Doyle & Hooley, (1992)														
Lichtenthal & Wilson, (1992)														
Deshpandé et al, (1993)														
Avolinitis et al, (1993)														
Kohli & Jaworski, (1990)														
Ruekert, (1992)														
Kohli & Jaworski, (1993)														
Kohli et al, (1993)														
Cadogan & Diamantopoulos, (1995)														
Antilla et al, (1995)														
Slater & Narver, (1994)														
Siguaw et al, (1994)														
Hunt & Morgan, (1995)														
Moorman, (1995)														

At this juncture it appears that despite general acceptance that employees are important in the development of a market orientation, the role that employees play in developing market orientation is unclear. Furthermore the issue of motivating employees to become market oriented and display market oriented behaviour is also unclear.

There is a large body of literature that examines the use of marketing like techniques to motivate employees to customer consciousness and market orientation. Prior to reviewing this literature in chapter 3, it is important to examine the impact of market orientation on company performance in more detail.

2.3.3 The Impact of Market Orientation on Performance

Wrenn, (1997) asserts that perhaps the most significant finding for marketing theorists and practitioners is the consistent evidence to suggest that being market oriented does improve organisational performance. This has been shown to be true for large firms (Jaworski and Kohli, 1993; Day and Nedungadi, 1994) as well as small firms (Pelham and Wilson, 1996). The association is true for product producers, (Narver & Slater, 1990; Vorhies et al, 1999), and service suppliers, (Naidu and Narayana, 1991; Chang and Chan, 1998; Vorhies et al, 1999), and for profit making organisations, (Slater and Narver, 1994), as well as non-profit organisations (Wrenn, LaTour and Calder, 1994). The association between market orientation and performance has also been confirmed in low tech (Decker, 1985) and high tech firms (Ruekert, 1992).

Jaworski and Kohli, (1993) report that market orientation correlates significantly with judgmental measures of company performance, but not with the more objective measure of market share. The 1993 study by Jaworski and Kohli support the findings of earlier research into the impact of market orientation on company performance, (Narver and Slater, 1990). Narver and Slater's study focused on commodity businesses and identified that market orientation is associated with company performance, (ROA and retention of customers). Interestingly this study identified that the relationship between market orientation and return on assets was not linear, but takes the form of an inverted curve with those companies achieving the highest

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levels of market orientation achieving the greatest performance, and those with the lowest levels of market orientation achieving the second greatest performance. Companies that were stuck in the middle showed the lowest levels of performance.

Slater and Narver, (1994) report that market orientation also has a significant positive effect on sales growth and new product success. They find that competitive environment has no moderating effect on the market orientation-performance relationship, confirming the findings of Jaworski and Kohli, (1993) who also investigated the possibility that competitive environment is an important factor in the market orientation-performance relationship.

Research in the UK proves to be inconsistent with the US studies of Jaworski and Kohli, (1993) and Slater and Narver, (1994). Greenley, (1995) reports that market orientation does not have a direct effect on performance (ROI, new product success and sales growth), but is moderated by environmental variables. He reports that market orientation leads to ROI at low levels of market turbulence, market orientation only leads to new product success in technologically stable markets and market orientation leads to sales growth only when the customer has some power over the company.

Pelham, (1997) asserts that, although a theoretical base exists for the relationship between market orientation and performance, there are still questions as to how market oriented behaviours may be specifically linked to profitability. Furthermore knowledge of the market orientation-performance relationship needs to be expanded to include an understanding of how the behaviours exemplified by the dimensions of market orientation can lead to profitability.

The lack of clarity in the relationship between market orientation and performance is discussed by Pelham, (1997), who suggests that a more comprehensive model, composed of multiple dimensions of performance needs to be examined. Pelham asserts that market-oriented behaviour may be more closely (and directly) related to some performance dimensions than others. This assertion is supported in the scholarly discourse on management research, (see for example Chakravarthy, 1986;

Covin, Prescott, and Slevin, 1990), where the inadequacy of operationalising firm performance with a single measure of profitability, such as return on investment or return on assets has been demonstrated. Chakravarthy, (1986) argues that financial criteria define only one set of necessary conditions for excellence, and taken in isolation are not sufficient to indicate overall performance. This stream of management research has demonstrated the multi-dimensional nature of firm performance and the limitations of cross-sectional comparisons of firm performance using only objective measures (Venkatraman and Rananujam, 1986).

Therefore as Pelham, (1997) concludes, in the study of the market orientation-performance relationship, it is important to appropriately operationalise both the construct of performance and the construct of market orientation. Operationalising these two constructs is discussed in the next section of this chapter,

2.4 Measuring Market Orientation

2.4.1 Narver and Slater

Narver and Slater, (1990) provided the first operational measure of market orientation and analysed its effect on business profitability. Narver and Slater operationalised market orientation as

The organisational culture...that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business.

Narver and Slater, (1990) argue further that market orientation consists of three behavioural components, (customer orientation, competitor orientation and interfunctional coordination). They state that customer orientation is the sufficient understanding of buyers to be able to create superior value for the customers, competitor orientation involves understanding the strengths and weaknesses of key current and potential competitors and interfunctional coordination comprises the firms' coordinated efforts to continuously create superior value for customers.

In operationalising market orientation, Narver and Slater, (1990) developed a measure composed of subscales to measure the three behavioural components and state that a business's magnitude of market orientation is the average of its scores on

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the three components of market orientation. The behavioural components are measured on multi-item scales, (6 items for customer orientation, 4 items for competitor orientation and 5 items for interfunctional coordination). The total sample, 110 US based SBUs in a large corporation, was split into two and the reliability was calculated for each of the behavioural components giving coefficient alphas of no less than 0.85 for customer orientation, 0.72 for competitor orientation and 0.71 for interfunctional coordination. Narver and Slater also factor analysed their three component market orientation scale and obtained a one factor solution, accordingly, market orientation was calculated using the average of the scores obtained on the three scales.

Narver and Slater, (1990) went on to examine the impact of the degree of market orientation on business ROA. They report a significant and positive correlation between market orientation and ROA for non-commodity (speciality) businesses but a significant negative correlation between market orientation and ROA in commodity (distribution) businesses. Furthermore, Narver and Slater, (1990) also report that, in the commodity business, the relationship between market orientation and return on assets is not linear, but takes the form of an inverted curve with those companies achieving the highest levels of market orientation achieving the greatest performance, and those with the lowest levels of market orientation achieving the second greatest performance. Companies that were stuck in the middle showed the lowest levels of performance.

Since 1990 Narver and Slater report several studies using the measure of market orientation developed in 1990. In 1992 Narver and Slater examined the impact of market orientation on several business performance measures for 33 business units of a major US forest products company (which they classified as commodity businesses). All performance indicators were measured relative to the SBU's major competitor. They report that market orientation is a significant predictor of all of the performance measures, which were ROI, new product success, sales growth, customer retention and customer satisfaction. Again the relationship between market orientation and ROI was found to be U shaped.

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Narver et al, (1993) report the results of a study examining the impact of market orientation on business performance, specifically sales growth and ROI, for 35 SBUs in a US forest products company. Market orientation was shown to be significantly positively associated with sales growth but not with ROI. This finding is confirmed in a later study (Slater et al, 1994) examining a sample of small to medium sized manufacturers. Slater and Narver, (1994) examine the moderating effect of the competitive environment on the market orientation–performance relationship. Competitive environment was not found to be a significant moderator to the market orientation- performance relationship. However, Slater and Narver do report that the market orientation – ROI relationship was found to be stronger in conditions of low market turbulence. The market orientation – new product success relationship was found to be stronger in conditions of low technological turbulence in the market and the market orientation – sales growth relationship was found to be stronger in conditions of slow market growth.

The predictive nature of market orientation on sales growth was again reported for a study of US manufacturers (228 responses) Slater and Narver, (1996). This study, using a shortened (12 item) version of the original scale also reports that market orientation is not a significant predictor of ROA.

Several other researchers have adopted Narver and Slater’s measure of market orientation and applied this to their research projects. Siguaw et al, (1994) used Narver and Slater’s measure of market orientation in assessing its impact on US sales force behaviour and attitudes. This survey of a sample of 278 salespeople finds that the market orientation of the firm positively impacts the customer orientation of the salesperson. It is negatively associated with role conflict and role ambiguity and positively associated with job satisfaction and organisational commitment.

In a replication of the Siguaw et al, (1994) US study; Mengüç, (1996) used Narver and Slater’s scale to examine the influence of the firm’s market orientation on the sales force behaviour in Turkey. Mengüç’s findings fully support those of Siguaw et al.

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Greenley, (1995) used Narver and Slater's scale in a study examining the market orientation – performance relationship in a sample of 240 responses from UK companies with more than 5000 employees. Using Narver and Slater's, (1990) scale, slightly adapted to the UK business culture, Greenley reports no main effects from market orientation on ROI, new product success and sales growth. However, Greenley, (1995) does report that the relationship between market orientation and performance is moderated by environmental turbulence. Under low levels of market turbulence and low levels of technological change, market orientation is positively associated with ROI and new product success. Under high levels of market turbulence and high levels of technological change, market orientation is negatively associated with ROI and new product success. Greenley also found that consumer power moderated the market orientation performance relationship. Under low levels of consumer power, market orientation is negatively associated with sales growth and under high levels of consumer power, market orientation is positively associated with sales growth.

In a follow up of the previous study, Greenley, (1995b) identified five different forms of market orientation, customer focus orientation, underdeveloped market orientation, fragmented orientation, comprehensive market orientation and competitive focus orientation. In a test to see if these different forms of market orientation varied in their impact on performance, Greenley, (1995b) identified that the comprehensive market orientation was not vastly better than the others with respect to performance. Comprehensive market orientation did outperform undeveloped market orientation in terms of ROI, but for new product success, it was only marginally better than the others were. For sales growth, the comprehensive market orientation did not perform as well as the competitive focus orientation.

Kumar, Subramanian and Yauger, (1997) used a modified and expanded version of Narver and Slater's, (1990) scale to measure market orientation in US hospitals. They analysed an effective sample of 159 responses from hospital administrators and examined the link between market orientation and performance. The performance measures were growth in overall revenue, return on capital, return on new services/equipment, ability to retain patients, and controlling operational expenses.

Using Greenley's, (1995b) classification of different types of market orientation Kumar et al, (1997) report that

- (1) The comprehensive cluster's performance is superior to the other clusters' in terms of growth in revenue and return on capital.
- (2) The customer-focused cluster's performance was superior to all other clusters in success of new services/facilities and success in retaining patients.
- (3) The competitor-focused cluster was best able to control operational expenses.
- (4) The cluster with the undeveloped market orientation had the lowest performance in each of the five performance criteria.

Kumar et al, (1997) also find that differences in the performances of the customer-focused cluster, which had the highest magnitude of market orientation, and the undeveloped cluster, which had the lowest magnitude of market orientation, were significant on four of the five performance measures. They also report that performance differences between the other two groups (competitor focused and comprehensive market orientation), showed mixed results. Kumar et al, (1997) conclude that although high market orientation is critical for performance, it is the relative emphasis on its components that determines the achievement of performance goals.

More recently Chang and Chan, (1998) employed a modified version of Narver and Slater's, (1990) scale to examine the impact of market orientation on service quality and managers' perceptions of the profitability of their units in relation to those of their major competitors. Their research, based on a sample of 116 managers in Taiwanese retail stock brokerage firms, indicates that market orientation has a significant impact on both service quality ($R^2=0.236$) and profitability ($R^2=0.29$), both significant at $p<0.01$. Furthermore, Chang and Chan report that service quality plays an intermediary role in the market orientation performance relationship.

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Despite its relatively high adoption, Narver and Slater's, (1990) market orientation scale receives criticism from Siguaw and Diamantopoulos, (1995) who assess the dimensionality of the market orientation construct. Siguaw and Diamantopoulos, (1995) use 303 usable responses from a survey of industrial salespeople for US based information and image management industries and after exploratory factor analysis found, as did Narver and Slater, (1990) that the long term horizon and the profit emphasis components of the market orientation scale did not display acceptable reliability. They reduced the Narver and Slater, (1990) scale to the three behavioural components consisting of 5 items. The ensuing confirmatory factor analysis, using LISREL 8 (Jöreskog and Sörbom, 1993) tested the dimensionality of the scale.

Siguaw and Diamantopoulos, (1995) report that neither the unidimensional formulation of market orientation (represented by a one factor model), nor the multidimensional specification (represented by a three factor model) provided an adequate fit to their data. They assert that the best results were obtained by a specification similar to that used by Kohli et al, (1993) where market orientation is represented by three specific factors, reflecting the three behavioural components, customer and competitor orientations and interfunctional coordination, and one general factor, although the fit for this model was *not particularly impressive*.

Siguaw and Diamantopoulos, (1995) also provide some tentative support for the view that customer orientation is the key component of a market orientation rather than the more balanced view of market orientation components advocated by Narver and Slater, (1990).

2.4.2 Deshpandé, Farley and Webster

Deshpandé et al, (1993) assert that customer orientation is more important than competitor orientation and they argue '*a competitor orientation can be almost antithetical to a customer orientation when the focus is exclusively on the strengths of a competitor rather than on the unmet needs of the customer*' (p. 27). Deshpandé et al, (1993) consider interfunctional coordination to be '*in keeping with the central essence of a customer orientation*', and so forms part of its meaning and measurement. They therefore conceptualise customer and market orientation as being synonymous. They define customer orientation somewhat differently to Narver and Slater's, (1990) definition of either customer or market orientation and argue that it is a unidimensional construct that also reflects some elements of competitor orientation and interfunctional coordination.

Deshpandé et al, (1993) conceptualise market orientation therefore, as a unidimensional construct which they operationalise in a nine item measuring instrument. This instrument appears to be reasonably consistent with their conceptualisation, although some items are behavioural in content. However, although several items reflect competitor issues, there are no items which tap issues directly relating to interfunctional coordination. Deshpandé et al, (1993) tested the instrument on 50 firms randomly selected from organisations publicly trading on the Nikkei stock exchange in Tokyo. Responses were obtained from marketing executives and customers of the organisations. The market orientation scales returned coefficient alphas of .69 when evaluated by the supplier and .83 when evaluated by the customer.

Deshpandé et al, (1993) went on to evaluate the relationship between the market orientation measure and performance. They use a composite measure of performance, based on self evaluations of profitability, market share and growth rate compared to the businesses largest competitor.

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They report that customer reports of market orientation are significantly related to the performance index. However, manager's own reports of their firm's degree of market orientation were not related to business performance, nor were they related to customers' perceptions of the firm's market orientation.

2.4.3 Kohli and Jaworski

Kohli and Jaworski, (1990) define market orientation as being a one-dimensional construct consisting of three organisation wide activities, market intelligence generation, the dissemination of this intelligence across the departments of the firm, and the organisation wide response to this intelligence. The focus of intelligence generation is broad, including consideration of current and future customer needs, and exogenous market factors such as competition, regulation, technology and other environmental forces. Furthermore, the generation of intelligence is considered to be the responsibility of all departments in the organisation.

Intelligence dissemination involves communications to all relevant individuals and departments in the organisation so that an appropriate response can be designed and implemented. Kohli and Jaworski, (1990) stress these two components of organisational response to market intelligence. Response design, they assert is the development of plans in response to market intelligence, response implementation is the enacting of those plans.

Jaworski and Kohli, (1993) develop 32-item scale for the measurement of the three components of market orientation; intelligence generation (10-items), dissemination (8-items), response design (7-items), and response implementation (7-items). They tested their scale on two different US samples. Sample 1 consisted of 222 paired responses from marketing and non-marketing executives in SBUs of companies belonging to the Marketing Science Institute and the Dun & Bradstreet Million Dollar Directory, these responses were averaged to provide a score for each business unit. Sample 2 consisted of 230 responses from executives from the AMA membership roster. After exploratory factor analysis 31 of the original items remained: one item for the intelligence dissemination scale was removed. The scales for the three dimensions of market orientation returned the following coefficient alpha values; intelligence generation 0.71, intelligence dissemination 0.82, response design 0.78 and response implementation 0.82. The coefficient alpha value for all responsiveness items was 0.89.

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Jaworski and Kohli, (1993) went on to examine the relationship between market orientation and performance. They used two performance measures, a subjective measure of the firm's overall performance relative to major competitors and an objective measure of market share. They report that market orientation is a significant predictor of subjective measures of overall performance relative to major competitors but not the objective measure of market share. These results were consistent across both samples. Jaworski and Kohli, (1993) also examined the moderating effect of environmental variables on the market orientation performance relationship and found that there were no significant moderators of the market orientation performance relationship.

Further analysis of the original market orientation scale developed by Jaworski and Kohli, (1993) was reported by Kohli, Jaworski and Kumar, (1993). Twelve of the original 32 items were removed from the scale to create a refined measure, which they called MARKOR. In developing the reduced scale, Kohli et al, (1993) suggest that the deleted items may be useful in different settings and recommend revising the deleted scale items to reflect specific stakeholders for future research in this area.

Importantly Kohli et al, (1993) also raise the issue of a potential causal ordering among the various components of market orientation for future research.

The Jaworski and Kohli, (1993) measure of market orientation and its refinement the MARKOR scale (Kohli et al, 1993) have been utilised in several studies in to the market orientation link. Selnes et al, (1996) replicated Jaworski and Kohli's, (1993) study in Scandinavia. In their study, they used the MARKOR scale rather than the original 32 item scale and based their analysis on responses from marketing and non-marketing executives drawn from the Dun & Bradstreet Million Dollar Directory, and 273 pairs of managers from Scandinavian SBUs drawn from the Kompass listing. Selnes et al report acceptable scale reliabilities for the three components of market orientation in both the US and Scandinavian samples. The coefficient alphas reported were intelligence generation; 0.63 for the US sample and 0.63 for the Scandinavian sample, intelligence dissemination; 0.74 for the US sample and 0.71

for the Scandinavian sample, and responsiveness; 0.84 for the US sample and 0.86 for the Scandinavian sample.

Selnes et al, (1996) also find that market orientation correlated significantly with subjective measures of overall performance relative to major competitors but not with objective measure of market share and that these findings were consistent for both the US and Scandinavian samples.

Pitt et al, (1996) replicated the Kohli et al, (1993) MARKOR measure in the UK. They examined 161 of the UK's largest service industries available from the FAME CD-ROM database and a cross section of 193 Maltese firms. In measuring performance Pitt et al created a single measure by summing responses to three items, return on capital employed, sales growth and a subjective impression of the firm's overall performance compared to competitors. They report evidence of the reliability of the MARKOR scale (coefficient alphas of 0.78 and 0.75 for the UK and Maltese samples respectively) and also report that market orientation is a significant predictor of performance in both samples.

Caruana et al, (1996) assess the dimensionality and stability of the items comprising the MARKOR scale and replicate the work of Kohli et al, (1993). Despite some evidence of the applicability of the MARKOR scale to other cultures and industry settings reported above, Caruana et al question the conceptualisation into three principal components of the market orientation construct by Kohli and Jaworski, (1990) and the generalisability of the MARKOR scale to other cultures, economies and industry sectors.

More recently, Martin, Martin and Grbac, (1998) assessed the market orientation performance link in 30 companies in Slovenia, Italy and Croatia. They assessed four of the five elements of market orientation, information generation, dissemination, responsiveness and strategic planning process. Performance was assessed by managers' self reported trend in sales and profits for the past three years. Martin et al, (1998) report a fairly strong correlation between market orientation and performance for all three countries. ($r=50$, $p<0.005$).

Siguaw, Simpson and Baker, (1998) also adopt Jaworski and Kohli's measure for market orientation in their examination of the impact of supplier market orientation on distributor market orientation. Their research, examining data from 179 matched sets of suppliers and distributors listed in membership lists of associations affiliated with the National Association of Wholesalers in the US, revealed that the market orientation of the supplier organisation has an impact on the trust and commitment to the relationship displayed by the distributor organisation. Siguaw, Simpson and Baker, (1998) used the original 32 item battery developed by Jaworski and Kohli, (1993) and confirmed the three dimensions of market orientation. However they also operationalised market orientation as a unidimensional construct of three related dimensions.

More recently, Vorhies et al, (1999) adopted the original 32-item battery developed by Jaworski and Kohli, (1993) to measure market orientation in Australian, publicly quoted manufacturing and service firm. Their research identified two clusters of companies. Those that displayed higher levels of intelligence generation, dissemination and responsiveness performed significantly better on two of the three performance dimensions measured, differentiation and product-market scope, than those displaying lower levels of intelligence generation, dissemination and responsiveness. The difference in cost advantage between high and low market orientation companies was not significant.

Bhuian and Abdul-Gader, (1997) generate their own scale based on Kohli and Jaworski's, (1990) intelligence generation, dissemination and responsiveness components of market orientation. The resultant 11-item scale was used to measure market orientation in a sample of 237 US hospitals. After scale purification 9 items remained which Bhuian and Abdul-Gader, (1997) suggest tap a moderately reliable unidimensional market orientation construct, (composite reliability 0.56, average variance extracted 0.44). Bhuian and Abdul-Gader do not assess the market orientation performance relationship, as their focus was to develop a market orientation scale appropriate for a particular context i.e. the US hospital industry.

Baker and Sinkula, (1999) adopted the MARKOR scale to assess the relationships between market orientation, organisational learning and company performance in broad cross section of US industries, half of which had sales of more than \$500M, the other half were smaller companies. They surveyed both marketers and non-marketers with at least vice president rank in the organisation and obtained a usable sample was 411, approximately 47% from smaller firms, and approximately 60% from marketers. Performance; change in market share, overall performance and new product success, was measured using self explicated scales.

Baker and Sinkula, (1999) report confirmatory factor analysis on the MARKOR scale and find that the conceptualisation including the three dimensions, intelligence generation, intelligence dissemination and responsiveness, provides an adequate overall model fit. (CFI=0.85, GFI=0.88, χ^2 (161)=491.13 and RMSEA=0.06). Market orientation was then operationalised as a summate, consistent with the methodology of Jaworski and Kohli, (1993). Baker and Sinkula, (1999) report that market orientation evidences a significant positive relationship with change in market share, new product success and overall performance. They also report that the relationship between market orientation and performance is mediated by organisational learning. In cases where learning orientations were high the relationship between market orientations and change in market share was significant and positive (b=0.410, t=2.61, p<0.01), however this relationship was found to be insignificant at low levels of organisational learning (b=0.123, t=0.81, p<0.42). The relationship between market orientation and new product success was found to be stronger at low levels of organisational learning (b=0.606, t=4.53, p<0.0000) than at high levels of organisational learning (b=0.327, t=2.31, p<0.02). Organisational learning was found to have no significant interaction effect on the relationship between market orientation and overall performance.

Baker and Sinkula, (1999) indicate in their conclusions that research into the relationship between market orientation and performance has concentrated on external environmental moderators of that relationship. Their study addresses this limitation of previous research in this area by finding a significant effect of an internal environmental moderator of market orientation. However, organisational

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learning is only one aspect of the internal environment of the firm and it is possible, indeed probable that other internal considerations impact on market orientation and performance, and the relationship between them.

2.4.4 Pelham

Pelham, (1997) combined items from the Narver and Slater, (1990) scale with items obtained from other scales designed to measure market orientation, including the Jaworski and Kohli, (1991) scale which is discussed later. Exploratory factor analysis revealed a 3-factor structure of market orientation measured with 9 items, eight of which were from the Narver and Slater, (1990) scale. The dimensions of market orientation observed by Pelham, (1997) were customer orientation (3 items) coefficient alpha = 0.88; customer satisfaction orientation (3 items) coefficient alpha = 0.94; and competitive orientation (3 items) coefficient alpha = 0.94. In line with other researchers Pelham uses the average of the scores for the three components of market orientation as a measure of the market orientation of the firm.

Consistent with Deshpandé Webster and Farley's, (1993) and Shapiro's, (1988) arguments that interfunctional coordination is an integral element of customer orientation and Kohli and Jaworski's, (1990) results that interfunctional coordination is an antecedent to market orientation; Pelham found no separate dimension for interfunctional coordination in his operationalisation of the market orientation construct.

Pelham, (1997) continued to test the market orientation performance link using structural equations methodology and reports that market orientation has a significant positive direct relationship with firm effectiveness, but no significant direct relationship between market orientation and firm growth/market share or market orientation and profitability. Pelham also reports that the path from market orientation to profitability is mediated by firm effectiveness and market share, concluding that a firm with a high market orientation is most likely to

- (1) Be able to command premium pricing for the superior quality and reliability of the total (augmented) product offering,
- (2) Be able to reduce new product development costs because of relatively low failure rates,

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- (3) Achieve market share gains at the expense of firms with lower perceived levels of product quality and value, and
- (4) Achieve economies of scale from a larger market share, which translates to greater profitability and lower customer prices. Pelham, (1997; p66)

Appiah-Adu and Ranchhod, (1998) explored the impact of market orientation on business performance on a sample of 62 UK biotechnology firms. They find support for the positive association of market orientation with market growth and profit.

2.4.5 Deng and Dart

Deng and Dart, (1994) define market orientation as the generation of appropriate market intelligence pertaining to current and future customer needs, and the relative abilities of competitive entities to satisfy these needs; the integration and dissemination of such intelligence across departments; and the coordinated design and execution of the organisations strategic response to market opportunities.

Deng and Dart, (1994) develop a four-component measure of market orientation. They present a 33 item, four-factor scale, which after exploratory factor analysis reduced to 25 items. The four dimensions of market orientation identified are customer orientation, competitor orientation, interfunctional orientation, and profit orientation. The effective sample size of Deng and Dart's study was 248 named general managers and marketing managers of Canadian companies of varying sizes, industry types and geographic locations. The sample was split into two random halves and tested for reliability. The Cronbach's alphas for the components of market orientation were, Customer orientation (8 items), alpha of no less than 0.73; Competitor orientation (6 items), alpha of no less than 0.70; Interfunctional coordination (6 items), alpha of no less than 0.72; Profit emphasis (5 items), alpha of no less than 0.75.

2.4.6 Ruekert

Ruekert, (1992) defined marketing in a similar manner to Kohli and Jaworski's, (1990) conceptualisation of market orientation. Specifically, he defines the level of market orientation in a business as the degree to which the firm:

- (1) Obtains and uses information from customers;
- (2) Develops a strategy which will meet customer needs; and
- (3) Implements that strategy by being responsive to customers needs and wants.

Ruekert, (1992, p. 228)

The first element is similar to Kohli and Jaworski's intelligence generation and, although the focus is mainly on customer information, other forms of information are included, such as competitive, technological, financial, etc. The second and third elements of Ruekert's definition mirror Jaworski and Kohli's response design and implementation respectively.

Ruekert propose a one-dimensional conceptualisation of market orientation, consisting of three components: use of information, development of a market-oriented strategy, and the implementation of a market-oriented strategy. In operationalising market orientation Ruekert developed a 23-item scale for the three dimensions; use of information (9-items), development of a market-oriented strategy (8-items), and implementation of a market-oriented strategy (6-items). The scale was tested on responses were used from 400 employees in five SBUs of a large US company. The individual components scales returned coefficient alpha values of use of information $\alpha=0.72$, development of a market-oriented strategy $\alpha=0.81$, and implementation of a market-oriented strategy $\alpha=0.89$. The coefficient alpha for overall market orientation scale returned a coefficient alpha of 0.81.

Ruekert, (1992) tested market orientation-performance relationship by selecting two of the five SBUs, reflecting the most profitable (i.e., growth in sales revenue and profitability) and the least profitable (i.e., no growth in sales and decline in profitability). An analysis of the means of the market orientation components for

each SBU showed that the high performing SBU had higher levels of market orientation than the lower performing SBU. Discriminant analysis was also used to test this relationship and the market orientation components all returned significant coefficients, supporting the positive relationship between market orientation and financial performance.

Use of Ruckert's Measure

Atuahene-Gima, (1995 and 1996) used Ruckert's scale to determine the impact of market orientation on new product performance and the firm's general performance. Both studies use 275 responses from a sample of Australian SBUs, although different models were tested in each study.

Atuahene-Gima, (1995) examined the influence market orientation on market performance and project performance. Market performance was measured using a composite measure of the degree to which the new product achieved its market share, sales, growth, and profit objectives. Project performance was measured using a composite measure reflecting the degree to which the product provided opportunities for cost efficiencies and proprietary advantage, enhanced sales of other products, created new market opportunities, and improved the profitability of the firm's other products. Atuahene-Gima also examined the moderating influences of environmental hostility, degree of product newness and stage of product life cycle on the market orientation-performance relationship.

Collectively the market orientation items returned a coefficient alpha value of 0.92. The individual components of the market orientation scale returned coefficient alpha values of 0.88 for the use of information, 0.76 for development of market-oriented strategy and 0.80 for implementation of market-oriented strategy. Regression analysis indicated that market orientation has a strong relationship with both new product market success and project performance. The degree of product newness was not found to moderate this relationship. However, environmental hostility was found to moderate the market orientation performance relationship.

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The contribution of market orientation to new product market success was non-significant when market competition was low, adding only 3%... to the variation in project performance. When the intensity of market competition was perceived as high, it increases explained variance in market performance by 2%... and project performance by 15%. Atuahene-Gima, (1995) report similar findings for the role of hostility in the industry environment on the market orientation to new product market success relationship. The stage of the product life cycle was also found to be a significant moderator of the market orientation-performance relationship. The implications of Atuahene-Gima's, (1995) findings are that in the early stage of the product life-cycle, where the market-technology environment is turbulent, market orientation has a stronger relationship with performance than at the late stage in the product life cycle, where the market-technology environment is stable.

Atuahene-Gima, (1996) analysed the impact of market orientation on measures of new product performance (i.e., market success and project impact performance). Several control variables were considered, such as interfunctional teamwork, product advantage, and product fit, moderating effects were not tested for in this study. The total sample was split based on the nature of the firm, giving rise to two sub-samples -one sample consisted of service innovations, the other of product innovations. The analysis was undertaken on these two sub-samples as well as the total sample. Market orientation was a significant predictor of project impact performance in the total sample, as well as the product and service innovation samples. However, when the impact of control variables was partialled out, market orientation was not found to be a significant predictor of market success in any of the samples.

2.5 Market Orientation Summary

The different approaches to market orientation are presented in table

Author(s)	Sample	Methodology	Key findings
Narver & Slater, (1990)	13 SBUs of a major western corporation.	Questionnaire survey of top management team of each SBU. 371 usable questionnaires.	Developed and validated a measure of market orientation. Found statistical support for a positive relationship between market orientation and profitability.
Kohli & Jaworski, (1990)	62 managers in four U.S. cities,	Structured in-depth personal interviews,	Operationalised the market-orientation construct and developed an integrative framework that included antecedents and consequences of market orientation.
Ruekert, (1992)	5 SBUs of one U.S. high technology firm.	Questionnaire survey of multiple informants from each SBU. Reported results from a random sample of surveys out of 3500 completed responses.	Found a positive relationship between market orientation and performance as judged by a variety of quantitative and qualitative measures.
Jaworski & Kohli, (1993)	220 companies in sample 1 and 230 companies in sample 2.	Questionnaire survey of marketing and a non-marketing executive in each company.	Found positive relationship between market orientation and business performance (a variety of performance measures). Relationship robust across environmental contexts.
Diamantopoulos & Hart, (1993)	87 managing directors of U.K. manufacturing companies.	Questionnaire survey using Kohli and Jaworski's (1990) scale of market orientation,	Only a weak relationship noted between market orientation and business performance. Also identified several moderators of this relationship.

Slater & Narver, (1994)	81 SBUs in a forest products company (a subset of the sample of their 1990 study) and 36 SBUs of a diversified manufacturing company.	Questionnaire survey of top management team of each SBU.	Very limited support found for moderator role in competitive environment on the market orientation/performance relationship.
Greenley, 1995a	240 U.K. manufacturing companies.	Narver and Slater's (1990) questionnaire modified for U.K. business culture.	No evidence found to support a positive relationship between market orientation and performance. Identified market turbulence, customer power, and technological change as moderators of market orientation/performance relationship.
Greenley, (1995b)	87 managing directors of U.K. manufacturing companies,	Questionnaire survey using Kohli and Jaworski's (1990) market orientation scale.	Found only a weak relationship between market orientation and business performance. Also identified several moderators of this relationship.

Table 2-2 Different Approaches to Measuring Market Orientation

2.6 Summary

As has been discussed in the preceding chapter, several operationalisation of market orientation are found in the marketing literature. Of these, two measurement instruments dominate the field, those of Jaworski and Kohli, (1993), and Narver and Slater, (1990). Furthermore, the measurement of company performance is also not clear. However, most researchers have used subjective measures and have reported managers' perceptions of company performance. Narver and Slater's scale appears to offer some benefits over that of Jaworski and Kohli, however the psychometric properties of Narver and Slater's scale has been questioned, (Siguaw and Diamantopoulos, 1995).

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Despite the assertion of Jaworski and Kohli, (1993) that research is required to operationalise market orientation as a three dimensional construct, and to examine the causal relationships between information generation, dissemination and responsiveness, market orientation remains most commonly operationalised as a unidimensional construct of three components.

In the preceding chapter, it has been demonstrated that the development of a market orientation is an important goal for an organisation wishing to become more effective in the external market place. The review of the literature relating to market orientation also indicates that there are important internal factors that the organisation should consider if the development of a market orientation is to be facilitated. However, market orientation research still concentrates primarily on external stakeholders, customers and competitors, and pays little attention to internal stakeholders such as employees, (Greenley and Foxall, 1998). Despite the recognised need for an internal orientation, in particular to focus on employees, if a successful market orientation is to be developed, the need to balance the external and internal orientations of the firm has not been addressed. (See for example, Kelly, 1992; Miller and Lewis, 1991; Canning, 1988; Masiello, 1988; Shapiro, 1988; Day, 1994)

In addition to the need to focus in internal factors that influence the adoption of market orientation in the firm, there is extensive agreement among services marketing researchers that the relatively narrow focus of market orientation, on customers and competitors, is not sufficient in the services marketing context (Gummesson, 1998). The need for services marketers to focus on internal elements (and internal markets) in addition to external elements (and external markets) is extensively discussed within the academic and practitioner literature. (See for example Azzolini and Shillaber, 1993; Bak et al, 1994; Bhote 1991; Davis, 1992; Foreman and Money, 1995; George, 1990; Grönroos, 1985; Gummesson, 1987; Harari, 1991 and 1993; Harrell and Fors, 1992; Piercy and Morgan, 1990 and 1991; Piercy, 1995).

Many researchers in this area identify the instrumental nature of customer contact employees in influencing customers' perceptions of quality (see for example Baker et al, 1995; Bitran and Hoechs, 1990; Bailey, 1994; Booms and Bitner, 1981) and

ascertain that there is a pressing need to incorporate an internal orientation, focusing on the firms' employees, into the marketing philosophy.

Gummesson, (1994) argues that a myopic external focus has replaced the myopic internal focus of the firm. This he calls a *service marketing myopia*. In later work Gummesson, (1998) states that the transition from a dominant internal focus, marketing myopia 1, (Levitt's, (1960) marketing myopia) to a dominant focus on the external market, marketing myopia 2 or service marketing myopia is no progress. He suggests that quality management must be approached externally, from the market and internally, from the organisation. Gummesson's arguments add support to the idea of a need to balance the internal and external orientations of the firm. Furthermore, Morgan, (1990) identifies an inherent weakness in the exclusive focus of marketing thinking and attention on customers. He argues that developing strategies to exploit the market is often not enough on its own to achieve the implementation of the marketing strategy, proposing the development of an internal marketing programme to achieve the organisational change necessary to realise the external marketing strategy.

The myopic external focus of the firm is also identified within the strategic management literature. Here the importance of considering both internal and external aspects of the firm when developing strategies is recognised, but the view that external factors are the most important of these considerations still dominates. Andrews, (1997). The need to balance the internal and external foci of strategic management thinking is discussed by Foss, (1997). Foss stresses the need for a unified rigorous approach to strategy that can satisfactorily accommodate the basic idea that *both internal and external aspects should be featured on an equal footing*.

It appears therefore that internal marketing implementation (or internal market orientation) is posited as one of the major determinants of external marketing (market orientation) and business performance, see for example; Heskett et al, (1994) and Piercy, (1995). As such, there is a need to examine the concept of internal marketing. This is undertaken in chapter 3. The literature examining the application of marketing inside the organisation (internal marketing) is reviewed, the components of internal marketing are identified and its consequences are examined.

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Finally, a new conceptualisation, internal market orientation, is developed and presented and a model of the relationship between internal market orientation, market orientation and managers' subjective evaluations of performance is presented.

3 Internal Marketing

The concept of internal marketing has been discussed in the academic literature for over two decades, (see for example Sasser and Arbeit, 1976; Azzolini and Shillaber, 1993; Bak et al, 1994; Bhote, 1991; Davis, 1992; Foreman and Money, 1995; George, 1990; Grönroos, 1985; Gummesson, 1987; Harari, 1991 and 1993; Harrell and Fors, 1992; Piercy and Morgan, 1990 and 1991; Piercy, 1995; Stauss and Schultz, 1990). Despite some differences regarding the nature of the subject, (Rafiq and Ahmed, 1993) most authors agree that internal marketing *should* improve external marketing (George, 1990; Gummesson, 1987; Berry and Parasuraman, 1991; Grönroos, 1985; Piercy, 1995). Similar concepts like market-focused human resource management (Bowen, 1996) also clearly assume a direct link between internal market outcomes (e.g. satisfied employees) and external market outcomes (e.g. customer favourable perception of service quality or customer satisfaction). While there is some consideration in the literature about goals and instruments of internal marketing, no unified notion of the concept exists. This lack of a generally accepted operational definition of internal marketing also means that there is no generally accepted instrument to measure the concept.

There is also a lack of empirical evidence examining the quantitative impact of internal marketing on external marketing (market orientation). Much of the work done in this area is descriptive or prescriptive. Varey, (1995) asserts that 'there is as yet some confusion over what internal marketing is, it's role, and how it can be implemented'. He suggests the need for suitable research to develop terminology for a single clear understanding of internal marketing and serious empirical fieldwork to address the impact of treating employees as customers on market responsiveness, stating, 'can a linkage between the proposed mechanism and marketing effectiveness be established from empirical work?'

In order to address these research questions and the aims of this thesis it is necessary to examine and clarify the somewhat nebulous concept of internal marketing. The following sections of this chapter review the extant literature on internal marketing, identifying alternative conceptualisations and operationalisations of the construct.

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In an attempt to clarify the construct of internal marketing two categories are identified in this discussion. These categories are based on the different perspectives taken by researches into the construct. The two categories broadly represent different approaches to marketing in the internal environment of the firm.

The first category identified, is based on a human resources perspective, and presupposes that external marketing success is, in part, dependant on the firm having satisfied and motivated employees. See for example Sasser and Arbeit, (1976); Berry and Parasuraman, (1991) and Berry, (1984). This approach to internal marketing can be considered as an activity, undertaken by the organisation and directed towards its customer facing personnel. It recognises the influence of the employee-customer interaction on the service experience of the customer.

The second category identified is based on a TQM perspective in which all employees and departments are viewed as simultaneously being internal customers of, and internal suppliers to, other employees and departments in the firm. To differentiate this alternative conceptualisation from that of internal marketing, it is labelled 'internal customer orientation' a term used by Lucas and Maignan, (1996). An internal customer orientation is based on the belief that quality is a progressive function in the value chain operations of the firm and increasing the quality of internal transactions will ultimately influence the quality of the transactions with the external market. Internal customer orientation focuses on the interactions between all employees and departments throughout the value chain of the firm and aims at ensuring that value is added at all stages of the value chain. Pfau et al, (1991) suggest that this can ensure that the firm eventually satisfies the external customers' needs. Other streams of research classify internal marketing according to the types of exchanges and exchange partners involved. Bekkers and Van Haastrecht, (1993) suggest three approaches to internal marketing: hierarchical exchange process, internal supplies, and exchange process between the organisation and employee. Foreman and Money, (1995) classify internal marketing according who the internal marketer is, and who the target of the marketing effort is. These alternative classifications of internal marketing do not invalidate the classification used here; rather, they may complement it, for research in different contexts.

The next sections discuss the two alternative conceptualisations of internal marketing. Firstly, the internal customer model is discussed and the limitations of this model are highlighted. The following section discusses internal marketing and examines how internal marketing may contribute to market orientation.

3.1 Internal Customer Orientation

An internal customer orientation focuses on the process of service delivery throughout the whole organisation. The concept assumes that service quality can be sequentially built into the service delivered process and is based on a TQM philosophy. Internal customer orientation recognises the importance of the internal transactions between different individuals and departments inside the firm, (classified as internal suppliers and internal customers, depending on their role in the transaction) and utilises marketing like techniques to improve the quality of service provided in these transactions. The underlying logic of the concept is that the provision of high quality services to (external) customers is dependent on the quality of the internal service which contact personnel receive from back office and support departments (Grönroos, 1981; Gummesson, 1990). Although specific nomenclature may vary, internal customer orientation has found considerable support, both within trade writing, (see for example Sandelands, 1994; McDermott and Emmerson, 1991; Gullledge, 1991; Chung, 1993; Cirusuolo and Scheuing, 1991; Wilson, 1991 and Vandermerwe and Gilbert, 1986) and academic discourse, (Heskett et al, 1994; Chaston, 1993; Lee and Billington, 1992; Tannenbaum et al, 1994 and Gummesson, 1990). The philosophy of internal customer orientation is that all departments view the recipients of their output as internal customers and emphasise satisfying these internal customers. Quality improvement results throughout the value chain, as each employee strives to do an excellent job and provide a better service to his or her internal customer. The performance of the next employee, or department, in the value chain becomes more efficient and so on throughout the company. Ultimately customer contact personnel, the last people in a chain of service provision, receive and provide excellent service. See for example Rafiq and Ahmed, (1993); Grönroos, (1981); Gummesson, (1987) and Lings and Brooks, (1998).

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Collins and Payne, (1991) identify two dimensions of internal customer orientation. Firstly; each and every person and department is both a customer of, and a supplier to, other people and departments within the organisation; and marketing like approaches should be applied to these inter-functional interactions. This view of the internal market is also supported by Denton, (1990); Lee and Billington, (1992); Barrett, (1994) and Lukas and Maignan, (1996). Secondly, every department and every person within the organisation needs to ensure that they work together in a manner supporting the company strategy and goals.

Firms that have an internal customer orientation emphasise that every department is responsible for ensuring that its offerings are appropriate for its customers (Bhote, 1991). In most cases these will be other value chain departments, internal customers, rather than external customers. Furthermore, traditional marketing activities, such as market research and segmentation, product/service design in the light of market research findings can be used to ensure that these internal transactions are optimised in the light of the company strategy and goals (Collins and Payne, 1991). Other authors have approached the operationalisation of internal customer orientation in a similar manner. For example Trumbly et al, (1989) discuss the internal application of the marketing mix; others concentrate on segmenting and targeting within the internal market, for example Burgetz, (1991); Lee, (1991); Rosik, (1991); Stershic, (1989).

Reynoso and Moores, (1996) identify six common steps in internal marketing campaigns, which relate directly to internal customer orientation. These are;

1. The creation of internal awareness (of the internal customer orientation)
2. The identification of internal customers and suppliers.
3. The identification of the expectations of the internal customers.
4. The communication of these expectations to internal suppliers in order to discuss their own capabilities and/or obstacles to meeting these requirements.
5. As a result of the previous point, internal suppliers should work to make the necessary changes so as to be able to deliver the level of service required.
6. And finally, obtain a measure for internal service quality. Feedback should be given to internal suppliers if *services are to be improved*. (Reynoso and

Moore, 1996)

It appears, at this juncture, that internal customer orientation is applicable to all departments in an organisation, and that it focus the attention of these departments on the recipients of their output. Traditional market research techniques, applied internally, can be employed to identify the wants and needs of internal customers, and the findings of these internal market research efforts can be used to develop departmental strategies or plans aimed at increasing the quality of the services that they provide to their internal customers. The adoption of an internal customer orientation therefore, aims to improve service delivery to external customers by monitoring and improving internal service quality.

Within the trade literature, 'Next Operation As a Customer', (NOAC), (Denton, 1990), is as an intuitive operationalisation of the internal customer orientation. NOAC is based on the idea that each group within the company should treat the recipients of their output as an internal customer and striving to provide high quality outputs for them. (e.g. Lee and Billington, 1992; Barrett, 1994; Denton, 1990; Bhote, 1991; Lukas and Maignan, 1996). In this way, quality will be built into the service offering to the external customer.

The mechanism by which external service quality or customer satisfaction is achieved is a matter of some debate within the academic discourse on internal customer orientation. Crawford and Getty, (1991) suggest that internal customer orientation (meeting the needs of internal customers) will result in higher levels of employee satisfaction, this in turn will increase the motivation of employees to deliver an excellent service and more satisfied external customers will result. These external customers then offer praise or constructive criticism to employees and so perpetuate the employees' feelings of self worth and further motivate them to service excellence.

Heskett et al, (1994), who conceptualises internal customer orientation as a service profit chain, support the idea that internal customer orientation builds in service excellence. They propose that profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction, which is largely influenced by the value of the services provided to customers. Satisfied, loyal and productive

employees create value and employee satisfaction, in turn, results from high quality support services that enable employees to deliver results to customers. Heskett et al, (1994) define internal quality as being measured by the employees' feelings towards their jobs, colleagues and companies.

Hart, (1988 and 1995) suggests that guaranteeing the quality of services provided to internal customers improves employees' commitment and morale and hence their performance, protecting the company's position in the market and creating competitive advantage by reducing service errors.

An internal customer orientation is applicable in both the service and product marketing context. In the product marketing environment, Lee and Billington, (1992) discuss how poor service to internal customers can have a detrimental effect on the effectiveness of the organisation. They suggest that one of the symptoms of ineffective internal customer orientation is an increase in inventory costs. They propose that effective management of the supply chain, to minimise the problem of high inventory costs, should address the common problem of discrimination against the internal customer. They state that *although customer service for internal customers is not tracked, it is common knowledge that it is much poorer than for external customers. The resulting delays at the other internal entities could create significant inventory and backorder problems.... Such a priority system can hurt to companies overall profitability.*

3.1.1 Empirical Evidence Supporting the Impact of Internal Customer Orientation on Performance

Some empirical evidence is available to support the impact of internal customer orientation on the external market. Tannenbaum, Beard and Gueutal, (1994) discuss an internal customer programme aimed at improving service orientation, involvement, internal communications, trust and support, and also to reduce crisis management. Their research, starting in 1991, and based on a survey of employees of a health care fund, assesses the status of the work environment and identifies areas of weakness in the internal market. They report that after introducing an internal customer campaign, identifying internal customers and problems of delivering

quality service to these internal customers, teams were used to develop workable solutions to the problems identified, which were then implemented. Their research indicates resultant changes at two levels; at the anecdotal level, based on observations and discussions with employees and at the quantitative level based on a re-administration of their original survey 22 months on.

At the anecdotal level, evidence suggested that communication between departments was improved, as was trust amongst employees, (people were less afraid to express their concerns), at the quantitative level, several consequences of internal customer orientation were identified. Evidence suggested that employees believed service quality to have improved, internal departments to be more supportive of each other, employees were more comfortable interacting with others within the group than they were previously and they were more knowledgeable of how their individual jobs affected others in the organisation. Overall, employees' satisfaction with their job and their employer were improved.

Further empirical evidence of the internal customer orientation performance link is provided by Sigauw et al, (1994) and Brooks, Lings and Botschen, (1999)

3.1.2 Criticisms of Internal Customer Orientation

The concept of an internal customer orientation is not without its critics. Harari, (1991,1993) suggests that focusing on internal customers diverts attention away from the people who pay the bills i.e. the external customers; it fosters narrow vision and fiefdoms over staffed by people who are divorced from intimate knowledge of the external customers. Other criticisms regarding the operational consequences of internal customer orientation are that it does not address internal processes and the elimination of unnecessary process steps; it only addresses continuous improvement and not breakthrough improvement; and it sets up a series of dominance-subservience relationships within the organisation, reinforcing insular thinking, particularly with people who don't come into contact with external customers (Guaspari, 1995).

A summary of the main concerns with concept of internal customer orientation at this stage indicates that:

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The recognition of internal suppliers and their internal customers and the application of the marketing philosophy to this internal relationship can be incestuous resulting in the loss of focus on the external market.

Formalising the internal customer structure can result in incremental rather than radical step change, which may be necessary.

The internal customer orientation does not address process issues. It concentrates on improving the interaction between the internal supplier and customer. The parties involved are encouraged to examine how effective and efficient the interaction is. Internal suppliers are not encouraged to critically examine the processes that they perform in order to provide the service and question the necessity of these processes in efficient and effective production.

The internal customer orientation perpetuates sequential pass off activities where one department is dependant on the output of another department in order to provide an output to the next in the value chain. This sequential pass off of activities increases the time taken to serve the final customers as departments have to wait to be served by their internal suppliers, where a more multi-disciplinary approach could improve responsiveness to the external market.

The internal customer orientation encourages narrow vision and the development of fiefdoms, with each department concentrating only on their immediate environment and ignoring the wider organisational and market picture, and it sets up a series of dominance-subservience relationships within an organisation.

Despite these criticisms the philosophy of an internal marketing orientation has been accepted as a strategic weapon to help retain the firm's customers by delivering high quality services to them, (George, 1977; Berry, 1980, 1981, 1983; Band, 1988). However, very little empirical evidence has been published to support the prediction that internal marketing can increase the quality of service provided to the external customers, (see for example Brooks, Lings and Botschen, 1999).

3.2 Internal Marketing

As highlighted above internal customer orientation focuses predominately on internal suppliers and their internal customers and gives equal priority to all employees in the firm. It does not adequately reflect the impact that customer contact personnel have on external marketing (market orientation), in particular the customer orientation of the firm. Several authors have argued that employees who influence the external customer the most, are those who actually provide the service, i.e. customer contact employees. It is well documented that the customer's perception of the quality of the services delivered and consumed are largely affected by the performance of the contact personnel, see for example (Hartine and Jones, 1996; Bitner, 1990; Bitner et al, 1994; Shemwell et al, 1998; Avkiran, 1999). The impact of contact personnel on the customers' perceptions of the service that they receive is partly due to the simultaneous production and consumption of the service and, in part, due to the high amount of interaction that occurs between the customer and the front line staff.

The dependence of external marketing on customer contact employees in the service sector has been emphasised by Sasser and Arbeit, (1976), who state that *competent and well-motivated employees become in effect the firm's products* and that *service employees are at the forefront of the firm's public image*. Sasser and Arbeit, (1976) discuss the need for service firms to focus on their front line personnel and state that *service firms' most critical productive resources are its workforce and the key to success is for the service business to regard its jobs as its principal product and its employees as its most important customer*.

This focus on customer contact personnel and the philosophy of treating these employees as customers of the firm's jobs is the foundation on which internal marketing is based.

Greene et al, (1994) further elevate the importance of customer contact personnel stating that *the quality of the service is inseparable from the quality of the service provider*. They support the notion of employees as customers of employment and the need to use marketing tools, internally, to ensure that the employment offered, meets the needs of these employees. They state that *internal marketing means applying the*

philosophy and practices of marketing to the people who serve the external customer. The analogy with external marketing here is clear. Wasmer and Brunner, (1991) also stress the importance of customer contact personnel and propose that internal marketing *attempts to promote a commitment to the organisation's goals by selling the service providers on the service offering.* They further suggest that although the specific goals will probably differ between different firms at least two will be applicable to most service firms.

1. Convincing the employees of the value of customer service
2. Fostering positive employee attitudes concerning service quality.

Recognising the importance of these front line, customer-facing personnel in delivering quality service has given rise to the idea that these employees warrant being treated as a customer segment in their own right. Internal marketing, therefore, arises from the view that customer contact personnel are of primary importance in the service delivery process and happy and motivated front line employees are essential in the delivery of good service to customers. See for example Sasser and Arbeit, (1976); Berry and Parasuraman, (1991) and Berry, (1984).

The majority of academic discourses addressing internal marketing define internal marketing in this way. George, (1990) provide one of the most commonly cited definitions of internal marketing; as *a philosophy for managing the organisation's human resources based on a marketing perspective.*

However, many other definitions of internal have been posited. Some of these are listed below.

- *'The internal marketing concept holds that an organisation'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.'* Grönroos, (1988)
- *'A philosophy for managing the organisations human resource based on a marketing perspective.'* George, (1990)

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- *'The purpose of internal marketing is to develop a marketing programme aimed at the internal marketplace in the company that parallels and matches the marketing programme for the external marketplace of customers and competitors.'* Piercy and Morgan, (1990)
- *'The aim of internal marketing is to sell the marketing concept, through training to people within the organisation.'* Van Haastrecht and Bekkers, (1995)
- *'Internal marketing is based on the assumption that the performance of contact personnel is critical in order to successfully implement a marketing plan.'* Gummesson, (1987)
- *'Internal marketing is attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs. Internal marketing is the philosophy of treating employees as customers... and it is the strategy of shaping jobs to fit human needs.'* Berry and Parasuraman, (1991)

The range of definitions above, although different in their detail, have a common, underlying theme; internal marketing is about identifying and satisfying the wants and needs of employees as a prerequisite to satisfying the wants and needs of customers. Essentially internal marketing is concerned with engendering market-oriented management (Grönroos, 1983) in which marketing is not a function but a way of doing business (McKenna, 1992). Tansuhaj, Wong and McCullough, (1987) assert that the success of the external marketing programme depends on the internal marketing programme and argue that as a result, services managers need to be well co-ordinated in both types of marketing practices.

3.2.1 Components of Internal Marketing

The philosophy of internal marketing, considering employees as Internal customers (customers of employment) and their jobs as internal products (the products that they consume), requires firms to design and offer internal products (jobs) to satisfy the needs and wants of these internal customers (employees), while simultaneously addressing the objectives of the organisation. See for example Berry, (1984) and Tansuhaj, Randall and McCullough, (1988) The need to satisfy employees has been discussed by many authors writing in the areas of internal marketing, customer

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satisfaction and service quality, (see for example George, 1977; Berry, 1984; Morgan, 1990; Mohr-Jackson, 1991; Piercy, 1995).

In other management fields, similar concepts like market-focused human resource management (Bowen, 1996) clearly assume a direct link between internal market outcomes (e.g. satisfied employees) and external market outcomes (e.g. customer favourable perception of service quality or customer satisfaction).

In an analogy to the external market, where customers exchange cash for goods or services, the internal market is based on the notion of the exchange of things of value. Sasser and Arbeit, (1976) suggest that these exchange items in the internal market are time, energy, value and money. One of the challenges of internal marketing is to identify these things of value that are exchanged i.e. what the employee seeks from the job and what they are prepared to give up to get it.

Understanding these dimensions, along which jobs are augmented; pay, autonomy, routine etc., will allow the employer to make internal products (jobs) more attractive to potential and existing employees than competitors' jobs. Sasser and Arbeit, (1976) suggest the use of marketing research tools, questionnaires, focus groups etc., to compare employee perceptions of the ideal job, competitors' jobs and the firm's jobs. This information can then be used in the design of job/products to meet the employees' ideal, satisfying employees and motivating them to perform better in the service encounter with the external customer, increasing customer satisfaction.

Augmenting employment is not merely a matter of increasing salary, although this is undoubtedly an important consideration for most employees. Varey, (1995) asserts that internal marketing is a societal process, not limited to economic exchange and not dependent on the existence of competition or choice. The idea that internal marketing is not restricted to economic exchange and that employees can be motivated by employment attributes other than financial recompense is further explored by Comm, (1989). Comm describes how augmenting jobs by providing demand insensitive services, child care and elderly care on or near to the firm's premises, can create an added differentiator to the usual salaries and health benefits

that are used by most companies and asserts that these additional differentiators can be used as tools to attract, retain and motivate employees.

The importance of the internal exchange is also discussed by Stauss and Schultz, (1990) who suggests that the nature of internal marketing is to refer to the management of exchange processes with internal members. Furthermore, Stauss asserts that the focus of internal marketing should be restricted to those exchange relationships that are related to a customer orientation (Stauss and Schultz, 1990, p. 155 f.).

The societal nature of internal marketing is also captured in the concept of managerial consideration. Consideration, in this context, refers to the degree to which managers develop a work climate of psychological support, helpfulness, friendliness, and mutual trust and respect (Johnston et al, 1990). It does not mean that supervisors cater to employees needs on a *carte blanche* basis but is simply the degree to which supervisors recognise employees as individuals and treat them with dignity and respect. Katz and Kahn, (1978) suggest that because the supervisor is the employee's primary link with his or her company, considerate behaviour from the supervisor could foster identification with the organisation and Ramaswami, (1996) asserts that this identification translates into lower employee dysfunctional behaviours. Ramaswami, (1996) also report that inconsiderate managers fail to perceive employees as having personal needs and goals and use restrictions and threats of punishment to control employee behaviour. Accordingly such supervisors increase employees' feelings of hostility toward the control systems being administered. The emphasis on output control, typical of inconsiderate supervisors, is primarily 'punitive' and may have a 'net result that is counter productive'. Otley, (1978, p. 143).

It may be reasonably expected that if managers 'buy into' the internal marketing philosophy, they would also show a level of consideration for employees. It appears, therefore, that managerial consideration is an important component of internal marketing and how managers respond to the wants and needs of employees forms one of the dimensions of the construct.

However, the exact nature of internal marketing, the application of marketing tools and techniques traditionally applied to the external environment to the internal environment of the firm, remains unclear. Operationalisations of the construct vary: Piercy and Morgan, (1991) and Flipo, (1986) suggest that the marketing mix is a suitable operationalisation of internal and external marketing. Others propose that alternative operationalisations, including viewing internal marketing as the design of jobs that will satisfy the needs of employees (Sasser and Arbeit, 1976; George, 1977; 1990), developing internal relationships (Ballantyne, 1997), applying human resources management techniques to the internal market (Tansuhaj et al, 1988)

3.2.2 Operationalisations of Internal Marketing

Stauss and Schultz, (1990, p. 151 f.) discuss the objectives and instruments of internal marketing and conclude that 'The objective of internal marketing is to get motivated and customer oriented personnel'. Related sub-goals are

- (1) Collecting information about personnel (e.g. about the relevance of customer interactions),
- (2) Creating acceptance of a customer orientation,
- (3) Training employees to manage customer contact situations,
- (4) Creating an organisational environment that supports customer oriented attitudes and behaviours.

Methods for achieving these objectives are seen as being transferred from external marketing to the internal market e.g. internal training, internal interactive communication, internal mass communication, human resource policy and management, external mass communication and advertising, internal market research and internal market segmentation.

Wasmer and Brunner, (1991) propose that internal marketing may be used to manager customer contact employees. They recommend that the firm/service

provider relationship may be managed using the following internal marketing process.

1. View the employees performing the service as an intervening set of customers who require individual treatment apart from other customer or employee groups.
2. Establish specifications regarding the desired level of service quality
3. Conduct internal marketing research
4. Segment the population of service providing employees.
5. Tailor specific internal marketing strategies for each employee segment.
6. Conduct follow up research to determine the extent to which performance has been up to set standard.

Tansuhaj, Wong and McCullough, (1987) take the approach of George, (1977) and Grönroos, (1985) that internal marketing includes components relating to motivation and marketing like characteristics of management styles, focusing on customer - orientation. They assert that the success of the external marketing programme depends on the internal marketing programme and argue that as a result, services managers need to be well co-ordinated in both types of marketing practices.

Tansuhaj, Wong and McCullough, (1987) report the following dimensions of internal marketing: Employee Training Programmes, Communication Between Management And Employees, Reward Systems, Employee - Customer Interactions and Employee Motivation. They report the use of a 12 item scale to measure internal marketing in US and Thai banks and conclude that internal marketing appears to have a significant impact on customer satisfaction. However, they caution cultural and other factors, such as the size and age of the institution, may contribute to this.

In a later work Tansuhaj, Randall and McCullough, (1988) report five dimensions of internal marketing and provide additional information about the nature of these dimensions. They suggest that internal marketing focus on the following dimensions.

1. Recruitment: Attract qualified applicants to the firm using specific job descriptions and effective job advertisements.

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2. Training: Once hired, employees should be given professional training by marketing managers and as many senior level managers as possible to provide them with a view of the company and how they fit in.
3. Incentive programmes: should be used to enhance motivation. Team building techniques, staff meetings, staff retreats, task forces, seminars and workshops are also useful as motivational devices.
4. Communication: In house surveys should be used to identify employee needs and desires, feedback should be provided and changes in operations are made. Mass communication using newsletters and other sources should be undertaken to provide information on new marketing strategies.
5. Retention: Salaries and bonus systems should be competitive to ensure that staff remain with the company.

Tansuhaj, et al, (1988) also suggest that the administration of the internal marketing programme be decentralised to the field managers and not be held in a central HRM or Personnel function. However, they also call attention to the need for the internal marketing programme to be adopted by top-level management.

Grönroos, (1985) asserts that an active marketing like approach is needed to change employees' attitudes and preferences towards their jobs, customers, the internal environment, managers, supervisors, and other employees. Such a change in attitudes and preferences cannot be expected to be achieved by administrative actions. Later, Grönroos, (1992), suggests that internal marketing can be implemented at different levels of the organisation for different purposes. At the strategic level, he asserts that the objective of internal marketing is to *create an internal environment, which supports customer consciousness and sales mindedness among the personnel.*

The tools that he suggests are appropriate to these aims are

- Supportive management methods,
- Supportive personnel policy,
- Supportive internal training policy,
- Supportive planning and control procedures.

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At the tactical level Grönroos, (1992) argues that the objective of internal marketing is to sell services, supporting services (used as a means of competition), campaigns and single marketing efforts to the employees so that the importance and the consequences of their position as both producers and marketers of the service is understood.

Piercy, (1995) also identifies that internal marketing can be implemented at the analytical/operational, behavioural, and organisational, levels of organisational decision making and argues that different internal marketing strategies should be used to achieve a customer satisfaction programme at these levels. Piercy presents alternative internal marketing strategies to achieve this at different levels of organisational decision making.

Piercy's internal marketing strategies are based on the idea that the internal market should be treated in the same way as the external market, using an internal marketing mix. The ultimate goal is to have a customer satisfaction strategy, embraced and accepted within the organisation.

In common with other authors, Piercy recommends segmenting the internal market, recognising that different groups within the firm have important roles to play in achieving customer satisfaction and that these groups will have different wants, needs and concerns, which are better dealt with by specific internal marketing programmes, tailored to these internal segments.

Segmenting the internal market and moving away from the exclusive focus of internal marketing on customer contact personnel is a theme that has also been explored by other authors.

Ramaswami, (1996) argues that managers and supervisors have a significant impact on the behaviour of employees and examines the role of managerial consideration in determining employee behaviour. Management consideration refers to the degree to which managers develop a work climate of psychological support, helpfulness, friendliness, and mutual trust and respect (Johnston et al, 1990). It does not mean that supervisors cater to employees needs on a carte blanche basis but is simply the degree to which supervisors recognise employees as individuals and treat them with

dignity and respect. Recognising employees as individuals is clearly related to the idea of segmenting the internal market and the concept of managerial consideration to employees is clearly related to the idea of internal marketing.

Inconsiderate managers fail to perceive employees as having personal needs and the goals and use restrictions and threats of punishment to control employee behaviour. According to Ramaswami, (1996) such supervisors increase employees' feelings of hostility toward the control systems being administered. Otley, (1978, p. 143) suggests that an inconsiderate supervisor who emphasises output control is primarily 'punitive' in his or her ethos and may have a 'net result that is counter productive.'

Supervisory consideration, however, lessens the tendency for controls to induce manipulative behaviours and a considerate manager is less concerned with pressuring employees to achieve goals than with maximising the achievement of their potential. Katz and Kahn, (1978) suggest that because the supervisor is the employee's primary link with his or her company, considerate behaviour from the supervisor could foster identification with the organisation and Ramaswami, (1996) asserts that this identification translates into lower employee dysfunctional behaviours. In testing this assertion, Ramaswami, (1996) examined a sample of 318 member companies of the AMA and found that supervisory consideration is positively associated with employee behaviour (negatively correlated with dysfunctional behaviour ($r=-0.26$, $p<0.01$))

3.2.3 Broadening the Focus of Internal Marketing to all Employees

Grönroos, (1981) identifies that other employees, as well as those in direct contact with the customers are important in service delivery and the notion of treating employees as primary customers (George, 1990) has been criticised as being too internally focussed to ensure market responsiveness (Martenson, 1985; Mudie, 1987). Grönroos, (1981) suggests that customer conscious employees are a necessary but not sufficient condition for effective service delivery and asserts that co-ordination between contact and support staff is also required. Internal marketing, Grönroos maintains... *may be a fruitful means of integrating various efforts, within the realm of general management, personnel, production and marketing...to make the firm more market oriented.*

Rafiq and Ahmed, (1993) support this broader focus of internal marketing, suggesting that the role of internal marketing should not be limited to customer facing personnel, but also has a place in dealing with non-contact personnel. They identify that the behaviour of non-contact personnel has an effect on the quality of service experienced by the consumer.

Several other authors support this view that that the focus of internal marketing should not be restricted to customer facing employees, but should recognise the importance of satisfying the needs of all employees. See for example Comm, (1989); Lee et al, (1991) Frank (1994).

Gummesson, (1990) also supports this idea that all employees have an important role to play in marketing and are therefore a legitimate focus of internal marketing. Gummesson proposes the concept of the part time marketer, a phrase used to describe employees not involved in the marketing department nor directly with serving the customer face to face. The concept of the part time marketer recognises the importance of all employees having an appreciation of the external customer. George, (1990) provide additional support for the concept of the part time marketer, stating that *systematic internal marketing is a mechanism for developing and maintaining these part time marketers as service minded and customer conscious employees.*

3.2.4 Consequences of Internal Marketing

Several mechanisms have been proposed to explain the effect of internal marketing on external market factors, however, the majority of these are descriptive or prescriptive in nature and lack empirical support.

Tansuhaj et al, (1988) stress the importance of adopting a consumer-oriented approach to marketing, recognising the role of employees in providing the service. They propose that internal marketing will increase employees' positive attitudes to the organisation, which will in turn positively affect their behaviour. As the behaviour of the employee is especially important in affecting the customer's perception of the service encounter, this positive change in employee behaviour will

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increase the customer's perception of the quality of the offering. This is represented diagrammatically below in Figure 3-1.

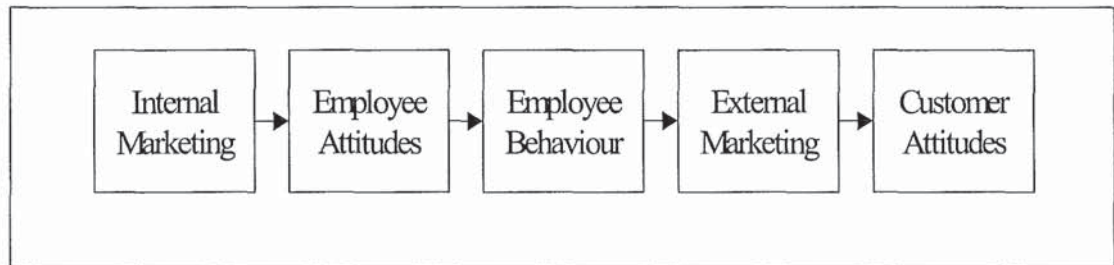


Figure 3-1 A Mechanism of the Impact of Internal Marketing on Customers Adapted from Tansuhaj et al, (1988)

The external marketing strategy is dependent on the performance of the employees, especially in a service organisation where the customer facing personnel determine the quality and the level of service, communicate directly with the external customer and often influence the speed of the service.

Clark, (1993) also explored the influence of employees on consumers. Figure 3-2 represents Clarke's model of a virtuous cycle of employee and consumer satisfaction.

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Figure 3-2 The Dynamics of Customer Retention and Employee Satisfaction. Source: Clark, (1993).

Clark proposes that satisfied customers cause employees to be more satisfied in their jobs as the interaction between customers and those who deal with them become less problematic. The consequences of this will be that employee loyalty will increase and staff will remain with the company on a voluntary basis for longer. The increased employee loyalty is suggested to deliver improved internal and external service quality, which is perceived by the external customer to be of sufficient value to warrant their progression to increasing levels of satisfaction. This customer satisfaction should increase customer retention driven by the customers themselves, rather than mechanisms that make it difficult for customers to change suppliers. The resultant virtuous circle will then create a cultural climate where the continued dynamics of these relationships will be facilitated.

Other authors have suggested similar schemata describing the impact of employee satisfaction on consumers. For example, Tompkins, (1993) suggests profit ultimately arises from leadership, which influences team based continuous improvement, internal service quality, employee satisfaction, employee retention, external service quality, customer satisfaction, customer retention and profit. This view is supported

by Heskett et al, (1994) with the exception that they state that revenue growth and profitability arise from internal service quality in the work place design, job design, employee selection and development, employee reward and recognition, and tools for serving the customer.

Another benefit of knowledge relating to the wants and needs of employees is manifest in the screening of prospective employees, not just on aptitude, but also to ensure that the job is in accordance with the candidates' expectations. Such screening should minimise the chance of employing a candidate who will ultimately not be satisfied by the employment on offer.

Comm, (1989) proposes that benefits of such a focus on all employees may have significant benefits.

1. Employees become more productive, morale improves, and employee turnover drops.
2. The ensuing reputation for lower staff turnover means that the firm can attract and retain the best, most experienced staff.
3. More productive and happy workers should translate into higher profits, reduced customer turnover and fewer customer complaints.

Comm presents no evidence to support these assumptions although the logic behind them is clear.

Morgan, (1990) suggests that organisation-wide internal marketing involves targeting chosen segments of the internal market with internal marketing programmes derived from the goals of the external market programme. Piercy and Morgan, (1990) support the segmentation of the internal market and suggest that the goals of internal marketing are:

- To gain the support of key decision makers,
- Changing the attitudes and behaviour of employees and managers who are working at the key interfaces with customers and distributor.
- Gaining commitment to making the marketing plan work
- Managing incremental changes in the culture (of the organisation).

Clearly the proposed focus of internal marketing as suggested by Piercy and Morgan, (1990) is broader than customer contact personnel only.

3.2.5 The Impact of Internal Marketing on Market Orientation

It has already been noted that internal marketing can influence employees to successfully implement the external marketing plan, i.e. become market orientated. (See for example Grönroos, 1983 and 1988; Gummesson, 1987; Piercy and Morgan, 1990; Berry and Parasuraman, 1991; Piercy, 1995). Within the market orientation literature, already discussed, several antecedents to market orientation have been identified and these antecedents relate, somewhat to the aims of internal marketing.

Reward systems

Jaworski and Kohli, (1993) identify reward systems as having the strongest impact on market orientation and suggest that employees should be rewarded for the achievement of customer satisfaction and building customer relationships. Internal marketing provides intelligence on the elements that augment employees' jobs and levels of service quality achieved internally, between internal customers and their internal suppliers. Rewards based on such intelligence can be used to shape the behaviour of employees. For example; those not in direct contact with the external customer can be motivated towards, and rewarded for the achievement of internal service quality, employees who are in direct customer contact internal marketing can be motivated and rewarded for customer service and responsiveness.

Evidence for the link between employee reward and behaviour is presented by Menon et al, (1997) who report that market based reward orientation, appears to increase interdepartmental connectedness ($\beta=0.16$, $p<0.05$), and reduce conflict between groups, ($\beta=-0.23$, $p<0.001$). In addition, Hartline and Ferrell, (1996) identify that evaluating and rewarding employees based on the behaviour that they display has an indirect positive impact on market performance (customer perceived service quality), however they do not find support for their hypothesis that such behaviour based reward systems influence job satisfaction.

Further support for the link between reward systems and market performance is reported by Johnston, (1996), who identifies that rewarding and recognising

employees who provide superior service correlates significantly with overall customer satisfaction with the service encounter.

Ramaswami, (1996) however, presents evidence that the use of market based reward systems based on employee performance, either in terms of achieving goals or adhering to procedures, actually leads to employee behaviour that is harmful to the long-term performance of the organisation, thus contradicting the findings of Menon et al, (1997). Ramaswami, (1996) further asserts that *'if managers must use output and process controls...they may not be able to avoid dysfunctional responses from employees [harmful to the long-term performance of the organisation]; they may, however, be able to offset such responses if they show a general pattern of being considerate.*

It appears therefore that the role of market based reward systems in creating market-oriented behaviour and increasing marketing effectiveness is not clear and the impact of managerial behaviour, in terms of consideration to individual employees needs, may influence the effectiveness of such reward systems.

Interfunctional Factors

Jaworski and Kohli, (1993) identify interfunctional factors as an antecedent to market orientation and report that conflict between departments reduces market orientation by hindering the dissemination of intelligence between them and the responsiveness of the organisation to market conditions. Connectedness between departments is thought to promote market orientation by facilitating the dissemination of intelligence between them, however this is yet to be confirmed (Jaworski and Kohli, 1993). In a later study, (Menon, Jaworski and Kohli, 1997) examine the direct impact of interdepartmental interactions on product quality. They find that interdepartmental connectedness has a significant positive impact on product quality ($\beta=0.23$, $p<0.001$), and interdepartmental conflict has a significant negative impact on product quality ($\beta=-0.18$, $p<0.05$). Furthermore Menon et al, (1997) find that this relationship is robust across various levels of market and technological turbulence.

The important antecedents to interdepartmental interactions that Menon et al find are top management risk aversion, centralisation, departmentalisation, hierarchical levels and market based reward orientation. Reward systems have been identified as an important component of internal marketing, and the role of managers in adjusting conditions of employment to the wants and needs of employees in the local environment is also an important consideration, therefore the level of centralisation is an important component of internal marketing. Menon et al, (1997) report that centralisation is strongly, inversely related to interdepartmental connectedness ($\beta=-0.30$, $p<0.001$) and has a positive linear relationship with interdepartmental conflict ($\beta=0.26$, $p<0.05$).

It appears therefore that one possible role of internal marketing, in identifying important attributes of employment that may be used to reward employees or augment their employment, may be to increase connectedness between departments in the firm and to reduce conflict between departments. However, as Menon et al, (1997) suggest there is a need to further examine the internal aspects of the firm that influence quality.

Internal customer orientation as discussed previously, has as it's focus, interfunctional interdependency. Internal suppliers work with their internal customers to identify areas for improvement and hence possibilities to increase internal service quality. Such functional interdependency has been shown to improve communication between departments and the dissemination of intelligence (Fisher, Maltz and Jaworski, (1997), hence facilitating the achievement of a market orientation.

Information Dissemination and Responsiveness

Ramaswami, (1996) reports that managerial consideration of individual employees' wants and needs, discussed above, is significantly correlated with the behaviour of employees in term of the appropriateness of this behaviour for the long term success of the company. Ramaswami, (1996) finds that the use of formal control procedures can lead to dysfunctional employee behaviour. Such activities have been identified to come in four forms: gaming, smoothing, focusing, and invalid reporting (Jaworski, 1988). Two of these forms, focusing and invalid reporting, relate directly to the

dissemination of information throughout the organisation and the other two, gaming and smoothing relate to responses to the market.

Focusing occurs when the employee enhances or degrades performance information through selective communication to supervisors, and invalid reporting occurs when the employee deliberately presents inaccurate data to management about both what has been done and what can be done.

It appears therefore that managerial consideration of individual employees' wants and needs, internal marketing, can influence the dissemination of information throughout the organisation, both in terms of the accuracy of this information and the completeness of the information that is communicated.

Gaming occurs when an employee behaves in ways that look good in terms of the control system measures but are dysfunctional for the firm otherwise, and smoothing occurs when the employee evens out performance over time. The impact of managerial consideration of individual employees' wants and needs on these dysfunctional behaviours would appear to indicate that internal marketing also influences responsiveness to the market.

Strategic and Tactical Internal Marketing

Grönroos, (1992) also discusses changing the culture of the firm using internal marketing. He suggests that the philosophy of internal marketing can be implemented at both the strategic and tactical levels. At the strategic level Grönroos proposes that supportive management methods, personnel policy, internal training and planning and control procedures will *create an internal environment, which supports customer consciousness and sales mindedness among the personnel...*

At the tactical level, Grönroos suggests the use of traditional marketing techniques, such as personal selling and mass communication, to *sell services, supporting services (used as a means of competition), campaigns and single marketing efforts to the employees*. Such internal marketing efforts will make clear to employee their importance and the consequences of their position as both producers and marketers of the service.

Grönroos, (1985) further stresses the need for an active marketing role in influencing employees

3.2.6 Antecedents to Internal Marketing

Most of the literature relating to internal marketing concentrates on the hypothesised results of an internal marketing campaign. The view that internal marketing is a prerequisite for successful external marketing is commonly aired, but few authors have discussed the prerequisites for successful internal marketing in any detail.

Heskett, (1987), suggests the need for an internally oriented strategic services vision, with the same basic elements as the external vision, to direct marketing and operations as one function.

This view that an inward focus is a necessary prerequisite to internal marketing is supported by Flipo, (1986) who suggests that managers need to be aware of the need to create a common culture among employees, (set of values) in order for internal marketing to be successful, or indeed considered.

Flipo, (1986) states that internal marketing is the manifestation of management awareness that the health of the enterprise depends on the degree to which core groups of employees subscribe to and share a common set of values and are served by the company's activities.

Heskett, (1987) proposes this common set of values as one of the outcomes of an internal marketing programme. Heskett suggests that positioning the service concept, part of his inner directed vision (internal marketing) it is hoped will lead to the opportunity to develop shared goals and values as well as low turnover and low training costs.

3.2.7 Criticism of the Internal Marketing Model

Despite the benevolent logic of meeting the needs of all employees, the internal marketing concept has aroused criticism from some authors.

Rafiq and Ahmed, (1993) highlight some problems with the conceptualisation of internal marketing discussed above and the application of marketing techniques to

this human resources problem. They suggest that the idea of treating employees as customers of the company is flawed in several respects. Firstly the product that the employee is being sold may not be wanted. Rafiq and Ahmed argue that in normal marketing situations customers do not have to buy products, however in the internal market the product, for example a new way of working, *may be forced on the customer under the threat of disciplinary action or dismissal*. They suggest that under normal market conditions customers have a range of alternative products from which to choose and that this is unlikely to be the case in the internal situation.

However, inherent within Berry's and Parasuraman's, (1991) definition of internal marketing, (*attracting, developing, motivating and retaining qualified employees through job products that satisfy their needs. Internal marketing is the philosophy of treating employees as customers...and it is the strategy of shaping job-products to fit human needs*) is the assumption that dissatisfied and unmotivated employees will not be retained. If as Rafiq and Ahmed suggest jobs/ products have negative utility, the internal customer, (the employee,) does indeed have a choice, either to stay or to leave. This is a similar choice to the external customer who must decide to buy or not to buy a product and after evaluation must decide to retain or to replace the product depending on the level of satisfaction derived from continued use. If the employee is considered to be highly involved in the post that he or she holds then an analogy can be drawn to the consumer making similar decisions about a high involvement product which may have been expensive or which may be difficult to replace.

This criticism is further weakened if the employee is truly being treated as a customer. In this case the job/ products will be designed based on internal market research of the employees wants and needs. The event of the product being unwanted should thus be minimised.

A second criticism that Rafiq and Ahmed level at internal marketing is with the idea that the employee be treated as a customer. They suggest that if employees were to really behave as customers then they would make impossible demands on the organisation as the sovereignty of the customer is well known and in this case the customer cannot always be right. This argument again can be countered if the concept of the choice of employees to stay with the organisation or to leave is

seriously considered. In a similar manner to that in the external market, research will indicate what the (internal) customer wants. If their needs are not being met they will defect to jobs that better meet their needs, just as the external customer will switch to an alternative product. The resulting turnover of staff increases training and recruitment costs and results in image and morale problems. The fact that switching jobs may be more difficult than switching products does not necessarily mean that the employee-employer association is not a valid customer-supplier relationship.

Rafiq and Ahmed further argue that the idea that *personnel are the first market of a service company*. (Sasser and Arbeit, 1976) is contrary to one of the fundamental axioms of marketing, namely that the external customer has primacy.

3.2.8 Internal Marketing Summary

At this juncture, it appears that internal marketing can contribute significantly to the external marketing success of the firm, both directly by improving customer satisfaction and customer retention and indirectly by improving the market orientation of the firm.

Two types of internal marketing have been identified; the first, internal market orientation, is closely related to human resources management and is the application of marketing knowledge and techniques to the management of human resources. It is based on the premise that it is not possible to satisfy customers without having first satisfied employees. This approach to internal marketing concentrates on identifying the wants and needs of employees, the exchanges of value between the firm and employees and designing employment and conditions to meet the needs of employees. The second type of internal marketing, the internal customer orientation, is more closely related to total quality management and operations management and focuses on internal exchanges between employees and processes within the firm.

The dimensions of internal marketing identified in the literature review are summarised in Table 3-1 and Table 3-2 below.

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Table 3-1 Elements of Internal Marketing

	Training	Recruitment	Developing job-products	Developing profit centres	Internal market research	Internal communications	Human resources management and policy	Satisfying wants and needs of employees
George (1990)								
Van Haastrecht and Bekkers (1995)								
Berry and Parasuraman (1991)								
Wilson (1991)								
Stauss (1990)								
Mohr-Jackson (1991)								
Morgan (1990)								
Sasser and Arbeit (1976)								
Wasmer and Brunner (1991)								
Piercy (1995)								
Berry (1984)								
Tansuhaj, Randall and McCullough (1988)								
Comm (1989)								
Clark (1993)								
Grönroos (1981)								
Rafiq and Ahmed (1993)								
Gummesson (1990)								
Lukas and Maignan (1996)								
Collins and Payne (1991)								
Crawford and Getty (1991)								
Tannenbaum et al (1994)								
Reynoso and Moores (1996)								

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Table 3-2 Consequences of Internal Marketing

	Increased service quality	Customer focus	Sales focus	Market focus	Motivation/ moral	Organisational commitment	Internal culture	Employee satisfaction	Customer satisfaction	Productivity	Employee retention	Profit
George (1990)												
Van Haastreht and Bekkers (1995)												
Berry and Parasuraman (1991)												
Stauss (1990)												
Sasser and Arbeit (1976)												
Greene at al (1994)												
Wasmer and Brunner (1991)												
Mattsson (1988)												
Piercy (1995)								*				
Bowen (1996)												
Comm (1989)												
Tansuhaj, Randall and McCullough (1988)												
Gummesson (1990)												
Piercy and Morgan (1990)												
Heskett (1987)												
Flipo (1986)												
Grönroos (1981)												
Heskett et al (1994)												
Crawford and Getty (1991)												
Hart (1995)												
Tannenbaum et al (1994)												

* Piercy (1995) argues that customer satisfaction is both dependant on and a contributor to, employee satisfaction

Internal marketing activities can be described as the application, to the internal environment of the firm, of marketing tools and techniques traditionally applied to the external environment. However, the exact nature of the internal marketing concept remains unclear. Some authors propose that the marketing mix is a suitable operationalisation of internal and external marketing; others propose that alternative operationalisations are applicable to the internal environment. The most appropriate

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target for internal marketing is also a matter of some debate. Undoubtedly the import of customer contact personnel requires that they be targeted with some form of internal marketing, however dispute exists as to whether targeting customer contact personnel in isolation is sufficient, or even desirable. Furthermore the extant literature does not reveal the level at which internal marketing operates. Several authors suggest that internal marketing operates, simultaneously, at the strategic and tactical levels, or the operational, behavioural and organisational levels; others propose that it operates exclusively at one level, either the organisational level or the managerial level. Finally, the mechanism by which internal marketing influences the market orientation of the firm remains unclear. A common view is that internal marketing should improve employee satisfaction and that this should improve customer satisfaction. In addition to this, several other possible mechanisms have been proposed. These include the role of internal marketing in employee retention, and employee morale leading to improved market orientation.

With no consensus as to what internal marketing is, it is unsurprising that there is also no consensus as to how the internal market should be managed. Current thinking operationalises internal marketing through diverse approaches including the application of the 4 P marketing mix to the internal market (Piercy and Morgan, 1991, Piercy, 1995; Flipo, 1986), viewing internal marketing as the design of jobs which will satisfy the needs of employees, Sasser and Arbeit 1976; George, 1977; 1990), developing internal relationships (Ballantyne, 1997), applying human resources management techniques to the internal market (Tansuhaj et al, 1988) and designing service delivery systems using process management techniques (Heskett 1987; Lings and Brooks, 1998).

In light of the lack of consensus as to what internal marketing is, it is not surprising that different opinions exist as to what the aims of internal marketing are. Despite these different opinions in many instances discussions of internal marketing either implicitly or explicitly, state that the aim is better external marketing. This improved external marketing, however, takes many forms within the internal marketing literature. These include customer conscious employees (Grönroos, 1981, 1982, 1985; George, 1990), service quality (Pfau et al, 1991), commitment to the

organisation's goals (Wasmer and Brunner, 1991), higher employee and customer satisfaction (Clark, 1993), employee motivation (Comm, 1989), decreased staff turnover and lower training costs (Gummesson, 1987), increased market orientation (Grönroos, 1982).

3.2.9 A Model of Internal Marketing

It appears that as the application of marketing techniques to the internal environment of the firm, internal marketing displays similarities to the concept of market orientation. The internal marketing concept requires that information be generated about the internal environment. This information also has a broader focus than employees. It involves the generation of internal information, about the current satisfaction of employees with their working conditions and employment activities, the factors that influence satisfaction and the important attributes of the jobs on offer that employees consider. There is also an external focus relating to the activities of competitors in the employee market and generating intelligence about employment conditions with firms competing for the same employees. Such competitors may or may not be competing for the same customers as effective customer contact staff are required in a range of industries. Other external intelligence required relates to legislative changes to employment conditions.

There follows a need for the dissemination of this information to managers, employees and other decision makers so that effective responses can be made.

Finally, internal marketing requires that the information generated is used to develop appropriate responses in terms of the design of jobs, employment conditions, both financial and in terms of the identified attributes of the job that are important to employees, training, recruitment and targeted internal communications.

It is therefore hypothesised that internal marketing can be operationalised as an internal market orientation in a similar manner to the Kohli, et al, (1993) operationalisation of external marketing as market orientation.

Internal market orientation consists of three interrelated components, information generation about factors pertinent to the internal market of the

firm, dissemination of the information to interested parties and a behavioural response to the information.

Such an operationalisation is represented by Figure 3-3 below and is further developed in the following chapter. In recognition of its origins it is termed internal market orientation.

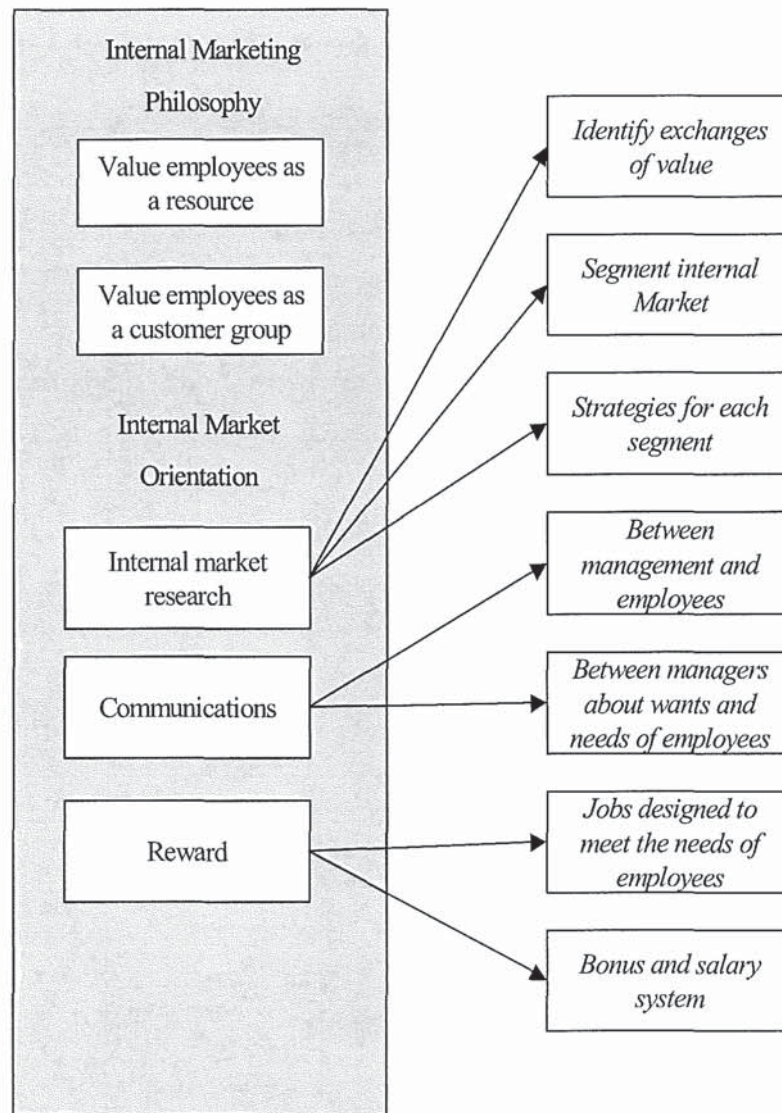


Figure 3-3 Internal Marketing Philosophy and Behaviour

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Furthermore the interrelations between the three dimensions of internal market orientation may be hypothesised. In market orientation research, Matsuno, Mentzer and Rentz (2000) identify that the market orientation construct is best represented by three distinct first-order dimensions. Raju, Subhash and Gupta (1995), also find the market orientation construct is not unidimensional and that it is better represented as a set of unidimensional constructs. Interestingly they report that responsiveness is the only aspect of market orientation that seems to have a significant effect on the performance dimensions that they measured. These they labelled; "financial performance," "market/product development," and "internal quality". Given that the unidimensionality of the market orientation construct is not universally accepted and that as a set of distinct dimensions, each component of market orientation may influence outcomes separately, the same may be assumed of the internal market orientation construct. There is an intuitive logic that both information acquisition and information dissemination are antecedent to responsiveness to the internal market. It is possible for managers to collect information about the internal market and then to do nothing with that information. If this is the case then there will be no internal market oriented response. It is only through the acquisition and dissemination of information that a coordinated response may be formulated. Also, as Raju, et al (1995) identify, it is the response to information that should impact on employee behaviour and attitudes. Therefore the following relationships between the dimensions of internal market orientation are proposed.

Proposition 0-1: Internal market information generation has a direct positive impact on responsiveness to the internal market

Proposition 0-2: Dissemination of information about the internal market has a direct impact on responsiveness to the internal market.

These relationships are represented in Figure 3-4 below.

Chapter 3: Internal Marketing

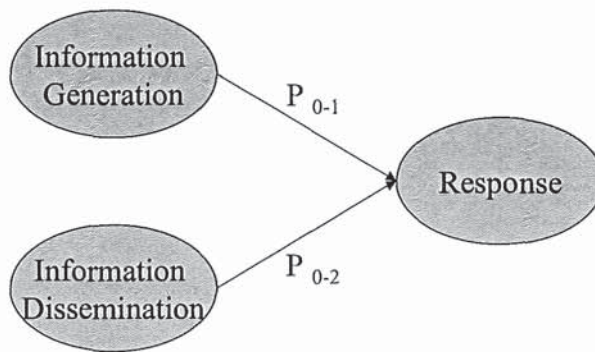


Figure 3-4. Structure of Internal Market Orientation

The consequence of an internal market orientation relate to both the internal market and the external market. Internal consequences include employee satisfaction and retention, motivation and commitment and the development of an internal culture necessary to become market oriented. External market consequences include service quality and customer satisfaction, leading to external market success and profit.

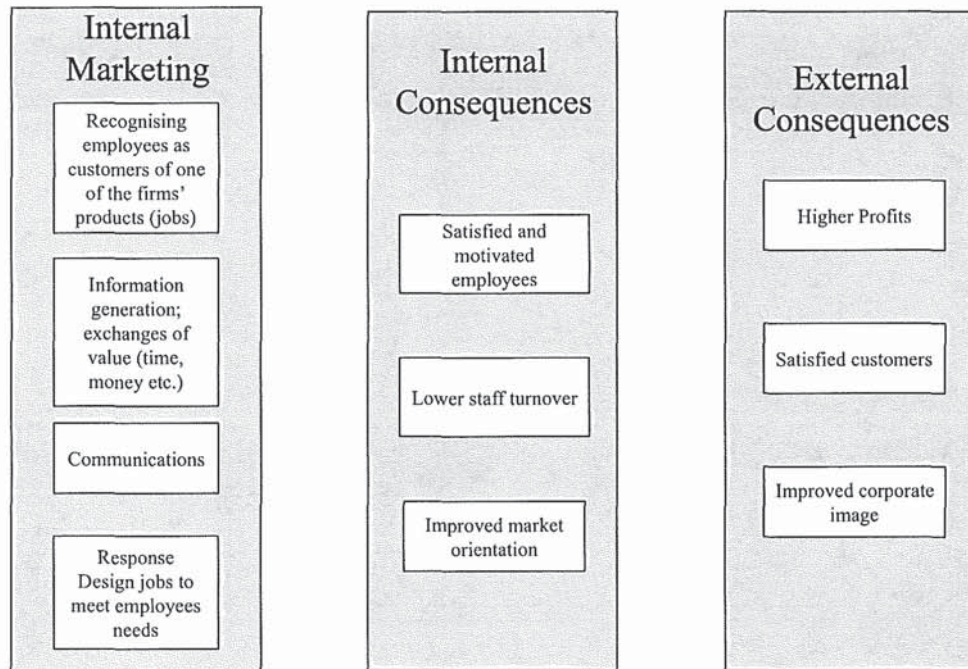


Figure 3-5 Internal and External Consequences of Internal Marketing

It appears, therefore, that internal market orientation may contribute directly and indirectly to the external marketing performance of the firm. The direct impact of internal market orientation on performance has been suggested by Pfau et al, (1991), as improving service quality; Clark, (1993), as increasing employee and customer satisfaction and Gummesson, (1987), as decreasing staff turnover and reducing training costs. Indirectly internal market orientation may contribute to the market orientation of the firm as discussed above, and by creating customer conscious employees (Grönroos, 1981, 1982, 1985,), improving employees' commitment to the organisation's goals (Wasmer and Brunner, 1991), and increasing employee motivation (Comm, 1989). The nature of the market orientation market performance link is well established in the academic discourse in this area. See for example McCullough, Heng and Khem, (1986); Narver and Slater, (1990); Naidu and Narayana, (1991); Ruekert, (1992); Wong and Saunders, (1993); Day and Nedungadi (1994) and Pelham and Wilson, (1996)

At this juncture, although empirical evidence is required to confirm the dimensions of internal market orientation, it is possible to develop some general propositions about the relationships between internal market orientation, market orientation and market performance. The very general relationships between the constructs are given in Figure 3-6 below. More detailed propositions about the relationships between the dimensions of these constructs are developed in the ensuing discussion and represented in Figure 3-7.

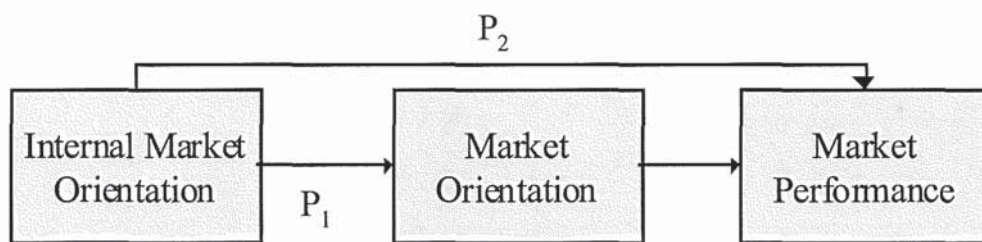


Figure 3-6 Relationship Between Internal Market Orientation, Market Orientation and Market Performance

Proposition 1: internal market orientation has a direct positive impact on external market performance.

Proposition 2: internal market orientation has a direct positive impact on market orientation of the firm.

The dimensions of internal and external market orientation have been discussed above and the performance outcomes of the two constructs have been identified. For both the internal and external market orientation constructs, each of the dimensions may have an impact on performance. Raju et al (1995) identify that only the responsiveness dimension of external market orientation influences performance. This is also likely to be the case in the internal market. Generating and disseminating information about the internal market is unlikely to impact the satisfaction of staff or influence their retention by the company if no tangible response is made to the information. Therefore the following may be proposed about the influence of internal market orientation on staff.

Proposition 2.1: Internal market responsiveness will have a direct positive impact on the satisfaction of staff

Proposition 2.2: Internal market responsiveness will have a direct positive impact on the retention of staff

Several authors discuss the positive impact of staff satisfaction and retention on the financial performance of the firm; see for example Heskett et al (1987), Comm (1989). Staff satisfaction has a positive impact on the probability that staff will remain with the firm and retaining staff reduces outlay on retaining and recruitment and so has a positive impact on financial performance.

Proposition 3.1 Staff satisfaction has a direct positive impact on the retention of staff

Proposition 3.2 Staff retention has a direct positive impact on financial performance

The influence of internal market orientation on market orientation is less clear. It has already been noted that internal marketing is expected to influence employees to become external market orientated (Grönroos, 1983 and 1988; Gummesson, 1987; Piercy and Morgan, 1990; Berry and Parasuraman, 1991; Piercy, 1995). However, internal and external market orientation consist of the same set of behaviours, information generation, dissemination and response, with a different focus, the internal environment in internal market orientation, the external market in external market orientation. Due to the similar nature of the two constructs it is possible that managers who collect and disseminate information will do so irrespective of the nature of the information. In addition the multiple roles of employees, as internal customers of the employing company, collectors of information from external customers of the employing company and external customers of competing companies will result in information being collected about the external environment simultaneous to collecting information about the internal environment. Therefore:

Proposition 1.1: Information generation about the internal market will have a direct positive impact on information generation about the external market.

Similarly the dissemination of information is an activity involving communication of relevant information between interested parties. Managers that are involved in, and utilise, communications systems will do so for information about both internal and external markets. Therefore:

Proposition 1.2: Disseminating information about the internal market will be highly correlated with disseminating information about external markets.

Much of external market information is available from employees of the firm as has already been discussed. The role of internal market orientation is to motivate staff to collect and disseminate information and respond in a customer-oriented manner. As has already been identified it is the response to external market information that impacts performance in the external market. It is therefore proposed that the response to internal market orientation influences the market-orientated performance of the firm.

Proposition 1.3: The responsiveness dimension of internal market orientation will have a direct and positive impact on all three dimensions of external market orientation.

This proposition may be represented as three separate propositions:

Proposition 1.3a: The responsiveness dimension of internal market orientation will have a direct and positive impact on information generation of information about the external market.

Proposition 1.3b: The responsiveness dimension of internal market orientation will have a direct and positive impact on the dissemination of external market information to interested parties.

Proposition 1.3c: *The responsiveness dimension of internal market orientation will have a direct and positive impact on the responsiveness of the firm to external market conditions.*

These proposed relationships are illustrated in Figure 3-7 below.

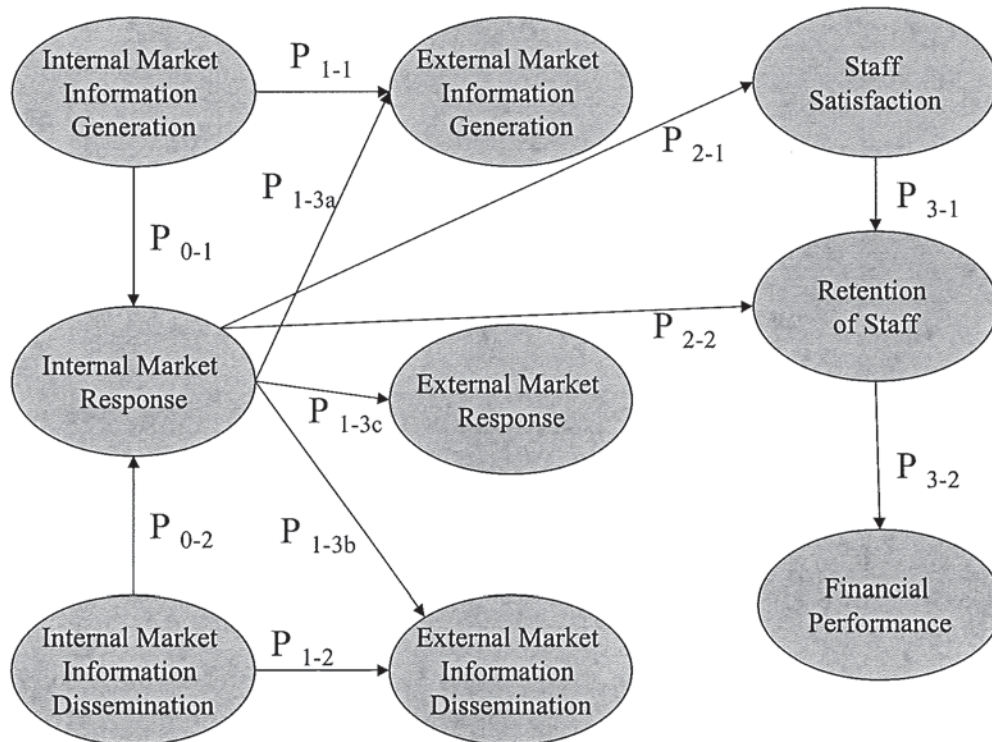


Figure 3-7 Proposed Relationships Between the Dimensions of Internal Market Orientation, External Market Orientation and Performance

From the above discussion and review of the internal marketing and market orientation discourses, it appears that internal market orientation displays similarities to market orientation, in as much as the two constructs appear to be comprised of the same set of behavioural dominions: intelligence generation, intelligence dissemination and responsiveness dimensions. Prior to resting the propositions outlined above, and developing more specific hypotheses about the exact nature of the relationships between the confirmed dimensions of the constructs, it is necessary

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to empirically identify the dimensions of internal market orientation and to confirm the dimensions of the market orientation and performance constructs in this research context.

The dimensions of internal market orientation are identified and dimensions of the market orientation and performance are confirmed in chapter 5 of this thesis and valid and reliable instruments for each of the constructs under investigation are presented. Specific hypotheses relating to the relationships between these constructs are developed and tested in chapter 6. Prior to this, chapter 4 discusses the issues pertinent to the appropriate choice of methodology required to develop reliable scales for internal market orientation and to explore its relationship with market orientation and performance.

4 Research Methodology

The preceding chapters have reviewed the management and academic discourses on market orientation and internal marketing and the antecedent impact of employee behaviour on market orientation is explored. A new concept *internal market orientation* is presented as a concept through which internal marketing may be operationalised.

The relationship between internal market orientation and market orientation has also been examined and a hypothesised model of the two constructs is presented along with their impact in market performance. Two general propositions have been developed at this stage.

Proposition 1: internal market orientation has a direct positive impact on external market performance.

Proposition 2: internal market orientation has a direct positive impact on the market orientation of the firm.

In addition to these two very general propositions several more specific propositions have been posited about the relationship between the proposed dimensions of the constructs under investigation. These are:

Proposition 0-1: Internal market information generation has a direct positive impact on responsiveness to the internal market

Proposition 0-2: Dissemination of information about the internal market has a direct impact on responsiveness to the internal market.

Proposition 1.1: Information generation about the internal market will have a direct positive impact on information generation about the external market.

Proposition 1.2: Disseminating information about the internal market will be highly correlated with disseminating information about external markets.

Proposition 1.3: The responsiveness dimension of internal market orientation will have a direct and positive impact on all three dimensions of external market orientation.

Proposition 2.1: Internal market responsiveness will have a direct positive impact on the satisfaction of staff.

Proposition 2.2: Internal market responsiveness will have a direct positive impact on the retention of staff.

Proposition 3.1: Staff satisfaction has a direct positive impact on the retention of staff.

Proposition 3.2: Staff retention has a direct positive impact on financial performance.

Chapter 4 addresses the methodological issues involved in researching internal market orientation, (developing a valid and reliable instrument to measure the construct) and testing the propositions, (the structural relationship between internal market orientation, market orientation and market performance).

The principal themes which are documented in this chapter are the industry specific focus of the study, research design; scale development; data generation; data sources and analysis methods.

This section is structured along the following lines. Section 4.1 examines the UK retail sector and discusses the role of internal market orientation in this context. This is followed by a discussion of research design in section 4.2. Measurement issues are examined in section 4.3, prior to a more detailed examination of the constructs to be measured. Sections 4.8 through 4.11 discuss the collection of the data for the study.

4.1 UK Retail Sector

The DTI (<http://www.dti.gov.uk/comp/benchmark/sects/11ret.htm>), defines the retail sector as ranging from major supermarket chains, department stores and other large outlets to corner shops. The DTI report identifies retailing as one of the UK's top

service sector industries, with an increase in turnover from just over £80 billion in 1984 to £157 billion in 1994, two-thirds of which is accounted for by retail price inflation. This increase in turnover, seen in the context of decline in the total number of retail businesses by 50,000 during the same period, to just fewer than 200,000, (representing around 290,000 outlets), illustrates the growth of larger retail businesses at the expense of small retailers.

Despite growth in retail turnover and the expansion of the larger retail companies, direct employment in the retail sector has remained relatively stable at around 2.2 to 2.3 million, (<http://www.dti.gov.uk/comp/benchmark/sects/11ret.htm>) and several industry correspondents report that it is becoming increasingly difficult for retailers to find and keep high quality employees. (See for example Schurer, 1998; Berman, 1988; Roche, 1997; Lewis, 1999; Major, 1999; Weir, 2000 and Warner, 2000).

Major, (2000) reports that over half of new hourly paid retail employees in the US leave their jobs within 97 days, and one quarter leave within the first month at an estimated cost to the firm of \$3,752 per employee. Apart from these recruitment, training and opportunity costs associated with employee turnover, problems in recruiting and retraining high quality staff impact directly on customer service, (Turock, 1998; Litwak, 1999).

Within the retail sector, the importance of service as a retail differentiator (Mason, 1998; Beenstock, 1998), and the importance of employees as a key determinant of service (Bainbridge, 1998) have led to the first pillar of the marketing concept being challenged. Turock, (1998) asserts that customers should come second to employees and firms need to ensure that they meet the needs of employees before they can even approach satisfying customers. Internal marketing is proposed as the means to achieve this (Bainbridge, 1998). Furthermore, Segal, (1997) asserts that only the retail store manager can foster an internal market orientation

Competition in the retail industry is predominantly local. Stores compete with each other for their share of local customers and local employees (Wellman, 1998).

Customer focus is important to retailers at the store level, listening to customers and addressing their needs is one of the roles of the store manager (Tosh, 1999).

4.2 Research Design: An Overview

Churchill, (1979) discusses the development of scales to measure marketing constructs and this chapter is structured along the lines that he proposes. See also DeVellis, (1991); Hinkin, (1995); Cadogan et al, (1999); Diamantopoulos and Souchon, (1999).

There are several approaches available to the researcher, wishing to undertake a project of this nature. The approach taken will depend on the nature and the aims of the research. These issues are discussed in more detail below.

Research design is 'the framework or plan for a study used as a guide in collecting and analysing data. It is the blueprint that is followed in completing a study.' (Churchill, 1999, p 98). Research design can be classified into three dominant approaches See for example Selltitz et al, (1976); Churchill, (1999) and Ghuari et al, (1995). These approaches, exploratory, descriptive and causal research designs are discussed in turn below.

4.2.1 Exploratory Research

Exploratory research is concerned with the development of ideas and insights and is frequently considered as appropriate for the deconstruction of comprehensive research problems into more definite and precise research hypotheses and propositions (Selltitz et al, 1976). Thus, exploratory research is commonly viewed as a process of clarifying or prioritising poorly defined or understood concepts rather than actual testing issues for generalisability (Churchill, 1991). Often characterised as the most flexible research design and frequently used as a preliminary or foundation phase of research, exploratory studies may use literature searches, experience surveys, focus groups or selected case analyses (Selltitz et al, 1976; Churchill, 1991).

4.2.2 Descriptive Research

Descriptive research studies are often concerned with the frequency of occurrence or association between two or more variables. A descriptive design is appropriate where the aim of research is to describe group characteristics, to estimate the behaviour of a proportion of a population or to make broad predictions (Churchill, 1991). Descriptive designs are typically highly formalised and are often used to test propositions or hypotheses to form a basis for theory construction (Dubin, 1978). Descriptive research designs may be classified according to their longitudinal or cross sectional nature. Cross-sectional studies collect data from a population or sample of interest at one point in time, whilst longitudinal studies select a 'panel' at a number of different points in time.

In general the relationships studied will not be causal in nature but correlations between factors may be sought.

4.2.3 Causal Research

The third category of research design is causal or experimental study. This research design is concerned with the determination of cause and effect relationships between variables. Thus the central issue for causal research is to isolate 'cause' and determine the extent to which such a 'cause' relates to 'effect.' Typically, such research is achieved via the use of experimental designs in which the researcher controls certain independent variables and observes effects on dependant variables (Kerlinger, 1986). A causal research approach is required where it is necessary to show that one variable causes or determines the value of other variables. (Kumar et al, 1999, p. 75.)

The identification and selection of the most appropriate research design for a given study is naturally related to the objectives of the study, the nature of variables and/or the associations between variables and the context of the study. The primary objectives of this study are threefold.

1. To assess the impact of internal market orientation on important organisational factors, specifically market orientation and performance.

2. To define the domain of internal marketing and to specify the conceptual parameters of a new concept; internal market orientation.
3. To develop a valid and reliable measure of the internal market orientation concept.

In order to achieve these objectives, a two-stage research design was employed. Objectives 2 and 3 were addressed using an exploratory research design. This first phase of research is the recommended research design for situations where a clearer and more precise understanding of the construct is required and where knowledge of the precise research area is limited. (See for example Churchill, 1999, p103; Zikmund, 2000, p 137; Sampson, 1996). Exploratory research in this situation is also a precursor to descriptive or causal designs.

The second stage of the research addresses objective 1 and utilised a descriptive research framework, in the form of a survey research design.

4.2.4 Longitudinal Versus Cross-Sectional Analysis

Two main approaches to data collection are available: longitudinal and cross sectional designs. Given that one of the major objectives of the research is to develop a measure of internal market orientation, and that the operationalisation of the internal market orientation construct is still in its infancy, the project warranted a method most appropriate to a measurement development procedure. In this respect, the measure development process is best undertaken on a sample of respondents that is as representative as possible of the ultimate population for which the scale is intended. (Spector, 1992, p. 29). DeVellis, (1991) cautions that the choice of the sample of respondents may be problematic. If the sample of respondents differs from the target population 'the patterns of associations among items might reflect unusual attributes shared among the sample but rare in the broader community.' I.e. 'the underlying causal structure relating variables to true scores may be different if the sample is unlike the population in important ways.' (DeVellis, 1991, p. 79)

The population of interest in this study is UK retail firms, (See section 4.2.6) therefore the measure developed must be appropriate for this population. Pelham and

Wilson, (1996) argue that cross sectional data is appropriate for the measurement of the causal effects of market orientation. They comment that although confidence in the causal effects of market orientation may be reduced by the lack of longitudinal data, this will be minimal because market orientation develops over a long period and a measure of market orientation taken once over a 3-4 year period will be representative.

Given that one of the main aims of this study is to develop an instrument to measure internal market orientation and to provide preliminary insights into the consequences of this construct, a design was required, which would most effectively generate the required data. Clearly the development of measures does not require longitudinal data. Furthermore, although longitudinal data would provide the strongest evidence on the causal relationships proposed, the two constructs appear to be closely temporally linked. For example, Hurley, (1998) points out that good communication and response from managers to employees, (i.e. high levels of internal market orientation) facilitate rapid acceptance of organisational directives and behaviour change. Therefore, in the context of the current study, it seems likely that cross sectional data will reflect, to a certain extent, the causal impact of internal market orientation on external market orientation.

Moreover, Greenley, (1995) points out that cross sectional designs are useful in the early stages of knowledge development, where empirical evidence is recent and incremental development of knowledge is necessary. It can be seen that this incremental knowledge development has been taking place within the mainstream market orientation literature, where the vast majority of studies have made their contribution using cross sectional designs. Pelham and Wilson's, (1996) study is a notable exception, since they examined the longitudinal impact of market orientation on business profitability. In this respect their results confirm the findings of several cross sectional studies, (e.g. Narver and Slater, 1990; Jaworski and Kohli, 1993; Ruekert, 1992). Therefore guided by the study aims, the fact that cross sectional data will provide the necessary information for theory testing at this early stage in the knowledge development process, and also considering the prohibitive financial and

time costs associated with generating a suitable longitudinal sample, a cross sectional design was chosen for the study.

During both the exploratory and descriptive stages of research, a cross-sectional data collection design was employed. In this respect, cross-sectional research entails the collection of data at one point in time, prohibiting causal research since variables are measured comparatively simultaneously (Churchill, 1999). Despite restrictions upon causal inferences, cross-sectional research exhibits considerable advantages over longitudinal approaches, notably in relation to time and budget constraints. Hence, the exploratory and descriptive nature of this study and the constraints under which it is conducted indicate that a cross-sectional design is the most appropriate (Churchill, 1999).

4.2.5 Generalisability

There is always the expectation that the findings of research projects will ultimately be useful in addressing problems in situations other than the one studied. Calder, Phillips and Tybout, (1982) discuss two types of generalisability. The first type, effects application, maps observed data directly into events beyond the research setting. That is, the specific effects obtained are expected to mirror findings that would be observed if the data were collected for other populations and settings in the real world.

The second type of generalisability, theory application, uses only scientific theory to explain events beyond the research setting. The effects observed in the research are used to assess the generalisability of the theory, but it is the theory that is expected to be generalisable and not the particular effects observed.

4.2.5.1 Effect and Theory Applications

Although effect application and theory application have common elements the distinction between them lies in the intended use of the data obtained from research.

In effects application the data is used to build knowledge about the events and relationships in a particular real-world situation. The primary goal is to obtain findings that can be applied directly to the situation of interest. Although a

theoretical framework may be used to identify and measure effects, it is the effects themselves that are generalised, rather than being linked by inference, to the theoretical constructs.

This type of research calls for correspondence procedures, in which the research setting corresponds to a real world setting. As Calder et al, (1982) indicate, complete correspondence is difficult to achieve, as the act *of data collection usually distinguishes the research setting from it's real world counterpart.*

In theory application the data is used to build specific knowledge about events and relationships that occur in a variety of real world situations. The goal is to identify scientific theories that provide a general understanding of the real world. Theory application requires falsification test procedures in which a context is created and effects, which have the potential to disprove the theory, are measured. The context and effects are not of interest in their own right, but are used to provide information about the adequacy of the theory.

The criteria for selecting respondents for a study in which theory application is the goal require that research respondents be selected to provide a rigorous test of the theory under consideration (Calder et al, 1982). The ideal theory falsification procedure is to employ maximally homogeneous respondents. This entails sampling from groups of individuals that are similar on dimensions that are likely to influence the variables of interest. This permits more exact theoretical predictions than may be possible with heterogeneous groups and decreases that chance of making a false conclusion about whether there is covariation between the variables under consideration. As Cook and Campbell, (1975) explain, heterogeneous respondents constitute a threat to statistical conclusion validity because heterogeneity among respondents, with respect to characteristics that affect their responses, increases the error variance and the sensitivity of statistical tests in identifying significant relationships declines. This may result in the disconfirmation of a theoretical relationship when it actually exists but is obscured by the variability of the data arising from the heterogeneity of the sample.

(Calder et al, 1982) suggest that selecting homogeneous convenience samples is preferred in theory research as this enables more precise predictions and enhances statistical conclusion validity and therefore increases the rigor of the theory test. The use of maximally homogeneous samples, or conducting replications of the research for each level of a respondent characteristic believed to exacerbate error variance, can control random sources of error, decrease the probability of making a type II error, and increase confidence that any negative results reflect the failure of the theory.

The optimal research procedures for theory falsification and intervention falsification are shown in Table 4-1 below.

Methodological Issues	Falsification Procedures	
	Theory	Intervention
Selection of respondents	Use a sample homogeneous on non-theoretical variables	Use a sample that encompasses individual differences that might influence performance of the intervention
Operationalisation of key variables	Ensure that empirical operationalisation of theoretical constructs cannot be construed in terms of other constructs.	Operationalise variables to reflect the manner in which an intervention is to be implemented in the real world
Selection of a research setting	Choose a setting that allows operationalisation of theoretical constructs and is free of extraneous sources of variation	Choose a setting encompassing environmental heterogeneity that might influence the performance of the intervention.
Selection of a research design	Use a design that affords the strongest possible inferences about the relationships between theoretical constructs.	Use a design that affords the strongest possible test of the intervention subject to constraints imposed by the need to represent real-world variation.

Table 4-1 Comparison of Research Procedures Optimal for Theory Falsification and Intervention Falsification. Adapted from Calder et al, (1982)

Critical to theory falsification procedures, is the need to establish temporal antecedence and to eliminate third variable rival explanations of the relationship

between the independent and dependant variables being considered (Cook and Campbell, 1975). Calder et al, (1982) suggest that experimental designs are the most appropriate for falsification procedures, as they permit the investigator to minimise the possibility that third variables cause the observed relation between the independent and dependant variables. However, as in this case, when the researcher is not able to manipulate the independent variables, correlational or quasi-experimental designs must be employed.

The falsificationist approach to scientific progression is illustrated in Figure 4-1 below.

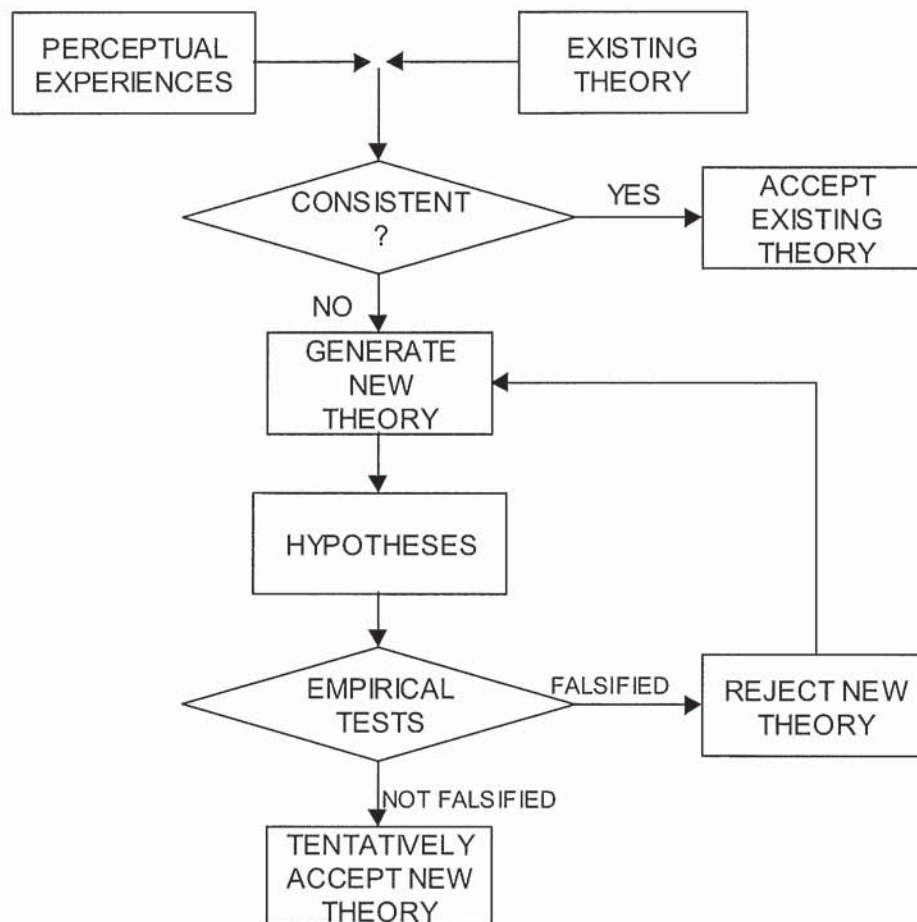


Figure 4-1 The Falsificationist Model of Scientific Method. Anderson, (1983)

4.2.5.2 External Validity

Winer, (1999) reports that while effects application studies show some concern for external validity, the generalisability of the results found to other populations, theory application does not. Furthermore Winer reports three perspectives on external validity, statistical generalisability, robustness and realism.

Statistical generalisability addresses the issue of whether the results from a study, using a particular sampling approach can be generalised to the larger population of interest. Robustness is whether a result found in an experiment can be replicated with different subjects, research settings and time intervals and realism (ecological validity) is whether the research study, tasks, stimuli, settings, was realistic and the results are therefore more likely to be generalisable to a more natural environment.

4.2.6 Population Sampling Frame

As discussed in section 4.1 competition between retailers has a significant local dimension with stores competing for local customers and local employees. Internal marketing is also identified as key to competition in the UK retail sector, where employees have a significant impact on service delivered to customers and store managers have a significant impact on the conditions of employment experienced by their staff. Due to the nature of the internal market orientation concept, it's apparent importance to the UK retail sector, and the instrumental role of store managers in implementing an internal market orientation, store managers in UK retailers are chosen as the population from which the sample will be selected. One of the aims of this research is to develop a valid and reliable instrument to measure the internal market orientation of managers in the U.K. retail sector. For this reason it is necessary to obtain a sample of retail managers representative of the population of retail managers in the UK.

For the purposes of this research the U.K. retail sector is segmented into three discrete sectors, based on their activities, size and levels of service.. Segment one consists of large multi retailers, offering an extensive product range, supplemented

by high levels of customer service. These multi retailers have at least one outlet in most major cities in the UK. Segment two consists of large, budget outlets, competing on price. Typically these outlets have a more restricted product range and offer lower levels of customer service but have a wide geographical coverage of the UK. Segment three consists of smaller retailers, often with restricted geographical coverage.

As the constructs under consideration (internal market orientation, market orientation and subjective performance) relate to the behaviour and perceptions of store managers with respect to front line employees and their local markets, it is necessary to identify managers whose behaviour has a significant impact on both local marketing and the employee relations in the store. Also in order to test the hypothesised impact of internal market orientation, it is necessary that the actions of customer contact personnel have a significant impact on the customer's perceptions of the service received.

Segment three identified above, smaller local stores, are not expected to employ large numbers of employees and many will be staffed by the owner. Clearly internal market orientation will not be applicable to much of this segment. The discount retailers, with the limited product range and emphasis on low prices rather than customer service are also not applicable to this research. For this reason the chosen population consists of the large national multi retailer chains.

When a measuring instrument is developed, the subjects used should be those for whom the instrument is intended (Selltiz et al, 1976; Nunnally, 1978). Since the primary objective of this research was to develop an instrument to measure a manager's behaviour as it relates to internal market orientation and market orientation, the survey was directed to retail store managers. It is expected that managers of stores belonging to large national multi retailer chains are responsible for the focus of the store on the local market, monitoring their local market and identifying the specific needs of their local customers. They are also expected to have the autonomy to optimise the range of product lines in stock and the levels of these product lines held, to ensure that appropriate products are offered with minimal

wastage and minimal out of stock situations. These respondents are likely to have the most significant impact on internal market orientation and be responsible for the selection, recruitment and motivation of customer contact staff within their store. They are therefore the subjects used in this study.

This approach is consistent with market orientation research, where the focus of the research has been at the decision making level relevant to the construct. Market orientation research has previously focused either at the SBU level, Narver and Slater, (1990); Ruekert, (1992); Slater and Narver, (1994) or at the corporate level, Greenley and Matcham, (1986); McCullough, Heng and Khem, (1986); Naidu and Narayana, (1991); Jaworski and Kohli, (1993); Wong and Saunders, (1993); Greenley, (1995). As the internal and external market orientation constructs operate at the store level; internal market orientation concerning how managers focus on the wants and needs of employees and market orientation concerning how stores focus on their local markets, the appropriate level of analysis here is the retail outlet.

The largest UK multi retailer chains were identified using Jordan's' FAME software and the head offices were requested to provide a list of branch addresses for the purpose of administering the data collection questionnaire. Several companies stated that it was corporate policy not to take part in surveys of this nature and declined to provide the appropriate information. Of the companies contacted ten multiple-outlet, multi-retailers agreed to take part in the research. All of these retail chains offer a wide variety of products ranging from foodstuffs to clothing and cosmetics, all employ significant numbers of customer contact personnel and all stress service as an important component of the customer experience in their advertising. The chosen sample consisted of :

Marks and Spencer,	Waitrose,
Somerfield,	Asda,
Tesco,	Sainsbury,
John Lewis	Safeway
Debenhams,	Boots.

A total of 3558 retail outlets were identified from the list of stores provided by the retail chains and constituting a census of all of the outlets of the organisations listed above. Although not representative of the total UK retail sector, such a population should be representative of the UK multi retailer chains.

4.2.7 Method Of Administration

Several methods are acceptable to collect data from respondents. These include personal interviews and mail questionnaires. Both of these methods have inherent advantages and disadvantages. These are discussed detail by Lehmann, (1985); Luck and Rubin, (1987); Churchill, (1991) and Malhotra, (1996) among others.

Several factors influenced the choice of data collection. These are:

- Problems with personal interviews were highlighted in the qualitative data collection where interviewees were sometimes reluctant to give accurate responses in a face-to-face situation, particularly when expressing responses about the focus on employees and customers, which are apparently not socially desirable. The use of a more anonymous data collection method should minimise this problem.
- An alternative to face-to-face interview could have been telephone interviews. However, in common with face-to-face interview, the respondent is not anonymous when answering questions.
- Given the nature of the research and the number of questions that would be required to be answered, telephone interviews were rejected as a viable administration method. In fact Churchill, (1991) states that telephone interviews are the least appropriate method for administering long questionnaires.
- To survey a representative sample across the whole of the UK, employing personal interviews would be prohibitively expensive, both in terms of financial considerations and the time required to conduct the interviews.

With consideration of the issues outlined above a mail questionnaire was chosen as the administration method. The use of mail questionnaires minimises the problems associated with face to face or telephone interviews described above.

Jobber, (1989) comments of mail questionnaires, that 'no other survey method can compete in terms of cost for reaching widely dispersed populations.' In addressing the issue of potentially inaccurate responses Churchill, (1991) and Diamantopoulos and Schlegelmilch, (1996) note that the use of mail questionnaires affords the respondents a level of anonymity which allows them to be more frank on certain sensitive issues.

Among others Aiken, (1981); Daniel et al, (1982); Jobber and O'Reilly, (1995) and Diamantopoulos and Schlegelmilch, (1996) have discussed the limitations of mail surveys, identifying the most major of these limitations as being low response rate and non-respondent bias. However, several approaches have been suggested to improve industrial response rates (See for example Jobber and O'Reilly, 1995 and Diamantopoulos and Schlegelmilch, 1996). The measures taken here are three fold. Firstly to ensure anonymity for the respondents, the questionnaires were administered by post to be returned anonymously, however questionnaires were numbered for coding purposes and to ensure that responses from the different companies participating in the research could be identified. Secondly, the questionnaires were posted with a pre-printed reply envelope. Due to financial constraints it was not possible to provide postage paid reply envelopes. Thirdly, a follow up mailing was undertaken two weeks after the initial survey. This involved mailing a postcard to all respondents who had not responded asking them to do so.

These issues and the estimation of non-response bias (Armstrong and Overton, 1977 and Daniel et al, 1982) are discussed in more detail in section 4.11.2

4.3 Measurement Issues

Having discussed the overall data collection method this section describes the design of the measurement instrument, the questionnaire. Operational definitions of the variables under consideration are provided and the procedure used to develop the

measurement instrument is discussed in detail. As Churchill, (1991) suggests the stages in the development of the measure are taken as a guide or checklist and are not held as a rigid process.

Figure 4-2 provides an overview of the measuring instrument development procedure undertaken in this study. The steps undertaken are highly interrelated and form a guide or checklist (Churchill, 1991, p360) rather than being a rigid process.



Taken From Churchill (1979)

Figure 4-2 An Overview of the Measuring Instrument Development Procedure

The first task was to generate items to measure the three components of the internal market orientation construct, intelligence generation, dissemination and responsiveness. Following from this the hypotheses outlined in chapter 3 dictate the remaining information to be collected in the questionnaire. The variables to be

included concern, local market orientation, various performance measures and demographic variables such as the age of the individual, the length of service with the firm and in the current position.

Figure 4-3 provides an outline of the key variables of interest.

Information to be sought

- Internal Market Orientation
 - Employee Information generation
 - Employee Information dissemination
 - Responsiveness to employee information

- Local Market Orientation
 - Local Market Information generation
 - Local Market Information dissemination
 - Responsiveness to local market information

- Performance characteristics
 - Firm/Employee performance
 - employee motivation, loyalty, satisfaction, turnover of staff
 - Firm/Customer performance
 - customer satisfaction, loyalty
 - Financial performance
 - share of local market, comparative financial performance, meeting financial targets, sales per employee, sales per square foot.

- Manager characteristics
 - Age
 - Experience
 - number of staff

Figure 4-3 Key Variables of Interest

4.4 Internal Market Orientation

Internal market orientation is hypothesised to consist of the same three general latent constructs as market orientation. In the internal market these are generating information about employees wants and needs, disseminating the information and responsiveness to the information, see section 3.2.9. In accordance with accepted psychometric theory (Churchill, 1979) and to remain consistent with Kohli et al, (1993), separate indicators of each of the latent constructs were developed. To allow subsequent analysis to establish the convergent and discriminant validity of the measure, multiple items were developed, each individual item representing one of the three latent constructs.

For example the measure of internal market orientation intelligence generation may have several items in the scale with the latent variable (internal market intelligence generation) being regarded as the cause of each of the item scores.

4.4.1 Adapting Kohli, Jaworski and Kumar's Market Orientation Scale to Measure Internal Market Orientation.

The nature of internal market orientation has been discussed in chapter 3 and its similarities with the market orientation concept are evident. Due to these similarities the first stage of developing a measure of internal market orientation was to examine existing measures of market orientation to establish if these scales could be adapted to the internal environment. The operationalisations of market orientation, discussed in chapter 2, were considered for modification and use in the internal environment.

Deshpandé et al, (1993) conceptualise market orientation as a unidimensional construct which they operationalise in a nine item, measuring instrument. Such a unidimensional operationalisation of the internal market orientation construct is not consistent with the multidimensional construct elucidated from the literature.

Narver and Slater, (1990) developed a measure composed of subscales to measure three behavioural components of market orientation; customer orientation, competitor orientation and interfunctional coordination. In the internal environment customer orientation would refer to employees and interfunctional coordination

would remain an internal construct. However, defining competitor orientation proves problematic in the internal market. Competitors for employees potentially encompasses any other firm operating within commutable distance from the employees' home, requiring personnel with the same skills and qualifications and for whom employees would consider working. Such competitors are not as readily defined as competitors in the external market where product and service offerings can be compared. For example, a sales attendant may consider working for a competing retailer or may consider working for retailers not competing in the same market. Both employers may require the same skills from the employee.

Pelham, (1997) combined items from the Narver and Slater, (1990) scale with items obtained from other scales designed to measure market orientation, including the Jaworski and Kohli, (1993) scale and identifies three dimensions of market orientation; customer orientation, customer satisfaction orientation, and competitive orientation. In the internal market these market orientation dimension would relate to employee orientation, employee satisfaction orientation, and competitive orientation, As with the Narver and Slater, (1990) the operationalisation of competitive orientation would be all encompassing, relating to too wide a range of local employers.

Ruekert's, (1992) operationalisation of market orientation has three dimensions; obtaining and using information from customers, developing a strategy to meet customer need, and implementing that strategy by being responsive to customers needs and wants, Ruekert, (1992, p. 228). This operationalisation, modified to the internal market would relate to obtaining and using information from employees, developing a strategy to meet employees' needs, and implementing that strategy by being responsive to employees' needs and wants. This is similar to the Kohli and Jaworski, (1990) operationalisation of market orientation, information generation, dissemination and responsiveness, and appears to be consistent with the internal market orientation construct elucidated from the literature. In the internal market this would relate to the generation of employee information, the dissemination of the information and the design and implementation of a response to the information. As the Kohli and Jaworski, (1990) operationalisation of the market orientation construct

shows such similarities with the internal market orientation construct the first stage in developing a scale to measure internal market orientation was to modify the MARKOR scale for measuring market orientation (Kohli et al; 1993). Each item on the MARKOR scale was reworded to change the focus of the original scale from the external environment of the firm, products, customers and competitors, to the internal environment of the firm, jobs, employees and competing employment offers. The items generated are listed in Appendix 1.

In an attempt to ensure that the full domain of the internal market orientation construct is identified and to complement the dimensions and items identified from secondary sources the next stage of the research process was to conduct qualitative/ exploratory research.

4.4.2 Collecting the Qualitative Data / Exploratory Research

The aim of the qualitative exploration was to identify additional dimensions of internal market orientation, not identified from the literature. Qualitative research developing the domain of market orientation has routinely employed in depth interviews. See for example Kohli and Jaworski, (1990) and Narver and Slater, (1990). Possible alternative to the use of in depth interviews would be the use of focus groups, however despite the advantages of collecting data using focus groups, which are discussed by Stewart and Shamdasani, (1990), they were not used to explore the domain of internal market orientation. The reason for not using focus groups was the potential to inhibit the responses of individuals in the group situation. Internal market orientation relates to the behaviour of the manager to subordinate employees, any open discussion of such behaviour is likely to be subject to social desirability bias, managers are unlikely to admit in an open forum, in front of their peers, that they don't care about their employees, also the discussion may be dominated by a group member with very strong views. (Stewart and Shamdasani, 1990). For this reason focus groups were not used to collect the qualitative information and the qualitative empirical research was undertaken using in depth interviews with retail managers.

Pure in depth interviews or unstructured interviews are defined as face to face, non-directive non-standardised and open ended interviews between the researcher and the informants which dispenses with the ordering of questions and relies on the social interaction between interviewer and informant to elicit information. (Minichiello et al, 1992) It is directed towards understanding the informants' perspectives on their lives, experiences or situations as expressed in their own words, (Taylor and Bogdan, 1984). Semi structured, therefore, implies that this type of interview, although following the unstructured interview process towards an understanding of the informant's' perspectives, facilitates the interviewer in focusing on the issues which are central to the research. This means that the interviewer introduces the topic, then guides the discussion by asking specific questions, while the respondent is allowed to answer the open ended questions freely.

As a result, semi structured interviews are often used when the researcher requires more specific information than in an unstructured interview. Sampson, (1996) comments:

'...the interviewer is required to cover a specific list of points and, although the respondent is allowed to respond freely, a much tighter control is exercised by the interviewer in order to maximise the collection of relevant data. Specific areas may be focused upon. The interviewer (or researcher) has determined a priori the sort of questions to which he requires answers and is merely seeking the appropriate responses from the respondent. ' (p.33)

Hence the data collected from semi structured interviews will be detailed, yet sufficiently specific and focused for further analysis.

The in depth interview, ranging from semi structured to unstructured applications, however, is limited by the lack of ethnographic context available to the researcher. As the researcher defines the situation in which the interview is conducted they do not usually observe the informant in his or her everyday life, such observation would provide a richer understanding of the informant's perspective of the situation under consideration. Minichiello et al, (1992).

The problems of research that relies on verbal accounts can be summarised as:

The extent to which the informant is telling the truth and the extent to which the definition of the situation is accurate.

On truth telling Minichiello et al, (1992) comment that the question *Who has the power to define what counts as the truth in the informant's social world?* Needs to be asked. They also comment that the strategy of cross checking through subsequent interviews can be used to assess the accuracy of the information.

4.4.2.1 Interviews with Managers

Semi structured interviews with retail managers further explored the domain of the internal market orientation construct. Additional items to complement those identified from the literature review were identified and a comprehensive item pool was assembled and used to formulate the internal market orientation scale.

Over the period of several months, several UK retail managers were interviewed to identify how they focus on the wants and needs of their employees and what impact they expect such a focus to have on the market performance and market orientation of their retail outlet. The majority of interviews were conducted in the context of a management development programme; these were complemented by several more prolonged individual, interviews with managers in their retail stores. The information obtained from retail managers was supplemented with additional information obtained from expert witnesses. These were human resources, services marketing and retail specialists at Aston Business School.

4.4.2.2 Analysing the Interview Data.

Minichiello et al, (1992) suggest four techniques for the analysis of qualitative data. These are summarised below.

Technique of qualitative data analysis	Description
Develop coding categories	A method of reorganising the data collected according to conceptual themes recognised by the researcher. Codes can be derived from the interviewee's viewpoints, research questions and theoretical frameworks
Writing case summaries	A method of summarising, condensing and reorganising data obtained from each interview in order to discover concepts and themes contained within the transcripts. This method is also referred to as 'developing a story line' (Bogdan and Taylor, 1975)
Typologising	A method used to understand the data by grouping ideas and then forming idea types that conceptualise situations that have similar or different characteristics.
Computer analysis	A method of using database management computer software to index and code all the data. It can be used to physically divide the data into categories and apply a set of indices to retrieve relevant sections of the data. An example of this type of software is NUDIST.

Kvale, (1996) recommends five specific approaches to interview analysis. These are detailed below.

Approaches to interview analysis	Description
Meaning Condensation	Compressing long statements into briefer statements in which the main sense of what is being said by the informant is rephrased in a few words.
Meaning Categorisation	Coding the interview transcriptions in which long statements are reduced to simple categories and structured into few tables and figures.
Narrative Structuring	Entails the temporal and social organisation of the text to bring out its meaning by focusing in the stories told during an interview and working out their structures and plots.
Meaning Interpretation	Going beyond a structuring of the manifest meanings of the text, to deeper and more or less speculative interpretations of the text.
Generating Meaning Through ad hoc Methods	Choosing and using a variety of common sense approaches as well as sophisticated textual or qualitative methods to analyse the interview text to bring out the meanings.

As the main aim at this stage of the research was to pursue exploratory aspects of internal market orientation relevant to the UK retail context, the in depth data about the respondents' understanding and application of internal market orientation was typologised and then coded. The data was then examined to provide additional items for measuring the construct, which were then reviewed by a panel of marketing experts. The expert review is discussed in more detail in section 4.4.4.

4.4.3 Determining the Format of the Measurement.

De Vellis, (1991) discusses several common strategies for constructing scales that influence the format of items and response options.

4.4.3.1 Thurstone Scaling

In Thurstone Scaling the researcher attempts to generate items that are differentially responsive to the levels of the attribute under consideration. For example, items are developed that correspond to different intensities of the attribute, spaced to represent different intervals and formatted with agree-disagree response options. Responses are analysed to identify the level of the attribute that the respondent possessed. However Nunnally, (1978) points out that developing a true Thurstone scale is considerably harder than describing one, and the practical problems associated with the method often outweigh its advantages.

4.4.3.2 Guttman Scaling

In a Guttman scale a series of items is used to tap progressively higher levels of the attribute under consideration. Respondents should provide positive responses up to a certain level and thereafter all items corresponding to higher levels of that attribute should elicit a negative response.

The applicability of Guttman scales is limited to situations where it is logical that responding positively to one level of a hierarchy implies satisfying the criteria for all of the lower levels of the hierarchy.

The assumption that there is an equally strong causal relationship between latent variable and each of the items does not apply to either Guttman or Thurstone scales, making them unsuitable for developing a valid and reliable instrument to capture the latent 'employee orientation' construct.

De Vellis, (1991) suggests that scales consisting of items that are more or less equivalent detectors of a phenomenon of interest should be used. These items are considered to be imperfect indicators of the latent variable that can be summated into an acceptably reliable scale.

4.4.3.3 Likert Scales

Likert scales consist of items presented as a declarative sentence, followed by response options that indicate a varying degree of agreement with the statement. Response options are worded such that there are roughly equal intervals between them i.e. the difference between any adjacent pair of responses should be about the same as for any other adjacent pair of response options. Likert scales are commonly used to measure opinions, beliefs and attitudes

4.4.4 Refining the Item Pool

Having developed the pool of items relating to internal market orientation and identified the most appropriate response format for these items, De Vellis, (1991) identifies the next step in the process of scale development as having a group of people who are knowledgeable in the area of discussion to review the pool of items. This is discussed in the next section.

4.4.4.1 Expert Review of the Initial Item Pool (Content validity)

Having generated a suitable item pool of 97 items, 46 for internal market information generation, 20 for internal market information dissemination, and 31 for internal market responsiveness, (See Appendix 2), the next step in the process of developing a scale is the review of this item pool by a group of people knowledgeable in the area of employee orientation and marketing.

The panel of marketing and human resources academics were presented with the complete item pool categorised into the sub constructs under consideration. These experts were asked to identify any misleading or ambiguous items and to rate how relevant each item is to what it is intended to measure, i.e. they were asked to identify which measure corresponds to each of the constructs; internal market information generation, internal market information dissemination, and internal market responsiveness. In particular reviewers were asked to evaluate each item in terms of clarity and conciseness and invited to point out awkward or confusing items and suggest alternative wordings. They were also asked to point out ways of tapping the employee orientation construct in any way that had not been included. In addition to this the experts were invited to comment on each item as they saw fit

Changes were made to the item pool and the first draft of the questionnaire was constructed according to the findings and comments of the academic reviewers.

4.4.4.2 Internal Market Intelligence Generation

Of the original 46 items generated to measure internal market information generation, the expert reviewers rejected 28 as unclear, biased, repetitive or otherwise unsuitable. This left a pool of 18 items to capture the acquisition of intelligence dimension of the internal market orientation construct. The full list of items is given in appendix 3.1.

4.4.4.3 Internal Market Intelligence Dissemination

The original item pool generated to measure the intelligence dissemination dimension of the internal market orientation construct consisted of 20 statements. (See appendix 2.2) Of these 16 remained after review by expert judges. These are listed in Appendix (3.2)

4.4.4.4 Internal Market Intelligence Responsiveness

An initial pool of 31 items was generated to represent the responsiveness dimension of internal market orientation. Of these 31 items the expert reviewers rejected 5, leaving a useable pool of 26 items. These, and the initial pool of items are listed in appendices (2.3 and 3.3)

4.5 Market Orientation

One of the aims of this research is to examine the relationship between internal market orientation and market orientation. Two instruments (Narver and Slater, 1990 and Jaworski and Kohli, 1993), measuring market orientation dominate research into this area. Whilst Narver and Slater's operationalisation of the construct is considered to predict performance better than Kohli and Jaworski's (Oczkowski and Farrell, 1998), concerns have been expressed about its psychometric properties (Sigauw and Diamantopoulos, (1995) and the face validity of the scale (Cadogan and Diamantopoulos, 1995). Common to both Narver and Slater's and Kohli and Jaworski's conceptualisation of market orientation are the basic underlying dimensions of information generation, dissemination and responsiveness, (For a

more complete examination of the conceptual and operational overlaps in the market orientation construct see Cadogan and Diamantopoulos, 1995). In contrast to Narver and Slater's scale, Jaworski and Kohli's measurement instrument has been used to examine the antecedents as well as the consequences of market orientation. (See for example Ruekert, 1992; Jaworski and Kohli, 1993; Bhuian 1997; Cadogan and Paul, 1999).

Given that there is no clear consensus as to which scale should be used, and in order to remain consistent with the basic underpinnings of the conceptualisation of the internal market orientation dimensions, this study makes use of the Jaworski and Kohli's, (1993) measurement approach.

In this context, the aim is to measure the market orientation of multi-retail outlets. This will entail a focus of the store on the local market, customers and competitors. The market orientation scale (Jaworski and Kohli, 1993) will need slight modification to make the items relevant to the context under examination.

The items of the market orientation scale were translated individually to refocus them from the national market to the local market, detailed below.

4.5.1 Local Market Orientation Items

The items developed to measure intelligence generation, (Jaworski and Kohli, 1993) were translated individually to focus on the generation of information about the local market, such that, for example, the original market orientation statement

In this business unit. we meet with customers at least once a year to find out what products or services they will need in the future

Became

In this branch we have meetings with our customers at least once a year to find out what products and services they will need in the future.

And

We collect industry information by informal means (e.g., lunch with industry friends, talks with trade partners).

Became

We collect information on the local market conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).

A full list of local market orientation items can be found in Appendix 4

4.6 Performance

As discussed earlier in section 1.1, academics and practitioners regularly research the determinants of business or marketing success, see for example Kokkinaki and Ambler, (1998); Bonoma and Clarke, (1988) and Boulding and Staelin, (1995). Several measures are routinely utilised by firms in their assessment of performance. Day, (1990) and Green et al, (1988) maintain that market share and profitability are the most common marketing performance indicators. Other measures of performance include revenue, sales volume, ROI, ROS, customer satisfaction, customer loyalty, purchase intent and perceived quality. In a recent review of the operationalisations of marketing performance, Ambler and Kokkinaki, (1997) find that sales and sales growth are the dominant measures of success, followed by market share, profit contribution and customer preference and purchase intent.

Kokkinaki and Ambler, (1998) categorise performance measures into six groups.

1. Financial measures: sales volume/turnover, profit contribution, and shareholder value.
2. Competitor measures: market share, share of voice, relative price, and share of promotions.
3. End user behaviour: penetration/number of users/consumers, user/consumer loyalty.
4. End user intermediate: awareness, attitudes, satisfaction, commitment, buying intentions, and perceived quality.

5. Direct (trade) customer: distribution/availability, customer profitability, satisfaction, and service quality.
6. Innovation: number or relative value of new products or services.

Thomas, (1998) offers an alternative classification of performance measures. These are: sales performance, profit performance, market share performance, brand strength performance, customer retention performance, and customer acquisition performance. Thomas argues that profit and market share, the subject of financial reporting, do not reveal the drivers of corporate success. Intangible assets such as brands, market share, trade or buyer franchises, sales networks, superior service skills, access to third party resources (joint ventures and agreements, human resource skills and R & D skills may be the key factors in assessing the organisation's future capabilities. In estimating the performance of a firm it is important to consider factors outside of the financial performance measures.

Business ethics is defined with regards to the dichotomy of good and evil or right and wrong. The notion of ethical conduct includes two facets. The intent must be laudable and the consequences beneficial. Ethics also refers to the notion of the values guiding our lives. Business ethics concerns the systematic value based reflection by managers, traditionally individually, but increasingly in collective settings, on the moral significance of personal and organisational business action and its consequences for societal stakeholders. Meschi and Metais, (1998). As one of the main stakeholders of the organisation, the concept of ethical business behaviour towards employees is an important aspect of the firms' performance.

Three broad areas of performance are measured in this project. These relate to individual manager's perceptions of how well their store is performing with respect to its customers, (satisfaction, loyalty, etc,) employees, (satisfaction, motivation etc,) and financial targets,

4.6.1 Firm/Employee Performance

Thomas, (1998) argues that leading edge companies see their primary mission as delivering value to customers but that the best players deliver value to all stakeholders. He includes employees as a source of competitive advantage and offers

performance measurements and performance criteria for employees. These are detailed below.

Source of advantage	Some performance criteria	Some performance measures
Employees	→Investment in people, competencies and relationships → management motivation and empowerment.	Value added per employee, employee turnover, employee satisfaction, long term customer retention, employee satisfaction/customer satisfaction, and employer of choice reputation.

In his discussion of competitive advantage Thomas has stressed the need to go beyond the standard competitive strategy variables and to measure both customer and employee variables.

Specific measures reported by Thomas, (1998) as consistently used in Japanese companies for measuring employee contribution to competitive advantage include

Measures of employee morale (Is my organisation stable and growing in capability? Are the people engaged in improving customer satisfaction and value in a systematic way?)

Measures of employee safety and health (Am I demonstrating commitment and concern to my people about their importance to the organisation?)

Meschi and Metais, (1998) also identify internal aspects of performance, which they classify as social performance. They differentiate between internal social performance and external social performance. Internal social performance they suggest be centred on the response to social considerations within the company, such as working conditions, occupational safety and wage levels. External social performance centres on the company's relations with the external environment.

Several measures of performance with respect to employees were included in the survey. These capture the managers' perceptions of staff satisfaction and motivation and staff turnover, which is also a function of satisfaction.

4.6.2 Firm/Customer Performance

Gummesson, (1998) discusses the limitations of the balance sheet in representing the performance of service industries and knowledge intensive industries. In this, traditional accounting approach employees and customers are worthless while the office equipment that employees use has a value, which depreciates according to the accountancy principle adopted by the firm. Similarly, the customer does not have any measurable value on the balance sheet.

Gummesson suggests that the balanced scorecard is an appropriate tool for the broadening of the financial indicators necessary for relationship marketing work. The balanced scorecard measures not only financial capital but other types of capital as well. Kaplan and Norton, (1996) include four groups of capital. Financial, customer, internal business process, and learning and growth. These additional groups of capital are called intellectual capital and can be further divided into structural and individual capital. Individual capital consists of employees and their qualities. It includes knowledge, skills, behaviour, motivation and the employees network of relationships which have formed over time. If the employee leaves the organisation the individual intellectual capital is lost.

Structural capital is embedded in the company and in the relationship marketing sense consists of the relationships which have been established by the company and as such are tied to culture, systems, contracts, image and the network to which the company belongs. Gummesson, (1998) argues that the more successful a company is in tying its relationships to its structure the less dependent it will be on individual employees.

Despite these comments Gummesson does not provide measures for monitoring service productivity or return on relationships, neither does he provide any indication of how to measure the contribution to profits of the various actors in the network.

Managers were asked for their perceptions of customers' satisfaction and loyalty.

4.6.3 Financial Performance

When measuring financial performance, managers' perceptions of the financial performance of their store were sought. Several objective measures are available, such as how well the store achieves the financial targets set by the head office and an estimation of the financial growth of the branch. Other more subjective measures were also included to estimate the impact of the firm on the local and national economy, its importance to the whole business and its operating efficiency.

4.7 Other Variables Measured.

Several additional variables were captured to investigate any possible impact on the hypothesised relationships illustrated in the conceptual model. These variables include the characteristics of the local market, in which the firm operates and the characteristics of the respondents.

Three items were included in the survey to classify the local employment environment in which the firm operates. These addressed the level of local unemployment, the availability of staff for employment in the local area and the competition for staff in the local employment market. The local employment market may impact the internal market orientation of the manager in the following manner. In areas of high unemployment it is expected that there will be more employees available for the employment than there are positions for these employees. The competition for employment, in this situation is between employees, and employers may take a more 'take it or leave it' attitude to the jobs that they offer. In high unemployment areas internal market orientation is expected to be lower. Conversely in areas where there is high employment and high levels of competition for the same staff the competition in the employment market exists between employers. In this scenario the employees have the opportunity to 'shop around' until they find the best job offer. In areas of high employment and/or high competition between employers, internal market orientation is expected to be higher.

4.7.1 Manager Characteristics

The characteristics of the respondents are expected to have a significant impact on their behaviour and several items were included in the survey to capture these characteristics.

4.7.1.1 Experience/Education

Respondents were asked to provide information on their age and length of service with the firm as well as length of service in their current position. If the hypothesised relationship between internal market orientation and store performance is supported it is expected that a higher proportion of older managers will be internal market oriented than younger managers. This is based on the premise that managers who are not internal market oriented will preside over stores that perform less well than stores with an internal market oriented manager. The ongoing movement of staff would result in these managers being moved to other positions to make way for managers who achieve better results. By the time that managers have several years of experience with the firm, those that are internal market oriented will remain as store managers whilst those that are not internal market oriented will have been encouraged to seek employment elsewhere or will have been moved to positions where employee orientation is not an important job characteristic.

4.7.1.2 The Impact of the Manager's Manager

The behaviour of managers will be influenced by their perceptions of the behaviour of their managers. Several items were included in the survey to ascertain the managers' perceptions of the internal market orientation of the firm. It is expected that if the manager does not perceive internal market orientation as a corporate behaviour, he or she is unlikely to behave towards their employees in an internal market oriented manner.

4.7.1.3 Social Desirability Bias

As the questionnaire is designed to measure the behaviours of managers in their work environment, it is possible that managers will respond to the questions in a biased manner. Such a bias was observed in the qualitative stage of the research, where managers were reluctant to express attitudes and behaviours to both customers and

employees which they perceived to be unsociable. Despite the anonymity of a postal questionnaire, which allows respondents to be more frank on certain sensitive issues (Diamantopoulos and Schlegelmilch, 1996) a measure of social desirability was included in the survey to identify any bias arising from socially desirable responses. Reynolds, (1982) short form of the Marlowe-Crowne social desirability scale (Crowne and Marlowe, 1960) was used. This short form comprises 13 culturally approved behaviours, five worded positively and eight worded negatively, that have a low probability of occurrence. The scale was administered in a true or false format, and a high score on the scale indicates the subjects' tendency to present him/herself in a socially desirable manner.

4.8 Pilot Questionnaire Development.

The development of a postal questionnaire requires consideration of several factors. Diamantopoulos and Schlegelmilch, (1996) identify both questionnaire length and the covering letter as having an impact on response rate. However Yu and Cooper, (1983; p39) suggest that the length of the questionnaire is nearly un-correlated to the response rate. The length of the questionnaire, although intuitively important in determining response rate is not prescribed in the literature. Jobber, (1989) and Jobber and Saunders, (1986) find however that 58% of the mail surveys in an industrial setting were between 4 and 10 pages.

It appears therefore that, although the length of the questionnaire is not prescribed in the academic literature, a concise questionnaire would be more appropriate to surveying an industrial sample.

The length of the questionnaire also has an impact on the research costs, which also have to be considered in any research project.

The questionnaire developed from the items generated was printed back to back onto A4 paper and was folded and stapled into an A5 booklet. This produced a booklet of 10 A5 pages. Producing the questionnaire in this format has the additional advantage that, being physically smaller; the perception of the length of the questionnaire was

reduced. The booklet format also gave the questionnaire more engaging tangible characteristics (See Appendix 5).

Artefact Effects

General problems with questionnaire surveys are controlling bias (Salancik and Pfeffer, 1977; Podsakoff and Organ, 1986), and to verifying the responses of respondents (Podsakoff and Organ, 1986).

Artefact bias in the data arising from biased answers can occur in several ways (Salancik and Pfeffer, 1977). Consistency effects occur, when respondents answer a series of questions in a way that they regard as being a consistent pattern of response. Answers to earlier questions may influence answers to later questions, so that the later answers do not accurately measure the true views of the respondents. Priming effects occur when question wording, or the way in which questions are asked, leads the respondents towards a particular answer that does not reflect the true answer. Overestimation or justification may occur if respondents overstate the magnitude or importance of certain answers, or where they report what they think the answers should be rather than the true answers.

Artefact effects result in difficulty in verifying the responses given by respondents, especially when both the independent and dependent variables are measured with the same questionnaire, through the same people (Podsakoff and Organ, 1986). This leads to the problem of common method variance (Campbell and Fiske, 1959; Fiske, 1982; Podsakoff and Organ, 1986), where, given that the measures come from the same source, any defect in that source is likely to contaminate all measures, and any artefact effects are likely to apply similarly to the independent and dependent variables.

Although in practice it is highly unlikely that artefact effects can be totally eliminated, and that the responses can be fully verified, (Greenley and Oktemgil, 1996) there are several pre- and post-survey remedies that are advocated in the literature (see Churchill, 1979 and Podsakoff and Organ, 1986 for a practical, comprehensive guide). The standard textbook treatment is that the research method

should incorporate multiple measures, from multiple sources, using multiple methods, based on the approach recommended by Campbell and Fiske, (1959). This includes measuring the independent and dependent variables from different sources, or from different respondents. After data collection attention should be given to assessing convergent and discriminant validity, especially if it is not possible to measure the independent and dependent variables through different respondents. Convergent validity is an assessment of the extent to which several measures of a particular theoretical construct actually converge onto that specified construct, which reflects the extent of agreement among the respondents that the measures actually represent the specified theoretical construct. Discriminant validity is an assessment of the extent to which measures that are meant to measure different constructs represent their respective and differing theoretical constructs, which reflects the extent to which the respondents are able to differentiate among the range of constructs being measured.

Several steps were taken to reduce artefact effects in the survey. One common problem with questionnaires is the practice effect (Burton, 2000). This occurs when some respondents answer a few questions conscientiously, then finding that they are answering around the middle of the scale, go on to give that response all through the page of questions, leading to consistency bias. Litwin, (1995) suggests the use of alternate question forms to minimise this effect. This involves reversing the polarity of the items at irregular intervals so that the 'best' response is not always in the same position. In order to minimise the practice effect, the polarity of several questions on each of the scales used, were reversed. In line with Churchill's, (1999) assertions that *the proper questionnaire sequence is to present questions securing basic information first and those seeking classification data last*, and that difficult or sensitive questions should be placed late in the questionnaire, the type information sought in different parts of the questionnaire was carefully considered. The questionnaire started with several general questions relating to the respondent's attitudes to employees and their perceptions of the attitude of the corporation to employees. This was followed by questions seeking information about internal market orientation, market orientation and performance in that order. Information about the performance

of a firm is very sensitive and therefore questions seeking this information were placed late in the survey. Finally classification data was sought at the end of the questionnaire.

Churchill, (1995) stresses the impact of the covering letter on the level of acceptance of the questionnaire. The covering letter must convince the designated respondent to co-operate and should include all of the important points identified by the methodological literature (Churchill, 1995; Diamantopoulos et al, 1991; Diamantopoulos and Schlegelmilch, 1996; Oppenheim, 1992).

The covering letter is included in Appendix 6

4.9 Administering the Item Pool to a Development Sample. (Pilot)

The purpose of the pre-test is to ensure that the questionnaire meets the researcher's expectations in terms of the information that will be collected (Aaker et al, 1998). Pre testing serves the same role in questionnaire design that test marketing serves in new product development (Churchill, 1995) and is especially important to novel research projects (Peterson, 1988). This research project with its new research instrument is be placed into such a category.

The use of two pre-test is recommend if the final survey is not going to be conducted using personal interviews (Peterson, 1988; Churchill, 1995). The distinction between pre-test and pilot survey therefore needs to be made, (Green et al, 1988). Churchill, (1995) indicates that the pre-test stage should be conducted by personal interview, regardless of the method of administration. This has the advantage of enabling the interviewer to notice reactions, hesitations and other cues by the respondent, that cannot be obtained by telephone or mail. (Hunt et al, 1982). The purpose of the second, pilot, test is to uncover problems unique to the mode of administration (Churchill, 1995; p438). This should be a small-scale test of the medium to be employed in the main study, including all activities that will go into the final study, coding and tabulation (Churchill, 1995). The sample, while remaining small, should mirror that of the main study and cover all subgroups of the target population (Tull and Hawkins, 1990).

Choosing the most appropriate respondents for pre testing is the subject of considerable debate however, Green et al, (1988) suggest the use of 'expert' respondents, such as academic researchers, not directly involved with the research. Diamantopoulos et al, (1994) also support this approach, suggesting it as a good strategy to enhance error detection.

4.10 Pre-testing

Pre-testing is an essential stage in the questionnaire development process (Reynolds et al, 1993), however despite the generally accepted importance of questionnaire pre-testing (Hunt et al, 1982) very little practical guidance is available from the literature (Blair and Presser, 1992). Some indication is however provided by Reynolds et al, (1993), who reveal a general consensus for initial pre-testing to be conducted via personal interviews and final pre-testing should employ the medium to be used the main study. Accordingly two sets of pre-tests were conducted to elicit views from both academic and management community on the appropriateness of the phrasing, content, sequencing and physical characteristics of the questionnaire (Oppenheim, 1992). Firstly, protocols were undertaken to assess the adequacy of the questionnaire, and secondly, after addressing the issues raised in the protocols, a pilot study was conducted.

4.10.1 Pre-test 1: Protocols

A protocol is an interview where respondents are asked to think aloud as they answer the questions. (Diamantopoulos et al, 1994). The protocol provides a greater volume of information than the debriefing method, in which questions and associated problems are discussed after the questionnaire has been completed (Reynolds et al, 1993). Protocols are more useful where long questionnaires are used, since debriefing runs the risk that problems encountered at the beginning will be overshadowed by those encountered at the end of the questionnaire. (Reynolds et al, 1993)

Four protocols were conducted, two with academic respondents and two with service managers. All protocols lasted about 50 minutes.

On completion of the protocols the questionnaire was revised, questions re-worded and re-sequenced, to reflect the comments of the respondents. However, one of the concerns of the respondents was that the questionnaire was somewhat long. As discussed in section 4.8, Yu and Cooper, (1983; p39) suggest that the length of the questionnaire is nearly un-correlated to the response rate and Jobber, (1989) and Jobber and Saunders, (1986) report that 58% of the mail surveys in an industrial setting were between 4 and 10 pages. Despite revisiting the questionnaire, and considering the findings of Yu and Cooper, (1983), it was decided not to remove any of the items contained in the survey at this stage.

4.10.2 Pre-test 2: Mail Survey

The mail survey pre-test was undertaken to identify any problems with the questionnaire which may otherwise not surface until the main mail survey and to provide an indication of the expected response rate.

A census of service managers studying part time on the MBA programme at Aston University was undertaken and a total of 200 questionnaires were administered.

The cover letter, (see appendix 6) accompanying the questionnaire, explained the aims of the research and the inside front cover of the questionnaire provided a supplementary letter, highlighting the importance of the respondent's participation, as well as assuring anonymity. Letters were addressed to 'dear course member,' the standard approach to contacting MBA students employed at the university. A pre-addressed envelope was included with the questionnaire to aid with the response.

4.10.3 Response Analysis and Follow Up.

Two weeks after the administration of the survey instrument students were contacted during an on campus visit to stimulate further returns. This resulted in a total of 55 questionnaires being returned. Of these 54 were completed, giving a response rate of 27%.

4.11 Main Sample.

Following the pre-test mailing, several modifications were made in order to improve the questionnaire and to enable greater interpretation of the data. The modified questionnaire is presented in Appendix 8.

Firstly, the questionnaire was redesigned, removing the numbers from questions and re-ordering them into groups and rewording them to have a common sentence start. This grouping and rewording allowed questions to be presented in a shorter form, increasing the amount of white space on the questionnaire and reducing the perceived questionnaire length. In addition to this, question Y on the pre-test was amended to make responses easier, several of the pre-test responses were found to be either incomplete or containing more than one entry for this question. The questions relating to sales per employee and sales per square foot were deleted. Sales per employee can be calculated from information collected elsewhere in the survey and sales per square foot was not required for the testing of the hypotheses.

Questions L, M and O were amended to collect ratio data, e.g. the age of the respondent, rather than interval data, e.g. selecting one of several options from an age range.

The front cover of the questionnaire was also modified to make explicit the aims of the research and to project a more professional image.

Diamantopoulos and Schlegelmilch, (1996) note, managers are less likely to respond to standardised mass mailing in which no attempt has been made to personalise the mailing to the individual. Personalisation of the cover letter, which may have elicited a higher response rate, was not possible as the names of individual store managers were not available, and due to time and financial constraints it was not possible to contact all stores to collect this information

4.11.1 Sample Frame Selection and Administration

Several issues influenced the choice of sampling frame for the main survey. Given the response rate in the pilot survey, an expected response rate of around 20 % did not seem to be unrealistic.

The planned analysis plays an important part in the sample size determination. Hair et al, (1998; p98-99) suggest a sample size of at least 5 times as many observations as there are variables to analyse if factor analysis is to be undertaken, and suggest that a more acceptable size would have a 10:1 ratio. In the internal market orientation scale there are 60 items to be factor analysed. This means that the minimum sample size for exploratory factor analysis is 300 cases and a more acceptable sample size would be 600. For confirmatory factor analysis using structural equations modelling Hair et al, (1998; p605) recommend a sample size of at least 200 observations, with increases if misspecification is suspected. Given an expected response rate of around 20%, a minimum sample of approximately 2500 $[(300+200) \times 5]$ is required and a more acceptable sample would be 4000, $[(600+200) \times 5]$. A census of the retail outlet managers for the large UK multi retailers consists of 3558 respondents. Although slightly less than the optimal size, at a 20% response rate such a sample would yield in excess of 700 responses and would exceed the minimum sample size required.

Given the size of the sample required, a database allowing the printing of addresses onto labels and envelopes was required. Several sources were consulted in an attempt to generate information about the total population of U.K. retailers. These included Key Note reports, Internet searches and Yellow pages listings. Although information is available regarding the number of firms competing in the retail sector it was not possible to identify a list of all retail outlets in the U.K. For this reason, and in order to obtain a sample representative of the large UK multi-retailers competing on service, as discussed in section 4.2.6, a convenience sample of retailing organisations was chosen from the population of U.K. retailers and branch lists for these retailers were developed.

Of the fifteen companies contacted five indicated that the corporate policy is to return all questionnaires unanswered. The remaining ten organisations were asked to provide a complete list of UK outlets, with postal addresses and telephone numbers if available. Five of the organisations agreed to provide the addresses of their branches or to undertake the postage of the questionnaire to store managers. The address lists were then scanned into a word processing package and a database of addresses for each company was constructed. The addresses of the remaining five companies were

obtained from electronic sources, either company web sites or Internet yellow pages listings. These were also converted into databases of addresses for the organisations.

The questionnaire was posted to all of the available addresses for the ten companies contacted, giving a survey size of 3558.

Concerning the choice of respondent, previous market orientation studies have elicited responses from individuals in a variety of positions within the firm. Narver and Slater, (1990) and Jaworski and Kohli, (1993) both surveyed managers at the SBU level of the firm. Others such as Pelham and Wilson, (1996); Raju et al, (1995) and Greenley, (1995) have surveyed presidents, chief executives and managing directors respectively. Given the focus of this study is the orientation of the manager on employees, it is appropriate to survey the store managers (or in some circumstances their deputies), to elicit their views. In addition to reporting their individual behaviour, these managers are also expected to be sufficiently knowledgeable to accurately report on levels of customer satisfaction and employee satisfaction and motivation as well as the financial performance of the store.

4.11.2 Improving the Response Rate

Non-response is a problem because those individuals who return questionnaires are likely to differ substantially from those who do not return. (Kumar et al, 1999). Improving the response rate, and so reducing the non response, is the most common recommended protection against non-response bias. (Armstrong and Overton, 1977).

The introduction to the research can affect acceptance of the questionnaire and Churchill, (1999, p361) suggests several methods to improve response rate. These include personal communication, asking a favour of the respondent, stressing the importance of the recipient and importance of replies in general, stressing anonymity and confidentiality, and stressing the appreciation of the sender. As far as possible these factors were taken into consideration when formulating the cover letter, an example of which is included in Appendix 7.

Although the literature suggests that recipients favour cover letters that have been personally signed, (Diamantopoulos and Schlegelmilch, 1996) the number of letters and the printing process made this impossible. A typeface signature was included on the cover letter but is not intended to act as a substitute to a hand written signature. In line with Churchill's suggestions, the questionnaire contained the following comments 'your participation could really make the difference between success and failure for the study and as this forms part of my doctoral thesis, my Ph.D. as well!' The expertise of the respondent was also stressed, 'your answers are critical for my research'. Confidentiality and anonymity were assured as in the case of the pre-test.

Apart from the impact of the cover letter a range of methods have been proposed to increase response rates in mail surveys. Kanuk and Berenson, (1975) and James and Bolstein, (1990) indicate that the most consistently effective method for achieving high response rates involve some combination of monetary incentive and follow ups or reminders. Monetary incentive has been demonstrated to increase response by up to 18-27% compared to returns when no incentives are included. (Wayman, 1997). Single or multiple follow up letters can achieve similar results.

Other common methods of addressing non-response in mail surveys are listed in Table 4-1 below.

Inducement	Examples
Anonymity	Assurance of anonymity
Appeals	Social utility, egoistic
Foot in the door	Use of an initial request followed by a subsequent request to those who comply with the first.
Follow ups	Post card, letter, duplicate questionnaire
Incentives	Non-monetary, monetary
Personalisation	Hand addressed envelope, personal signature
Preliminary notification	Advanced letter, telephone call
Questionnaire length	Print on both sides of sheet
Response deadline	Request for immediate reply
Sponsorship	Company, trade association or university
Type of postage	Commemorative first class stamp, outgoing Business reply envelope, return.

Table 4-2 Common Methods of Dealing with Non-Response to Mail Surveys. Source, Adapted from Connant et al, (1990)

In attempting to maximise response rate it is important to balance the benefits of the increased response rate with the costs (Jobber and O'Reilly, 1995). Financial considerations precluded the use of several accepted methods to increase the response rate. Initial pre-notification, monetary incentives and postage paid return envelopes were all considered too expensive to undertake on such a large sample size (3558). The problems associated with personalisation of the questionnaire have already been discussed in the previous section.

Follow-ups were conducted, and in order to minimise the costs associated with this, a second mailing of a post card was undertaken. The follow up was conducted two weeks after the initial mailing and a postcard was sent to all respondents. This

postcard was designed to be humorous and again included emotional appeals. (See Appendix 9)

Finally, two weeks after the deadline for the return of questionnaires, a random sample of 100 respondents were contacted in order to determine reasons for non-response.

4.11.3 Response Rate

In total 828 returns were received, of which 766 were fully usable. Of the remaining 21 were returned not completed and with no explanation, 27 were returned stating that it was company policy not to complete questionnaires and 3 were returned due to the same store having received two copies. One questionnaire was returned with a note indicating that the respondent had reversed the scaling between agree and disagree and had not completed the questionnaire. This questionnaire was not included in the data set. 10 questionnaires were returned by the post office due to the address having gone away.

The table below shows the response pattern for the survey.

Usable responses	766	21.6%
Refusals	27	0.8%
Blank	21	0.6%
Ineligible	10	0.3%
Duplicate	3	0.1%
Spoilt	1	0.03%
Total	828	23.4%

Table 4-3 Response Pattern for Survey

A total of 3558 questionnaires were posted. This gives a survey sample of 3545, (3558-(10+3))

As the table shows the usable response rate for the survey is 21.6%, the chart in Figure 4-4 illustrates the response pattern by date.

Response Pattern for Questionnaire returns.

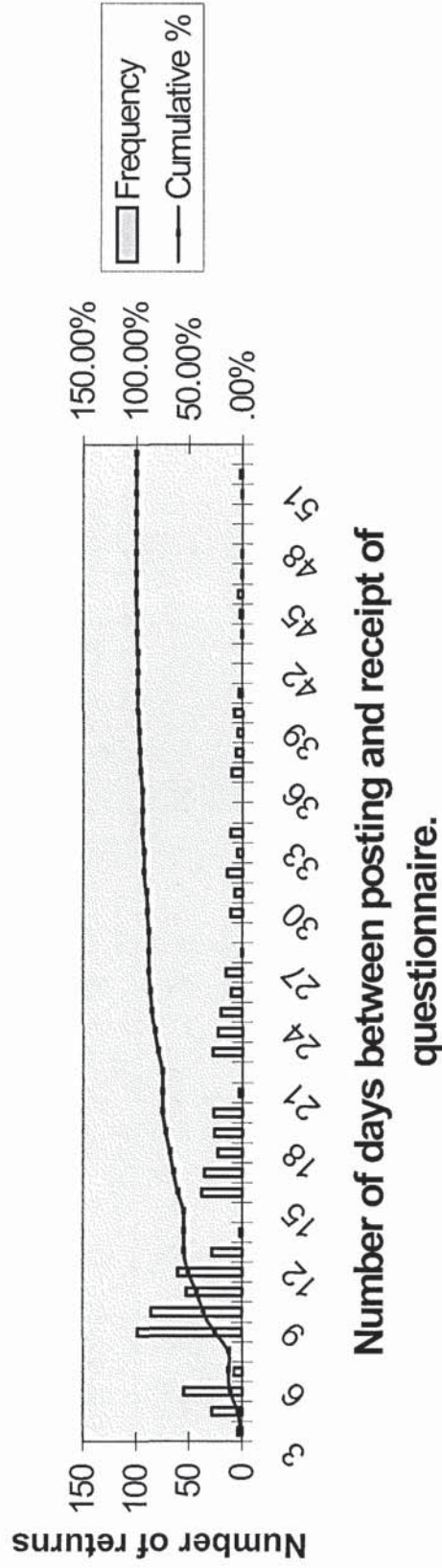


Figure 4-4 Response Pattern for Questionnaire Returns.

4.11.4 Assessing Non-Response Bias

Non-response bias occurs when the respondents and non-respondents differ on key questions of interest. The very act of being a non-respondent often implies a meaningful difference. (Kumar et al, 1999). Furthermore response rates do not indicate the representativeness of the respondents.

Churchill, (1991) prescribes that some assessment of non-response bias must be undertaken if the results of the research are to be generalised to the sample population.

Non-response bias may be estimated in three ways, comparison with known values for the population, subjective estimates and extrapolation methods (Armstrong and Overton, 1977)

For this research non-response bias was estimated using comparison with known values for the population and extrapolation methods.

4.11.4.1 Comparison With the Population

Firstly the initial sample of responses was stratified as a basis for comparison.

Company	Returns	Survey sample size	Response %	Response rate
Identifier Removed	59			1.66%
Marks and Spencer	104	307	33.88%	2.93%
Somerfield	41	556	7.37%	1.16%
Tesco	176	684	25.73%	4.96%
John Lewis	3	25	12.00%	.08%
Debenhams	22	180	12.22%	.62%
Waitrose	20	120	16.67%	.56%
Asda	53	209	25.36%	1.50%
Sainsbury	103	414	24.88%	2.91%
Safeway	42	150	28.00%	1.18%
Boots	143	900	15.89%	4.03%
TOTAL	766	3545		21.61%

Table 4-4 Analysis of Responses from Surveyed Companies

The data in Table 4-4 is represented diagrammatically in Figure 4-5 below.

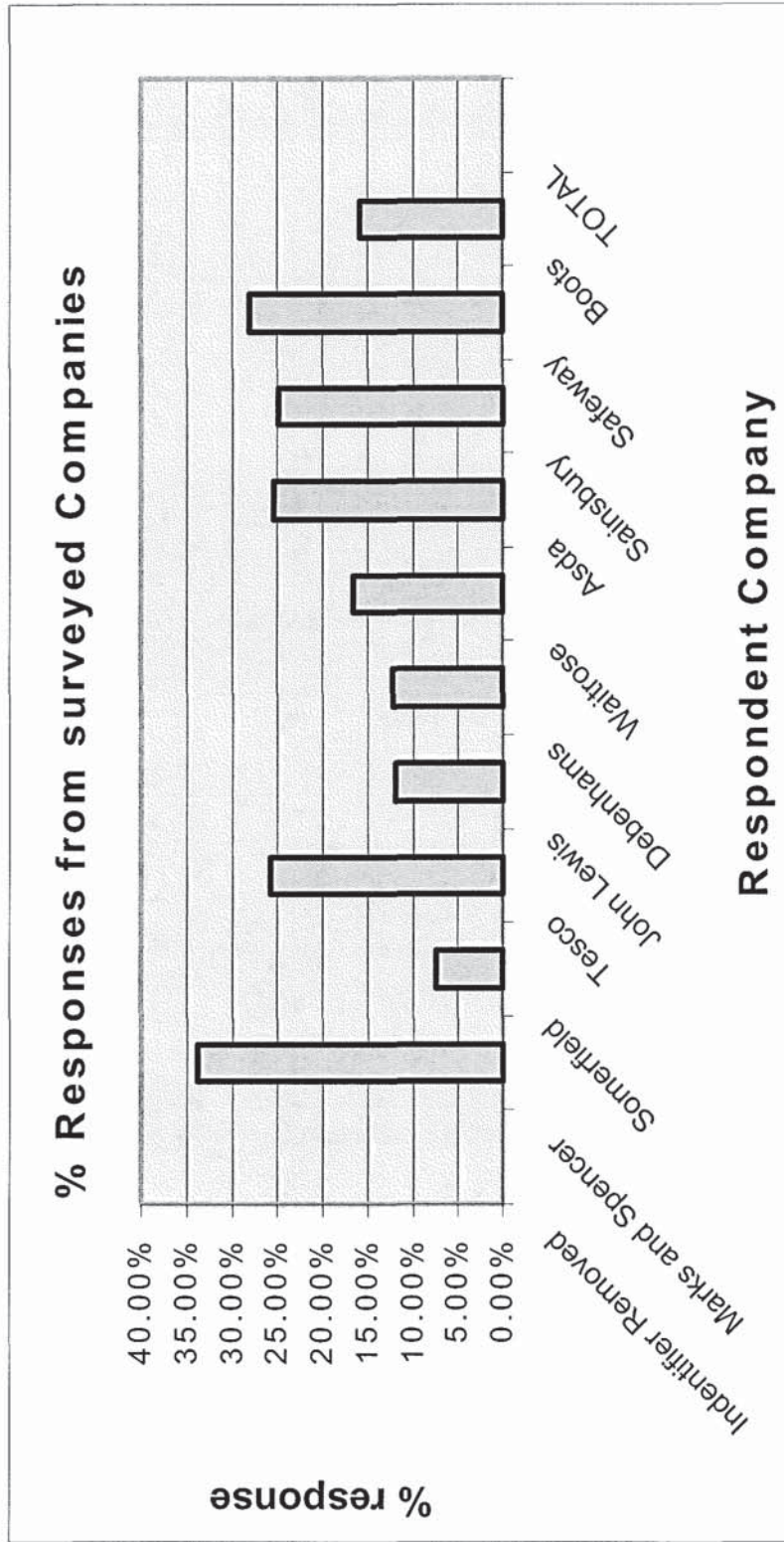


Figure 4-5 % Responses From Surveyed Companies

4.11.4.2 Extrapolation Methods

Extrapolation methods are based on the assumption that subjects who respond later are more like non-respondents. A comparison of early and late respondents should indicate whether non-respondents differ significantly from respondents. Early respondents were defined as the usable questionnaires returned within the first 3 days of returns. Narver and Slater, (1996) classify these as the early majority. Late respondents were those who responded after the follow up. The sample sizes were 88 and 161 respectively.

Churchill, (1999, p 591-592) advocates the comparison of the mean values for key items of interest for the early and late respondents, and this approach was taken. Using a two-tailed t-test for independent samples, the early and late groups were compared across the following key variables: respondent age and gender, length of service, store size, sales, social desirability, and the global items for managerial and organisational internal market orientation. The results are provided in Table 4-5, and, at the 5% level of significance across these key variables, no significant differences were observed, indicating that non-response bias is not an inhibiting factor in the analysis and interpretation of the data (Armstrong and Overton, 1977).

Key Variable	Mean Value		Significance of t
	Early Respondents	Late Respondents	
Respondent age	37.29	36.93	0.758
Length of service,	14.4	13.7	0.515
Number of employees	244	200	0.078
Annual sales (£000)	27230.22	28592.16	0.901
Social desirability score	9.34	9.53	0.518
Managerial internal market orientation	6.48	6.40	0.370
Organisational internal market orientation	5.68	5.52	0.241

Table 4-5 Non-response Bias: A Comparison of Early and Late Respondents

In addition to the extrapolative method described above, and to obtain first-hand information about reasons for non-response, 50 randomly selected non-respondents were contacted by telephone; this showed that the main reasons given were that the respondent did not receive the questionnaire and that time pressure prevented participation in the survey. None of these reasons suggests that non-response reflects characteristics that directly and differentially affect responses to the substantive issues under study (Lesley, 1972). Thus, again, no evidence indicating the presence of non-response bias was obtained.

4.11.5 Assessing Response Bias

Aaker et al, (1998) define response bias as *the tendency of respondents to distort their answers systematically for a variety of reasons, such as social desirability and prestige seeking*. In order to assess the impact of socially desirable reporting Reynolds', (1982) short form of the Marlowe-Crowne social desirability scale (Crowne and Marlowe, 1960) was used. Table 4-6 gives a distribution of the social desirability scores for all respondents and the distribution is represented in Figure 4-6. From the figures in table 4-6 it can be seen that the majority of respondents

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(680/766) score above the mid point (6) on the social desirability scale, indicating that respondents may be answering the questions on the survey in a manner which they consider to be socially acceptable. For this reason it will be necessary to examine the impact of social desirability on responses to the other items in the questionnaire to ensure that social desirability is not influencing the observed relationships between the construct examined in the study. An examination of the impact of social desirability in the project is detailed in section 5.2.1.3

Social Desirability Score	Frequency	Percentage of useable sample
0	0	0.00%
1	1	0.13%
2	2	0.26%
3	3	0.39%
4	12	1.57%
5	21	2.74%
6	47	6.14%
7	60	7.83%
8	96	12.53%
9	107	13.97%
10	142	18.54%
11	98	12.79%
12	78	10.18%
13	61	7.96%
One or more question not completed	38	4.96%
Total	766	99.99%

Table 4-6 Distribution of Social Desirability Scores for all Respondents

Social Desirability

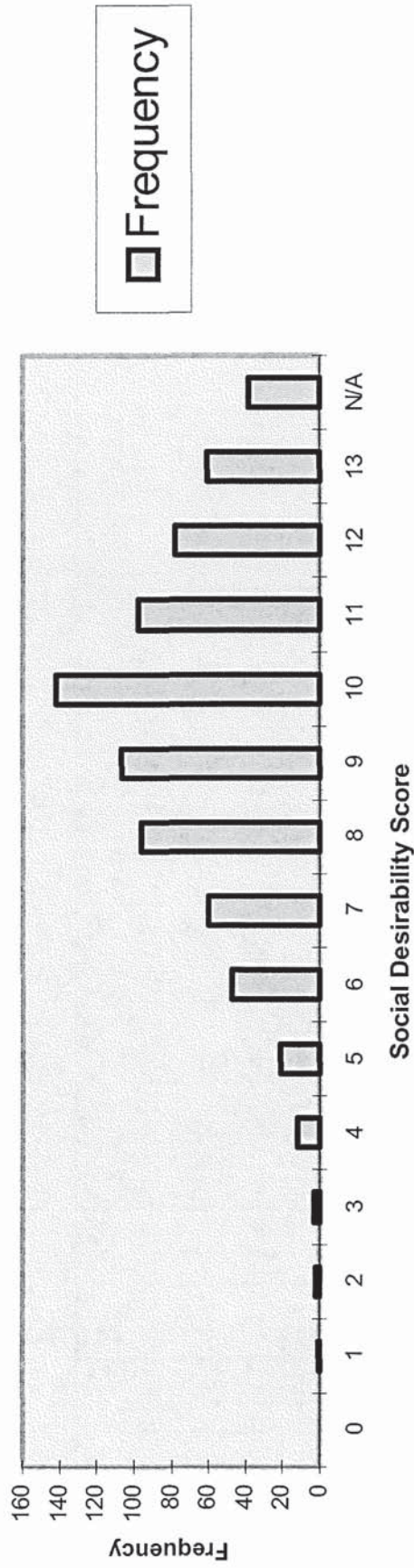


Figure 4-6 Distribution of Social Desirability Scores for all Respondents

4.12 Summary

This chapter provides a description of the methodology employed in this study. Specifically an instrument was designed and used to undertake a mail survey of large UK multi retailers, competing on service. The instrument was based on qualitative interviews and appropriate literature. Rigorous pre testing was conducted and the main survey was sent to 3545 retail managers in the UK. A usable response rate of 21.6% was achieved. A comparison of early and late respondents, and first hand information, provided evidence that non-response bias is not a problem in this sample, indicating that the 766 usable responses are suitable for further analysis.

This further analysis is presented in the following chapters. In chapter 5, exploratory and confirmatory factor analyses are employed to develop a valid and reliable scale to measure the internal market orientation construct, and to confirm the properties of existing measurement instruments for market orientation and performance in the UK retail context. Chapter 6 draws on the new knowledge about the dimensions of internal market orientation developed chapter 5 to formulate specific hypotheses, which are subsequently tested.

5 Measure Development

This chapter describes the development of summated rating scales to measure internal market orientation, external market orientation and store performance. Having specified the domain of internal market orientation and developed propositions about the nature of the construct (Chapter 3), generated items and collected the data (Chapter 4), measure purification and aspects of reliability remain to be assessed. To this end, this chapter focuses on establishing the adequacy of the measures using established procedures from the measure development literature to assess reliability, dimensionality, and construct validity. (Churchill, 1979; Carmines and Zeller, 1979; Zeller and Carmines, 1980; Peter, 1979; Hattie, 1985; Gerbing and Anderson, 1988; DeVellis, 1991; Spector, 1992; Churchill, 1999) First an outline of the measure development process is provided in Section 5.1. The construction and purification of the measures is described in sections 5.1.2, through 5.1.5 Confirmatory analysis, conducted on the measures, is presented in 5.2 and the validity of the measures is assessed. Finally the identified and confirmed dimensions of the internal market orientation construct are related back to the proposed dimensions of the construct.

5.1 Measure Development Process

Jöreskog and Sörbom, (1999) suggest a suitable strategy for data analysis may be the following.

- 1) Specify an initial model based on substantive theory, stated hypotheses, or at least some tentative ideas of what a suitable model should be.
- 2) Estimate the measurement model
 - a) For each construct separately,
 - b) Then for each pair of constructs, combining them two by two.
 - c) Then estimate the measurement model for all the constructs without constraining the covariance matrix of the constructs.

- d) Finally, estimate the structural equation model for the constructs jointly with the measurement models.

The substantive theory relating to internal market orientation is presented in chapter 3 and an initial model, based on this theory, is presented in figure 3-5. The next stage of the research is therefore to estimate the measurement model for the internal market orientation, market orientation and subjective performance constructs under consideration. This is discussed in the following sections.

5.1.1 Item Analysis

The measures of internal market orientation used in this study all comprised sets of items. Having generated data using these items, the next task was to inspect the data in order to ascertain if any items need to be eliminated from the scales. When creating a scale, one is attempting to choose a set of items which most accurately reflect the variation in some latent construct. Not all items initially developed for this task will perform as expected and it is important to identify these and eliminate them from the scale. In developing a scale of effect indicators it is important that the items are positively correlated, this is known as internal consistency. (See Bollen, 1984)

The purpose of item analysis is to identify items that form an internally consistent scale and to eliminate items that do not. (Spector, 1992, p.29) A scale is said to have internal consistency if its items are highly correlated, high correlations between items is, therefore, a quality sought of a set of items forming a scale (DeVellis, 1991)

The first stage of item analysis takes the form of an examination of the correlations between individual items. Items that correlate negatively, (assuming that all items are coded consistently) or do not correlate strongly with others, may need to be removed. Further information is provided by looking at the extent to which each item correlates to the sum of the remaining items. Items with the highest item to total coefficients should be retained.

Other desirable attributes of scale items include high variance and having a mean that is close to the centre of its range. High variance enables an item to discriminate among individuals with different levels of the construct to be measured. Having a

mean close to the centre of its range reduces bunching of respondents near to the extremes of the range. This may indicate that the item wording was not strong enough.

Once items that appear to warrant elimination have been identified, the reliability of the scale should be examined. Reliability concerns the extent to which a measuring procedure yields to the same results on repeated trials (Carmines and Zeller, 1979, p. 11.) There are numerous methods available to assess reliability, such as the test retest method, and the split halves method, (see for example DeVellis, 1991). Carmines and Zeller, (1979, p.47; and Churchill, 1991, p498) favour the use of coefficient alpha as the measure of internal consistency. Carmines and Zeller suggest that coefficient alpha, ‘has the same logical status as coefficients arising from other methods of assessing reliability’, and Churchill states that coefficient alpha ‘is pregnant with meaning because the *square root* of coefficient alpha is the *estimated correlation as the k-item test with errorless true scores*’ [italics in original].

Theoretically, alpha can take any value between 0.0 and 1.0. Nunnally, (1978) suggests that a value of 0.7 be used as the lowest acceptable value of alpha. Peterson, (1994) examines the values of coefficient alphas reported in academic publications. In the sample of 4,286 reported coefficients the range of values was from 0.06 to 0.99 and the mean value was 0.77. These findings are consistent with the following benchmarks for internal consistency provided by DeVellis 1991, p. 85).

Coefficient alpha	Internal Consistency
<0.60	Unacceptable
0.60-0.65	Undesirable
0.65-0.70	Minimally acceptable
0.70-0.80	Respectable
0.80-0.90	Very good
>0.90	Consider shortening scale

The issues already discussed, negative correlations, weak inter item correlations, low item to scale correlations, lopsided means and low variances, reduce the value of coefficient alpha. Therefore, items that appear to substantially decrease coefficient alpha are considered for deletion. The final decision to delete an item is based on a combination of the issues discussed above.

5.1.1.1 Split Samples

DeVellis, (1991) recommends that the sample should be split into two, reducing the chance of obtaining spurious results. The first sub-sample serves as the main development sample and the second is used to cross validate the findings. The use of a split sample provides valuable information about the stability of the scale. In the first sub sample, used to develop the measure, there is the opportunity to confuse unstable, chance factors with reliable covariation among items. Using a second sub sample to cross validate the findings eliminates the opportunity for systematically assigning reliability to chance results, as this sub sample does not influence the selection of scale items. (DeVellis, 1991)

In accordance with the arguments presented above a split sample strategy was used. Specifically, a random sample, of approximately half of the responses, was used for development purposes; those cases not selected for scale development were used for cross validation.

5.1.1.2 Issues of Unidimensionality

Hattie, (1985) states, 'One of the most critical and basic assumptions of measurement theory is that as set of items measures one thing in common.' For this reason Gerbing and Anderson, (1988) contend that scale development must include an assessment of whether the multiple measures that define a scale can be acceptably regarded as alternative indicators of the same construct, i.e. that the scale is acceptably unidimensional. This concern with unidimensionality has resulted in two main approaches to the measure development process. The first proposes that one would assess reliability only once unidimensionality has been established, (See for example

Gerbing and Anderson, 1988). The second argues that unidimensionality should be assessed only once the scale has been purified and the reliability of the scale has been established. (Churchill, 1979).

The assumption that lies behind the first school of thought is that the measure development procedure may not have created a set of unidimensional items. Churchill, (1979) argues that assessing unidimensionality prior to reliability is not appropriate as some of the items may not be drawn from the appropriate domain and may produce error and unreliability. Churchill states ‘..if one were to assess the dimensionality of the scale before eliminating these items, the assessment of dimensionality will be spurious and is likely to produce many more dimensions than can be conceptually identified. Therefore, Churchill argues that coefficient alpha should be absolutely the first measure one calculates to assess the quality of an instrument, Churchill, (1979).

Integrating these two approaches, it was decided to purify the scales first using the techniques described and then to assess dimensionality.

In order to assess whether the scale was unidimensional, a factor analytic approach was adopted. DeVellis, (1991) suggests that factor analysis can help to determine if one broad construct or several constructs that are more specific characterise the item set. Two very general approaches can be used when examining the factorial validity of a scale. In the first case, the researcher makes no assumption about the number of latent variables underlying the item set and a purely exploratory approach can be used. Since, the goal of factor analysis is to find ‘a set of arbitrary factors that provides the clearest conceptual picture’ (DeVellis, 1991, p. 100), evidence of unidimensionality would occur if the items entered into the factor analysis load significantly on only one factor (Spector, 1992). If the items load significantly on several factors and the factor analysis solution were non-trivial (i.e., actually makes conceptual sense (Spector, 1992)), then this would provide evidence to suggest that the items are not unidimensional. If items load significantly on more than one factor then, in order to justify the conclusion that the scale is multidimensional, these factors must be interpretable.

The second approach is less exploratory. Hair et al, (1992, P. 237) recommend that if one is testing an hypothesis about the number of factors underlying a set of items, then the analyst should 'simply [instruct] the computer to stop the analysis when the desired number of factors has been extracted' (see also DeVellis, 1991; Spector, 1992). Evidence to suggest unidimensionality would be provided if all the items load significantly on the single factor.

While either approach could be employed, both methods provide valuable information concerning the dimensionality of items. Therefore, given that a rigorous assessment of the latter is preferable, the hypotheses that the internal market orientation components' scale items are unidimensional was tested using both methods.

5.1.1.3 Construct Validity

Construct validity concerns the degree of 'correspondence between a construct which is at an unobservable, conceptual level and a purported measure of it which is at an operational level' (Peter, 1981, P. 134). The generation of internally consistent, and unidimensional scales is necessary in the creation of measures which possess construct validity (Churchill, 1979; Peter, 1981). However, reliability and unidimensionality can only provide negative evidence of the construct validity of a measure: if a measure is not reliable, it is not valid (Churchill, 1991) and if it is multidimensional it measures some characteristic other than the concept it is purported to measure. Put formally, '[reliability and unidimensionality] investigations provide necessary but not sufficient information for accepting construct validity' (Peter, 1981, p. 135).

Several specific types of validity can, and should, be assessed in order to establish whether a scale displays construct validity,. The types of construct validity examined in this study include convergent, discriminant, criterion-related, and nomological validity (Churchill, 1979, 1991).

Convergent validity is provided if a scale correlates highly with other methods designed to measure the same thing (Churchill, 1979). Discriminant validity is

indicated when the measure has low correlation with 'other measures that are supposedly not measuring the same variable or concept' (Heeler and Ray, 1972, p. 362).

5.1.1.4 Convergent Validity

Convergent validity represents the degree to which measures designed to assess the same construct are related, with higher correlations indicating convergent validity.

Fornell and Larcker, (1981) suggest that within an individual scale, reliability represents convergent validity among those items. The reliabilities of the factors, calculated above exceed 0.6 and meet the minimum specification suggested by Bagozzi and Yi, (1981, p.82). This is an indication that convergent validity has been achieved.

Fornell and Larcker, (1981) also suggest the use of variance extracted as a more stringent test of internal stability. Variance extracted reflects the overall amount of variance in the indicators accounted for by the latent construct and can be calculated using the following formula.

$$\text{Variance extracted} = \frac{\sum(\text{standardised loadings}^2)}{\sum(\text{standardised loadings}^2) + \epsilon_j}$$

Guidelines suggest that the variance extracted value should exceed 0.50 for a construct because a measure should capture more of the construct than it captures random error.

Criterion-related validity is obtained if the construct behaves as expected with respect to some criterion whether or not the theoretical basis for the association is understood is irrelevant (DeVellis, 1991, p.44). Criterion-related validity is 'determined strictly by the correlation between the measure and the criterion. If the correlation is high, the measure is said to have criterion-related validity. (Churchill, 1991, p. 489). Criterion validity is often confused with nomological validity although the conceptual difference between them is quite distinct: a variable has nomological

validity if it behaves as expected with respect to some other construct to which it is theoretically related. (Churchill, 1991, p. 492). In practice, however, it is often possible for exactly the same correlation to serve either purpose (DeVellis, 1991).

As discussed in detail earlier in this thesis, the relationship between internal marketing, market orientation and performance has been given much thought by researchers over the last two decades. As the internal market orientation construct is based on the ideas of internal marketing, there are strong theoretical reasons to assume the association between the three variables. For this reason, the nomological validity of the internal market orientation measure was assessed. Two approaches were taken to examine nomological validity.

Firstly the correlation coefficients between internal market orientation and performance were examined. Evidence of positive correlations would provide tentative support for the nomological validity of the internal market orientation scale. Secondly, a more sophisticated approach involved

5.1.2 Internal Market Orientation Measure Construction and Purification

Prior to data analysis, all negatively worded items were reverse scored to ensure consistent direction of scoring. I.e. positive perceptions of the firm scored highly. The split sample approach resulted in a measure development sample of 381 randomly selected cases and a cross validation sample of the remaining, 385 unselected cases.

5.1.2.1 Item Reduction Through Exploratory Factor Analysis

The first task of the scale development process involved analysis of the correlation matrix for the original 60 internal market orientation items included in the questionnaire.

The exploratory factor analysis was performed using principal component analysis and utilising the oblique rotation method. The scale was purified according to the guidelines outlined by Hair et al, (1998) using several related criteria. Variables with insignificant loadings (<0.3) were considered for deletion, as were variables with several significant loadings onto more than one component. The communalities of

the variables, representing the amount of variance accounted for by the component solution of each variable, were also examined. Factors with low communalities (<0.4) were also considered for deletion. Several complementary methods were employed to obtain the most representative and parsimonious set of components, (i.e. Eigenvalues >1 and scree plot).

The process of scale purification and exploratory factor analysis revealed a principal component solution displaying simple structure and comprising twenty items with significant loading onto six components with Eigenvalues over 1, which is consistent with the scree plot image. The six factors explained 66% of the variance in the total data

Internal consistencies were assessed using coefficient alpha (Churchill, 1979). The reliabilities (Cronbach's $\alpha > 0.6$) of all six components are acceptable indicating that the homogeneity of the six subscales could not be improved further by eliminating particular items.

The pattern matrix for this component structure, factor loadings and Cronbach's α are reported in appendix 10 and summarised below, a full list of items is given in appendix 11.

The factors identified are:

Factor	Number of Items	Coefficient Alpha
Group Interaction	4	0.81
Local Wage Flexibility	3	0.75
Collegial Interaction	4	0.83
Job Flexibility	3	0.64
External Environment	3	0.65
Formal Interaction	3	0.81

5.1.3 Market Orientation Measurement Model

The market orientation scale has been extensively tested and validated in the US (Jaworski and Kohli, 1993), Scandinavia, (Selnes et al, 1996), Australia, (Vorhies et al, 1999) and the UK, (Pitt et al, 1996). It has been adapted for this research to measure the local market orientation of UK retail outlets. The modified MARKOR scale items, used to measure local market orientation are given in Appendix 4.

The same process of exploratory analysis was used to purify the local market orientation scale as was used for the internal market orientation scale. Dimensions of local market orientation applicable in the UK retail context are identified and items not applicable to this context are removed.

After scale purification 11 of the original 32-item scale remained to give a simple factor structure of three dimensions. These dimensions reflect the original three dimensions of market orientation identified by Kohli and Jaworski, (1990)

The three dimensions of local market orientation explain 62% of the variance of the data.

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A pattern matrix for the local market orientation scale is shown in Table 5-1 below.

	Component			Coefficient Alpha
	1	2	3	
MRPOLITI	.781			0.69
MRCOPRIC	.706			
MRRESP	.690			
MACHANGE	.679			
MDSHOP		.868		0.67
MDIDMEET		.823		
MDSTAFF		.540		
MACUST			-.915	0.78
MASURVEY			-.913	
MAINFLUE			-.641	

Table 5-1 Pattern Matrix for Local Market Orientation Items

The dimensions of local market orientation are:

1. Planned response to the local market.
2. Information dissemination.
3. Information acquisition.

A full list of items is given in appendix 11.

5.1.4 Store Performance Measurement Model

The items relating to store performance were also subjected to exploratory factor analysis.

This revealed the three-factor solution of store performance shown below.

	Component			Coefficient Alpha
	1	2	3	
PSLOWTO	.890			0.66
PS5YRS	.872			
PSSTAY	.819			
PSTURNOV	.812			
PFPROFIT		.794		0.86
PFVALUE		.786		
PFSALES		.729		
PSHAPPY			-.889	0.80
PSATMOS			-.821	
PSHELP			-.799	

Table 5-2 Three-Factor Solution of Store Performance

The three factors explain 70 % of the variance in the data

The factors have been labelled

1. Staff retention
2. Financial performance
3. Staff compliance

5.1.5 Estimating the Measurement Model for Each Pair of Constructs, Combining Them Two by Two.

The next stage of the scale development process is to estimate the measurement models for pairs of constructs. This allows a test of how well the items discriminate between the different concepts that are being measured.

Items were factor analysed using SPSS version 9.0.0 using principal axis factoring and an oblimin rotation.

5.1.5.1 Internal Market Orientation and Market Orientation

A pattern matrix for internal market orientation items and market orientation items is shown in Table 5-3 below. This clearly illustrates that all items distinguish between the dimensions of the two constructs under consideration. These items explain 66% of variance in the data.

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	Factor								
	1	2	3	4	5	6	7	8	9
EAMEET	.783								
EAINTERA	.731								
EAAPPR	.590								
EDMEET	.439								
ERLOCPAY	.874								
ERWAGES	.682								
ERSALARY	.563								
EAFEEL			-.920						
EAPROB			-.660						
EATALKWO			-.623						
EAFIND			-.577						
MDIDMEET				.746					
MDSHOP				.659					
MDSTAFF				.322					
EACOMP					-.677				
EACOND					-.668				
ERPLAN					-.444				
MRPOLITI						.710			
MRRESP						.540			
MACHANGE						.519			
MRCOPRIC						.463			
MASURVEY							-.878		
MACUST							-.733		
MAINFLUE							-.442		
ERACCOM								-.681	
ERLATE								-.675	
ERMODIFY								-.437	
EAINFLRS									-.583
EAATTIT									-.563
EAIMR									-.452

Table 5-3 Pattern Matrix for all Market Orientation and Internal Market Orientation Items Analysed Simultaneously.

5.1.5.2 Internal Market Orientation and Performance

The same process was performed for all of the internal market orientation and performance items. The pattern matrix is shown in Table 5-4 below. These items explain 64% of variance in the data.

	Component							
	1	2	3	4	5	6	7	8
EAATTIT	.823							
EAIMR	.678							
EAMEET	.664							
EAINFLRS	.648							
EAAPPR	.597							
EAINTERA	.521					-.427		
EDMEET	.404							
PS5YRS		-.871						
PSLOWTO		-.868						
PSSTAY		-.823						
PSTURNOV		-.816						
ERLOCPAY			.843					
ERWAGES			.830					
ERSALARY			.712					
ERACCOM				.786				
ERLATE				.782				
ERMODIFY				.531				
PFPROFIT					.784			
PFSALES					.756			
PFVALUE					.670			
EAFEEL						-.825		
EATALKWO						-.751		
EAPROB						-.739		
EAFIND						-.675		
EACOMP							-.746	
EACOND							-.740	
ERPLAN							-.578	
PSHELP								-.816
PSHAPPY								-.788
PSHAPPY								-.788
PSATMOS								-.728
PSATMOS								-.728

Table 5-4 Pattern Matrix for all Internal Market Orientation and Performance Items Analysed Simultaneously.

5.1.5.3 Market Orientation and Performance

The same process was performed for all of the internal market orientation and performance items. The pattern matrix is shown in Table 5-5 below. These items explain 66% of variance in the data.

	Factor					
	1	2	3	4	5	6
MRPOLITI	.663					
MACHANGE	.561					
MRRESP	.531					
MRCOPRIC	.497					
PS5YRS		-.825				
PSLOWTO		-.785				
PSTURNOV		-.763				
PSSTAY		-.760				
PSHAPPY			-.780			
PSATMOS			-.735			
PSHELP			-.639			
MDIDMEET				.829		
MDSHOP				.617		
MDSTAFF				.405		
PFPROFIT					.645	
PFSALES					.596	
PFVALUE					.562	
MASURVEY						-.895
MACUST						-.746
MAINFLUE						-.482

Table 5-5 Pattern Matrix for all Market Orientation and Performance Items Analysed Simultaneously.

5.1.5.4 All Three Constructs Simultaneously

Finally all items were factor analysed simultaneously to ensure discriminant validity. The factor analysis results are presented in Table 5-6 below. These items explained 65% of the variance in the data.

	1	2	3	4	5	6	7	8	9	10	11
EAMEET	.703										
EAATTIT	.637						.317				
EAAPPR	.627										
EAINFLRS	.565										
EAIMR	.557							.334			
EAINTERA	.552			-.388							
EDMEET	.404										
PSLOWTO		-.861									
PS5YRS		-.850									
PSTURNOV		-.820									
PSSTAY		-.819									
ERLOCPAY			.832								
ERWAGES			.795								
ERSALARY			.743								
EAFEEL				-.837							
EATALKWO				-.764							
EAPROB				-.747							
EAFIND				-.675							
MDSHOP					.891						
MDIDMEET					.769						
MDSTAFF					.438						
PFPROFIT						-.815					
PFSALES						-.738					
PFVALUE						-.595					
EACOND							-.701				
EACOMP							-.682				
ERPLAN							-.556				
MRPOLITI								.702			
MRRESP								.642			
MACHANGE								.604			
MRCOPRIC								.539			
ERLATE									-.789		
ERACCOM									-.759		
ERMODIFY									-.504		
PSHELP										-.779	
PSHAPPY										-.750	
PSATMOS										-.714	

then for all constructs simultaneously. In doing so, one should let the constructs be freely correlated, i.e., the covariance matrix of the constructs should be unconstrained.

5.2.1 Confirming the Internal Market Orientation Measurement Model.

The first stage in developing a model of internal market orientation is to assess the measurement model of the construct. Exploratory factor analysis, reported in the previous section, has identified that internal market orientation has a six-factor structure. These factors have been labelled collegial interaction, group interaction, formal interaction, external environment, wage flexibility and job flexibility.

The measurement model is a sub model in structural equation modelling that specifies the indicators for each construct and assesses the reliability of each construct for estimating the causal relationships. The measurement model is similar in form to factor analysis; a major difference lies in the degree of control provided to the researcher. In fact analysis, the researcher can specify only the number of factors, but all variables have loading for each factor. In the measurement model however, of researcher specifies which variables are indicators of which constructs. Variables have no loading other than those on its specified construct.

The six dimensions of internal market orientation were modelled a six, correlated first order factors that correspond to the three item job flexibility factor, a four item wage flexibility factor, a four item external information factor, a three item group interaction factor, a three item formal interaction factor and a three item formal interaction factor. The conceptual measurement model is shown in Figure 5-1 below and the structural model output from LISREL is presented in Figure 5-2.

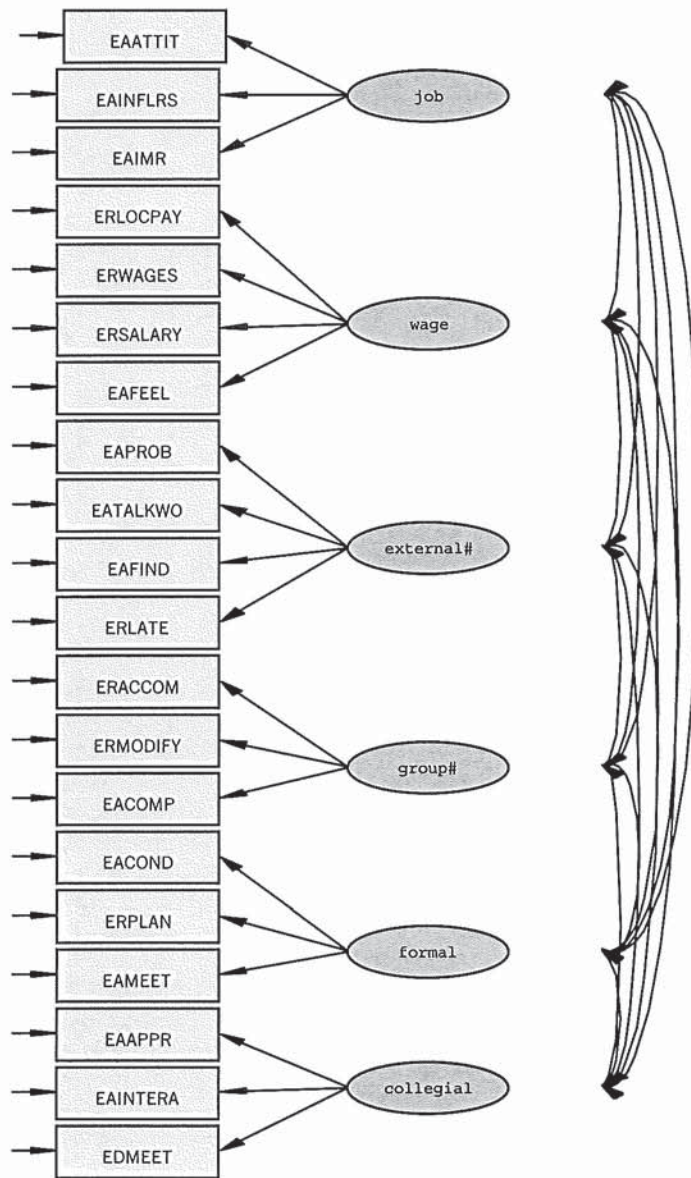


Figure 5-1 Measurement Model for Internal Market Orientation

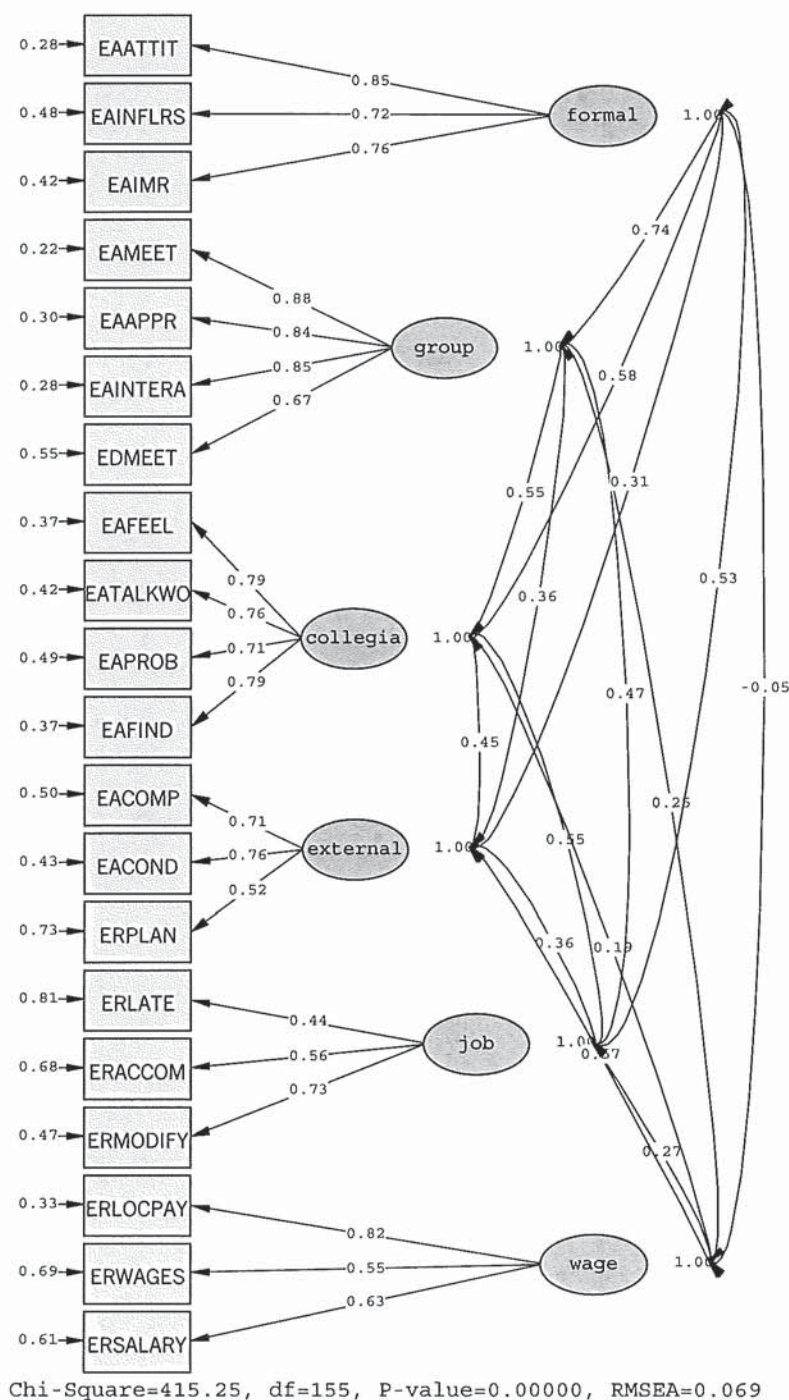


Figure 5-2 LISREL Output for the Confirmatory Model of Internal Market Orientation

The results of the confirmatory factor analysis for the internal market orientation dimensions are reported in Table 5-7. The table report the standardised loadings of all items and the (t-values). The composite reliability and variance extracted of the 6

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dimensions of internal market orientation are also reported. Inspecting the results reveals that all factor loadings are greater than 0.5 and significant at $\alpha = 0.05$. The reliabilities of the individual dimensions range from 0.60-0.88 and the variance extracted ranges from 0.35-0.66.

ITEM	FORMAL	GROUP	COLLEGIAL	EXTERNAL	JOB	WAGE
EAATTIT	0.85 (18.54)					
EAINFLRS	0.72 (14.87)					
EAIMR	0.76 (15.93)					
EAMEET		0.88 (20.47)				
EAAPPR		0.84 (18.94)				
EAINTERA		0.85 (19.25)				
EDMEET		0.97 (13.79)				
EAFEEL			0.79 (16.89)			
EATALKWO			0.76 (15.88)			
EAPROB			0.71 (14.54)			
EAFIND			0.79 (16.79)			
EACOMP				0.71 (12.93)		
EACOND				0.76 (13.85)		
ERPLAN				0.52 (9.17)		
ERLATE					0.44 (7.19)	
ERACCOM					0.56 (9.34)	
ERMODIFY					0.73 (11.76)	
ERLOCPAY						0.82 (14.97)

ERWAGES						0.55 (9.90)
ERSALARY						0.63 (11.36)
Composite Reliability	0.82	0.88	0.85	0.71	0.60	0.71
Variance Extracted	0.61	0.66	0.59	0.45	0.35	0.46

Table 5-7 Standardised Loadings and (t-values), for Internal Market Orientation Items, CFA Analysis, Composite Reliability and Variance Extracted for the 6 Dimensions of Internal Market Orientation.

5.2.1.1 Reliability

In addition to assessing the appropriateness of each indicator, the extent to which indicators as a group measure the construct must also be assessed. Gerbing and Anderson, (1988) recommend assessing the reliability of a scale after unidimensionality has been established. Composite reliability assesses the extent to which the indicators as a group, measure the construct. Composite reliability can be calculated from the LISREL 8.3 confirmatory factor analysis output using the following formula.

$$\text{Construct composite reliability} = \frac{\sum (\text{standardised loadings})^2}{\sum (\text{standardised loadings})^2 + \epsilon_j}$$

Where standardised loadings are obtained from the LISREL output and ϵ_j is the measurement error for each indicator.

Nunnally, (1978) suggest a minimum acceptable threshold for composite reliability of 0.7. However others, such as DeVellis, (1991) and Robinson, (1991) suggest that lower levels are acceptable in early stages of scale development. In general composite reliabilities of at least 0.6 are considered desirable (Bagozzi and Yi, 1981, p.82). The composite reliabilities of all of the factors are in the range 0.6- 0.9 and meet this recommended minimum threshold value.

5.2.1.2 Convergent Validity

Convergent validity represents the degree to which measures designed to assess the same construct are related, with higher correlations indicating convergent validity.

Fornell and Larcker, (1981) suggest that within an individual scale, reliability represents convergent validity among those items. The reliabilities of the factors, calculated above exceed 0.6 and meet the minimum specification suggested by (Bagozzi and Yi, 1981, p.82). This is an indication that convergent validity has been achieved.

Fornell and Larcker, (1981) also suggest the use of variance extracted as a more stringent test of internal stability. Variance extracted reflects the overall amount of variance in the indicators accounted for by the latent construct and can be calculated using the following formula.

$$\text{Variance extracted} = \frac{\sum(\text{standardised loadings}^2)}{\sum(\text{standardised loadings}^2) + \epsilon_j}$$

Guidelines suggest that the variance-extracted value should exceed 0.50 for a construct because a measure should capture more of the construct than it captures random error.

Three of the six factors fail to meet this more stringent measure of internal stability, although they approach the recommended value of 0.5. These are wage flexibility, Variance extracted = 0.46, job flexibility, variance extracted = 0.35 and external information, variance extracted = 0.45. However, despite the low variance extracted value for job flexibility, other tests of internal consistency indicate that convergent validity for the scale is achieved. For example Anderson and Gerbing, (1988) suggest that significant t values offer support for convergent validity of scale items. All scale items have significant t values (>7) adding to support to the convergent validity of the scale.

Construct reliabilities and variances extracted are reported in Table 5-8 below.

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	Construct Reliability	Variance Extracted
Factor 1 Formal Interaction	0.82	0.61
Factor 2 Wage Flexibility	0.71	0.46
Factor 3 Collegial Interaction	0.85	0.59
Factor 4 Job Flexibility	0.60	0.35
Factor 5 External Environment	0.71	0.45
Factor 6 Group Interaction	0.88	0.66

Table 5-8 Composite Reliability and Variance Extracted for the 6 Identified Dimensions of Internal Market Orientation

Examining the correlations of different instruments designed to measure the same construct can also assess convergent validity. To this end the questionnaire contained two additional scales. Scale 1 contained five general items relating to the attitude of the manager towards internal market orientation (MEO). Scale 2 contained four general items measuring internal market-oriented behaviour in the organisation (OEO).

These scale items are given below.

Scale 1 (MEO)	Scale 2 (OEO)
It is important to understand all of the factors that affect employees' satisfaction with their employment	The organisation for which I work is genuinely concerned with the welfare of all its employees
Keeping my employees satisfied is as important as keeping my customers satisfied	The firm for which I work tries to accommodate the different personal needs of all its employees
A good employer makes sure that all employees are happy in their jobs	The firm for which I work does not recognise the importance of its employees
Employees are the most important resource that the firm has	My firm treats all employees in a way that demonstrates that they are valued
Keeping employees satisfied should be one of the main goals of any firm	

Table 5-9 MEO Scale Items Measuring Managers Attitudes to Internal Market Orientation and OEO Scale Items to Measure Internal Marketing Behaviour of the Firm.

If the measurement model of internal market orientation is measuring what it is designed to measure then the individual factors of internal market orientation should correlate strongly with the factor scores of the two general scales above.

Significant correlations of the six estimated internal market orientation factors with the two general scales of internal market orientation are reported in Table 5-10 below.

The attitudinal scale (MEO) shows significant correlations (at the 0.01 level) with five of the six estimated dimensions of internal market orientation. The behavioural scale (OEO) shows significant correlations with all six of the estimated internal market orientation dimensions.

As the six estimated factors of internal market orientation correlate with the general measures of internal market orientation convergent validity is demonstrated.

5.2.1.3 Social Desirability Bias

Social desirability may impact the study in one of three ways. It may produce spurious correlations, it may suppress correlations or it may moderate the relationship between the dependant and independent variables. In order to assess possible impact of social desirability Ganster et al; (1983) propose the partialling of social desirability from the independent and dependent variables and noting whether the partial correlation is reduced to zero. To achieve this a social desirability instrument was also administered to the respondents and the partial correlations of the six factors of internal market orientation and the two global measures of internal market orientation, controlling for social desirability, were calculated.

The simple correlations of the six hypothesized dimensions of internal market orientation and the global measures of internal market orientation, and their partial correlations, controlling for social desirability, are reported in Table 5-10 below.

	Formal	Wage Flex	Collegial	Job Flex	External Env'ment	Group
MEO	0.349 (0.335)	0.064** (0.061)**	0.400 (0.360)	0.323 (0.299)	0.188 (0.154)*	0.300 (0.281)
OEO	0.391 (0.380)	0.199 (0.195)	0.313 (0.270)	0.235 (0.201)	0.315 (0.292)	0.535 (0.525)

Table 5-10 Correlations and (Partial Correlations) for Internal Market Orientation Factors With Global Measures of Internal Market Orientation.

All values are significant at the 0.01 level except for ** which is not significant and * which is significant at the 0.05 level.

As is illustrated in the table above the substantive correlations are unaffected by social desirability bias and remain practically the same when social desirability bias has been controlled for. Despite the significant correlation of the six dimensions of internal market orientation with social desirability, the partial correlations indicate that the correlations of these six factors with the global measures of internal market orientation remain significant when is controlling for social desirability.

Therefore the convergent validity of the scale is not compromised by social desirability bias.

5.2.1.4 Discriminant Validity

Discriminant validity is indicated by a low to moderate correlation among measures that are designed to measure conceptually different but related constructs, i.e. a phi coefficient significantly less than one offers support for discriminant validity between constructs. (Anderson and Gerbing, 1988)

The inter-factor correlations (ϕ) are reported in Table 5-11 below. These indicate that the factors discriminate between constructs.

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	Formal	Wage Flex	Collegial	Job Flex	External Env'ment	Group
Formal	1					
Wage Flex	-0.05	1				
Collegial	0.58	0.19	1			
Job Flex	0.48	0.47	0.55	1		
External	0.53	0.57	0.45	0.36	1	
Group	0.72	0.25	0.55	0.47	0.36	1

Table 5-11 Inter-Factor Correlations

Netemeyer et al, (1997) advocate the use of Fornell and Larcker's 1981 test of discriminant validity. If the square of the parameter estimate between two constructs (ϕ^2) is less than the average variance extracted estimate of the two constructs then discriminant validity is supported.

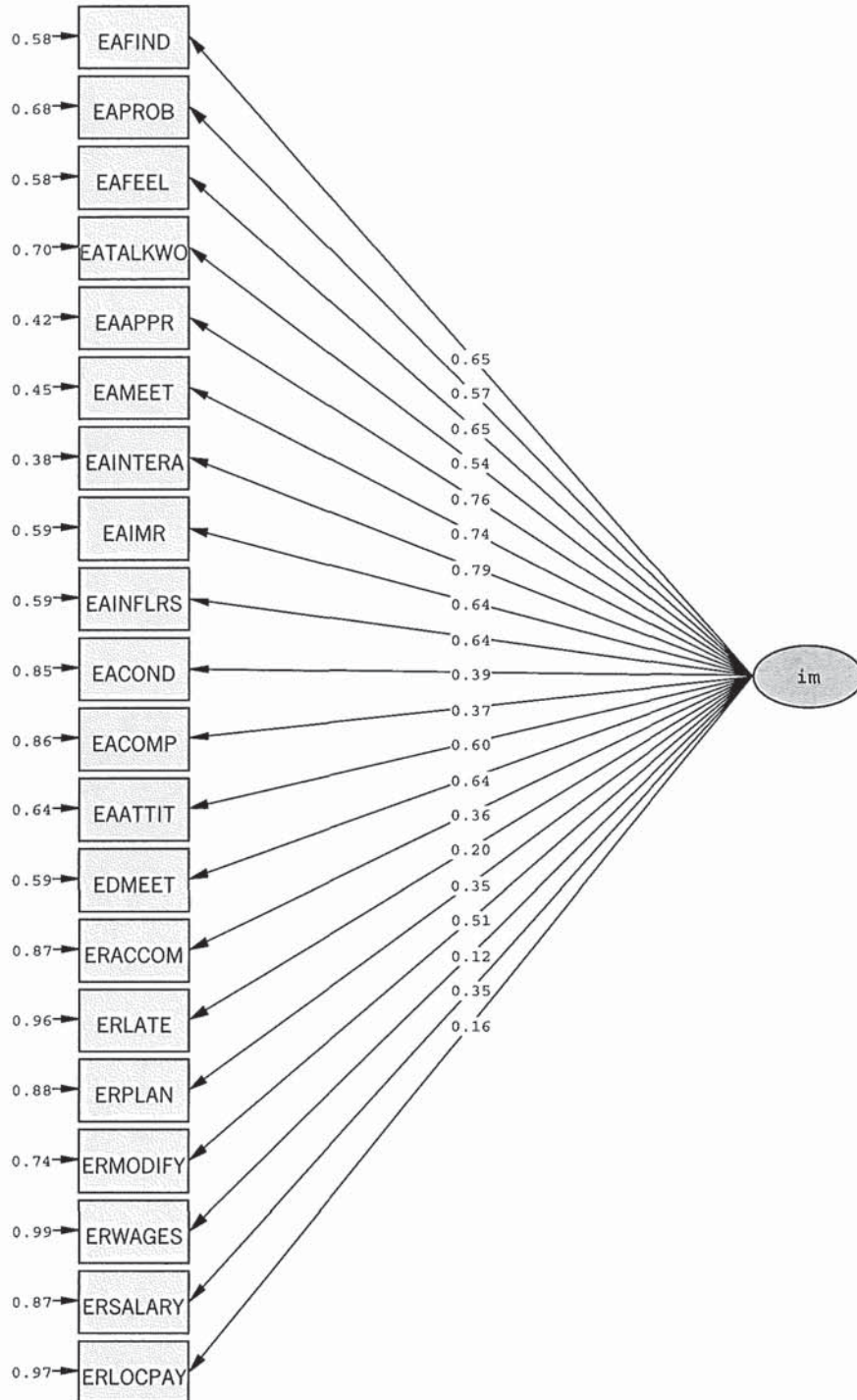
Table 5-12 below reports the squares of the parameter estimate between constructs (ϕ^2) and the average variance extracted for pairs of constructs. Examination of Table 5-12 illustrates that this criterion is met for all possible pairs of constructs indicating that discriminant validity among factors is achieved.

	Formal	Wage Flex	Collegial	Job Flex	Ext Env	Group	Average variance extracted
Formal		0.535	0.60	0.48	0.53	0.635	
Wage Flex	0.0025		0.525	0.405	0.455	0.56	
Collegial	0.3364	0.0361		0.47	0.52	0.625	
Job Flex	0.2304	0.2209	0.3025		0.40	0.505	
Ext Env	0.2809	0.3249	0.2025	0.1296		0.555	
Group	0.5184	0.0625	0.3025	0.2209	0.1296		
Square of parameter estimates between factors							

Table 5-12 Squares of the Parameter Estimate Between Factors (ϕ^2) and Average Variance Extracted for Pairs of Factors.

A comparison of the measurement model in which all items load directly onto one factor with the six dimensional conceptualisation of internal market orientation will provide evidence of discriminant validity. If the chi squared difference test produces a significant result, discriminant validity is achieved. That is, trying to force the measures of different dimensions of internal market orientation onto a single

underlying construct leads to a significant deterioration of the model fit relative to the six-factor model.



Chi-Square=1654.47, df=170, P-value=0.00000, RMSEA=0.168

Figure 5-3 Single Factor Model for Internal Market Orientation

The single factor model for internal market orientation shown in Figure 5-3 above, has a chi square value of 1654 with 170 degrees of freedom compared to a chi square value of 415 with 155 degrees of freedom for the six factor model.

A chi squared difference test ($\Delta\chi^2=1239$ and $\Delta df=15$) reveals that the difference between the two models is significant at the $p<0.001$ level and indicates a significant deterioration in the model fit for the unidimensional compared to the six-factor model.

This is also borne out by the goodness of fit statistics; GFI = 0.89 for the six factor model compared to 0.62 for the unidimensional model.

5.2.2 Confirming the Measurement Model of Local Market Orientation

In the next stage of confirmatory factor analysis the measurement model of local market orientation is evaluated. Exploratory factor analysis identified that local market orientation has a similar structure to market orientation. Exploratory factor analysis identified a three-factor structure of local market orientation. These three factors correspond to the dimensions of market orientation in the local environment:

- Information acquisition
- Information dissemination
- Response

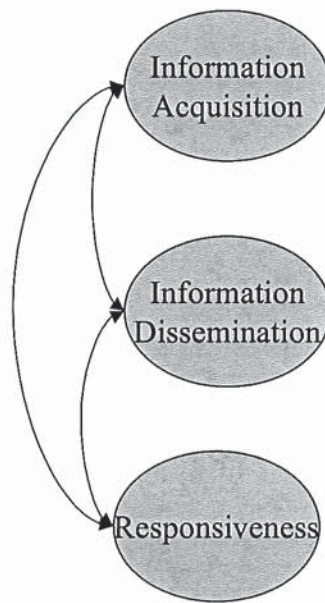
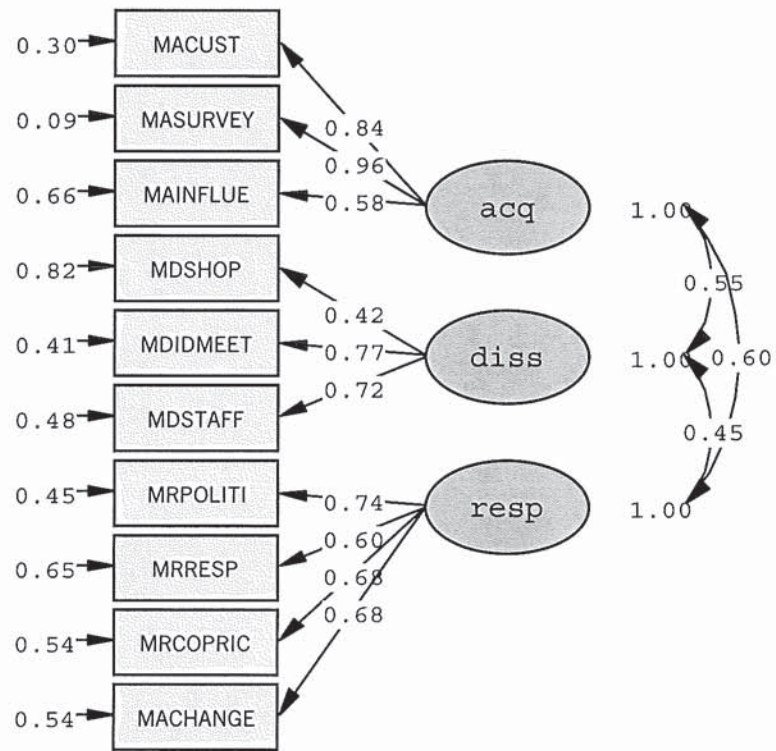


Figure 5-4 Local Market Orientation Model MO1. Three Correlated Dimensions

The three dimensions of local market orientation were modelled as three, correlated first order factors that correspond to a three item job information acquisition factor, a three item information dissemination factor and a four item responsiveness factor. The conceptual measurement model is shown in Figure 5-4 above.

The results of the factor analysis are presented in Figure 5-5 and Table 5-13 below. Inspecting these results it is apparent that the model fits the data adequately, based on the GFI, AGFI, RMR fits the

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Chi-Square=86.48, df=32, P-value=0.00000, RMSEA=0.083

Figure 5-5 Confirmatory Factor Model for Local Market Orientation

The results of the confirmatory factor analysis for the local market orientation dimensions are presented in Table 5-13 below.

ITEM	Information Acquisition	Information Dissemination	Responsiveness
MASURVEY	0.96 (18.69)		
MACUST	0.84 (15.37)		
MAINFLUE	0.58 (9.72)		
MDSTAFF		0.72 (10.71)	
MDIDMEET		0.77 (11.36)	
MDSHOP		0.42 (6.05)	
MACHANGE			0.68 (10.81)
MRRESP			0.60 (9.26)
MRPOLITI			0.74 (12.11)
MRCOPRIC			0.98 (10.86)
Composite Reliability	0.85	0.68	0.77
Variance Extracted	0.65	0.43	0.46
GFI	0.94		
AGFI	0.89		
NFI	0.91		
RMR	0.067		
RMSEA	0.083		

Table 5-13 The Results of the Confirmatory Factor Analysis for the Three Local Market Orientation Dimensions

The composite reliabilities for each of the three factors is in the acceptable range, all are above 0.68 indicating that the scale displays acceptable internal consistency. Variances extracted, which indicate validity for a construct's, measure (Netemeyer et al, 1997) are below the recommended threshold of 0.5 (Fornell and Larcker, 1981) for two of the factors, (information acquisition = 0.43 and responsiveness = 0.46). The variance extracted for the information dissemination factor is above the recommended threshold of 0.5. Furthermore all item loadings for each factor are significant at $p < 0.05$ and range from 0.42-0.96. Only one of the 10 indicators has a loading less than the recommended level of 0.5 (MDSHOP onto information dissemination).

The dimensions of local market orientation were subject to the same tests of discriminant validity as have been reported the six dimensions of the internal market orientation construct reported above.

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Table 5-14 below reports the inter factor correlations for the three dimensions of local market orientation.

	Information acquisition	Information dissemination	Responsiveness
Information acquisition	1		
Information dissemination	0.55 (9.38)	1	
Responsiveness	0.60 (11.47)	0.45 (6.24)	1

Table 5-14 Inter-factor Correlations for Local Market Orientation Factors, ϕ

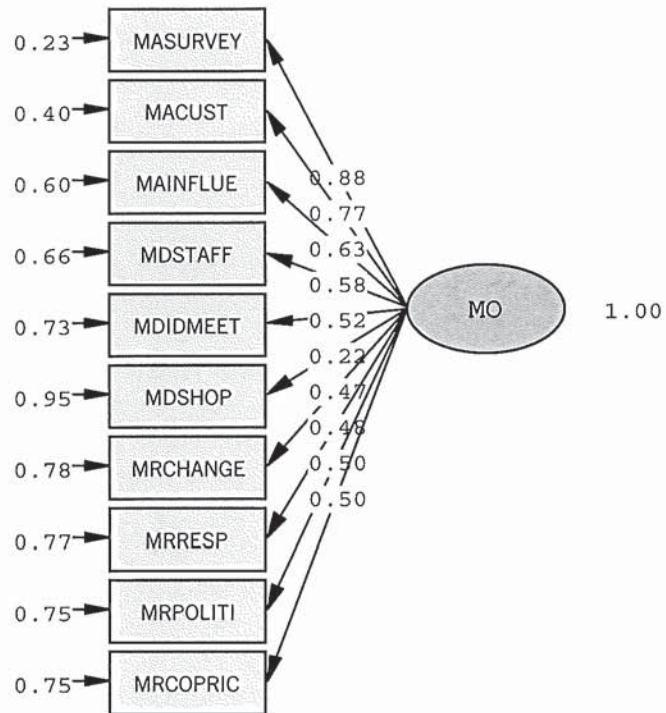
Table 5-15 below reports the squared correlations between the three local market orientation factors and the average variance extracted for all pairs of factors. Discriminant validity is supported, as the (ϕ^2) value is less than the average variance extracted for all possible pairs of factors.

	Information acquisition	Information dissemination	Responsiveness	Average variance extracted
Information acquisition		0.54	0.555	
Information dissemination	0.3025		0.445	
Responsiveness	0.360	0.2025		
Square of parameter estimates between factors				

Table 5-15 Squares of the Parameter Estimate Between Factors (ϕ^2) and Average Variance Extracted for Pairs of Factors for Local Market Orientation

5.2.2.1 Assessing Local Market Orientation as a Unidimensional Construct.

Market orientation is most often considered analysed as a unidimensional construct in which all of the scores for the market orientation items are used to measure the construct. If this is the case for local market orientation the confirmatory model in which all items load onto one latent construct should provide an adequate fit to the data.



Chi-Square=290.29, df=35, P-value=0.00000, RMSEA=0.165

Figure 5-6 Unidimensional Model of Local Market Orientation

The model of internal market orientation above has a goodness of fit statistic of 0.82, AGFI = 0.72, NFI = 0.72, all of which are below the recommended cut of value of 0.90. RMSEA = 0.165 and RMR = 0.095 are high. Based on the goodness of fit statistics above the single dimension score for market orientation is rejected.

Discriminant validity is established using the chi squared difference test comparing the three factor model and the unidimensional model.

The three factor model has a chi square statistic of 86 with 32 degrees of freedom; the unidimensional model has a chi square statistic of 290 with 25 degrees of freedom. The chi square difference test indicates that there is a significant deterioration in the model fit between the three factor and unidimensional models, i.e. forcing all items to load onto one local market orientation construct does not fit the data as well as allowing the items to load onto three dimensions of local market orientation.

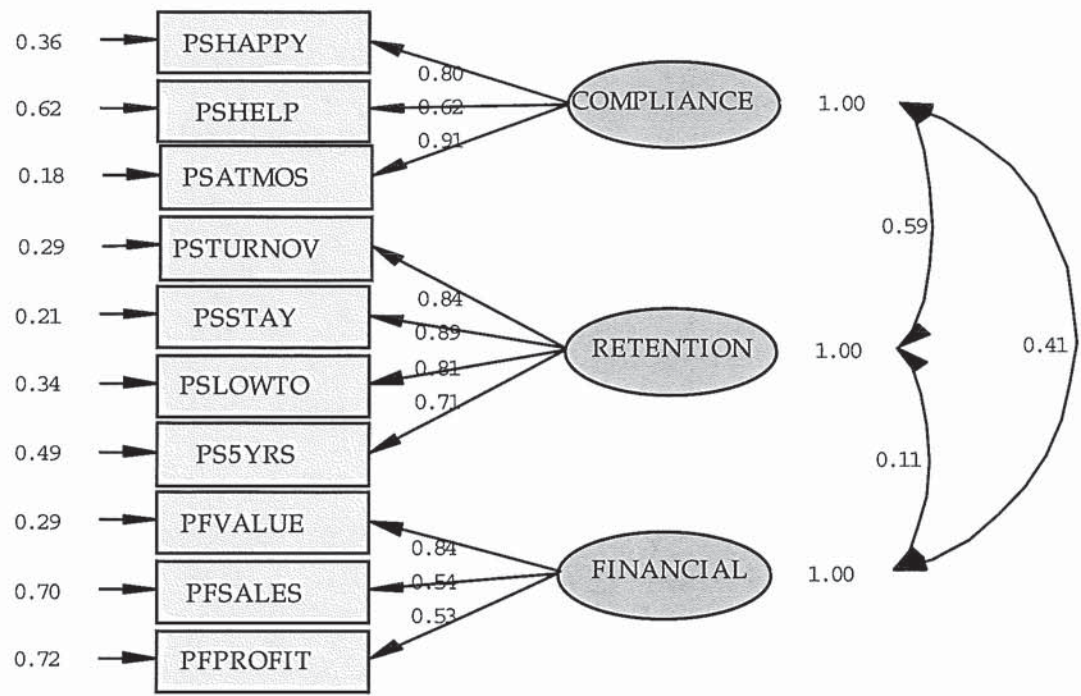
5.2.3 Confirming the Measurement Model of Performance

As reported in the previous section, exploratory factor analysis identified that performance has a three-factor structure. The factors are labelled staff compliance, staff retention and financial performance.

The three dimensions of performance were modelled as three, correlated first order factors that correspond to a three item store atmosphere factor, a four item staff retention factor and a three item financial performance factor. The conceptual measurement model for performance is shown in Figure 5-7 below.

The results of the factor analysis are presented in Table 5-16 below. Inspecting these results it is apparent that the model fits the data adequately, based on the GFI, AGFI, RMR fits the

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Chi-Square=61.20, df=32, P-value=0.00142, RMSEA=0.068

Figure 5-7 Confirmatory Factor Model For Performance Measures.

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	COMPLIANCE	RETENTION	FINANCIAL
PSHAPPY	0.80 (12.65)		
PSHELP	0.62 (9.09)		
PSATMOS	0.91 (15.00)		
PSSTAY		0.89 (15.53)	
PSLOWTO		0.81 (13.44)	
PS5YRS		0.71 (11.14)	
PSTURNOV		0.84 (14.17)	
PFVALUE			0.84 (9.76)
PFSALES			0.55 (6.86)
PFPROFIT			0.53 (6.71)
Composite Reliability	0.83	0.89	0.68
Variance Extracted	0.62	0.67	0.43
GFI		0.94	
AGFI		0.90	
NFI		0.94	
RMR		0.063	
RMSEA		0.068	

Table 5-16 Results of Confirmatory Factor Analysis for Performance Dimensions

The composite reliabilities for each of the three factors are in the acceptable range, all are above 0.68 indicating that the scale displays acceptable internal consistency. Variances extracted, which indicate validity for a construct's measure (Netemeyer et al, 1997) are below the recommended threshold of 0.5 (Fornell and Larcker, 1981) for one of the factors, (financial performance = 0.43). The variances extracted for the store atmosphere and the staff retention factors are above the recommended threshold of 0.5. Furthermore all item loadings for each factor are significant at $p < 0.05$ and range from 0.53-0.91.

The three dimensions of performance were subject to the same tests of discriminant validity as the six dimensions of the internal market orientation construct and the three dominions of the local market orientation construct reported above.

Table 5-17 below reports the inter factor correlations for the three dimensions of performance.

	Information acquisition	Information dissemination	Responsiveness
Information acquisition	1		
Information dissemination	0.11 (1.55)	1	
Responsiveness	0.57 (9.81)	0.46 (6.75)	1

Table 5-17 Inter-factor Correlations and (t-values) for Performance Factors, ϕ

Table 5-18 below reports the squared correlations between the three performance factors and the average variance extracted for all pairs of factors. Discriminant validity is supported, as the (ϕ^2) value is less than the average variance extracted for all possible pairs of factors.

	Staff compliance	Staff retention	Financial	Average variance extracted
Staff compliance		0.645	0.515	
Staff retention	0.0121		0.550	
Financial	0.3249	0.3136		
Square of parameter estimates between factors				

Table 5-18 Squares of the Parameter Estimate Between Factors (ϕ^2) and Average Variance Extracted for Pairs of Factors for Performance

5.2.3.1 Assessing Performance as a Unidimensional Construct.

Performance is most often considered as a unidimensional construct in which all of the items for measuring performance are considered to load onto one factor. If this is the case for performance in this study the confirmatory model in which all items load onto one latent construct, Figure 5-8 below, should provide an adequate fit to the data.

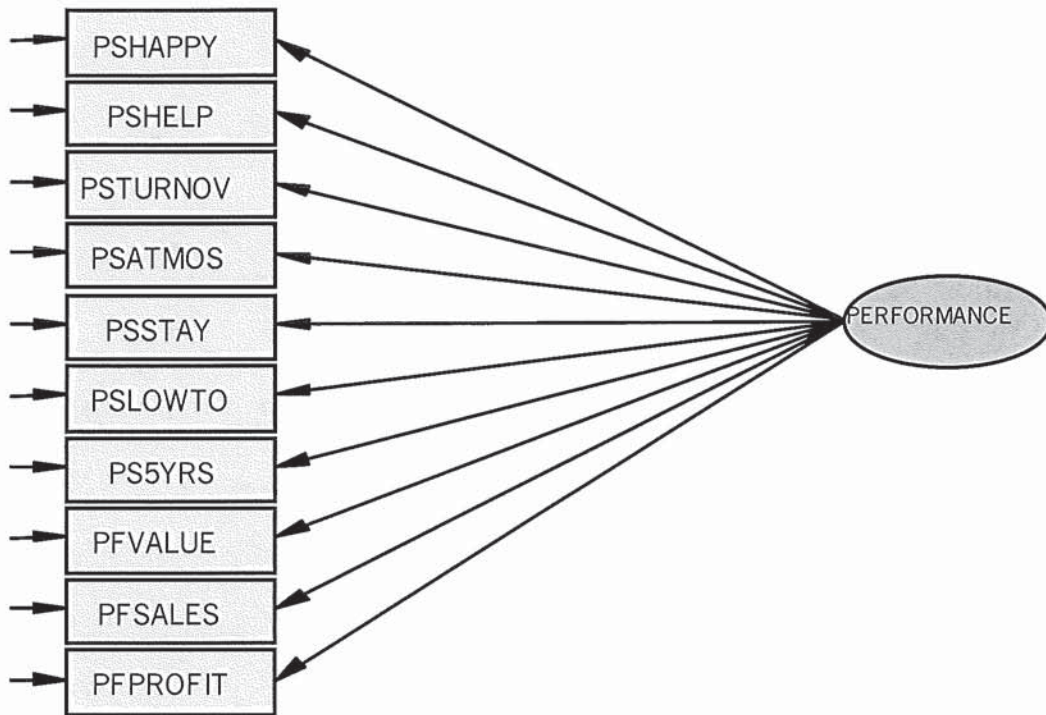


Figure 5-8 Unidimensional Performance

The results of the confirmatory factor analysis of the unidimensional model of performance are presented in Figure 5-9 below.

Inspection of the CFA result reveals that the unidimensional model has a chi square value of 402, a RMSEA value of 0.22, which is above the recommended threshold value, and a goodness of fit statistic of 0.71. Based on these statistics the unidimensional model of performance is rejected.

Discriminant validity is tested using the chi-squared test, comparing the three factor performance model and the unidimensional model of performance. The three factor model has a chi squared statistic of 61 with 32 degrees of freedom, the unidimensional model has a chi squared statistic of 402 with 35 degrees of freedom, indicating a significant deterioration in model fit when all items are forced to load onto one performance dimension.

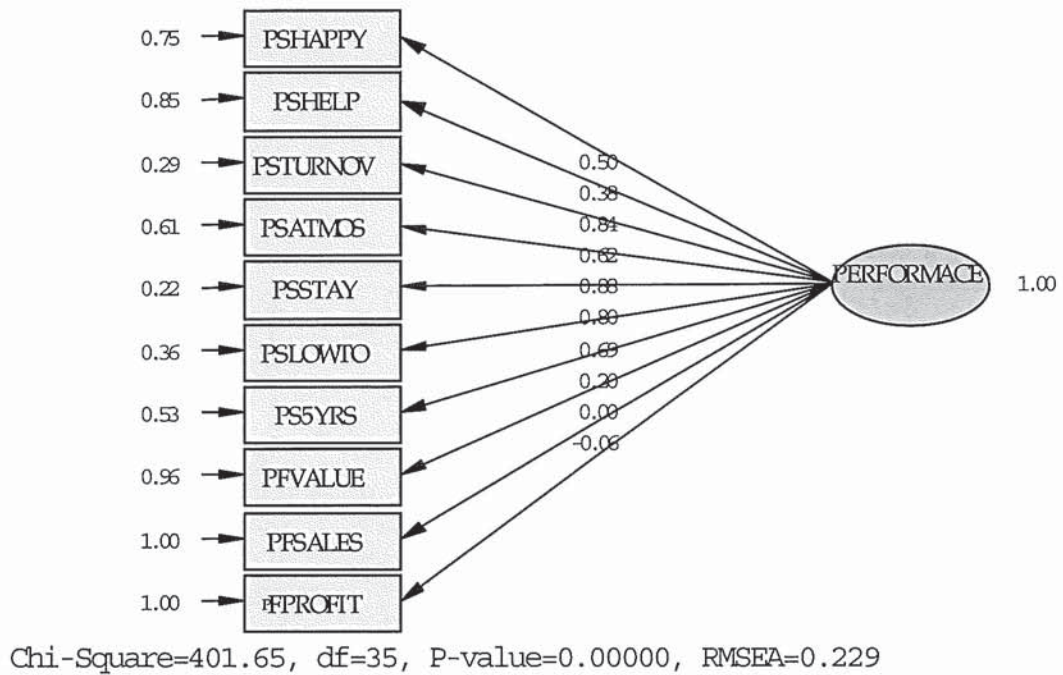


Figure 5-9 CFA for Unidimensional Performance

5.3 Summary

The purpose of this chapter was to construct and purify measures of internal market orientation, local market orientation and performance and to examine the dimensionality of these constructs. The results of this examination are discussed construct by construct below.

Internal Market Orientation

In Figure 3-3, the dimensionality of the internal market orientation constructs was hypothesised as being the same general dimensions as external market orientation, namely information generation, dissemination and responsiveness. The exploratory and confirmatory analysis conducted here indicates that this is not the case. Internal market orientation is found to have a six-factor structure.

One of the six dimensions (external environment) has the same characteristics as information generation in external market orientation. This dimension corresponds to

collecting information about the external environment that is pertinent to the internal market of the firm.

Three of the six dimensions of internal market orientation relate to the **simultaneous** collection and dissemination of information about the internal market, these are; group interaction, formal interaction and collegial interaction.

The remaining two dimensions, wage flexibility and job flexibility appear to be responsiveness dimensions.

This can be summarised as in Table 5-19 below

PROPOSED DIMENSIONS OF INTERNAL MARKET ORIENTATION	CONFIRMED DIMENSIONS OF INTERNAL MARKET ORIENTATION			
Information Generation	External Environment	Formal Interaction	Group Interaction	Collegial Interaction
Information Dissemination				
Responsiveness	Wage Flexibility			
	Job Flexibility			

Table 5-19 Confirmed and Proposed Dimensions of Internal Market Orientation

Market Orientation

The three dimensions of market orientation developed by Kohli and Jaworski, (1990) are confirmed in this research context (retail managers focusing on their local market). In keeping with Kohli's and Jaworski's conceptualisation of the market orientation construct these dimensions are labelled information generation, dissemination and responsiveness. A reduced set of items from the original 32 item scale (Jaworski and Kohli, 1993) are confirmed as appropriate to measure the three dimensions of market orientation in this context.

Performance

Three dimensions of managers' subjective perceptions of performance are identified. Two of these measures refer to the internal environment of the store, these are labelled staff compliance and retention of staff; the third dimension of performance refers to managers' perceptions of the financial performance of their store and is labelled financial performance.

For the purposes of further analysis to establish the structural relationships between the constructs discussed above, each of them will be treated as multidimensional construct. As the previously discussed scale development procedure indicates, for each dimension an internally consistent, unidimensional scale has been developed which demonstrates construct validity.

The propositions about the relationships between internal market orientation, external market orientation and performance which were proposed in chapter 3 now need to be readdressed in the light of the new measures developed in this chapter, and the new information about the dimensionality of the internal market orientation construct. Specific hypotheses about the relationships between internal market orientation, external market orientation and performance are developed in chapter 6. These hypotheses will then be tested using structural equations methodology.

6 Modeling the Structural Relationships Between Internal Market Orientation, Local Market Orientation and Store Performance.

Prior to discussing the methodology used to examine the relationships between internal market orientation, external market orientation and performance it is fitting to recap the main points discussed in the earlier chapters of this thesis. In chapter 2, the literature discussing market orientation was reviewed and it was identified that there are important internal antecedents to market orientation and these were summarised in table 2.1. The role of employees in developing a market orientation was identified and discussed and two main points emerged. Firstly, the role that employees play in developing market orientation is unclear and secondly, the appropriate tools to motivate employees to become market oriented and display market-oriented behaviour were also unclear. Having identified this gap in the market orientation literature, the literature discussing internal marketing was reviewed. Chapter 3 examined the domain of internal marketing and specified the conceptual parameters of a new concept; internal market orientation. The review of the internal marketing literature identified that internal marketing implementation (or internal market orientation) is posited as one of the major determinants of increased external marketing (market orientation) (Piercy, 1995) and business performance (Heskett et al, 1994). The consequences of internal marketing are presented in Table 3-2. Chapter 3 concluded by presenting some very general propositions relating to the relationships between internal market orientation, market orientation and performance and some more specific proposition based on the hypothesised dimensionality of the internal market orientation construct. At this stage, without empirical evidence to confirm the dimensions of the constructs of the study in this research context, no specific hypotheses could be formulated. The propositions about the relationships between internal market orientation, external market orientation and performance were presented. These are illustrated below.

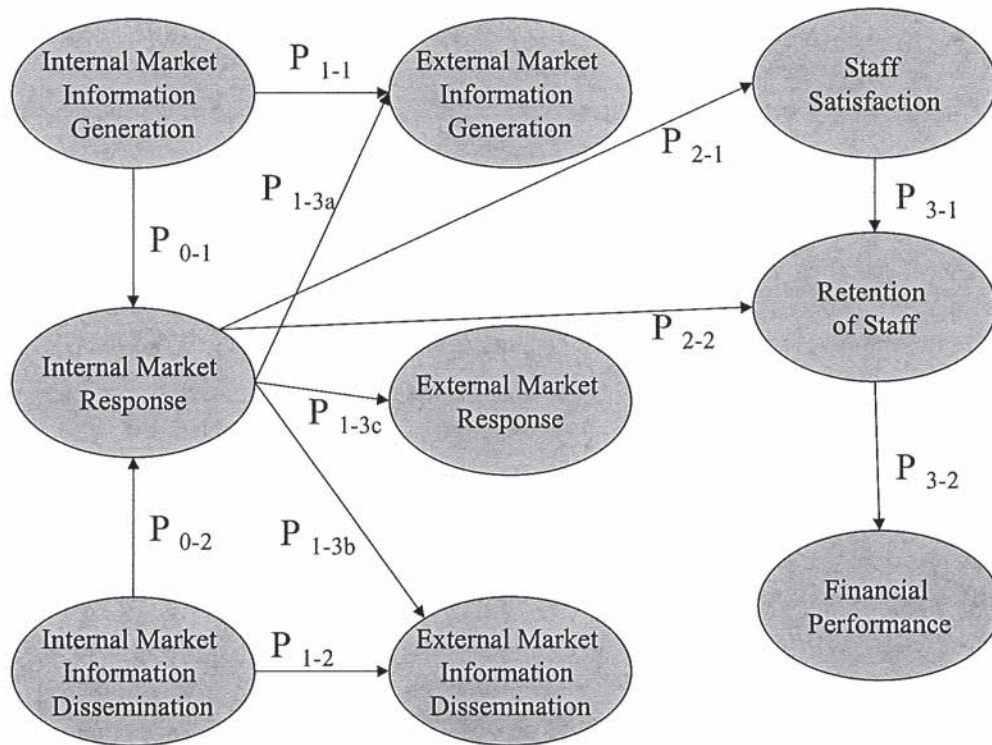


Figure 6-1 Proposed Relationships Between the Dimensions of Internal Market Orientation, External Market Orientation and Performance

Proposition 0-1: Internal market information generation has a direct positive impact on responsiveness to the internal market

Proposition 0-2: Dissemination of information about the internal market has a direct impact on responsiveness to the internal market.

Proposition 1.1: Information generation about the internal market will have a direct positive impact on information generation about the external market.

Proposition 1.2: Disseminating information about the internal market will be highly correlated with disseminating information about external markets.

Proposition 1.3: The responsiveness dimension of internal market orientation will have a direct and positive impact on all three dimensions of external market orientation.

Proposition 2.1: Internal market responsiveness will have a direct positive impact on the satisfaction of staff

Proposition 2.2: Internal market responsiveness will have a direct positive impact on the retention of staff

Proposition 3.1: Staff satisfaction has a direct positive impact on the retention of staff

Proposition 3.2: Staff retention has a direct positive impact on financial performance

Six dimensions of internal market orientation were identified in chapter 5, three dimensions of external market orientation and three performance measures were confirmed. Furthermore, a valid and reliable scale was developed to measure internal market orientation and scales measuring market orientation and performance were confirmed in this research context.

Using the new knowledge of the structure of internal market orientation developed in chapter 5, and the propositions about the relationships between the constructs discussed in chapter 3, it is now possible to develop specific hypotheses about the relationship between the three constructs under investigation in this project. However, prior to developing these specific hypotheses in section 6.2.1 – 6.2.4, structural equations modelling is discussed as a method of testing the structural relationships between the constructs.

6.1 Structural Equation Modelling

Most theories in the social and behavioural sciences are formulated in terms of hypothetical constructs that cannot be observed or measured directly. Internal market orientation is an example of such a construct. The measurement of internal market

orientation is accomplished, indirectly, through the measurement of twenty observable indicators, (the responses to the questionnaire items). It has been demonstrated in the preceding chapters that these items represent the construct adequately.

Bollen, (1989a, pp. 179-184) suggests that in theory, the researcher should define the hypothetical constructs by specifying the dimensions of those constructs. In the case of internal market orientation six dimensions of the construct have been identified and confirmed. For local market orientation in the UK retail sector, three dimensions have been identified and three performance measures are identified.

Dimensions of Internal market orientation	Dimensions of local Market Orientation	Dimensions of Performance
Collegial Interaction	Information Acquisition	Employee Retention
Formal Interaction		
Group Interaction	Information Dissemination	Compliance
Information about the External Environment		
Wage Flexibility	Response	Financial Performance
Job Flexibility		

Table 6-1 Dimensions of the Constructs of the Study

Bollen, (1989a, pp. 179-184) also argues that how the relationships between the various constructs should also be identified. This includes the classification of the constructs as dependent (endogenous) or independent (exogenous) and, for each dependent construct, specifying which of the other constructs it is postulated to depend on. (This may also include a statement about the sign and/or relative size of the direct effect of one construct on another.)

In order to test the conceptual model, a statistical model must be formulated. The statistical model consists of two parts. The theoretical relationships between the constructs constitute the structural equation part of the model, and the relationships between the observable indicators and the theoretical constructs constitute the measurement part of the model.

The measurement models for the three constructs under consideration have been confirmed in the previous section.

6.1.1 The Structural Model

Structural equation modelling is a comprehensive statistical approach to testing hypotheses about relationships amongst observed and latent variables. It is a technique combining elements of both multiple regression and factor analysis that enables the research of, not only to assess quite complex interrelated dependant relationships, but also to incorporate the effects of measurement error on the structural coefficients at the same time. In the process, underlying latent variables, which may be the response (endogenous) and explanatory (exogenous) variables, are linked by a series of linear relationships known as structural equation.

Although the process is often called causal modelling, which has implications for the model that in most applications cannot be justified, it is more appropriate to perceive the process as testing the influence that one variable has on another (Everitt and Dunn, 1983). This influence is directional in the sense that x influences y but not vice versa.

The structural relationships are usually assumed linear, (Kenny & Judd, 1984). In this research, where Likert scales were used and the indicators are ordinal, one usually assumes that there is a continuous variable underlying each ordinal variable and the measurement model is formulated in terms of these underlying variables (see e.g., Jöreskog & Sörbom, 1993).

It is not expected that the relationships in the model are exact deterministic relationships. Most often, the independent constructs in the model account for only a fraction of the variation and covariation in the dependent constructs, because there

may be many other variables that are associated with the dependent constructs, but are not included in the model. The aggregation of all such omitted variables is represented in the model by a set of stochastic error terms, one for each dependent construct. By definition, these error terms represent the variation and covariation in the dependent constructs left unaccounted for by the independent constructs. The fundamental assumption in structural equation models is that the error term in each relationship is uncorrelated with all the independent constructs.

Once a model has been carefully formulated, it can be confronted with empirical data and, if all assumptions hold, various techniques for covariance structure analysis can be used to test if the model is consistent with the data.

If the model is rejected by the data, the problem is to determine what is wrong with the model and how the model should be modified to fit the data better.

If the model fits the data, it does not mean that it is the “correct” model or even the “best” model. In fact, there can be many comparable models, all of which will fit the data equally well as determined by goodness-of-fit measures. This holds true for any data set. The direction of causation and the causal ordering of the constructs cannot be determined by the data. Different comparable models will give different parameter estimates, and some may give meaningless estimates. This fact may be used to distinguish between equivalent models. (See for example Bollen, 1989a; Chapter 3; Stelzl, 1986; Jöreskog and Sörbom, 1993 and 1999; and Lee and Hershberger, 1990).

To be strictly testable, the theory should be over identified in the sense that the structural equation part of the model is over identified. If the covariance matrix of the construct variables is unconstrained by the model, any test of the model is essentially just a test of the measurement models for the indicators of the constructs. Given that the measurement models hold, the only way to test a saturated structural equation model is to examine whether estimated parameters agree with a priori specified signs and sizes and whether the strengths of the relationships are sufficiently large.

6.1.2 Estimating the Measurement Model

As suggested above the measurement models for each of the constructs, internal market orientation, local market orientation and performance, will constitute the next part of the structural equations modelling process.

6.2 Generating a Structural Model of the Constructs Under Investigation.

Chapter 5 details the development of the measurement model for internal market orientation and identifies that the six factors first identified in the exploratory factor analysis adequately represent the internal market orientation construct. However the confirmatory analysis does not provide any information relating to the relationships of these dimensions of internal market orientation with each other.

Jöreskog and Sörbom, (1993) distinguish between three situations in model testing

- In a strictly confirmatory situation the researcher formulates one single model and has obtained empirical data to test it, leading to the model being accepted or rejected.
- Testing alternative models. Several alternative models or competing models are specified. One of the models should be selected based on the analysis of a single set of empirical data,
- Model Generation. A tentative initial model is specified and if the initial model does not fit the given data, the model should be modified and tested again using the same data. The goal may be to find a model that not only fits the data well from a statistical point of view, but also has the property that every parameter of the model can be given a substantively meaningful interpretation. The re-specification of each model may be theory-driven or data-driven. Although a model may be tested in each round, the whole approach is model generating rather than model testing.

Jöreskog and Sörbom, (1993) state that in practice, the model generating situation is the most common and the strictly confirmatory situation is very rare because few researchers are content with just rejecting a given model without suggesting an

alternative model. They also suggest that the alternative models situation is also rare because researchers seldom specify the alternative models a priori.

The next stages of the analysis represent a model generation protocol, where the structural properties of each construct are examined and a working model of the structural relationships between all of the constructs under consideration is generated.

The purpose of using a model generation protocol is to improve the model through modifications of the structural models. Structural equation modelling is used, not just to test the model empirically, but also to provide insights into its re-specification.

Figure 6-1 above, represents the hypothesised model of the relationships between internal market orientation, external market orientation and store performance. Furthermore the factor structures of these constructs has been established by exploratory and confirmatory analyses, and the dimensions of the constructs are reported in Table 6-1 above.

From the confirmed factor structures it is now possible to develop more specific hypotheses from each of the general propositions previously suggested.

6.2.1 The Structure of Internal Market Orientation

In chapter 3 the relationships between the dimensions of internal market orientation was proposed as information generation and dissemination being antecedent to responsiveness. However, information generation and dissemination were found to consist of four dimensions in the internal market orientation and responsiveness two separate dimensions. Information generation and dissemination also appears to occur simultaneously in the internal market, possibly due to the close proximity of all involved. The proposed relationships between the constructs can therefore be represented as in Figure 6-2, below.

Figure 6-2 represents the hypothesised relationships between the six confirmed dimensions of internal market orientation. The four information generation and

dissemination dimensions of internal market orientation are conceptualised as antecedent to the flexibility in job and wage structures. Proposition 0-1: Internal market information generation has a direct positive impact on responsiveness to the internal market, and Proposition 0-2: Dissemination of information about the internal market has a direct impact on responsiveness to the internal market, may now be converted into specific hypotheses.

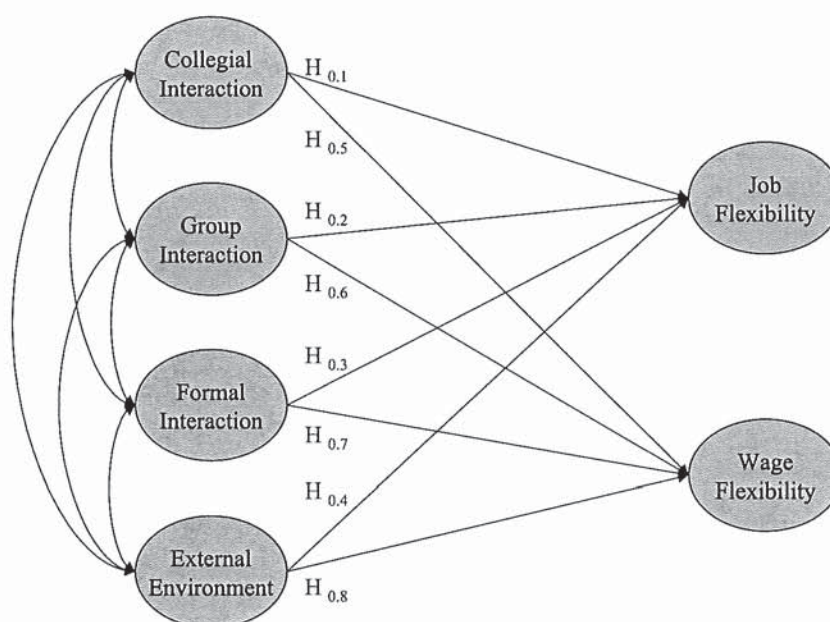


Figure 6-2 Hypothesised Structural Model of Internal Market Orientation

The structure of internal market orientation hypothesised above leads to several, more specific hypotheses relating to how the individual dimensions relate to each other.

H_{0.1} Collegial interaction between manager and employees will have a significant positive impact on flexibility in job structure.

H_{0.2} Group interaction will have a significant positive impact on flexibility in job structure.

H_{0.3} Formal interaction between manager and employees will have a significant positive impact on flexibility in job structure.

H_{0.4} Information about the external employee market will have a significant positive impact on flexibility in job structure.

H_{0.5} Collegial interaction between manager and employees will have a significant positive impact on flexibility in wage structure.

H_{0.6} Group interactions will have a significant positive impact on flexibility in wage structure.

H_{0.7} Formal interaction between manager and employees will have a significant positive impact on flexibility in wage structure.

H_{0.8} Information about the external employee market will have a significant positive impact on flexibility in wage structure.

From Figure 6-1, illustrating the proposed relationships between internal market orientation, local market orientation and the three performance measures used in this study, and the confirmed dimensions of the three constructs under investigation, it is now possible to formulate more specific hypotheses relating to the other propositions.

Proposition 1.1: Information generation about the internal market will have a direct positive impact on information generation about the external market.

Proposition 1.2: Disseminating information about the internal market will be highly correlated with disseminating information about external markets.

Proposition 1.3: The responsiveness dimension of internal market orientation will have a direct and positive impact on all three dimensions of external market orientation.

The six confirmed dimensions of internal market orientation are: Collegial interaction, Group interaction, Formal interactions, Information about the external environment, Wage Flexibility and Job Flexibility. As information generation and dissemination appear to occur simultaneously in the internal market the three interaction items will be structurally related to information generation and dissemination in the external environment. Also the two responsiveness dimensions in the internal market will have a direct positive impact on all three dimensions of external market orientation. Propositions 1.1-1.3 translate into the following hypotheses using the confirmed dimensions of the constructs under investigation.

6.2.2 The Structural Relationship Between Internal Market Orientation and External Market Orientation

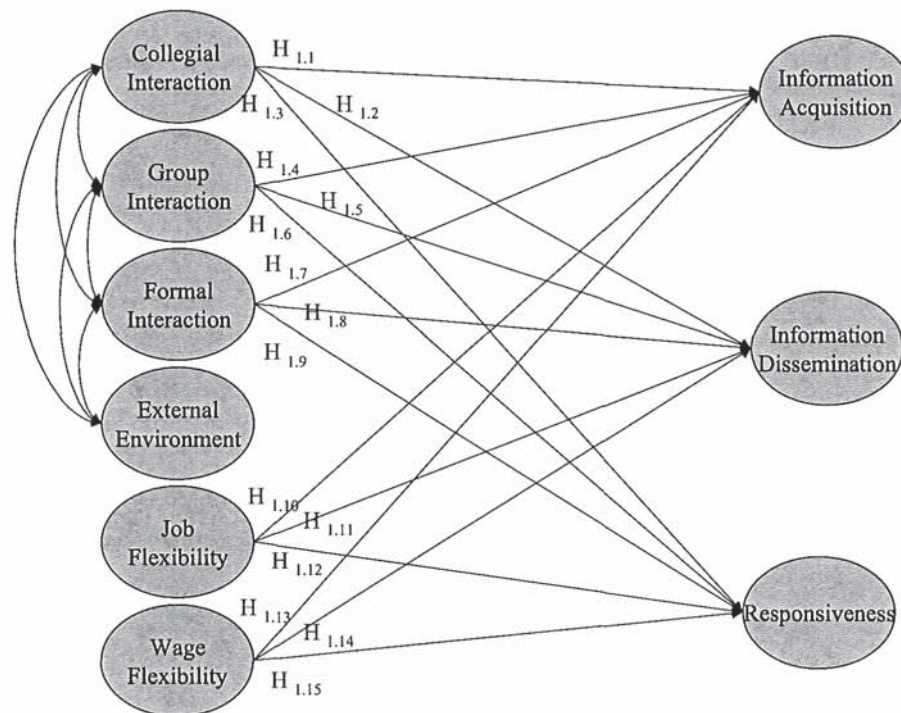


Figure 6-3 Hypothesised Relationships Between Internal Market Orientation and External Market Orientation.

H_{1.1} Collegial interaction between manager and employees will have a significant positive impact on the acquisition of information about the market place.

H_{1.2} Collegial interaction will have a significant positive impact on the dissemination of information about the market place.

H_{1.3} Collegial interaction between manager and employees will have a significant positive impact on the responsiveness of the store to its customers.

H_{1.4} Group interactions will have a significant positive impact on the acquisition of information about the market place.

H_{1.5} Group interactions will have a significant positive impact on the dissemination of information about the market place.

H_{1.6} Group interactions will have a significant positive impact on the responsiveness of the store to its customers

H_{1.7} Formal interaction between manager and employees will have a significant positive impact on the acquisition of information about the market place.

H_{1.8} Formal interaction between manager and employees will have a significant positive impact on the dissemination of information about the market place.

H_{1.9} Formal interaction between manager and employees will have a significant positive impact on the responsiveness of the store to its customers.

H_{1.10} Job flexibility will have a significant positive impact on the acquisition of information about the market place.

H_{1.11} Job flexibility will have a significant positive impact on the dissemination of information about the market place.

H_{1.12} Job flexibility will have a significant positive impact on the responsiveness of the store to its customers.

H_{1.13} Wage flexibility will have a significant positive impact on the acquisition of information about the market place.

H_{1.14} Wage flexibility will have a significant positive impact on the dissemination of information about the market place.

H_{1.15} Wage flexibility will have a significant positive impact on the responsiveness of the store to its customers

The propositions relating to the impact of internal market orientation and store performance are listed below.

Proposition 2.1: Internal market responsiveness will have a direct positive impact on the satisfaction of staff

Proposition 2.2: Internal market responsiveness will have a direct positive impact on the retention of staff

These propositions translate into hypotheses relating to the two responsiveness dimensions of internal market orientation have a positive impact on the performance of the store. At this juncture it is important also to consider other possible relationships between the interaction dimensions of internal market orientation and the other constructs under investigation.

It was also proposed that the three measures of performance are not independent but do, in fact, have causal relationships among them.

Proposition 3.1: Staff satisfaction has a direct positive impact on the retention of staff

Proposition 3.2: Staff retention has a direct positive impact on financial performance

The confirmed measures of performance are: Employee Retention, Compliance, and Financial Performance and these propositions translate into the following hypotheses. Specifically it is hypothesised that staff retention will impact on the compliance of staff. Staff compliance is hypothesised to impact on the financial performance of the store.

6.2.3 The Structural Relationship Between Internal Market Orientation and Local Market Performance

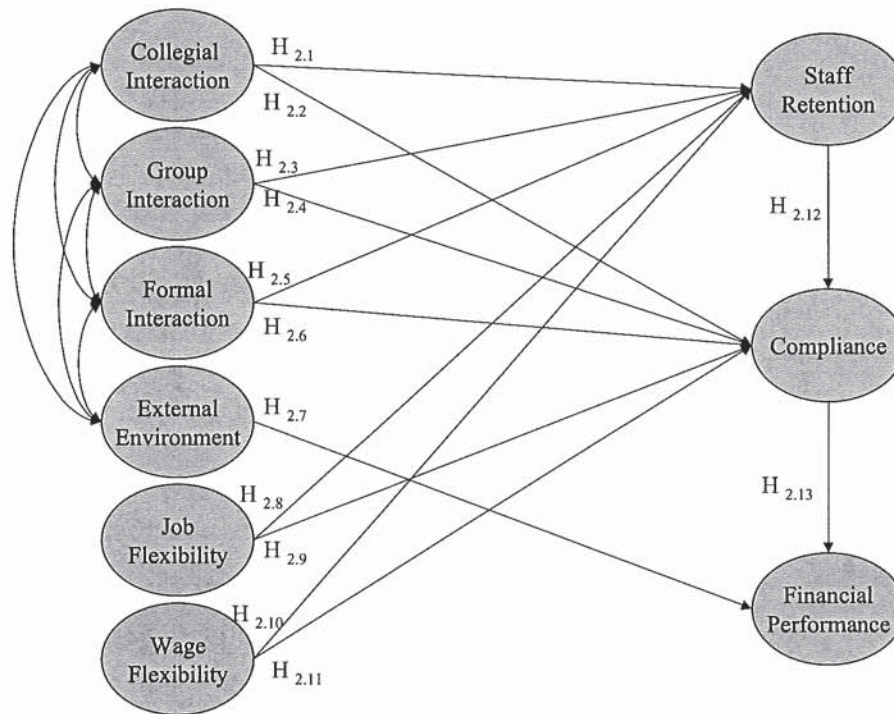


Figure 6-4 Hypothesised Relationships Between Internal Market Orientation and Local Performance

H_{2.1} Collegial interaction between managers and employees will have a significant positive impact on staff retention

H_{2.2} Collegial interaction between managers and employees will have a significant positive impact on staff compliance

H_{2.3} Group interaction will have a significant positive impact on staff retention

H_{2.4} Group interaction will have a significant positive impact on staff compliance

H_{2.5} Formal interaction between managers and employees will have a significant positive impact on staff retention

H_{2.6} Formal interaction between managers and employees will have a significant positive impact on staff compliance

H_{2.7} Information about the external employment market will have a significant positive impact on the financial performance of the store

H_{2.8} Flexibility in job design will have a significant positive impact on staff retention

H_{2.9} Flexibility in job design will have a significant positive impact on staff compliance

H_{2.10} Flexibility in wages will have a significant positive impact on staff retention

H_{2.11} Flexibility in wages will have a significant positive impact on staff compliance

H_{2.12} Staff retention will have a significant positive impact on staff compliance

H_{2.13} Staff compliance will have a significant positive impact on the financial performance of the store

6.2.4 The Structural Relationship Between Local Market Orientation and Store Performance

Several authors have examined the impact of market orientation on performance and this has been extensively discussed in chapter 2. For the purpose of model building the following hypothesed structure is included in this research. This relates to the impact of the specific dimensions of market orientation on performance, more specifically the impact of responsiveness on financial performance as indicated by Raju et al (1995).

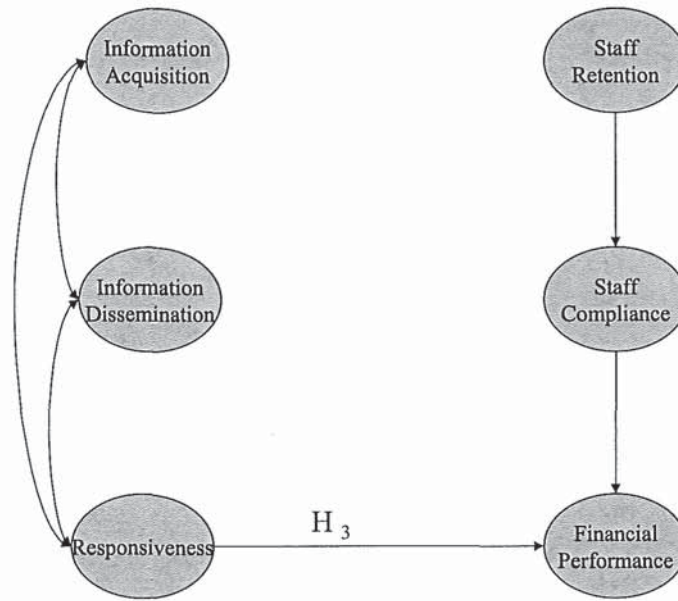


Figure 6-5 Hypothesised Relationship Between Local Market Orientation and Store Performance

H₃ Responsiveness to the local market will have a significant positive impact on the financial performance of the store.

Several authors have suggested that generation; dissemination and responsiveness dimensions of local market orientation are structurally related as presented in Figure 6-6 below.

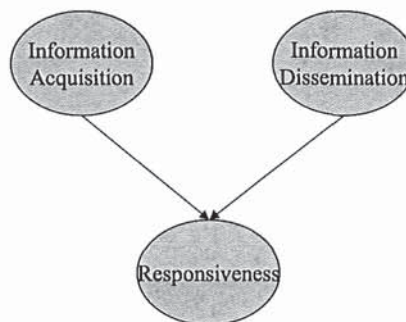


Figure 6-6 Structure of Local Market Orientation

In order to assess the structure of local market orientation a competing structural model will be also be tested.

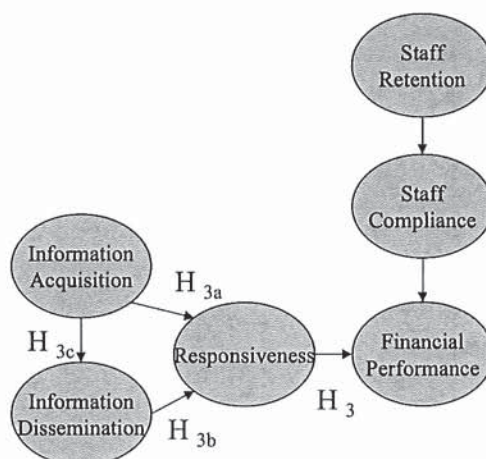


Figure 6-7 Competing Model of Local Market Orientation

This model gives rise to two additional hypotheses

H_{3a} Acquiring information about the local market has a significant positive impact on the stores' responsiveness to the local market.

H_{3b} Disseminating information about the local market has a significant positive impact on the stores' responsiveness to the local market.

H_{3c} Acquiring information about the local market has a significant positive impact on disseminating information about the local market

Full model specification

A path diagram can now be constructed detailing the relationships between the constructs under investigation. This is represented in Figure 6-8

Before the models can be tested it is necessary to explain the path components and linkages. Exogenous, (independent) variables are represented by ξ (ksi), endogenous, (dependant) variables are represented by η (eta).

The arrows between constructs represent how those constructs relate to each other. These structural paths are quantified by structural coefficients and these are

interpreted as the predicted amount of change in the endogenous variable for each unit of change in the exogenous variable, all other variables held constant.

In view of the mixed findings from past research relating to the structure of market orientation and the hypothesised relationships between the local market orientation dimensions a second, revised, model was tested in addition to model 1.

In model 2 paths were included between the information acquisition, dissemination and responsiveness dimensions of the local market orientation construct, representing hypotheses H_{3a} - H_{3c} above.

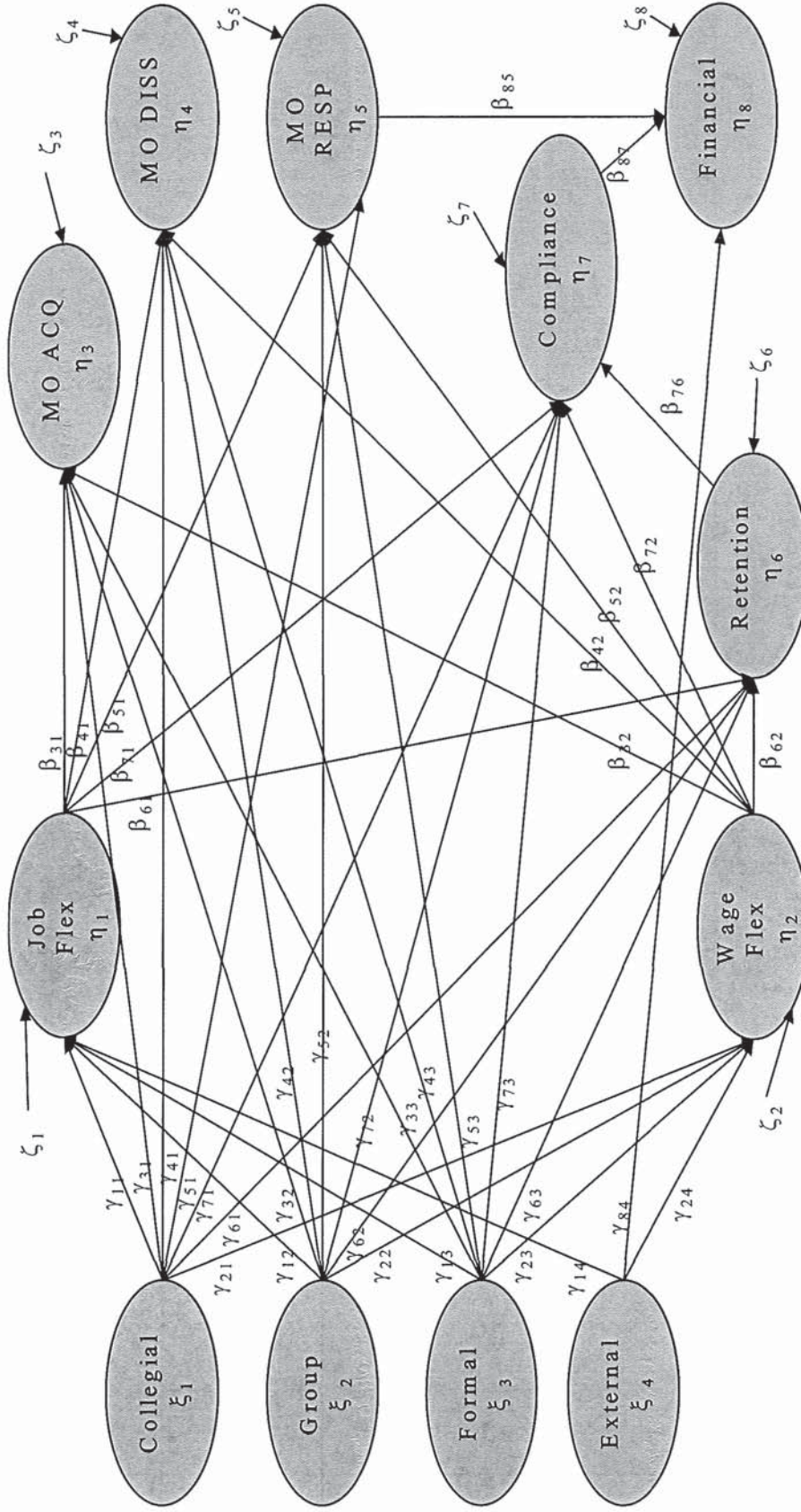


Figure 6-8 Model I

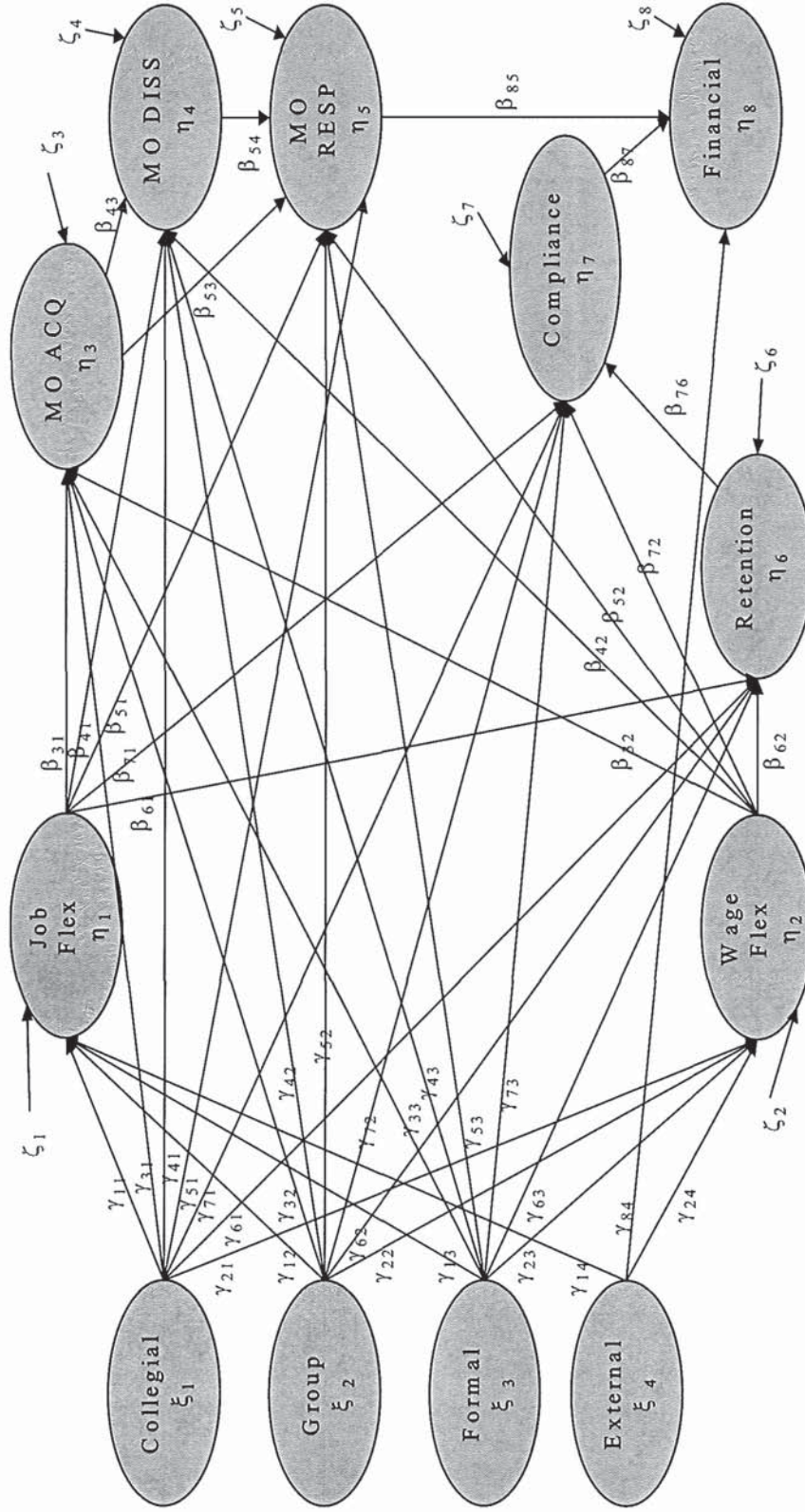


Figure 6-9 Model 2

In addition to the structural coefficient of the construct, each latent variable has a residual associated with it, ζ (zeta). The zeta represents all other factors that influence the latent variable other than the predictors stated in the model.

Of primary interest are the values and significance of γ (gamma) and β (beta) as these represent the estimates of the interaction effects.

The endogenous and exogenous variables are analysed as elements of the covariance matrix (sigma, Σ) and can be written as functions of model parameters.

Model 1 (Figure 6-8) can be represented by the following system of structural equations.

$$\eta_1 = \gamma_{11} + \gamma_{12} + \gamma_{13} + \gamma_{14} + \zeta_1$$

$$\eta_2 = \gamma_{21} + \gamma_{22} + \gamma_{23} + \gamma_{24} + \zeta_2$$

$$\eta_3 = \gamma_{31} + \gamma_{32} + \gamma_{33} + \beta_{31} + \beta_{32} + \zeta_3$$

$$\eta_4 = \gamma_{41} + \gamma_{42} + \gamma_{43} + \beta_{41} + \beta_{42} + \zeta_4$$

$$\eta_5 = \gamma_{51} + \gamma_{52} + \gamma_{53} + \beta_{51} + \beta_{52} + \zeta_5$$

$$\eta_6 = \gamma_{61} + \gamma_{62} + \gamma_{63} + \beta_{61} + \beta_{62} + \zeta_6$$

$$\eta_7 = \gamma_{71} + \gamma_{72} + \gamma_{73} + \beta_{71} + \beta_{72} + \beta_{76} + \zeta_7$$

$$\eta_8 = \gamma_{84} + \beta_{87} + \beta_{85} + \zeta_8$$

Model 2 (Figure 6-9) can be represented by the same set of structural equations, with the exception that the structural equation for η_4 and η_5 are now:

$$\eta_4 = \gamma_{41} + \gamma_{42} + \gamma_{43} + \beta_{41} + \beta_{42} + \beta_{43} + \zeta_4$$

$$\eta_5 = \gamma_{51} + \gamma_{52} + \gamma_{53} + \beta_{51} + \beta_{52} + \beta_{53} + \beta_{54} + \zeta_5$$

Structural equations methodology was used to test the competing hypothesised models of internal market orientation, local market orientation and performance. In specifying the models each of the constructs was represented by a summated score for the multi-item scale. This method of representing constructs in structural equations modelling is widely used in the literature and is appropriate for use when the total number of indicators is large, in this case the total number of indicators

would be 40. See for example MacKenzie, Podsakoff and Ahearne, (1998); Babakus, Cravens, Johnston and Moncrief, (1999). And it overcomes problems of structural equations modelling using large numbers of measured variables.

Evaluating the competing models.

The structural modelling of the data as represented in the two competing models in Figure 6-8 and Figure 6-9 indicates strong support for the model relationships. The overall model fit statistics indicate that the model 2 provides a better fit to the data than does model 1.

The goodness of fit statistics and heuristics used to assess the competing models are presented in Table 6-2 below.

Fit statistic	Model 1	Model 2
χ^2	71.85	35.12
Df	23	20
GFI	0.963	0.982
AGFI	0.876	0.929
RMR	0.085	0.053
RMSEA	0.083	0.049
NFI	0.911	0.956

Table 6-2 Fit Statistics for Models 1 and 2

The difference in χ^2 between the competing models is 40.73, (75.85 - 35.12). With a difference in degrees of freedom of 4 this chi-squared statistic is significant at $p < 0.001$ level, this combined with the evidence of the goodness of fit statistics indicates that model 2 is a significantly better fit to the data than model 1.

Although the p value associated with the χ^2 statistic for both models suggests the rejection of the model ($p < 0.000$ for model 1 and $p = 0.02$ for model 2) it has already been noted that χ^2 may not be a viable fit statistic due to its sensitivity to sample size (Gerbing and Anderson, 1992). The other fit statistics suggest a reasonably good fit of the models, and a better fit of model 2, to the data, especially the normed fit index suggested by Gerbing and Anderson, (1992).

6.2.5 Maximum Likelihood Estimates of Structural Parameters and Model Fit Statistics for the Internal Market Orientation/ Local Market Orientation/ Performance Model 2

Testing the structural model involves estimating path coefficients for each of the proposed relationships, using LISREL 8.30 maximum likelihood method (Jöreskog and Sörbom, (1999) and the observed covariances as input. For model 2, with 35 degrees of freedom, the critical t-value for 5% significance is 1.690. T-values greater than 1.690 indicate that the structural relationship is significant at the 5% level. T-values greater than 2.528 indicate that the structural relationship is significant at the 1% level.

The results of the empirical test of the model are detailed in Table 6-3 below.

	Path	Hypothesis	Hypothesised path	Standardised coefficient	T value
1	γ_{11}	H _{0.1}	Collegial interaction → (+) job flexibility	0.309	5.444
2	γ_{12}	H _{0.2}	Group interaction → (+) job flexibility	0.009	0.154
3	γ_{13}	H _{0.3}	Formal interaction → (+) job flexibility	0.058	1.282
4	γ_{14}	H _{0.4}	External Information → (+) job flexibility	0.040	0.964
5	γ_{21}	H _{0.5}	Collegial interaction → (+) wage flexibility	0.110	1.315
6	γ_{22}	H _{0.6}	Group interaction → (+) wage flexibility	0.416	4.648
7	γ_{23}	H _{0.7}	Formal interaction → (+) wage flexibility	-0.261	-3.912
8	γ_{24}	H _{0.8}	External Information → (+) wage flexibility	0.358	5.862
9	γ_{31}	H _{1.1}	Collegial interaction → (+) information acquisition	-0.059	-0.365
10	γ_{41}	H _{1.2}	Collegial interaction → (+) information dissemination	-0.021	-0.174
11	γ_{51}	H _{1.3}	Collegial interaction → (+) responsiveness	0.049	0.861
12	γ_{32}	H _{1.4}	Group interaction → (+) information acquisition	0.187	1.916
13	γ_{42}	H _{1.5}	Group interaction → (+) information dissemination	0.288	3.630
14	γ_{52}	H _{1.6}	Group interaction → (+) responsiveness	0.256	2.902

15	γ_{33}	H _{1.7}	Formal interaction →(+) information acquisition	0.517	7.293
16	γ_{43}	H _{1.8}	Formal interaction →(+) information dissemination	0.132	0.934
17	γ_{53}	H _{1.9}	Formal interaction →(+) responsiveness	0.288	3.020
18	β_{31}	H _{1.10}	Job flexibility →(+) information acquisition	0.214	2.443
19	β_{41}	H _{1.11}	Job flexibility →(+) information dissemination	0.268	3.642
20	β_{51}	H _{1.12}	Job flexibility →(+) responsiveness	-0.028	-0.937
21	β_{32}	H _{1.13}	Wage flexibility →(+) information acquisition	0.023	0.408
22	β_{42}	H _{1.14}	Wage flexibility →(+) information dissemination	0.062	1.421
23	β_{52}	H _{1.15}	Wage flexibility →(+) responsiveness	0.023	0.448
24	γ_{61}	H _{2.1}	Collegial interaction →(+) retention of staff	0.044	0.546
25	γ_{71}	H _{2.2}	Collegial interaction →(+) staff compliance	0.260	4.724
26	γ_{62}	H _{2.3}	Group interaction →(+) retention of staff	0.413	4.832
27	γ_{72}	H _{2.4}	Group interaction →(+) staff compliance	0.087	1.447
28	γ_{63}	H _{2.5}	Formal interaction →(+) retention of staff	-0.093	-1.409
29	γ_{73}	H _{2.6}	Formal interaction →(+) staff compliance	0.075	1.447
30	γ_{84}	H _{2.7}	External Information →(+) Financial performance	0.010	0.200
31	β_{61}	H _{2.8}	Job flexibility →(+) retention of staff	0.031	0.402
32	β_{71}	H _{2.9}	Job flexibility →(+) staff compliance	0.146	2.796
33	β_{62}	H _{2.10}	Wage flexibility →(+) retention of staff	-0.113	-2.273
34	β_{72}	H _{2.11}	Wage flexibility →(+) staff compliance	-0.029	-0.852
35	β_{76}	H _{2.12}	Retention of staff →(+) staff compliance	0.156	4.073
36	β_{87}	H _{2.13}	Staff compliance →(+) financial performance	0.138	2.100
37	β_{85}	H ₃	Responsiveness →(+) financial performance	0.228	4.574
38	β_{53}	H _{3a}	Acquisition →(+) Responsiveness	0.220	5.899
39	β_{54}	H _{3b}	Dissemination →(+) Responsiveness	-0.035	-0.574
40	β_{43}	H _{3c}	Acquisition →(+) Dissemination	0.154	3.773

Table 6-3 Path Coefficients and Significance Levels of the Structural Relationships in Model 2.

Investigating the constructs individually

$\eta_1 = \gamma_{11} + \gamma_{12} + \gamma_{13} + \gamma_{14} + \zeta_1$ (**Job flexibility is influenced positively by collegial interaction, group interaction, formal interaction and external information.**)

The single significant antecedent to job flexibility is found to be collegial interaction between the store manager and front line employees. Other interactions, group and formal, were found to have no significant relationship with job flexibility, neither has information about the external environment.

Thus hypothesis H_{0.1} is supported and no support is found for H_{0.2} - H_{0.4}.

One possible explanation of this finding is that managers have authority over the flexibility that they allow staff, in terms of working hours and time off to meet family commitments. Given this, the degree of mental closeness that may result from more collegial interactions between managers and staff, as opposed to formal hierarchical relationships, result in a higher degree of managerial consideration and this is manifest in the greater flexibility that managers allow workers to meet their individual commitments.

$\eta_2 = \gamma_{21} + \gamma_{22} + \gamma_{23} + \gamma_{24} + \zeta_2$ (**Wage flexibility is influenced positively by collegial interaction, group interaction, formal interaction and external information.**)

Three of the four hypothesised antecedents to wage flexibility have a significant influence on the flexibility of the wage structure in the retail store.

Group interaction and external information are found to have significant positive relationships with wage flexibility. Knowledge of conditions in the local employment market will influence the level of tailoring of wages and salaries to be competitive in the local employment market. Similarly meetings at which all employees are present may act as a forum at which issues of wage competitiveness may be discussed.

Thus hypotheses H_{0.6} to H_{0.8} are supported.

No support is found for H_{0.5}, the hypothesised causal relationship between collegial interaction and wage flexibility. This indicates that managers who enjoy collegial relationships with their employees are more likely to allow the employees to be flexible in their working hours and to seek to meet the needs of employees through the design of jobs. However, such interactions do not influence the modification of wages to reflect local wage conditions. Wage and job flexibility are also found to be uncorrelated, indicating that they are two independent constructs.

It is probable that wage flexibility, as a macro phenomenon, influences the whole store. Thus group interactions, where all employees are attending and information about the external environment may influence the level at which local wages are set. Individual, collegial interactions do not influence the adjustment of wages for the whole store.

It was also hypothesised that formal interaction, surveying staff to find out about their attitudes, surveying other influential people and internal market research, would positively influence wage flexibility. This would be consistent with identifying the dimensions along which jobs are augmented and against which competing employment offers are considered. However the data does not support H_{0.7}, suggesting that as the level of formal interaction increases, wage flexibility decreases. One possible explanation of this is that firms that are more successful at internal market research, identify dimensions other than pay along which jobs are augmented and can use these to design employment conditions without the need to adjust pay to meet local employment market conditions.

$\eta_3 = \gamma_{31} + \gamma_{32} + \gamma_{33} + \beta_{31} + \beta_{32} + \zeta_3$ **(The acquisition of information about the local market will be positively influenced by collegial interaction, group interaction, formal interaction, job flexibility and wage flexibility)**

Group interactions, Formal interactions and job flexibility are found to be significant antecedents of acquisition of information about the local market.

H_{1.4} and H_{1.7} are supported, suggesting that as the levels of group and formal interactions increase so does the level of information acquisition about the market.

This is consistent with the assumption that employees are a valuable source of information about the customers that they serve. It may reasonably be expected that most retail employees will be customers of competing firms in some situations. As such they can provide information about the activities of competitors and the wants and needs of customers. In both of these relationships it is the communication between employees and managers that is important.

H_{1.1} is not supported by the data, suggesting that the level of collegial interactions between managers and employees has no significant impact on the acquisition of information about the external environment.

H_{1.10} is supported, suggesting that as the level of job flexibility increases so does the acquisition of information about the external environment. This is consistent with the flexibility in job design motivating employees to corporate strategy and the collection of information as part of that strategy.

H_{1.13} finds no support in the data suggesting that wage flexibility does not impact on the collection information about the external environment. This would suggest that wage flexibility does not significantly influence the motivation of employees to collect information about the external marketplace.

$\eta_4 = \gamma_{41} + \gamma_{42} + \gamma_{43} + \beta_{41} + \beta_{42} + \beta_{43} + \zeta_4$ **(The dissemination of information about the local market will be positively influenced by collegial interaction, group interaction, formal interaction, job flexibility, wage flexibility and the acquisition of information about the external market)**

H_{1.5} is supported by the data, suggesting that as the level of group interaction increases so does the dissemination of information. This may be explained by the two-way communication that takes place during these interactions between managers and employees and the attendance at group meetings of managers responsible for all areas of the retail store.

H_{1.11} is also supported, suggesting that as the level of job flexibility increases so does the dissemination of information throughout the retail environment. This finding is

consistent with the assumption that job flexibility may act to motivate employees and these motivated employees may be more likely to communicate openly with managers than employees who are unhappy in their work.

No support is provided for H_{1.2}, H_{1.8} and H_{1.14}. This suggests that collegial and formal interactions do not have a significant impact on the dissemination of information about the external environment, neither does adjusting wages according to local employment market conditions.

Finally H_{3a} is supported by the data indicating that information acquisition is a significant antecedent to the dissemination of that information. This finding is logically consistent with the idea that it is not necessary to develop mechanisms to disseminate information throughout the retail store if acquisition does not precede this dissemination. This finding adds support to the multidimensional conceptualisation of the market orientation construct suggested by Kohli et al, (1993).

$\eta_5 = \gamma_{51} + \gamma_{52} + \gamma_{53} + \beta_{51} + \beta_{52} + \beta_{53} + \beta_{54} + \zeta_5$: **(Responsiveness to the external market is positively influenced by collegial interaction, group interaction, formal interaction, job flexibility, wage flexibility and the acquisition and dissemination of information relating to the external market)**

H_{1.6}, and H_{1.9}, both find support in the data, suggesting that group and formal interactions are important antecedents to responsiveness to the external market. H_{1.3} finds no support in the data indicating that collegial interactions between managers and employees does not have a significant impact on the responsiveness of the store to its markets.

H_{1.12} and H_{1.15} also are not supported by the data. This suggests that the design of jobs to meet the needs of employees, either through increasing flexibility to meet the needs of individual employees or through ensuring that salaries are competitive within the local employment market, has no impact on the responsiveness of the store. This may in part be due to the nature of the responsiveness dimension of local market orientation. Responsiveness is primarily a managerial activity, changing

product lines etc. These decisions are not in the jurisdiction of front line employees and so designing jobs to meet the needs of front line employees may not have a direct impact on the responsiveness of the store to its markets.

H_{3a} finds support in the data, adding further support to the hypothesis that the local market orientation construct consists of causally related dimensions. H_{3b} however does not find support in the data, appearing to contradict this support. These two findings taken together may be explained in the retail store context as responding to the local market may be the responsibility of the store manager who can collect information directly from employees and customers and so the dissemination dimension of internal market orientation may not be an important antecedent to responsiveness in this context.

$\eta_6 = \gamma_{61} + \gamma_{62} + \gamma_{63} + \beta_{61} + \beta_{62} + \zeta_6$: **(Collegial, group and formal interactions, job flexibility, wage flexibility are antecedents to the retention of staff.)**

H_{2.3} finds support in the data, suggesting that group interactions are an important antecedent to staff retention. The opportunity to discuss important issues with managers and colleagues may foster a feeling of belongingness in employees as they interact more closely with their colleagues. Such interactions may help employees to form emotional ties with their colleagues and it is these emotional ties that may influence staff to remain in position for longer than in situations where emotional ties do not exist.

H_{2.8} is not supported by the data, suggesting that the design of jobs to meet the individual needs of employees does not impact on the retention of employees. This finding may have the following explanation. Employees' choice to stay with the current employer, to move employer, or to leave employment completely, may be dominated by factors other than current work conditions. In the retail context, women in part time work dominate the work force and it is probable that a significant proportion of these employees are primarily second income earners for their households. Such second income earners may have other priorities and commitments on their time and may change employment for reasons other than satisfaction or

dissatisfaction with working conditions, for example, changes in family circumstances and primary income levels.

H_{2.10} predicts that wage flexibility will have a positive impact on the retention of staff. The findings from the data suggest that the opposite of this is true, and by implication that the more flexible the store is in its pay structure the more probable it is that staff will not stay with the store for long periods. On first consideration this finding appears to be counter intuitive, why should staff leave if the firm adjusts wage levels to meet the requirements of the local market? One possible explanation is that the adjustment may be in both the wage increase and decrease direction. In areas of high unemployment, where the local wage level may be low, employees may find that competing firms offering national wage levels are more attractive propositions. Also the adjustment of wages may occur at the individual employee level, where store managers increases pay for employees that the store wishes to retain, if for example they have shown exceptional customer service, citizenship or have potential. This may have the effect of becoming a cause of dissatisfaction among employees who do not receive this additional bonus or incentive, resulting in a higher turnover of staff in the store. If this is indeed the explanation of the increased staff turnover when wage levels are flexible it may be that the store is losing employees who they have no desire to retain and this may not be considered a problem. Finally, as structural equations modelling does not in itself indicate directionality in causal relationships, a further explanation of the negative relationship between wage flexibility and staff retention may be that the reverse causal relationship is true; turnover of staff *causes* wage flexibility. This may be the case in stores that find that staff turnover is problematical for them and decide to adjust wages as a response to this.

$\eta_7 = \gamma_{71} + \gamma_{72} + \gamma_{73} + \beta_{71} + \beta_{72} + \beta_{76} + \zeta_7$: **Staff compliance is predicted by collegial, group and formal interactions, job flexibility, wage flexibility and retention of staff.**

H_{2.2} finds support in the data suggesting that collegial interactions have a significant impact on the compliance of the staff in the retail store, i.e. collegial interactions between managers and employees make for happy and contented employees who are willing to show flexibility to meet the operational requirements of the store. This

may be explained if collegial interactions form social bonds between managers and employees and these social ties result in employees showing a degree of dedication to managers and become willing to stay late and meet the operational requirements of the firm and solve the problems of the manager. All other hypothesised antecedents to staff compliance, apart from staff retention, were not confirmed, indicating that employees may be dedicated to their managers rather than the more anonymous entity of the firm, furthermore the longer the employees remain in the store, the more likely they are to be flexible when operational requirements require. This may add further support to the assertion that it is commitment to the manager that influences this employee compliance as this relationship may be cemented over time.

$\eta_8 = \gamma_{84} + \beta_{87} + \beta_{85} + \zeta_8$: **firm financial performance is significantly impacted by the compliance of the employees, the responsiveness of the firm to the external market and information collected about the employment market.**

H_{2.13} and H₃ are supported by the data indicating that the compliance of staff to operational requirements is a significant antecedent to financial performance and that responsiveness to the market is also a significant antecedent to financial performance. Staff compliance may influence financial performance, as the firm does not have the need to recruit additional staff to cover busy periods at short notice. Also part of the domain of staff compliance is the atmosphere in the store. Customers may be sensitive to the in store atmosphere and the more positive the atmosphere the more customers may be inclined to be loyal to their store. The positive relationship between responsiveness to the external market and the financial performance of the store, confirms findings that market orientation has a positive influence on market performance, (e.g. Narver & Slater, 1990; Ruekert, 1992; Jaworski & Kohli, 1993)

Interestingly the data indicates that it is responsiveness to the market that influences performance rather than the generation or dissemination of information about the external market. (H_{2.7} is not supported by the data).

6.2.6 Final Model Specification

The next stage in testing the model was to test the parsimonious model in which the non-significant relationships were fixed at zero.

Developing a parsimonious model in this way is in accordance with the model generation protocol discussed by Jöreskog and Sörbom, (1993). In this procedure a tentative initial model is specified and if the initial model does not fit the given data, the model should be modified and tested again using the same data. The goal here is to find a model that not only fits the data well from a statistical point of view, but also has the property that every parameter of the model can be given a substantively meaningful interpretation. As Jöreskog and Sörbom, (1993) state the re-specification of each model may be theory-driven or data-driven.

The trimmed model in which the non-significant structural paths have been fixed is presented in Figure 6-10 below.

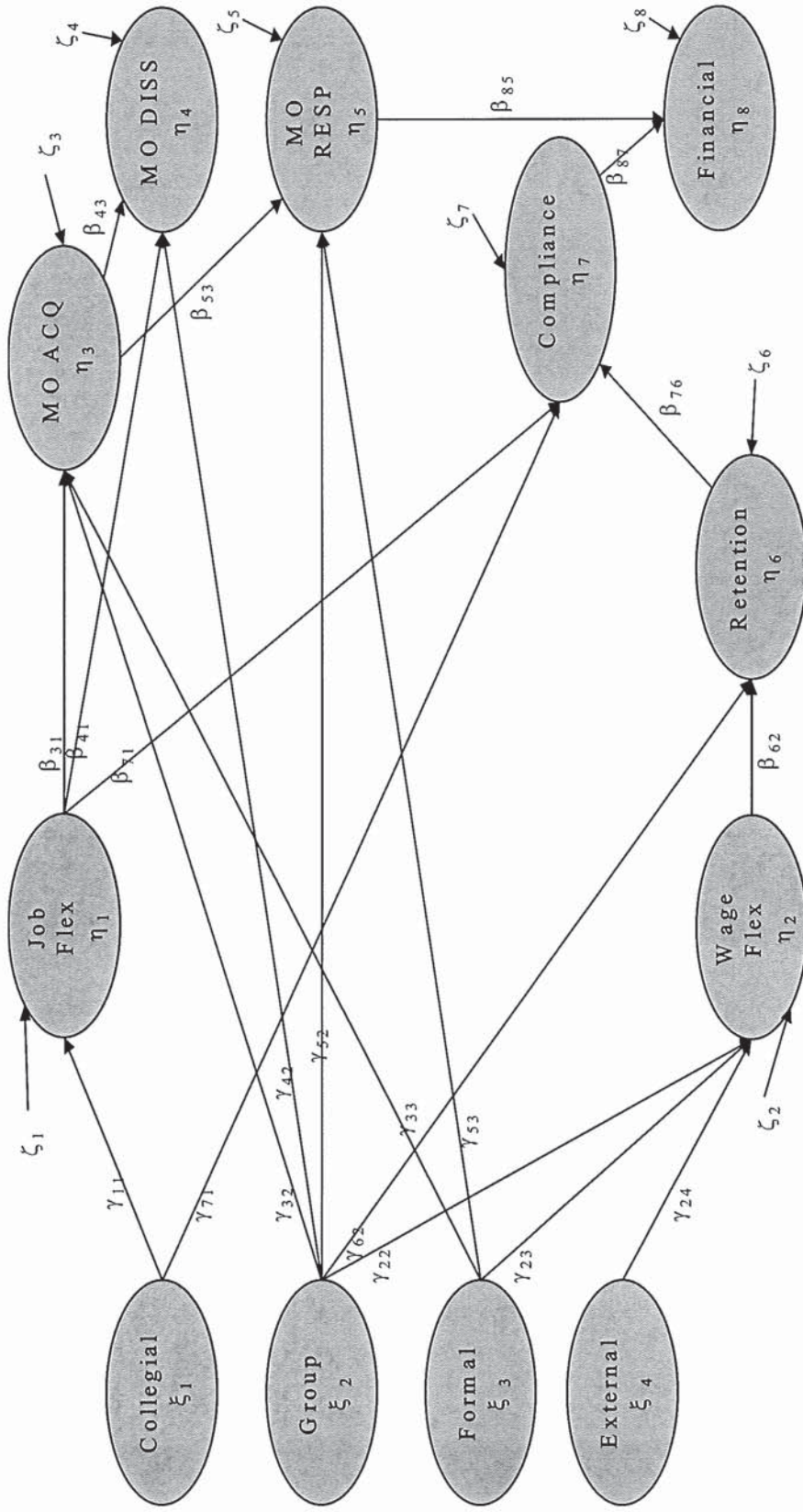


Figure 6-10 Parsimonious Model

A comparison of the fit statistics for the simplified model compared to the previously accepted model is given in the table below.

Fit statistic	Model 2	Simplified Model
χ^2	35.12	71.94
Df	20	40
GFI	0.982	0.963
AGFI	0.929	0.929
RMR	0.053	0.097
RMSEA	0.049	0.051
NFI	0.956	0.909

Table 6-4 Comparison of Fit Statistics for Competing Structural Models

$$\Delta\chi^2 = 36.82 (71.94-35.12) \text{ and } \Delta \text{ df} = 20 (40-20)$$

A chi squared difference test reveals that the difference in the chi squared statistic between model 2 and the simplified model is not significant at the $p < 0.01$ level, indicating that the simplified model is not significantly poorer at explaining the variance in the data than model 2 in which the insignificant paths between constructs are included, the simplified model is therefore an adequate representation of the constructs under investigation.

7 Discussion and Conclusions

In this final chapter, the main conclusions drawn from the research findings are summarised and their implications examined. The contribution of the study to theory and practice are discussed, with particular focus on the theoretical and methodological implications of the investigation and its contribution of the domains of internal market orientation, external market orientation, and market performance.

The discussion of the theoretical implications of the study is followed by a consideration of the managerial implications of the research, focusing on functional issues arising from the findings. In this context, several recommendations are made, which may be of practical importance to retail managers.

Finally, the limitations of the present study are discussed and a number of directions for future research are presented.

7.1 Theoretical and Methodological Implications

This thesis contributes to marketing knowledge in several areas.

- The internal marketing concept is clarified, and a new conceptualisation of internal marketing, internal market orientation, is presented. This is operationalised in a psychometrically sound measure of the construct.
- Internal market orientation is found to be a multidimensional construct, these dimensions are identified and examined, and the relationships between the dimensions are explored.
- The existing market orientation construct, (Kohli and Jaworski, 1990), and its operationalisation in the MARKOR scale, (Kohli et al, 1993) are adapted to the local retail market context and the dimensions of local market orientation are confirmed as information generation, dissemination and responsiveness.

- The research also addresses the research question posed by Kohli et al, (1993), and examines the issue of a potential causal ordering among the various components of market orientation.
- Multiple measure of performance are examined and the relationships between these performance measures are identified.
- The market orientation and market performance consequences of internal market orientation are identified.
- Finally this research provides additional support for the market orientation performance relationship discussed in the literature.

These main issues and several related issues are discussed in more detail in the following sections.

7.1.1 Re-Conceptualising and Measuring Internal Marketing

The clarification of the construct of internal marketing undertaken in this study represents a further development in the evolution of this area of marketing. Internal market orientation is presented as the first psychometrically sound operationalisation of internal marketing, and as such is not limited by the requirement to operationalise it in the same way as previous researchers, (cf Anttila and Bennett, 1997, p 63.) The internal marketing construct, however, has been conceptualised in many different ways and these divergent conceptualisations differ in the extent to which they cover the domain of the construct. The clarification of the internal marketing construct, presented in this thesis, unifies disparate approaches to internal marketing and offers researchers a conceptualisation that should provide a basis on which knowledge of the internal marketing construct can grow in a cumulative manner.

7.1.2 Dimensions of Internal Market Orientation

In the context of this study a three component operationalisation of internal market orientation was advanced, and operationalised, these three components were posited to be the same as for an external market orientation (Kohli et al, 1993); information generation about the internal market, dissemination of the information about the

internal market and responsiveness to this information. The three components structure of internal market orientation was not confirmed by the findings of the study, suggesting that internal market orientation differs in its component structure to external market orientation. The six components of internal market orientation revealed by the data relate broadly to the three proposed components and the three components of market orientation. One of the market orientation components, information generation, (generating information about the internal market) is found in the internal market orientation operationalisation. External environment is concerned with collecting information about industry conditions that impact on the wants and needs of employees. However, in internal market orientation this component is only concerned with generating information about external conditions impacting employees and does not consider internal conditions. Intelligence relating to internal conditions impacting employees consists part of the three interaction components, collegial interaction, formal interaction and group interaction. These three components have elements of information generation and dissemination and involve two-way communication between the employees (customers in the internal market) and managers (suppliers in the internal market). The two flexibility dimension of internal market orientation, job flexibility and wage flexibility represent the degree to which organisations adjust their remuneration to meet local market conditions and managers modify the conditions of employment to meet the individual needs of employees. These two flexibility components broadly equate to external market responsiveness in market orientation, Kohli et al, (1993).

In addition to the clarification of internal marketing construct, this study is the only study to date to achieve an operationally valid measure of internal marketing. To date all measures of internal marketing have lacked the rigorous testing of items and development of a factor structure necessary to develop a psychometrically sound scale. By adopting the internal market orientation operationalisation of internal marketing, this study extends the application of market orientation theory to the internal market and extends the internal marketing theory by developing a measure of the construct.

7.1.3 Causal Relationships Between the Dimensions of Internal Market Orientation

As suggested by Kohli et al, (1993), who raise the issue of a potential causal ordering among the various components of market orientation, causal ordering among the components of internal market orientation was considered. The data suggests that the structure of internal market orientation is one of four correlated independent information generation and dissemination components; external environment, collegial, group and formal interaction and two dependent flexibility variables, wage and job flexibility.

7.1.4 Market Orientation

Market orientation typically refers to corporate level activities in the firm. Kohli, Jaworski and Kumar, (1993) express market orientation in terms of the activities of the SBU. Explicit in this operationalisation is the assumption that the SBU has a functional structure with departments taking functional roles, for example; operations (manufacturing) and marketing are directly referred to in the MARKOR scale. This research adapts the MARKOR scale to the store context, where, typically the extensive functional structure of the SBU does not exist. Many of the roles, such as marketing, product planning and operations are controlled at the head office level, with some responsibility for local adaptations being devolved to the store managers. The local market orientation construct relates to the degree to which store managers focus on the wants and needs of their local customers and their local competitors.

In operationalising market orientation to the local market this research adds to marketing knowledge by adding external validity and generalising the market orientation construct to the retail context.

7.1.5 The Structure of Market Orientation

Kohli et al, (1993) also raise the issue of a potential causal ordering among the various components of market orientation and suggest that such causal ordering be examined in future research. This study addresses this research question and adds to the market orientation literature by examining Kohli et al's, (1993) three components

of market orientation and exploring the possibility of a causal ordering between these components.

Confirmatory factor analysis reveals that the three correlated component structure of market orientation, fits the data obtained in this study significantly better than the single component structure usually adopted in studies of market orientation. Furthermore, structural equation modelling of the three components reveals that information generation is causally related to intelligence dissemination and responsiveness. However, intelligence dissemination is not found to be significantly causally related to responsiveness. One possible explanation for this is the nature of market orientation in the local retail market. The store managers take many decisions relating to how the retail store will respond to the local environment. It is the managers who collate the intelligence collected from various sources in the store and then formulates a response based on this intelligence. Simultaneous to formulating a response for the store the manager may disseminate the intelligence to other store managers or to head office but, in itself, dissemination may not be necessary to formulate a response to local customers.

The causal relationships implied by the results of this research suggest that market orientation may not be a unidimensional construct, as indicated by Kohli et al, (1993) and adopted by others. If this is the case the use of the average score of the three dimensions may not be the most appropriate way in which to measure market orientation.

7.1.6 Local Market Performance

As suggested by Kimberley et al, (1983); Child, (1983) and Chakravarthy, (1986) multiple measures of performance were adopted in this study. Two internal performance measures, retention of staff and compliance of staff to operational requirements, measure the success of the internal market orientation of the firm and one external performance measure, subjective financial performance, (Cannella & Hambrick, 1993; Dess & Robinson, 1984; Fryxell & Wang, 1994) measures the success of the external market orientation of the firm.

The data suggest that these three performance components are causally related, retention of staff is causally related to the compliance of staff to operational requirements and staff compliance is causally related to financial performance, adding support to the proposition that internal market orientation influences external marketing success.

7.1.7 Consequences of Internal Marketing

In addition to the contributions to the domain of internal marketing and the market orientation literature discussed above, this study also provides first insights into the consequences of internal market orientation for external market orientation and performance in the internal and external markets of the firm. Specifically the results provide evidence to suggest that the degree to which a firm is internal market oriented, positively influences the degree of market orientation exhibited by the firm. Furthermore, the degree to which the firm orients on its internal market also influences directly the retention of staff and the compliance of the staff to organisational priorities, leading to superior financial performance in the external market.

From the path model in Figure 6-10 it can be seen that there are several mechanisms through which internal market orientation affects the behaviour of staff. Interestingly although the two responsiveness dimensions of internal market orientation do impact on performance in the internal market and the behaviour of staff, the interactions between employees and their managers, in the form of group, formal and informal interactions, also has a direct influence on internal market performance and the behaviour of staff. This may be as a result of the closer supervision of staff arising from this interaction or it may be as a result of acculturation that results from such interaction.

As has been discussed in chapter one, performance is the ultimate test of any strategy (Schendel and Hofer 1979) and financial performance is the most commonly used measure of performance. The parsimonious path diagram in Figure 6-10 above indicates that market responsiveness is antecedent to financial performance (see next section) and also the behaviour of staff, in terms of their compliance to operational

requirements. The dimensions of internal market orientation influence market responsiveness directly and indirectly (by improving the generation and dissemination of intelligence).

Internal market orientation also influences the compliance of staff, both directly and indirectly through the retention of staff.

7.1.8 Support for the Market Orientation Performance Link

The data presented in this thesis suggest that market orientation is causally related to financial performance and so support previous studies examining the relationship between market orientation and performance, (see Chapter 2). Furthermore it is apparent from the structural equations model that the responsiveness dimension of market orientation influences financial performance, confirming the results of Raju et al (1995). Intelligence generation and dissemination have no direct causal relationship with financial performance in this study.

7.2 Managerial Implications

The ultimate aim of any successful retail store is to meet its financial objectives set by head office and to outperform the local competition. The data and results presented in this thesis indicate that internal market orientation is an effective means on increasing marketing performance. Although no direct relationship between internal marketing and market performance is apparent, this research indicates that adopting an internal market orientation has a significant impact on employees' behaviours likely to influence market performance.

By far the two most important managerial implications of this study are that internal market orientation has

- a) a direct positive impact on market orientation and
- b) an indirect positive impact on the financial performance of the firm.

Of particular importance is the identification of the differing roles of managers in an internal market orientation. Managers assume two main roles in the internal market.

Chapter 7 Discussion and Conclusions

Firstly they assume the collegial role and interact with front line employees in a collegial manner. This role of managers significantly influences the compliance of staff to operational needs, both directly and indirectly through the flexibility in job design that result from collegial interaction and emotional closeness. Secondly, managers assume a line more formal management relationship with employees. In this role, managers interact directly with employees on an individual basis, as is the case with formal staff appraisals and also facilitate formal group meetings.

In addition to relationship components of internal market orientation, two responsiveness components are apparent; flexibility in wage conditions and flexibility in working conditions. In the more formal role, and using information collected about the conditions of the local employment market managers may adjust the wages of employees to retain those employees that perform well. Such adjustments to local wage conditions may have two important impacts on the work force. Firstly, if wages are adjusted to the minimum that the market will bear, it is possible that employees will be attracted to competing employees that have national pay schemes and where they may receive preferential rates compared to the rest of the local employment market. Secondly if wages are adjusted on an individual basis, to reward employees for good performance or as a means of retaining employees showing potential, staff not receiving the increased pay rates may be induced to seek alternative employment. This may have a detrimental impact on the firm if valuable employees become dissatisfied by the apparent vagaries of the pay systems seek alternative employment or become less flexible in meeting operational requirements, also staff who are considered not worthy of pay adjustment may also leave or become less committed to the firm. This may have some benefits, in that poor staff leave of their own accord, however, until such time as they do leave they are likely to be less flexible in their working patterns and less likely to be positive to operational requirements.

In the more collegial role, managers tend to be more flexible in the working conditions that they impose on employees. This may be a form of managerial consideration, it allows for the individual needs of employees, and takes into account their other commitments. Such flexibility in the manager is reciprocated by

flexibility in the employees. This behaviour is apparent, firstly in their conformity to operational requirements, (working late when needed and fostering a good atmosphere in the store), and secondly in their propensity to generate and disseminate intelligence relating to the external market. Flexibility does not have a direct impact on employee responsiveness to the external market, rather the interaction between employees and managers, both in groups and individually, influences their responsiveness to the market. This probably reflects the setting of marketing and customer service targets for individuals in these meetings.

In the area of market orientation, the need for store to focus on the local market is also verified by the results of this study. Furthermore, the data suggests that in adopting a local market orientation, the responsiveness of the store to the market has a direct impact on financial performance, intelligence generation, and dissemination appear to facilitate responsiveness but not to have a direct impact on financial performance.

The results of this research may be used to intuit several implications for recruitment and training of retail managers.

7.2.1 Recruitment and Training of Managers

As a collegial relationship between managers and employees is an important component of an internal market orientation, it is necessary for organisations to assess the interpersonal skills of their managers, and managers' attitudes to subordinate employees. This should be conducted in recruitment assessments to ensure appropriate managers are recruited to the internal market oriented firm and, organisations wishing to implement an internal market orientation there will be a need to assess existing managers to ascertain if they have these skills. Knowledge of the behaviours necessary to implement an internal market orientation will also facilitate the design of training programmes to ensure that managers develop these skills.

Organisations also need to be aware of the potential consequences of requiring managers to form both collegial and formal relationships with their subordinate

employee. Such demands have the potential to generate role stress among managers. Both role conflict and ambiguity may arise as collegial relationships may be in conflict with formal relationships at times and inexperienced managers may not be comfortable deciding which type of relationship is appropriate in different situations. Organisations wishing to implement an internal market orientation must ensure that store managers receive adequate training in dealing with this potential role stress if the strategy is to be successfully implemented.

7.3 Study Limitations and Future Research Directions

This research represents the only quantitative study of the impact of internal market orientation on external market performance and market orientation to date. However, as with most research efforts, this study is not without limitations. One limitation relates to the generation of data based on managers' subjective views of the measures assessed. The subjective nature of such evaluations increases the possibility of introducing bias and judgement errors. Despite this potential problem, financial constraints necessitated the use of this method and measures were introduced to test for bias in the data. Future research could utilise data derived from multiple respondents and also incorporate objective data.

Secondly, since the data was collected at a single point in time, and despite the use of causal modelling, it is only possible to make conclusions regarding associations between internal market orientation, external market orientation and market performance. True causal implications could be strengthened with multiple years of measurement of both the independent and dependent variables, as this approach may be adequate to capture changes in some of the variables or establish a direction.

It is possible that the association between internal market orientation, external market orientation and performance could be moderated by other variable such as the competitive environment (Greenley and Foxall 1998) but these were not controlled for. This stemmed from the fact that the current study was a first step in developing a measure of internal market orientation and a systematic approach towards exploring the associations between the constructs in the retail industry. Thus, the inclusion of moderating factors was considered to be beyond the scope of this initial empirical

effort. Subsequent studies which account for the effects of such moderating factors would enhance our knowledge of the internal and external market orientation relationship as well as provide more evidence to strengthen the theoretical argument for the relationship between the two constructs.

Also whilst it is true that some internal consequences of internal market orientation have been examined in this study, including employee retention and compliance to operational requirements, other potential consequences of internal market orientation on employee behaviors on attitudes could be examined in further projects. For example, both internal marketing and market orientation have been suggested to impact on several employee variables such as market orientation influencing esprit de corps (Kohli and Jaworski, 1990), and internal marketing influencing shared values (Wasmer and Brunner, 1991). Furthermore, the data examined in this research, was collected from store managers'. Future research should examine employee's perceptions of the variables under consideration to establish the validity of the findings presented here.

The UK retail industry context of this study places limitations on the generalisability of the findings to retail firms in other national cultures. Nonetheless, this investigation of internal market orientation and its consequences does further our understanding of the impact of internal and external market orientation on performance variables, and sheds further light on the general significance of marketing practice. Future research must address the soundness of the internal market orientation measure through reapplication of the instrument to different samples, and provide additional evidence of reliability, validity and stability. Data from different organisational and national contexts may be used to develop the external validity of the internal market orientation instrument and the generalisability of the findings of this examination of its consequences to different contexts.

Another major opportunity for future research is to examine the role of internal market orientation in the wider context of different organisational orientations to stakeholders. Several stakeholders in the firm have been identified; see for example Greenley and Foxall, (1996), Mitchell et al, (1997), Rowley, (1997) The

consequences of orientations to these other stakeholders should be examined, and the relative importance of orienting on different stakeholders established.

Finally, the results presented in this these must be considered to be exploratory in nature. As stated earlier, this study represents the first quantitative examination of the impact of internal market orientation on external market performance and market orientation. Due to the nature of the constructs examined, the appropriate modelling procedure to be employed was model generation, (Jöreskog and Sörbom, 1992). The resulting model presented in Figure 6-10 should be validated to ascertain the stability of the model in different contexts. Further application of the theoretical and empirical efforts which constitute this study through scale development and measurement and incorporation of multiple performance add to the existing services management literature and enrich our understanding of the relationship between internal market orientation and a wide variety of organisational outcomes.

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9 Appendices

Adaptation Of Jaworski And Kohli's (1993) Market Orientation Instrument To

Focus On The Internal Market

Intelligence Generation in Market Orientation and Internal Market Orientation

MARKET ORIENTATION SCALE	INT'NL MARKET ORIENTATION SCALE
1. In this business unit we meet with customers at least once a year to find out what products or services they will need in the future	1. In this branch we have meetings with our employees at least once a year to find out what changes in their jobs they will need in the future.
2. Individuals from our manufacturing department interact directly with customers to learn how to serve them better.	2. Individuals from our management team interact directly with our employees to learn how to satisfy them better
3. In this business unit, we do a lot of in-house market research.	3. In this branch we do a lot of internal market research
4. We are slow to detect changes in our customers' product preferences.	4. We are slow to detect changes in this branch's employees job preferences
5. We poll end users at least once a year to assess the quality of our products and services.	5. We survey our employees at least once a year to assess the quality of this branch's employment.
6. We often talk with or survey those who can influence our end users' purchases (e.g., retailers, distributors). *	6. In this branch we often talk with or survey people who can influence our employees behaviour (e.g.
7. We collect industry information by informal means (e.g., lunch with industry friends, talks with trade partners).	7. We collect information on the local employment conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).
8. In our business unit, intelligence on our competitors is generated independently by several departments.	8. In this branch information on our competitors for employees is generated independently by several sources.
9. We are slow, to detect fundamental shifts in our industry (e.g. competition, technology, regulation).*	9. We are slow in this branch to detect fundamental shifts in employment (e.g. competition, technology).
10. We periodically review the likely effect of change, in our business environment (e.g., regulation) on customers.*	10. In this branch we periodically review the likely effect of industry changes (e.g. regulation) on our employees

APPENDIX I

Intelligence Dissemination In Market Orientation And Internal Orientation

MARKET ORIENTATION SCALE	INT’NL MARKET ORIENTATION SCALE
11. A lot of informal ‘hall talk’ in this business unit concerns our competitors’ tactics or strategies.*	11. A lot of informal shop floor talk in this branch concerns our competitors’ employment conditions.
12. We have interdepartmental meetings at least once a quarter to discuss market trends and developments.*	12. We have interdepartmental meetings in this branch to discuss trends and developments in the local employment market.
13. Marketing personnel in our business unit spend time discussing customers’ future needs with other functional departments.	13. Personnel in this branch spend time discussing their future employment plans.
14. Our business unit periodically circulates documents (e.g., reports, newsletters) that provide information on our customers.*	14. This branch periodically circulates documents (e.g. reports and newsletters) that provide information employment conditions.
15. When something important happens to a major customer of market, the whole business unit knows about it within a short period.*	15. When something important happens to one of this branch’s employees or the workforce as a whole, all of the branch knows about it in a short period
16. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.	16. Data on the satisfaction of this branch’s employees is disseminated to all levels in the branch on a regular basis
17. There is minimal communication between marketing and manufacturing departments concerning market developments.	17. The different departments in this branch have minimal communications between them concerning employment developments
18. When one department finds out something important about competitors, it is slow to alert other departments.*	18. When one department finds out something important about jobs with our local competitors it is slow to alert other departments

APPENDIX 1

Responsiveness In Market Orientation And Internal Market Orientation

MARKET ORIENTATION SCALE	INT'NL MARKET ORIENTATION SCALE
19. It takes us forever to decide how to respond to our competitor's price changes.	19. In this branch it takes us forever to decide how to respond to local competitor's employment offers.
20. Principles of market segmentation drive new product development efforts in this business unit.	20. Principles of employee segmentation drive efforts to create a better working environment in this branch.
21. For one reason or another we tend to ignore changes in our customer's product or service needs.	21. For one reason or another we tend to ignore changes in our employees' needs.
22. We periodically review our product development efforts to ensure that they are in line with what customers want.	22. We periodically review the jobs that we offer to ensure that they are in line with what our employees want.
23. Our business plans are driven more by technological advances than by market research.	23. The employment schedules for this branch are driven more by technology than by researching the employees.
24. Several departments get together periodically to plan a response to changes taking place in our business environment.	24. In this branch, several departments get together periodically to plan a response to employment changes taking place in our local business environment.
25. The product lines we sell depends more on internal politics than real market need.*	25. The salary that we offer depends more on internal politics than comparison with the local employment market.
26. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.	26. If a major local competitor were to launch an intensive campaign targeted at recruiting our employees, this branch would implement a response immediately.
27. The activities of the different departments in this business unit are well co-ordinated.*	27. The activities of the different departments in this branch are well co-ordinated.*
28. Customer complaints fall on deaf ears in this business unit.*	28. Employee complaints fall on deaf ears in this branch.*
29. If we came up with a great marketing plan we probably would not be able to implement it in a timely fashion.*	29. If we came up with a great new category of job description we probably would not be able to implement it in a timely fashion.*
30. We are quick to respond to significant changes in our competitors' pricing structures.	30. We are quick to respond to significant changes in our local competitors' employment practices.
31. When we find out that customers are unhappy with the quality of our service, we take corrective action.	31. In this branch when we find out that employees are unhappy with the quality of our supervision or management, we take corrective action.

A P P E N D I X 1

<p>32. When we find that customers would like us to modify a product of service, the departments involved make concerted efforts to do so. *</p>	<p>32. When we find that employees would like us to modify their conditions of employment the departments in this branch involved make concerted efforts to do so. *</p>
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Original Item Pool For Internal Market Orientation

Original Item Pool For Internal Market Information Acquisition

1. Staff In the firm are very open in their conversations with me.
2. I ask employees about the conflicting demands on their time inside and outside of work.
3. I find out how satisfied employees are with their jobs in their appraisal sessions.
4. I have regular meetings where employees can tell me what they want form their jobs.
5. I talk to my staff regularly to find out what is happening in their lives.
6. I regularly review the training and development needs of my staff.
7. We interview all staff when they leave the company.
8. We have regular appraisals where we discuss what employees want.
9. I spend time talking to my staff about their personal problems.
10. Talking to customer contact staff is an important part of my job.
11. We keep a written record of why staff leave our employment.
12. During annual appraisals most of the issues raised have already been discussed in a less formal situation.
13. I find our what employees want from the company.
14. I regularly talk to my staff about issues that do not directly relate to their working environment.
15. We regularly analyse why staff leave the firm.
16. We use annual appraisals to formalise things that have been previously discussed with the individual.
17. If I notice one of my employees is acting differently I will try to find out if there is problem which is causing a change in behaviour.
18. I do not have much contact with staff who deal with the customers.
19. All staff leaving the firm complete a form about why they are leaving.
20. When interviewing for new staff I pay particular attention to what the prospective employee expects form their job.
21. I try to find out my employees real feelings about their jobs.
22. Very little useful information comes from asking employees how their jobs could change.
23. Exit interviews are always conducted by staff member who is not directly involved in the supervision of the person leaving.
24. When interviewing for new staff we are careful to make sure that we can meet the employees long term expectations of their work.

25. I use feedback from employees to find out what they like and dislike about their jobs.
26. Any member of staff can see me at any time.
27. I have regular meetings with employees who deal with the customers.
28. I regularly talk to staff to find out about the things that they would like to change about their jobs.
29. My staff often tell me what I want to hear.
30. I review my employees' satisfaction with their jobs regularly.
31. The primary role of team meetings is to communicate tasks and targets to employees.
32. I regularly talk to all staff to find out about their work.
33. I pay extra attention to employees who don't appear to be enjoying their jobs.
34. I ask my employees to identify how they have contributed to the success of the firm.
35. The primary role of team meetings is to find out about how employees feel about their jobs.
36. I receive comments on my management style from those that I manage.
37. In this branch we have meetings with our employees at least once a year to find out what changes in their jobs they will need in the future.
38. Individuals from our management team interact directly with our employees to learn how to satisfy them better.
39. In this branch we do a lot of internal market research.
40. We are slow to detect changes in this branch's employees job preferences.
41. We survey our employees at least once a year to assess the quality of this branch's employment.
42. In this branch we often talk with or survey people who can influence our employees behaviour (e.g. unions, sales reps and customers).
43. We collect information on the local employment conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).
44. In this branch information on our competitors for employees is generated independently by several sources.
45. We are slow in this branch to detect fundamental shifts in employment (e.g. competition, technology).
46. In this branch we periodically review the likely effect of industry changes (e.g. regulation) on our employees.

Original Item Pool For Internal Market Information Dissemination

1. I let my boss know if my staff are not happy with their jobs.

APPENDIX 2

2. As branch managers we are encouraged to let head office know about any dissatisfaction amongst our staff relating to working conditions.
3. Managers from different branches get together regularly.
4. Training customer contact staff is an important part of my job.
5. I spend time to make sure that all staff know what image we wish to project.
6. I regularly meet with all my employees to report on the wider issue in the whole organisation.
7. I regularly report back to my staff about programmes, which will make their working lives better.
8. I talk to other managers about how they manage their staff.
9. I regularly meet with my boss to report on staff morale and motivation in my branch.
10. All employees here receive an in house news letter which reports on issues specific to this branch.
11. Before making any changes to working conditions, pay hors etc, head office always consults with managers of local branches.
12. We have regular management meetings to discuss issues of employee motivation and worker morale.
13. A lot of informal shop floor talk in this branch concerns our competitors' employment conditions.
14. We have interdepartmental meetings in this branch to discuss trends and developments in the local employment market.
15. Personnel in this branch spend time discussing their future employment plans.
16. This branch periodically circulates documents (e.g. reports and newsletters) that provide information about employment conditions.
17. When something important happens to one of this branch's employees or the workforce as a whole, the entire branch knows about it in a short period.
18. Data on the satisfaction of this branch's employees is disseminated to all levels in the branch on a regular basis.
19. The different departments in this branch have minimal communications between them concerning employment developments.
20. When one department finds out something important about jobs with our local competitors it is slow to alert other departments.

Original Item Pool For Internal Market Responsiveness

1. I usually respond positively to the requests of my employees.
2. I allow an informal system of flexible working patterns.
3. I encourage staff to attend training courses.

A P P E N D I X 2

4. If someone comes to me with a personal problem I will always accommodate any changes in their working conditions that they request.
5. The management team that reports to me has considerable leeway to make decisions and respond to what their teams want.
6. I allow my staff to start late or leave early to meet outside commitments.
7. I help my staff to develop their careers in the direction that they want.
8. I am as flexible as I can be to make sure that my staff are happy.
9. I will not recruit staff who have aspirations that we cannot meet.
10. We regularly arrange social event for all staff.
11. Staff work hours are based mostly around their wishes.
12. I am probably more flexible with my staff than other managers in the firm.
13. We modify working conditions based on what people tell us when they leave the firm.
14. My staff have considerable flexibility in their working hours.
15. Staff work hours are based around operational requirements.
16. I apply corporate policy strictly in managing my staff.
17. I reward staff who have been praised by customers.
18. In this branch it takes us forever to decide how to respond to local competitor's employment offers.
19. Principles of employee segmentation drive efforts to create a better working environment in this branch.
20. For one reason or another we tend to ignore changes in our employees' needs.
21. We periodically review the jobs that we offer to ensure that they are in line with what our employees want.
22. The employment schedules for this branch are driven more by technology than by researching the employees.
23. In this branch, several departments get together periodically to plan a response to employment changes taking place in our local business environment.
24. The salary that we offer depends more on internal politics than comparison with the local employment market.
25. If a major local competitor were to launch an intensive campaign targeted at recruiting our employees, this branch would implement a response immediately.
26. The activities of the different departments in this branch are well co-ordinated.
27. Employee complaints fall on deaf ears in this branch.*

A P P E N D I X 2

28. If we came up with a great new category of job description we probably would not be able to implement it in a timely fashion.*
29. We are quick to respond to significant changes in our local competitors' employment practices.
30. In this branch when we find out that employees are unhappy with the quality of our supervision or management, we take corrective action.
31. When we find that employees would like us to modify their conditions of employment the departments in this branch involved make concerted efforts to do so.*

Internal Market Orientation Item Pool after expert review

Item Pool For Internal Market Information Acquisition after expert review

- 1 I spend time talking to my staff about their personal problems.
- 2 I try to find out what employees want from the company.
- 3 If I notice one of my employees is acting differently to normal I will try to find out if there is a problem which is causing a change in behaviour.
- 4 I try to find out my employees' real feelings about their jobs.
- 5 I regularly talk to my staff to find out about their work.
- 6 In this business unit we have regular staff appraisals in which we discuss what employees want.
- 7 In this business unit, management meet with our employees at least once a year to find out what expectations they have of their jobs for the future.
- 8 Individuals from our management team interact directly with our employees to find out how to make them more satisfied.
- 9 In this business unit we do a lot of internal market research.
- 10 We are slow to detect changes in this business unit's employees' job preferences.
- 11 We survey our employees at least once a year to assess the quality of employment in this business unit.
- 12 In this business unit we often talk with or survey people to identify influences on our employees' behaviour (e.g. unions, sales representatives, customers).
- 13 In this business unit, we collect information on local employment conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).
- 14 In this business unit, information about firms competing for the same employees as us is generated independently by several sources.
- 15 In this business unit, we are slow to detect fundamental shifts in employment (e.g. competition, technology).
- 16 In this business unit we periodically review the likely effect of industry changes (e.g. regulation) on our employees.
- 17 In this business unit, we undertake research to identify what factors influence employees (e.g. pay, autonomy, routines, etc.)
- 18 In this business unit we survey our staff at least once a year to get information about their attitudes to their work.

Item Pool For Internal Market Information Dissemination after expert review.

1. I let my boss know if my staff are not happy with their jobs.
2. We have regular management meetings to discuss issues of employee motivation or worker morale.

A P P E N D I X 3

3. I regularly report back to my staff about programmes, which will affect their working environment.
4. Head office makes changes to working conditions,(e.g. pay, hours, etc.) with minimal consultation with the managers of local business units.
5. All business unit managers are encouraged to let head office know about any dissatisfaction amongst our staff relating to working conditions.
6. I regularly meet with all the employees of the business unit to report about issues relating to the whole organisation.
7. A lot of informal shop floor talk in this business unit concerns jobs with competing firms.
8. We have regular interdepartmental meetings in this business unit to discuss trends and developments in the local employment market.
9. Personnel in this business unit spend time discussing their future employment plans.
10. This business unit periodically circulates documents (e.g. reports and newsletters) that provide information about employment conditions in the firm.
11. When something important happens to one of this business unit's employees or the workforce as a whole, all of the business unit knows about it in a short period.
12. Data on the satisfaction of this business unit's employees is communicated to employees at all levels in the business unit on a regular basis.
13. The different departments in this business unit have minimal communications between them concerning developments in employment practices.
14. When one department finds out something important about jobs with our local competitors it is slow to alert other departments.
15. In this business unit communication between management and employees is good.
16. In this business unit we have regular staff meetings with employees at all levels attending.

Item Pool For Internal Market Responsiveness after expert review.

1. We modify working conditions in this business unit based on what people tell us when they leave the firm.
2. If someone comes to me with a personal problem, I will always try to accommodate any changes in their working conditions that they request.
3. I help my staff to develop their careers in the direction that they want.
4. I allow my staff to start late or leave early to meet outside commitments.
5. In this business unit it takes us forever to decide how to respond to local competitor's employment offers.
6. Efforts to create a better working environment in this business unit are based on identifying different groups of employees with different needs.
7. For one reason or another, we tend to ignore changes in our employees' needs.
8. We periodically review the jobs that we offer to ensure that they are in line with what our employees want.
9. The work rotas in this business unit are driven more by business unit needs than by researching what our employees want.
10. In this business unit, several departments get together periodically to plan a response to employment changes taking place in our local business environment.
11. The salary that we offer depends more on internal politics than comparison with the local employment market.
12. If a major local competitor were to launch an intensive campaign targeted at recruiting our employees, this business unit would implement a response immediately.
13. The activities of the different departments in this business unit are well coordinated.
14. Employee complaints fall on deaf ears in this business unit.
15. If we came up with a great new working system we probably would not be able to implement it in a timely fashion.
16. We are quick to respond to significant changes in our local competitors' employment practices.
17. In this business unit when we find out that employees are unhappy with our supervision or management, we take corrective action.
18. When we find that employees would like us to modify their conditions of employment, the departments in this business unit involved make concerted efforts to do so.

A P P E N D I X 3

19. In this business unit we make changes to what we do when employee feedback indicates that they are dissatisfied with the status quo.
20. In this business unit we endeavour to balance the needs and wants of employees with those of the firm.
21. Employees who are identified as providing good service are given additional incentives to stay with the firm.
22. I have the authority to adjust the wages of my staff to compensate for regional differences.
23. In this business unit, we ensure that salaries and bonus systems are competitive.
24. Regional salaries are adjusted to reflect the condition of the local labour market.
25. The business unit adjusts pay at the local level according to the local competition for jobs.
26. Our employees have the opportunity to pursue a different career path within the organisation if they wish to.

Translation Of Market Orientation Scale To Reflect A Local Market Orientation

Local Market Intelligence Generation

- 1 In this branch we have meetings with our customers at least once a year to find out what products and services they will need in the future.
- 2 Individuals from our back office departments interact directly with our customers to learn how to serve them better.
- 3 In this branch we do a lot of local market research.
- 4 We are slow to detect changes in this branch's customers' product preferences.
- 5 We survey our customers at least once a year to assess the quality of this branch's products and services.
- 6 In this branch we often talk with or survey people who can influence our customers' purchases.
- 7 We collect information on the local market conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).
- 8 In this branch information on our local competition is generated independently by several sources.
- 9 We are slow in this branch to detect fundamental shifts in our market (e.g. competition, technology).
- 10 In this branch we periodically review the likely effect of industry changes (e.g. regulation) on our customers.

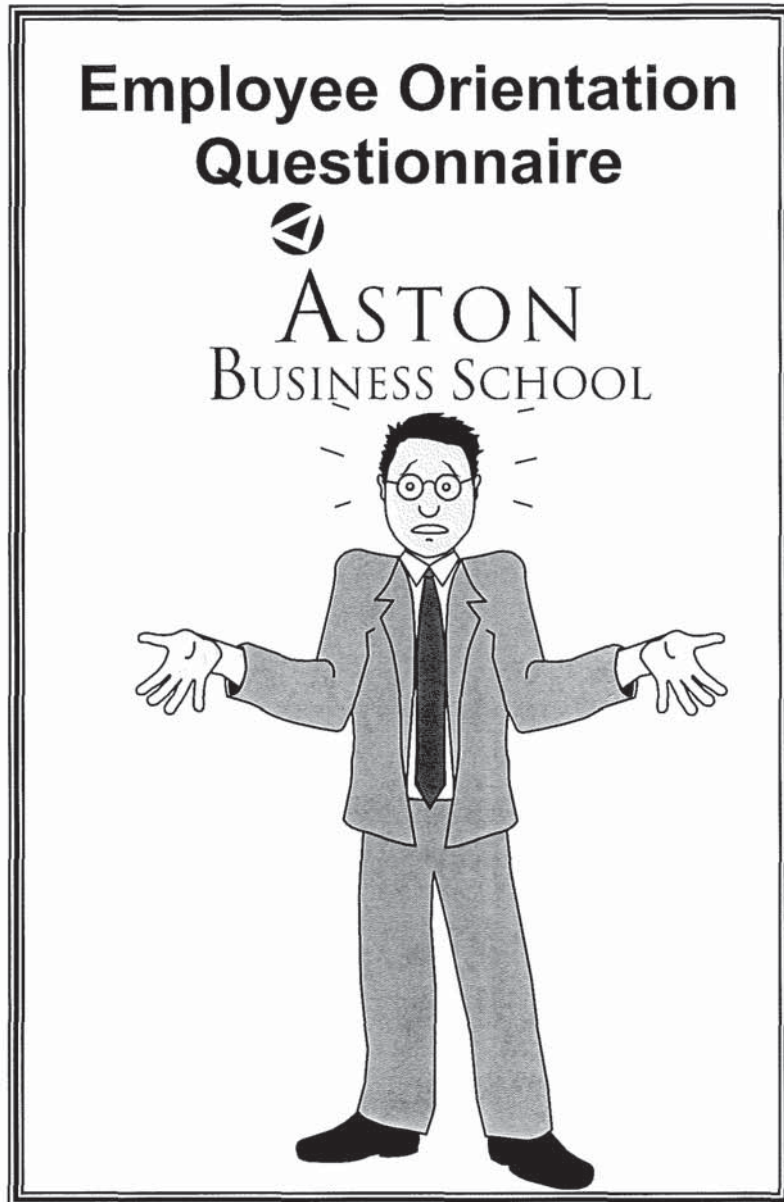
Local Market Intelligence Dissemination

- 1 A lot of informal shop floor talk in this branch concerns our competitors' tactics or strategies.
- 2 We have interdepartmental meetings in this branch to discuss trends and developments in the local market.
- 3 Personnel in this branch spend time discussing customers' future needs.
- 4 This branch periodically circulates documents (e.g. reports and newsletters) that provide information on customers.
- 5 When something important happens to one of this branch's major customers or market the whole branch knows about it in a short period.
- 6 Data on the satisfaction of this branch's customers is disseminated to employees at all levels in the branch on a regular basis.
- 7 The different departments in this branch have minimal communications between them.
- 8 When one department finds out something important about our local competitors it is slow to alert other departments.

Local Market Intelligence Responsiveness

- 1 In this branch it takes us forever to decide how to respond to local competitor's price changes.
- 2 Principles of local market segmentation drive new service development efforts in this branch.
- 3 For one reason or another we tend to ignore changes in our customer's product or service needs.
- 4 We periodically review our service development efforts to ensure that they are in line with what our local customers want.
- 5 The business plans for this branch are driven more by technological advances than by researching the local market.
- 6 In this branch, several departments get together periodically to plan a response to changes taking place in our local business environment.
- 7 The product lines we sell depends more on internal politics than real needs of the local market.
- 8 If a major local competitor were to launch an intensive campaign targeted at our customers, this branch would implement a response immediately.
- 9 The activities of the different departments in this branch are well co-ordinated.
- 10 Customer complaints fall on deaf ears in this branch.
- 11 If someone in this branch came up with a great marketing plan we probably would not be able to implement it in a timely fashion.
- 12 We are quick to respond to significant changes in our local competitors' pricing structures.
- 13 In this branch when we find out that customers are unhappy with the quality of our service, we take corrective action.
- 14 When we find that customers would like us to modify a product of service, the departments in this branch involved make concerted efforts to do so.

Pilot Survey Questionnaire



Dear Respondent,

The following questionnaire is part of my Ph.D. research project examining the different ways that firms focus on the wants and needs of employees.

In the questionnaire, you will be asked to complete questions that relate to your business unit.

For the purposes of completing the questionnaire please consider the business unit to be that part of the organisation for which you are directly responsible.

Thank you for taking the time to complete the questionnaire, without your input, such Ph.D. projects would be impossible to complete.

Ian Lings

APPENDIX 5

A. The following questions relate to your personal beliefs about work. Please indicate the extent to which you agree with the following statements, giving your personal feelings and not those that you think are politically correct.

		Strongly Disagree						Strongly Agree
1.	I think it is important to understand all of the factors which affect employee's satisfaction with their employment.	1	2	3	4	5	6	7
2.	Keeping my employees satisfied is as important to me as keeping my customers satisfied.	1	2	3	4	5	6	7
3.	I believe that a good employer makes sure that all employees are happy in their jobs.	1	2	3	4	5	6	7
4.	I believe that employees are the most important resource that the firm has.	1	2	3	4	5	6	7
5.	I believe that keeping employees satisfied should be one of the main goals of any firm.	1	2	3	4	5	6	7

B. The following questions relate to your perceptions of the importance that your organisation places on employee issues. Please indicate the extent to which you agree with the following statements.

		Strongly Disagree						Strongly Agree
6.	I believe that the organisation for which I work is genuinely concerned with the welfare of all its employees.	1	2	3	4	5	6	7
7.	I believe that the firm for which I work tries to accommodate the different personal needs of all its employees.	1	2	3	4	5	6	7
8.	The firm for which I work does not recognise the importance of its employees.	1	2	3	4	5	6	7
9.	My firm treats its employees in a way which demonstrates that they value us.	1	2	3	4	5	6	7

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C. Please indicate the degree to which you agree with the following statements. These statements relate specifically to the activities of your business unit

	Strongly Disagree						Strongly Agree
10. I spend time talking to my staff about their personal problems.	1	2	3	4	5	6	7
11. I try to find out what employees want from the company.	1	2	3	4	5	6	7
12. If I notice one of my employees is acting differently to normal I will try to find out if there is a problem which is causing a change in behaviour.	1	2	3	4	5	6	7
13. I try to find out my employees' real feelings about their jobs.	1	2	3	4	5	6	7
14. I regularly talk to my staff to find out about their work.	1	2	3	4	5	6	7
15. In this business unit we have regular staff appraisals in which we discuss what employees want	1	2	3	4	5	6	7
16. In this business unit, management meet with our employees at least once a year to find out what expectations they have of their jobs for the future.	1	2	3	4	5	6	7
17. Individuals from our management team interact directly with our employees to find out how to make them more satisfied.	1	2	3	4	5	6	7
18. In this business unit we do a lot of internal market research.	1	2	3	4	5	6	7
19. We are slow to detect changes in this business unit's employees' job preferences.	1	2	3	4	5	6	7
20. We survey our employees at least once a year to assess the quality of employment in this business unit.	1	2	3	4	5	6	7
21. In this business unit we often talk with or survey people to identify influences on our employees' behaviour (e.g. unions, sales representatives, customers).	1	2	3	4	5	6	7
22. In this business unit, we collect information on local employment conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).	1	2	3	4	5	6	7
23. In this business unit, information about	1	2	3	4	5	6	7

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firms competing for the same employees as us is generated independently by several sources.	
24. In this business unit, we are slow to detect fundamental shifts in employment (e.g. competition, technology).	1 2 3 4 5 6 7

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25. In this business unit we periodically review the likely effect of industry changes (e.g. regulation) on our employees.	1	2	3	4	5	6	7
26. In this business unit, we undertake research to identify what factors influence employees (e.g. pay, autonomy, routines, etc.)	1	2	3	4	5	6	7
27. In this business unit we survey our staff at least once a year to get information about their attitudes to their work.	1	2	3	4	5	6	7

D. The following questions relate specifically to the communication in your business unit. Please indicate the extent to which you agree with the following items.

	Strongly Disagree						Strongly Agree
28. I let my boss know if my staff are not happy with their jobs.	1	2	3	4	5	6	7
29. We have regular management meetings to discuss issues of employee motivation or worker morale.	1	2	3	4	5	6	7
30. I regularly report back to my staff about programmes, which will affect their working environment.	1	2	3	4	5	6	7
31. Head office makes changes to working conditions,(e.g. pay, hours, etc.) with minimal consultation with the managers of local business units.	1	2	3	4	5	6	7
32. All business unit managers are encouraged to let head office know about any dissatisfaction amongst our staff relating to working conditions.	1	2	3	4	5	6	7
33. I regularly meet with all the employees of the business unit to report about issues relating to the whole organisation.	1	2	3	4	5	6	7
34. A lot of informal shop floor talk in this business unit concerns jobs with competing firms.	1	2	3	4	5	6	7
35. We have regular interdepartmental meetings in this business unit to discuss trends and developments in the local employment market.	1	2	3	4	5	6	7
36. Personnel in this business unit spend time discussing their future employment plans.	1	2	3	4	5	6	7

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37. This business unit periodically circulates documents (e.g. reports and newsletters) that provide information about employment conditions in the firm.	1	2	3	4	5	6	7
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38. When something important happens to one of this business unit's employees or the workforce as a whole, all of the business unit knows about it in a short period.	1 2 3 4 5 6 7
39. Data on the satisfaction of this business unit's employees is communicated to employees at all levels in the business unit on a regular basis.	1 2 3 4 5 6 7
40. The different departments in this business unit have minimal communications between them concerning developments in employment practices.	1 2 3 4 5 6 7
41. When one department finds out something important about jobs with our local competitors it is slow to alert other departments.	1 2 3 4 5 6 7
42. In this business unit communication between management and employees is good.	1 2 3 4 5 6 7
43. In this business unit we have regular staff meetings with employees at all levels attending.	1 2 3 4 5 6 7

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E. The following questions relate specifically to your business unit. Please indicate the extent to which you agree with the statements.

	Strongly Disagree						Strongly Agree
44. We modify working conditions in this business unit based on what people tell us when they leave the firm.	1	2	3	4	5	6	7
45. If someone comes to me with a personal problem, I will always try to accommodate any changes in their working conditions that they request.	1	2	3	4	5	6	7
46. I help my staff to develop their careers in the direction that they want.	1	2	3	4	5	6	7
47. I allow my staff to start late or leave early to meet outside commitments.	1	2	3	4	5	6	7
48. In this business unit it takes us forever to decide how to respond to local competitor's employment offers.	1	2	3	4	5	6	7
49. Efforts to create a better working environment in this business unit are based on identifying different groups of employees with different needs.	1	2	3	4	5	6	7
50. For one reason or another, we tend to ignore changes in our employees' needs.	1	2	3	4	5	6	7
51. We periodically review the jobs that we offer to ensure that they are in line with what our employees want.	1	2	3	4	5	6	7
52. The work rotas in this business unit are driven more by business unit needs than by researching what our employees want.	1	2	3	4	5	6	7
53. In this business unit, several departments get together periodically to plan a response to employment changes taking place in our local business environment.	1	2	3	4	5	6	7
54. The salary that we offer depends more on internal politics than comparison with the local employment market.	1	2	3	4	5	6	7

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55.	If a major local competitor were to launch an intensive campaign targeted at recruiting our employees, this business unit would implement a response immediately.	1	2	3	4	5	6	7
56.	The activities of the different departments in this business unit are well co-ordinated.	1	2	3	4	5	6	7
57.	Employee complaints fall on deaf ears in this business unit.	1	2	3	4	5	6	7
58.	If we came up with a great new working system we probably would not be able to implement it in a timely fashion.	1	2	3	4	5	6	7
59.	We are quick to respond to significant changes in our local competitors' employment practices.	1	2	3	4	5	6	7
60.	In this business unit when we find out that employees are unhappy with our supervision or management, we take corrective action.	1	2	3	4	5	6	7
61.	When we find that employees would like us to modify their conditions of employment, the departments in this business unit involved make concerted efforts to do so.	1	2	3	4	5	6	7
62.	In this business unit we make changes to what we do when employee feedback indicates that they are dissatisfied with the status quo.	1	2	3	4	5	6	7
63.	In this business unit we endeavour to balance the needs and wants of employees with those of the firm.	1	2	3	4	5	6	7
64.	Employees who are identified as providing good service are given additional incentives to stay with the firm.	1	2	3	4	5	6	7
65.	I have the authority to adjust the wages of my staff to compensate for regional differences.	1	2	3	4	5	6	7
66.	In this business unit, we ensure that salaries and bonus systems are competitive.	1	2	3	4	5	6	7
67.	Regional salaries are adjusted to reflect the condition of the local labour market.	1	2	3	4	5	6	7
68.	The business unit adjusts pay at the local level according to the local competition for jobs.	1	2	3	4	5	6	7

A P P E N D I X 5

69. Our employees have the opportunity to pursue a different career path within the organisation if they wish to.	1	2	3	4	5	6	7
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F. The following questions relate specifically to your local business unit. Please indicate the extent to which you agree or disagree with the following statements.

	Strongly Disagree						Strongly Agree
70. In this business unit we have meetings with our customers at least once a year to find out what products and services they will need in the future.	1	2	3	4	5	6	7
71. Individuals from our back office departments interact directly with our customers to learn how to serve them better.	1	2	3	4	5	6	7
72. In this business unit we do a lot of local market research.	1	2	3	4	5	6	7
73. We are slow to detect changes in this business unit's customers' product preferences.	1	2	3	4	5	6	7
74. We survey our customers at least once a year to assess the quality of this business unit's products and services.	1	2	3	4	5	6	7
75. In this business unit we often talk with or survey people who can influence our customers' purchases. (e.g. sales representatives, consumer groups).	1	2	3	4	5	6	7
76. We collect information on the local market conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).	1	2	3	4	5	6	7
77. In this business unit information on our local competition is generated independently by several sources.	1	2	3	4	5	6	7
78. We are slow in this business unit to detect fundamental shifts in our market (e.g. competition, technology).	1	2	3	4	5	6	7
79. In this business unit we periodically review the likely effect of industry changes (e.g. regulation) on our customers.	1	2	3	4	5	6	7

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G. The following questions relate specifically to the communications within your business unit. Please indicate the extent to which you agree or disagree with the following statements.

	Strongly Disagree							Strongly Agree
80. A lot of informal shop floor talk in this business unit concerns our competitors' tactics or strategies.	1	2	3	4	5	6	7	
81. We have interdepartmental meetings in this business unit to discuss trends and developments in the local market.	1	2	3	4	5	6	7	
82. Personnel in this business unit spend time discussing customers' future needs.	1	2	3	4	5	6	7	
83. This business unit periodically circulates documents (e.g. reports and newsletters) that provide information on customers.	1	2	3	4	5	6	7	
84. When something important happens to one of this business unit's major customers or market the whole business unit knows about it in a short period.	1	2	3	4	5	6	7	
85. Data on the satisfaction of this business unit's customers is disseminated to employees at all levels in the business unit on a regular basis.	1	2	3	4	5	6	7	
86. The different departments in this business unit have minimal communications between them.	1	2	3	4	5	6	7	
87. When one department finds out something important about our local competitors it is slow to alert other departments.	1	2	3	4	5	6	7	

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H. The following questions relate specifically to the marketing management of your business unit. Please indicate to what extent you agree with the following statements.

	Strongly Disagree						Strongly Agree
88. In this business unit, it takes us forever to decide how to respond to local competitor's price changes.	1	2	3	4	5	6	7
89. Principles of local market segmentation drive new service development efforts in this business unit.	1	2	3	4	5	6	7
90. For one reason or another, we tend to ignore changes in our customer's product or service needs.	1	2	3	4	5	6	7
91. We periodically review our service development efforts to ensure that they are in line with what our local customers want.	1	2	3	4	5	6	7
92. The business plans for this business unit are driven more by technological advances than by researching the local market.	1	2	3	4	5	6	7
93. In this business unit, several departments get together periodically to plan a response to changes taking place in our local business environment.	1	2	3	4	5	6	7
94. The product lines we sell depends more on internal politics than real needs of the local market.	1	2	3	4	5	6	7
95. If a major local competitor were to launch an intensive campaign targeted at our customers, this business unit would implement a response immediately.	1	2	3	4	5	6	7
96. The activities of the different departments in this business unit are well co-ordinated.	1	2	3	4	5	6	7
97. Customer complaints fall on deaf ears in this business unit.	1	2	3	4	5	6	7
98. If someone in this business unit came up with a great marketing plan we probably would not be able to implement it in a timely fashion.	1	2	3	4	5	6	7
99. We are quick to respond to significant changes in our local competitors' pricing structures.	1	2	3	4	5	6	7

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100. In this business unit when we find out that customers are unhappy with the quality of our service, we take corrective action.	1 2 3 4 5 6 7
101. When we find that customers would like us to modify a product of service, the departments in this business unit involved make concerted efforts to do so.	1 2 3 4 5 6 7

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I. The following questions relate specifically to the performance of your business unit

	Strongly Disagree						Strongly Agree
102. The atmosphere in this business unit is positive.	1	2	3	4	5	6	7
103. Staff in this business unit are generally happy working here.	1	2	3	4	5	6	7
104. My employees are happy to put in extra effort when I need them to.	1	2	3	4	5	6	7
105. My employees are happy to take on more responsibility.	1	2	3	4	5	6	7
106. I do not have to chase up employees to get a job done on time.	1	2	3	4	5	6	7
107. Most staff in this business unit do not take time off for minor illnesses.	1	2	3	4	5	6	7
108. This business unit has a well motivated workforce.	1	2	3	4	5	6	7
109. Staff in this business unit are willing to help out if I need them to.	1	2	3	4	5	6	7
110. I am confident that staff in this business unit will manage themselves if I am away for a couple of days.	1	2	3	4	5	6	7
111. In this business unit we rely heavily on the goodwill of our staff to get things done.	1	2	3	4	5	6	7
112. Most staff in this business unit are reluctant to spend more time than they have to at work.	1	2	3	4	5	6	7
113. We do not have a high turnover of staff in this business unit.	1	2	3	4	5	6	7
114. People in this business unit stay with us for a long time.	1	2	3	4	5	6	7
115. I have a lower turnover of staff than my colleagues in other areas.	1	2	3	4	5	6	7
116. Most employees in this business unit have been with us for five years or more.	1	2	3	4	5	6	7
117. Most people who leave this business unit do so within the first year of employment.	1	2	3	4	5	6	7
118. We have a lower absenteeism rate here than managers in other areas.	1	2	3	4	5	6	7
119. Very few people call in sick in this business unit.	1	2	3	4	5	6	7

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120.	In this business unit we do not carry extra capacity to cover for people who are absent.	1	2	3	4	5	6	7
121.	My staff are always smart and well presented.	1	2	3	4	5	6	7
122.	I rarely have to check that work has been done properly.	1	2	3	4	5	6	7
123.	I am happy with how my staff perform.	1	2	3	4	5	6	7
124.	Staff in this business unit are aware of the image that the company wishes to develop.	1	2	3	4	5	6	7
125.	Staff in this business unit act in a way which is consistent with the image that the company wishes to develop.	1	2	3	4	5	6	7
126.	Many of the staff in this business unit know the names of our regular customers.	1	2	3	4	5	6	7

J. The following relate to your observations about customers of your business unit

		Strongly Disagree					Strongly Agree	
127.	The customers of this business unit are satisfied with the service that they receive.	1	2	3	4	5	6	7
128.	We have very loyal customers in this business unit.	1	2	3	4	5	6	7
129.	The workforce in this business unit is very friendly when dealing with customers.	1	2	3	4	5	6	7
130.	I would be happy to be one of our customers.	1	2	3	4	5	6	7
131.	In this business unit we pride ourselves on the friendliness of our staff.	1	2	3	4	5	6	7
132.	The firm emphasises the friendliness of our staff in advertising.	1	2	3	4	5	6	7
133.	Customer service is the key factor that differentiates us from our competitors.	1	2	3	4	5	6	7
134.	We receive fewer complaints from our customer than other business unites.	1	2	3	4	5	6	7
135.	I have a significant number of letters form customers complementing us on what we do.	1	2	3	4	5	6	7
136.	I have a significant number of letters form customers complaining about the service they have received.	1	2	3	4	5	6	7

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K. Please comment on how you perceive the performance of your business unit

	Strongly Disagree						Strongly Agree
137. This business unit achieves the financial targets set by head office.	1	2	3	4	5	6	7
138. The financial performance of this business unit has increased year on year.	1	2	3	4	5	6	7
139. In this business unit we consistently outperform our local competition.	1	2	3	4	5	6	7
140. What we do in this business unit adds value to the whole business.	1	2	3	4	5	6	7
141. The activities of this business unit have a significant impact on the fortunes of the whole organisation.	1	2	3	4	5	6	7
142. This business unit has higher sales than our local competitors.	1	2	3	4	5	6	7
143. In this business unit we have very little spare capacity in our operations.	1	2	3	4	5	6	7
144. We have higher profits in this business unit than other business units.	1	2	3	4	5	6	7
145. This business unit has a significant impact on the local economy.	1	2	3	4	5	6	7
146. Our firm has a significant impact on the nation economy.	1	2	3	4	5	6	7

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THE FOLLOWING QUESTIONS ARE FOR CLASSIFICATION PURPOSES ONLY AND WILL REMAIN CONFIDENTIAL. PLEASE TICK ONLY ONE APPROPRIATE RESPONSE FOR EACH QUESTION.

L. Please indicate your age

Under 20	
20 - 24	
25 - 34	
35 - 44	
45 - 54	
55 - 64	
65 and above	

M. Please indicate your gender

Female	
Male	

N. What percentage of your time is spent in contact with your customers?

0 - 19%	
20 - 39%	
40 - 59%	
60 - 79%	
80 - 100%	

O. What percentage of your time is spent in contact with your front line employees?

0 - 19%	
20 - 39%	
40 - 59%	
60 - 79%	
80 - 100%	

P. What highest level of education have you completed?

O' Level/GCSE/equivalent	
A' Level/equivalent	
HND/HNC/equivalent	
Bachelor's Degree	
Master's Degree	
Doctorate	

Q. What extent of training have you received from within your company for this position?

Limited (less than 5 training sessions)	
Moderate	
Extensive (equivalent to 6 months or more)	

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R. How long have you been employed by this company?

_____ years _____ months

S. How long have you been in your current position?

_____ years _____ months

T. Number of employees in your business unit.

U. Total sales last year in your business unit.

V. Sales per employee last year in your business unit.

.

W. Sales per square foot last year in your business unit.

.

X. Job title.

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Y. Please indicate whether the following Have increased or decreased over the past three-(3) years. Put a line through the statement that DOES NOT apply. If possible, please record the relative percentage by which these values have changed. If you are unsure of the answer to any of the following questions, please select the 'do not know' option

Number of Employees	Increase / Decrease	Less than 5%	5-10%	11-15%	Greater than 15%	Do not know
Sales (£ value)	Increase / Decrease	Less than 5%	5-10%	11-15%	Greater than 15%	Do not know
Sales per employee (£ value)	Increase / Decrease	Less than 5%	5-10%	11-15%	Greater than 15%	Do not know
Sales per square foot (£ value)	Increase / Decrease	Less than 5%	5-10%	11-15%	Greater than 15%	Do not know
Staff turnover	Increase / Decrease	Less than 5%	5-10%	11-15%	Greater than 15%	Do not know
Share of the local market (%)	Increase / Decrease	Less than 5%	5-10%	11-15%	Greater than 15%	Do not know

Z. If there are any comments which you would like to contribute regarding this questionnaire or the topics being examined please do so below.

A P P E N D I X 5

**THANK YOU VERY MUCH.
YOUR CONTRIBUTION TO THIS RESEARCH IS
APPRECIATED.**

**PLEASE RETURN THE COMPLETED QUESTIONNAIRE TO ME
AT THE BUSINESS SCHOOL. AN ADDRESSED ENVELOPE IS
PROVIDED.**

COVERING LETTER FOR PRE-TEST.

Marketing
Group



Memo

Date: 20 November 2000

To: All PTMBA Course Members

From: Ian Lings

Marketing and Law Group

Aston Business School

Subject: Help with Ph.D. research

Dear Course Member

As some of you will know I am currently completing a Ph.D. at Aston. My research is examining the impact of management behaviour on marketing. I am now at the stage where I need your help, as managers, in piloting the questionnaire that I have developed.

This is an important step in the completion of my Ph.D. and as such a good response is essential. Like all of you, I am also working to tight submission deadlines and I hope that you will be able to take the time to complete the questionnaire and return it to me by **June 7th 1999**.

Please return the completed questionnaire to me in the envelope provided. (If you are in the business school you can do this in the internal mail, just hand it to the postgraduate office.)

I would like to thank you in advance for taking the time to complete the questionnaire and look forward to seeing you at the postgraduate ball in June.

Ian Lings

COVERING LETTER FOR FULL SURVEY

**Marketing
Group**



Aston Triangle
Birmingham B4 7ET
United Kingdom
Tel +44 (0)121 359 3011
Fax +44 (0)121 333 4313
20th June 1999
The Marketing Group
Email: i.n.lings@aston.ac.uk

Dear Sir/Madam,

I would very much appreciate your help with a study that I am undertaking for my Ph.D. at Aston University.

The study is aimed at exploring different ways that individual branches of retailers focus on their employees and their customers, and will help to identify success factors in implementing a marketing approach at the branch level of the UK retail sector.

As your answers are critical for my research, I would be extremely grateful if you could find the time to fill in the enclosed questionnaire booklet. I am aware that this represents a demand on your busy schedule, but your participation could really make the difference between success and failure for the study (and as this forms part of my doctoral thesis, my Ph.D. as well!).

Your answers will remain fully confidential and at no time will you or your firm be identified in the analysis. The questionnaire is designed to be completed by store managers. However if you have an assistant or deputy who you consider to be more appropriate to completing the booklet please feel free to pass it to him/her. Alternatively contact me and I will send them a questionnaire direct.

Please return the completed questionnaire, in the envelope provided, at your earliest convenience and before the start of August 1999 if possible.

If you have any questions, or wish to discuss this project in more detail, please feel free to contact me. Thank you very much in advance for your co-operation. Your support is greatly appreciated.

Ian Lings

Lecturer in marketing at

Ian

Main Survey Questionnaire



**A Survey of Employee
Orientation in the UK
Retail Sector**

Ian Lings
Aston Business School
Aston University
BIRMINGHAM
B4 7ET

Tel 0121 359 3011

Dear Store Manager

The following questionnaire is part of my Ph.D. research project. The project examines the different ways that retailers focus on the wants and needs of:

- their employees
- their **local** market (markets local to individual stores).

The research aims to gather valuable information about retail management processes that result in stores being more competitive in their **local** environment.

In the questionnaire, you will be asked to complete questions that relate to your store.

Your responses will be completely confidential and cannot be traced to any individual or any organisation.

The information that you provide will also not be divulged to any individual or company.

Thank you for taking the time to fill in the questionnaire. Without your input it would be impossible to complete this research (and as a consequence my PhD).

Ian Lings

Section 1: What do you think?

The following questions relate to your personal beliefs about work. *Please indicate the extent to which you agree or disagree with the following statements, giving your personal feelings and not necessarily those that you think are politically correct.*

<i>I believe that:</i>	Strongly Disagree						Strongly Agree
It is important to understand all of the factors that affect employees' satisfaction with their employment.	1	2	3	4	5	6	7
Keeping my employees satisfied is as important as keeping my customers satisfied.	1	2	3	4	5	6	7
A good employer makes sure that all employees are happy in their jobs.	1	2	3	4	5	6	7
Employees are the most important resource that the firm has.	1	2	3	4	5	6	7
Keeping employees satisfied should be one of the main goals of any firm.	1	2	3	4	5	6	7

Section 2: How does your firm behave?

The following questions relate to your perceptions of the importance that your organisation places on employee issues. *Please indicate the extent to which you agree or disagree with the following statements.*

<i>I believe that:</i>	Strongly Disagree						Strongly Agree
The organisation for which I work is genuinely concerned with the welfare of all its employees.	1	2	3	4	5	6	7
The firm for which I work tries to accommodate the different personal needs of all its employees.	1	2	3	4	5	6	7
The firm for which I work does not recognise the importance of its employees.	1	2	3	4	5	6	7
My firm treats all employees in a way that demonstrates that they are valued.	1	2	3	4	5	6	7

Section 3: Finding out what your employees want

Please indicate the degree to which you agree or disagree with the following statements.

When at work:	Strongly Disagree	Strongly Agree
I spend time talking to my staff about their personal problems.	1 2 3 4 5 6 7	
I try to find out what employees want from the company.	1 2 3 4 5 6 7	
If I notice one of my employees is acting differently to normal I will try to find out if there is a problem which is causing a change in behaviour.	1 2 3 4 5 6 7	
I try to find out my employees' real feelings about their jobs.	1 2 3 4 5 6 7	
I regularly talk to my staff to find out about their work.	1 2 3 4 5 6 7	

In this store:	Strongly Disagree	Strongly Agree
We have regular staff appraisals in which we discuss what employees want.	1 2 3 4 5 6 7	
Management meet with our employees at least once a year to find out what expectations they have of their jobs for the future.	1 2 3 4 5 6 7	
Management interact directly with our employees to find out how to make them more satisfied.	1 2 3 4 5 6 7	
We do a lot of internal market research.	1 2 3 4 5 6 7	
We are slow to detect changes in our employees' job preferences.	1 2 3 4 5 6 7	
We survey our employees at least once a year to assess the quality of employment.	1 2 3 4 5 6 7	
We often talk with or survey people to identify influences on our employees' behaviour (e.g. unions, sales representatives, customers).	1 2 3 4 5 6 7	

Section 3 (ctd): Finding out what your employees want

<i>In this store:</i>	Strongly Disagree						Strongly Agree
We collect information on local employment conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).	1	2	3	4	5	6	7
Information about firms competing for the same employees as us is generated independently by several sources.	1	2	3	4	5	6	7
We are slow to detect fundamental shifts in employment (e.g. competition, technology).	1	2	3	4	5	6	7
We periodically review the likely effect of industry changes (e.g. regulation) on our employees.	1	2	3	4	5	6	7
We undertake research to identify what factors influence employees (e.g. pay, autonomy, routines, etc.)	1	2	3	4	5	6	7
We survey our staff at least once a year to get information about their attitudes to their work.	1	2	3	4	5	6	7

Section 4: Communication about jobs in your store

Please indicate the extent to which you agree or disagree with the following statements

<i>In this store:</i>	Strongly Disagree						Strongly Agree
I let my boss know if my staff are not happy with their jobs.	1	2	3	4	5	6	7
I regularly meet with all my staff to report about issues relating to the whole organisation.	1	2	3	4	5	6	7
I regularly report back to my staff about issues, that affect their working environment.	1	2	3	4	5	6	7
Head office makes changes to working conditions,(e.g. pay, hours, etc,) with minimal consultation with the store managers.	1	2	3	4	5	6	7

Section 4 (ctd): Communication about jobs in your store

<i>In this store:</i>	Strongly Disagree						Strongly Agree
We have regular management meetings to discuss issues of employee motivation or worker morale.	1	2	3	4	5	6	7
A lot of informal shop floor talk concerns jobs with competing firms.	1	2	3	4	5	6	7
We have regular interdepartmental meetings in which we discuss trends and developments in the local employment market.	1	2	3	4	5	6	7
Staff spend time discussing their future employment plans.	1	2	3	4	5	6	7
We periodically circulate documents (e.g. reports and newsletters) that give information about employment conditions in the firm.	1	2	3	4	5	6	7
When something important happens to one of our employees or the workforce, the whole store knows about it in a short period.	1	2	3	4	5	6	7
Data on the satisfaction of our employees is communicated to all employees on a regular basis.	1	2	3	4	5	6	7
The different departments have minimal communications between them concerning developments in employment practices.	1	2	3	4	5	6	7
When one department finds out something important about jobs with our local competitors it is slow to alert other departments.	1	2	3	4	5	6	7
Communication between management and employees is good.	1	2	3	4	5	6	7
We have regular staff meetings with employees at all levels attending.	1	2	3	4	5	6	7
Managers are encouraged to let head office know about any dissatisfaction amongst their staff relating to working conditions.	1	2	3	4	5	6	7

Section 5: Dealing with staff issues

The following questions relate specifically to the staff in your store. Please indicate the extent to which you agree or disagree with the statements.

In this store:	Strongly Disagree						Strongly Agree
We modify working conditions based on what people tell us when they leave the firm.	1	2	3	4	5	6	7
If someone comes to me with a personal problem, I will always try to accommodate any changes in their working conditions that they request.	1	2	3	4	5	6	7
I help my staff to develop their careers in the direction that they want.	1	2	3	4	5	6	7
I allow my staff to start late or leave early to meet outside commitments.	1	2	3	4	5	6	7
It takes us forever to decide how to respond to local competitor's employment offers.	1	2	3	4	5	6	7
Efforts to create a better working environment are based on identifying different groups of employees with different needs.	1	2	3	4	5	6	7
For one reason or another, we tend to ignore changes in our employees' needs.	1	2	3	4	5	6	7
We periodically review the jobs that we offer to ensure that they are in line with what our employees want.	1	2	3	4	5	6	7
Work rotas are driven more by our needs than by researching what our employees want.	1	2	3	4	5	6	7
Several departments get together periodically to plan a response to employment changes taking place in our local business environment.	1	2	3	4	5	6	7
The salary that we offer depends more on internal politics than comparison with the local employment market.	1	2	3	4	5	6	7

Section 5 (ctd): Dealing with staff issues

Please indicate the extent to which you agree or disagree with the statements.

In this store:	Strongly Disagree						Strongly Agree
If a local competitor were to launch an intensive campaign targeted at recruiting our staff, we would immediately implement a response.	1	2	3	4	5	6	7
The activities of the different departments are well co-ordinated.	1	2	3	4	5	6	7
Employee complaints fall on deaf ears.	1	2	3	4	5	6	7
If we came up with a great new working system we probably would not be able to implement it in a timely fashion.	1	2	3	4	5	6	7
We are quick to respond to significant changes in our local competitors' employment practices.	1	2	3	4	5	6	7
When we find out that employees are unhappy with our supervision or management, we take corrective action.	1	2	3	4	5	6	7
When we find that employees would like us to modify their conditions of employment, the departments make concerted efforts to do so.	1	2	3	4	5	6	7
We make changes to what we do when employee feedback indicates that they are dissatisfied with the status quo.	1	2	3	4	5	6	7
We endeavour to balance the needs and wants of employees with those of the firm.	1	2	3	4	5	6	7
Employees who are identified as providing good service are given additional incentives to stay with the firm.	1	2	3	4	5	6	7
I have the authority to adjust wages to compensate for regional differences.	1	2	3	4	5	6	7
We ensure that salaries and bonus systems are competitive.	1	2	3	4	5	6	7
Regional salaries are adjusted to reflect the condition of the local labour market.	1	2	3	4	5	6	7

Section 5 (ctd): Dealing with staff issues

In this store:	Strongly Disagree						Strongly Agree
We adjust pay at the local level according to the local competition for jobs.	1	2	3	4	5	6	7
Employees have the opportunity to pursue a different career path within the organisation if they wish to.	1	2	3	4	5	6	7

Section 6: Getting to know your store's customers

Please indicate the extent to which you agree or disagree with the following statements.

In this store:	Strongly Disagree						Strongly Agree
We have meetings with our customers at least once a year to find out what products and services they will need in the future.	1	2	3	4	5	6	7
Individuals from our back office departments interact directly with our customers to learn how to serve them better.	1	2	3	4	5	6	7
We do a lot of local market research.	1	2	3	4	5	6	7
We are slow to detect changes in our customers' product preferences.	1	2	3	4	5	6	7
We survey our customers at least once a year to assess the quality of our products and services.	1	2	3	4	5	6	7
We often talk with or survey people who can influence our customers' purchases (e.g. sales representatives, consumer groups).	1	2	3	4	5	6	7
We collect information on the local market conditions by informal means (e.g. lunch with local industry friends, talks with trade partners).	1	2	3	4	5	6	7
Information on our local competition is generated independently by several sources.	1	2	3	4	5	6	7

Section 6 (ctd): Getting to know your store's customers

In this store:	Strongly Disagree						Strongly Agree
We are slow to detect fundamental shifts in our market (e.g. competition, technology).	1	2	3	4	5	6	7
In this store we periodically review the likely effect of industry changes (e.g. regulation) on our customers.	1	2	3	4	5	6	7

Section 7: Communication in your store about customers and competitors

Please indicate the extent to which you agree or disagree with the following statements.

In this store:	Strongly Disagree						Strongly Agree
A lot of informal shop floor talk concerns our competitors' tactics or strategies.	1	2	3	4	5	6	7
We have interdepartmental meetings to discuss trends and developments in the <u>local</u> market.	1	2	3	4	5	6	7
Staff spend time discussing customers' future needs.	1	2	3	4	5	6	7
We periodically circulate documents (e.g. reports and newsletters) that provide information on customers.	1	2	3	4	5	6	7
When something important happens to one of this store's major customers or markets, everyone knows about it in a short period.	1	2	3	4	5	6	7
Data on the satisfaction of our customers is disseminated to employees at all levels on a regular basis.	1	2	3	4	5	6	7
Departments have minimal communications between them.	1	2	3	4	5	6	7
When one department finds out something important about our <u>local</u> competitors it is slow to alert other departments.	1	2	3	4	5	6	7

APPENDIX 8

Section 8 (ctd): Marketing management in your store

In this store:	Strongly Disagree						Strongly Agree
We are quick to respond to significant changes in our local competitors' pricing structures.	1	2	3	4	5	6	7
When we find out that customers are unhappy with the quality of our service, we take corrective action.	1	2	3	4	5	6	7
When we find that customers would like us to modify a product of service, the departments involved make concerted efforts to do so.	1	2	3	4	5	6	7

Section 9: How happy are your staff?

Please indicate the extent to which you agree or disagree with the statements.

Staff in this store generally:	Strongly Disagree						Strongly Agree
Are generally happy working here.	1	2	3	4	5	6	7
Are happy to put in extra effort when I need them to.	1	2	3	4	5	6	7
Are happy to take on more responsibility.	1	2	3	4	5	6	7
Do not take time off for minor illnesses.	1	2	3	4	5	6	7
Are well motivated.	1	2	3	4	5	6	7
Are willing to help out if I need them to.	1	2	3	4	5	6	7
Will manage themselves if I am away for a couple of days.	1	2	3	4	5	6	7
Are reluctant to spend more time than they have to at work.	1	2	3	4	5	6	7
Do not need to be chased up to make sure that jobs are done on time.	1	2	3	4	5	6	7

In this store:	Strongly Disagree						Strongly Agree
We do not have a high turnover of staff.	1	2	3	4	5	6	7
The atmosphere is positive.	1	2	3	4	5	6	7
We rely heavily on the goodwill of our staff to get things done.	1	2	3	4	5	6	7

APPENDIX 8

Section 9 (ctd): How happy are your staff?

Please indicate the extent to which you agree or disagree with the statements.

<i>In this store:</i>	Strongly Disagree						Strongly Agree
Staff stay with us for a long time.	1	2	3	4	5	6	7
We have a lower turnover of staff than stores in our company.	1	2	3	4	5	6	7
Most employees have been with us for five years or more.	1	2	3	4	5	6	7
Most people who leave do so within the first year of employment.	1	2	3	4	5	6	7
We have a lower absenteeism rate here than other stores in our company.	1	2	3	4	5	6	7
Very few people call in sick.	1	2	3	4	5	6	7
We do not carry extra capacity to cover for people who are absent.	1	2	3	4	5	6	7
Staff are always smart and well presented.	1	2	3	4	5	6	7
I rarely have to check that work has been done properly.	1	2	3	4	5	6	7
I am happy with how my staff perform.	1	2	3	4	5	6	7
Staff are aware of the image that the company wishes to develop.	1	2	3	4	5	6	7
Staff act in a way which is consistent with the image that the company wishes to develop.	1	2	3	4	5	6	7
Many of the staff know the names of our regular customers.	1	2	3	4	5	6	7

Section 10: How happy are your customers?

Please indicate the extent to which you agree or disagree with the following statements.

<i>Customers of this store:</i>	Strongly Disagree						Strongly Agree
Are satisfied with the service that they receive.	1	2	3	4	5	6	7
Are very loyal to this store.	1	2	3	4	5	6	7
Receive a very friendly service from staff.	1	2	3	4	5	6	7

Section 10 (ctd): How happy are your customers?

Please indicate the extent to which you agree or disagree with the following statements

	Strongly Disagree						Strongly Agree
I would be happy to be one of our customers	1	2	3	4	5	6	7
We pride ourselves on the friendliness of our staff.	1	2	3	4	5	6	7
Customer service is the key factor that differentiates us from our competitors.	1	2	3	4	5	6	7
The firm emphasises the friendliness of our staff in advertising.	1	2	3	4	5	6	7
We receive fewer complaints from our customers than other stores.	1	2	3	4	5	6	7
We receive a significant number of letters from customers complimenting us on what we do.	1	2	3	4	5	6	7
We receive a significant number of letters complaining about service.	1	2	3	4	5	6	7

Section 11: How well does your store perform?

Please express your agreement or disagreement to the following statements about the performance of your store

This store:

	Strongly Disagree						Strongly Agree
Achieves the financial targets set by head office.	1	2	3	4	5	6	7
Increases financial performance year on year.	1	2	3	4	5	6	7
consistently outperforms our <u>local</u> competitors.	1	2	3	4	5	6	7
Adds value to the whole business.	1	2	3	4	5	6	7
Has a significant impact on the fortunes of the whole organisation.	1	2	3	4	5	6	7
Has higher sales than our <u>local</u> competitors.	1	2	3	4	5	6	7
Has very little spare capacity in our operations.	1	2	3	4	5	6	7
Has higher profits than other stores in our firm.	1	2	3	4	5	6	7
Has a significant impact on the <u>local</u> economy.	1	2	3	4	5	6	7
Has a significant impact on the national economy.	1	2	3	4	5	6	7

Section 12: Your local employment market

*Please indicate the extent to which you agree or disagree with the following items
In this area:*

	Strongly Disagree						Strongly Agree
There is a high level of unemployment.	1	2	3	4	5	6	7
It is difficult to recruit staff.	1	2	3	4	5	6	7
There is a lot of competition for the type of staff that we require in our store.	1	2	3	4	5	6	7

Section 13: Classification data

Please indicate your age

YRS

Please indicate your gender

Female	
Male	

Please estimate the percentage of your time spent in contact with your customers?

Please estimate the time you spend in contact with your front line employees?

	%		%
--	---	--	---

Section 13 (ctd): Classification data

How long have you been employed by this company?

years	months
--------------	---------------

How long have you been in your current position?

years	months
--------------	---------------

Number of employees in your store

Of which

Part time	Full time
------------------	------------------

Total sales last year in your store

£

What extent of training have you received from within your company for this position?

Limite d	Moderat e	Extensive		
1	2	3	4	5

What highest level of education have you completed?

O' Level/GCSE/equivalent	
A' Level/equivalent	
HND/HNC/equivalent	
Bachelor's Degree	
Master's Degree	
Doctorate	

Section 13 (ctd): Classification data

With respect to your store please indicate whether the following have increased or decreased or remained static over the past three-(3) years.

	Large increase		Remain the same			Large decrease	
	1	2	3	4	5	6	7
Number of Employees	1	2	3	4	5	6	7
Sales (£ value)	1	2	3	4	5	6	7
Staff turnover	1	2	3	4	5	6	7

Section 14: Your general behaviour

With particular reference your personal behaviour, please indicate your response to the following statement by circling TRUE (T) or FALSE (F).

It is sometimes hard for me to go on with my work if I am not encouraged.	T	F	I sometimes try to get even rather than to forgive and forget.	T	F
I sometimes feel resentful when I don't get my own way.	T	F	I am always courteous, even to people who are disagreeable.	T	F
On a few occasions I have given up doing something because I thought too little of my ability.	T	F	I have never been irked, even when people expressed ideas very different from my own.	T	F
There have been times when I felt like rebelling against people in authority even though I knew they were right.	T	F	There have been times when I have been quite jealous of the good fortune of others.	T	F
There have been occasions when I have taken advantage of someone.	T	F	I have never felt that I was punished without cause.	T	F
I am always willing to admit when I have made a mistake.	T	F	I have never deliberately said something that hurt someone's feelings.	T	F
No matter who I'm talking to I am always a good listener.	T	F			

APPENDIX 8

**THANK YOU VERY MUCH.
YOUR CONTRIBUTION TO THIS RESEARCH IS APPRECIATED.**

**PLEASE RETURN THE COMPLETED QUESTIONNAIRE TO ME AT THE
BUSINESS SCHOOL BY AUGUST 1ST.1999
AN ADDRESSED ENVELOPE IS PROVIDED.**

**Ian Lings
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Follow up Reminder Card used for Main Survey.

<p>Dear Sir/Madam,</p> <p>Recently I wrote to you about: EMPLOYEE ORIENTATION IN THE UK RETAIL SECTOR.</p> <p>If you have already completed the questionnaire, sorry for bothering you.</p> <p>If you have not yet had the chance to complete the questionnaire, I would be very grateful if you could do so.</p> <p>I am aware that this is an imposition on your busy schedule, but your response could make the difference between the success and failure of the study, and my PhD as well.</p> <p>If you require another copy, please do not hesitate to contact me at Aston Business School, on 0121 359 3011, fax 0121 333 4313 or email i.n.lings@aston.ac.uk</p> <p>Many thanks in anticipation of your help</p>	 <p>ASTON BUSINESS SCHOOL</p>	 <p>Aston University</p> <p>Illustration removed for copyright restrictions</p>
<p><i>Ian Lings</i></p>		

Pattern Matrix illustrating component structure, factor loadings and Cronbach's Alpha for Employee Orientation

FACTOR 1								
GROUP INTERACTION								
		1	2	3	4	5	6	Alpha
Management meet with our employees at least once a year to find out what expectations they have of their jobs for the future	EAMEET	0.85						
We have regular staff appraisals in which we discuss what employees want	EAAPPR	0.77						0.81
Management interact directly with our employees to find out how to make them more satisfied	EAINTERA	0.74						
We have regular staff meetings with employees at all levels attending	EDMEET	0.62						
FACTOR 2								
LOCAL WAGE FLEXIBILITY								
We adjust pay at the local level according to the local competition for jobs	ERLOCPAY		0.86					
I have the authority to adjust wages to compensate for regional differences	ERWAGES		0.85					0.75
Regional salaries are adjusted to reflect the condition of the local labour market	ERSALARY		0.71					
FACTOR 3								
COLLEGIAL INTERACTION								
I try to find out my employees' real feelings about their jobs	EAFEEL			0.89				
If I notice one of my employees is acting differently to normal I will try to find out if there is a problem which is causing a change in behaviour	EAPROB			0.80				0.83
I regularly talk to my staff to find out about their work	EATALKW O			0.76				
I try to find out what employees want from the company	EAFIND			0.64				

Appendix 10

FACTOR 4									
JOB FLEXIBILITY									
Information about firms competing for the same employees as us is generated independently by several sources	ERLATE					0.84			0.64
We collect information on local employment conditions by informal means (e.g. lunch with local industry friends, talks with trade partners)	ERACCOM					0.80			
Several departments get together periodically to plan a response to employment changes taking place in our local business environment	ERMODIFY					0.55			
FACTOR 5									
EXTERNAL ENVIRONMENT									
Information about firms competing for the same employees as us is generated independently by several sources	EACOMP					0.78			0.65
We collect information on local employment conditions by informal means (e.g. lunch with local industry friends, talks with trade partners)	EACOND					0.71			
Several departments get together periodically to plan a response to employment changes taking place in our local business environment	ERPLAN					0.69			
FACTOR 6									
FORMAL INTERACTION									
We survey our staff at least once a year to get information about their attitudes to their work	EAATTIT							0.79	0.81
We often talk with or survey people to identify influences on our employees' behaviour (e.g. unions, sales representatives, customers)	EAINFLRS							0.77	
We do a lot of internal market research	EAIMR							0.63	

Extraction Method: Principal Component Analysis. Rotation Method: Oblimin with Kaiser Normalization.

a Rotation converged in 12 iterations.

Internal Market Orientation Scale Items

FACTOR 1-GROUP INTERACTION

1. We have regular staff appraisals in which we discuss what employees want
2. We have regular staff meetings with employees at all levels attending
3. Management meet with our employees at least once a year to find out what expectations they have of their jobs for the future
4. Management interact directly with our employees to find out how to make them more satisfied

FACTOR 2-LOCAL WAGE FLEXIBILITY

1. I have the authority to adjust wages to compensate for regional differences
2. We adjust pay at the local level according to the local competition for jobs
3. Regional salaries are adjusted to reflect the condition of the local labour market

FACTOR 3-COLLEGIAL INTERACTION

1. I try to find out my employees' real feelings about their jobs
2. If I notice one of my employees is acting differently to normal I will try to find out if there is a problem which is causing a change in behaviour
3. I regularly talk to my staff to find out about their work
4. I try to find out what employees want from the company

FACTOR 4-JOB FLEXIBILITY

1. I allow my staff to start late or leave early to meet outside commitments
2. If someone comes to me with a personal problem, I will always try to accommodate any changes in their working conditions that they request.
3. When we find that employees would like us to modify their conditions of employment, the departments involved make concerted efforts to do so.

FACTOR 5-EXTERNAL ENVIRONMENT

1. Information about firms competing for the same employees as us is generated independently by several sources
2. We collect information on local employment conditions by informal means (e.g. lunch with local industry friends, talks with trade partners)
3. Several departments get together periodically to plan a response to employment changes taking place in our local business environment

FACTOR 6-FORMAL INTERACTION

1. We survey our staff at least once a year to get information about their attitudes to their work
2. We often talk with or survey people to identify influences on our employees' behaviour (e.g. unions, sales representatives, customers)
3. We do a lot of internal market research

Performance Scale Items

FACTOR 1 STAFF RETENTION

PS5YRS	Most employees have been with us for 5 years or more
PSLOWTO	We have a lower turnover of staff than other stores in our company
PSSTAY	Staff stay with us for a long time
PSTURNOV	We do not have a high turnover of staff

FACTOR 2 FINANCIAL PREFORMACE

PFPROFIT	This store has higher profits than other stores in our firm
PFVALUE	This store adds value to the whole business
PFSALES	This store has higher sales than our local competitors

FACTOR 3 STAFF COMPLIANCE

PSHAPPY	Staff in this store are generally happy working here
PSATMOS	In this store the atmosphere is positive
PSHELP	Staff in this store are willing to help out if I need them to.

Local Market Orientation scale items

FACTOR 1 RESPONSIVENESS

MRPOLITI	The product lines that we sell depend more on internal politics than real needs of the local market
MRCOPRIC	It takes us forever to decide how to respond to local competitors' price changes
MRRESP	If a major local competitor were to launce an intensive campaign targeted at our customers, we would implement a response immediately
MACHANGE	We are slow to detect changes in our customers' product preferences

FACTOR 2 INFORMATION DISSEMINATION

MDSHOP	A lot of informal shop floor talk concerns our competitors tactics or strategies
MDMEET	We have interdepartmental meetings to discuss trends and developments in the local market
MDSTAFF	Staff spend time discussing customers future needs

FACTOR 3 INFORMATION ACQUISITION

MACUST	We have meetings with our customers at least once a year to find out what products and service they will need in the future
MASURVEY	We survey our customers at least once a year to assess the quality of our products and services
MAINFLUE	We often talk with or survey people who can influence our customers' purchase (e.g. sales representatives, consumer groups)

Standardised loadings, standard errors, t-values, construct composite reliabilities and variance extracted for employee orientation items (6 correlated dimensions of employee orientation)

	JOB	WAGE	EXTERNAL	COLLEGIA	GROUP	FORMAL	Composite Reliability, (Variance Extracted)
EAATTIT						0.85 (0.05) 18.54	0.82 (0.61)
EAINFLRS						0.72 (0.05) 14.87	
EAIMR						0.76 (0.05) 15.93	
EAMEET					0.88 (0.04) 20.47		0.88 (0.66)
EAAPPR					0.84 (0.04) 18.94		
EAINTERA					0.85 (0.04) 19.25		
EDMEET					0.97 (0.05) 13.79		
EAFEEL				0.79 (0.05) 16.89			0.85 (0.59)
EATALKWO				0.76 (0.05) 15.88			
EAPROB				0.71 (0.05) 14.54			
EAFIND				0.79 (0.05) 16.79			
EACOMP			0.71 (0.05) 12.93				0.71 (0.45)
EACOND			0.76 (0.05) 13.85				
ERPLAN			0.52 (0.06) 9.17				

Appendix 12

ERLATE	0.44 (0.06) 7.19						0.60 (0.35)
ERACCOM	0.56 (0.06) 9.34						
ERMODIFY	0.73 (0.06) 11.76						
ERLOCPAY			0.82 (0.05) 14.97				0.71 (0.46)
ERWAGES			0.55 (0.06) 9.90				
ERSALARY			0.63 (0.06) 11.36				