

How critical is internal customer orientation to market orientation?☆

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Abstract

This paper investigates the relationship between internal customer orientation and market orientation. It builds on the notion that organisational dynamics and managerial action in areas such as employee training, effective communication systems, and managing human resources are critical to building an internal customer orientation and consequently, a market orientation. A path model is used to investigate the direct and indirect impact of hypothesised variables on internal customer orientation and market orientation. The findings suggest that integration between departments, the dissemination of market intelligence, and management support for a market orientation are important for its development, however, training programs may not be effective. The results are based on a study of Australian based companies extensively involved in international marketing. © 2000 Elsevier Science Inc. All rights reserved.

Keywords: Internal customer orientation; Market orientation; Path model

1. Introduction

Marketing literature has emphasized the importance of developing a market orientation within an organisation (Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1993). Implicit in some of this literature is the notion that to develop a market orientation, employees should be encouraged not to only focus on the needs of the end customer but also to recognize other employees as internal customers (Mohr-Jackson, 1991). However, the customer orientation literature has focused predominantly on the importance of external customers (Mohr-Jackson, 1991; Lukas and Maignan, 1996), and pays little attention explicitly to the role of internal customers (Mohr-Jackson, 1991). To provide superior value to the external customer, it is important that superior value is provided at each point of the value chain. Hence, internal suppliers need to focus on satisfying the requirements of their internal customers, demonstrating an internal customer orientation. This will ensure the development of a customer and market orientation throughout the organisation (Hauser et al., 1996) and not limit this orientation to

the point of customer contact. It could also be argued that personnel who effectively manage internal customers would demonstrate similar, appropriate behavior when interacting with external customers. The development of an internal customer orientation is particularly important in an organisation with an international marketing strategy, as internal customers may be in foreign markets and direct contact with the external customer may be limited or non-existent. Finally, attention to internal customer orientation allows managers to discover antecedents to a market orientation and gain further insight into how to effectively manage them.

This paper discusses and empirically tests the nature of the relationship between an internal customer orientation and a market orientation. Internal marketing and management processes and organisational dynamics are proposed as antecedents to the development of an internal customer orientation, and the direct and indirect effect of these variables on market orientation are examined. The companies in this study have extensive international marketing activities, one operates in more than 70 countries worldwide, the second operates in 16 countries across Europe and Southeast Asia, the third company has global operations through partnerships in providing services to the motoring public. The basis for selecting the organisations and concentrating on their Australian operations is discussed in the methodology section below.

☆ Both authors have made equal contributions to this paper.

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2. Internal customer orientation

It is recognized in the marketing literature that all employees of an organisation are internal customers (Gummesson, 1987; Bowen and Schneider, 1988; George, 1990; Lukas and Maignan, 1996). The notion of an internal customer suggests that every employee is both a supplier and a customer to other employees within the organisation (Gronroos, 1981; Foreman and Money, 1995). Internal customers generate goods and services for the end customer and, as such, are crucial to providing customer satisfaction (Mohr-Jackson, 1991). Employees must receive the best possible quality product from those upstream in the chain of production, if they are to provide a high quality product to those downstream (Lukas and Maignan, 1996). Therefore, it is important that employees who do not come into contact with external customers, “support personnel” or “part-time marketers,” also perform in a customer oriented manner when they serve internal customers (George, 1990; Gronroos, 1990).

Kohli and Jaworski (1990) suggested that to be market oriented, an organisation should endeavor to generate market intelligence about the needs and preferences of the customers and competitors and disseminate this information throughout the organisation. Mohr-Jackson (1991) proposes an extended concept of customer orientation to include internal customers and notes that this requires additional activities. These include (1) understanding internal customers’ requirements for the effective delivery of needs and preferences of external customers, (2) obtaining information about external customers’ needs and preferences through effective interdepartmental communication, and (3) creating additional final buyer value by increasing internal customer benefits. In addition, other researchers have recommended evaluating employee markets to increase the knowledge of internal customer requirements (George, 1990).

An internal customer orientation should be part of an organisational culture, and guide the attitudes and behaviors of organisation members to deliver quality to other employees (Lukas and Maignan, 1996). By embracing an internal customer orientation into the organisational culture, newcomers to the organisation will learn consistent standards and objectives in this regard (Lukas and Maignan, 1996).

The importance of developing an internal customer orientation was originally highlighted in the service literature. Berry (1981) acknowledged the importance of employees in dealing with the external customer, recognizing that employees’ satisfaction and support of the overall marketing strategy was essential for external customer satisfaction. This link between internal customer satisfaction and external customer satisfaction has since been widely advocated (Flipo, 1986; George, 1990) but with little supporting empirical evidence. A similar, implicit link is assumed between internal customer orientation and market orientation. It is believed that to ingrain a customer and market orientation deep into an organisation, internal suppliers should focus on serving the internal customer (Hauser et al., 1996) as well as the external customer.

3. Market orientation

Narver and Slater (1990) define market orientation as “the organisation culture that most effectively creates the necessary behaviors for the creation of superior value for buyers and thus continuous superior performance for the business,” (p. 21). The desire to achieve this drives an organisation to create and maintain a culture that will produce the necessary market oriented behavior from employees (Narver and Slater, 1990).

Narver and Slater’s (1990) model of market orientation consists of three conceptually closely related and equally important behavioral constituents; customer orientation, competitor orientation and inter-functional coordination, which yielded a uni-dimensional second factor (market orientation). However, the dimensionality of this model has been questioned by Siguaw and Diamantopoulos (1995) who did not find an adequate data fit for either one factor model (representing a uni-dimensional formulation) nor a three-factor model (representing a multidimensional specification). Despite this, the Narver and Slater (1990) model has been found to be the most robust measure of market orientation, both in terms of its application by other researchers and according to confirmatory factor analysis (Matear et al., 1997).

The benefits of market orientation have been disputed in the literature (Greenley, 1995; Slater and Narver, 1996). Studies from the US have generally suggested positive relationships between market orientation and several measures of performance (Ruekert, 1992; Deshpande et al., 1993; Jaworski and Kohli, 1993; Slater and Narver, 1994; Atuahene-Gima, 1996; Balakrishnan, 1996), while European studies have been inconsistent (Diamantopoulos and Hart, 1993; Greenley, 1995). Evidence of positive relationships has been found between market orientation and profitability (Cole et al., 1993), profitability relative to largest competitor (Deshpande et al., 1993; Balakrishnan, 1996), satisfaction with profit (Balakrishnan, 1996), operating profits, profit–sales ratio, cash flow, return on investment (Pelham and Wilson, 1996), return on assets relative to competitors (Slater and Narver, 1994; Pelham and Wilson, 1996), long run financial performance (Ruekert, 1992), product innovation (Atuahene-Gima, 1996) and new product success (Slater and Narver, 1994; Atuahene-Gima, 1996). The general relationship between market orientation and performance has been found to be moderated by the environmental situation (Jaworski and Kohli, 1993; Slater and Narver, 1994). Therefore, to provide further insight into this relationship, this study will be based in an environment removed from the US and Europe, i.e. Australia.

The benefits of a market orientation can be theoretically supported, as market orientation provides a unifying focus and clear vision to an organisation’s strategy centered around creating superior value for customers (Kohli and Jaworski, 1990). As the strategy reflects mutually consistent goals, objectives and policies, effective interdepartmental relation-

ships enhance the performance of an organisation (Kohli and Jaworski, 1990). Incorporating market orientation as an organisational goal should lead to a better work environment for employees, increased productivity, and overall organisational success (Cole et al., 1993). Similar benefits to these would arise from an internal customer orientation. As internal customer orientation is a critical part of an organisational culture (Lukas and Maignan, 1996), it would also provide a unifying focus to an organisation's strategy and facilitate interdepartmental relationships. As each employee in the chain of production would be fully aware of the requirements of their internal customer (Lukas and Maignan, 1996), it would result to high quality products and increased customer satisfaction. The synergies created by interdepartmental cooperation should result in increased organisational performance.

These similarities, and others, provide an implicit link between market orientation and internal customer orientation. This link is often assumed in the literature (Gronroos, 1990; Hauser et al., 1996; Lukas and Maignan, 1996), but the association is yet to be empirically verified. Nevertheless, it can be theoretically proposed that an internal customer orientation facilitates the development of a market orientation. This association is the principal hypothesis of this paper.

H1: Internal customer orientation has a significant and positive relationship with market orientation.

4. Antecedents to an internal customer orientation

4.1. Internal marketing processes

Research has previously focused on organisational dynamics as antecedents to a market orientation (Kohli and Jaworski, 1990). Although an understanding of the impact of these variables is essential, and will be discussed below, managers are concerned with particular activities that can be implemented to develop a market orientation within an organisation. By defining internal marketing as a management philosophy that provides a systematic framework for managing employees toward a market orientation (Gronroos, 1990), literature suggests internal marketing processes be considered antecedents simultaneously to internal customer orientation and market orientation. From this definition, any function that has an impact, positive or negative, on the market orientation of employees could be considered an internal marketing activity. However, typical internal marketing activities can be identified and categorized to provide a framework for evaluating their implications and effectiveness (Gronroos, 1990). For the purposes of this paper, the internal marketing processes have been categorized into five broad domains reflecting those categories conceptualized by Gronroos (1990), i.e. market training and education; management support; internal communication; personnel management,

and employee involvement in external communication. It is important to look at each of these variables to examine their contribution to an internal customer orientation and their consequential effect on market orientation.

4.1.1. Market training and education

It is essential to the organisational development of a market orientation that employees gain an understanding of the concept and their roles within a market oriented organisation. Training programs can convey the importance and nature of a market orientation (Gronroos, 1990), as well as provide employees with the specialized skills and sensitivity to customer needs required to implement a market orientation (Ruekert, 1992). Training can assist employees in developing a holistic view of a service strategy by providing them with an understanding of the role of each individual in relation to other individuals, the various functions within the firm, and the customers (Gronroos, 1990). In addition, a training program is a convenient basis from which to dispel any negative attitudes toward the development of a market orientation (Piercy, 1995). Improving attitudes toward market orientation increases its likelihood of becoming ingrained into the organisation's culture (Gronroos, 1990). It is therefore proposed that training be utilized to develop both an internal customer orientation and a market orientation within an organisation.

H2a: Employee market training and education has a significant and positive relationship with internal customer orientation.

H2b: Employee market training and education has a significant and positive relationship with market orientation.

If H1 is supported and internal customer orientation is significantly related to market orientation, then the antecedents of internal customer orientation would be expected to have an effect on market orientation, either directly or indirectly. Support for each variable's relationship with market orientation is provided in the discussion below. It is important to recognize that a variable impacting positively on an internal customer orientation will provide flow on effects through market orientation, and therefore, may have a positive and significant indirect relationship with this variable. Arising from this logic, all of the part (b) hypotheses are corollary to part (a), except that they refer to market orientation.

4.1.2. Management support

The role of senior management has emerged as an essential prerequisite to fostering both an internal customer orientation and a market orientation (Webster, 1988; Gronroos, 1990; Jaworski and Kohli, 1993; Lukas and Maignan, 1996). It is the responsibility of senior management to establish a climate conducive to a market

orientation (Gronroos, 1990), and encourage and commend market oriented behaviors among employees. Without this continual reinforcement of market oriented ideas, employees revert to their former attitudes and behaviors (Gronroos, 1990). Organisational leaders are role models and as such must demonstrate their dedication to internal customers (Lukas and Maignan, 1996) and external customers (Jaworski and Kohli, 1993). Managers' everyday actions need to reflect this commitment through involving employees in planning (Gronroos, 1990), paying attention to employees (Lukas and Maignan, 1996), and being responsive to the suggestions of employees (Jaworski and Kohli, 1993; Lux et al., 1996). It can therefore be hypothesised that the greater management support for an internal customer orientation and market orientation, the higher the level of these characteristics will be throughout the organisation.

H3a: Management support to employees has a significant and positive relationship with internal customer orientation.

H3b: Management support to employees has a significant and positive relationship with market orientation.

4.1.3. Internal communication

Effective communication within an organisation is necessary for the development of an internal customer orientation and a market orientation. Employees need information to be able to perform their tasks as service providers to internal and external customers (Gronroos, 1990). They need to communicate their own requirements (internal customer orientation) as well as their findings regarding external customer needs (market orientation) (Gronroos, 1990). Two-way communication between managers and employees not only enhances management support, but also provides employees with feedback to improve their job performance (Gronroos, 1990). Employees require information on customer needs, on their organisation, and on how their contribution is vital to the organisation and its customers. It can therefore be hypothesised that effective internal communication will improve internal customer orientation and market orientation.

H4a: Internal communication has a significant and positive relationship with internal customer orientation.

H4b: Internal communication has a significant and positive relationship with market orientation.

4.1.4. Personnel management

The design and implementation of human resource policies can improve the market orientation of an organisation (Gronroos, 1990). Previous research has illustrated that reward systems are instrumental in shaping the beha-

viour of employees (Lawler and Rhode, 1976; Anderson and Chambers, 1985; Jaworski, 1988). Reward systems can provide the motivation for employees to adopt new behaviors and attitudes consistent with a market orientation (Ruekert, 1992; Hauser et al., 1996). Reward systems must provide an incentive for adopting market oriented behaviors, rather than rewarding short-term profits or sales (Jaworski and Kohli, 1993). If internal customer values are required, then the incentives should reward any effort aimed at providing internal customers with the best possible quality (Mohr-Jackson, 1991; Hauser et al., 1996; Lukas and Maignan, 1996).

Customer-focused employees are an asset, therefore, it is critical to retain these employees by maintaining satisfactory human resource policies (Gronroos, 1990). Efficient recruitment and selection practices have been found to have a strong association with the level of market orientation within an organisation (Ruekert, 1992). It is more efficient to recruit personnel with an existing commitment to a market orientation, or who have skills conducive to the market orientation of the organisation, than to train an employee to have these characteristics (Gronroos, 1990; Ruekert, 1992). Therefore, human resource policies designed to attract, retain and reward personnel for appropriate behaviors, should advocate market orientation and internal customer orientation (Gronroos, 1990).

H5a: Human resource practices have a significant and positive relationship with internal customer orientation.

H5b: Human resource practices have a significant and positive relationship with market orientation.

4.1.5. Employee involvement in external communication

Employees are exposed to, and influenced by, communication campaigns aimed at external customers. If the objectives of advertisements directed at external customers are not fully explained to employees, they may become confused about the objectives and vision of the organisation and their purpose within that organisation (Gronroos, 1990). If this situation eventuates, employees may act in a manner counter to the organisation's push for a market orientation (Gronroos, 1990). Presenting advertising campaigns, brochures, and other items to employees before they are launched externally may decrease this confusion. One step further would be to develop such campaigns in cooperation with the employee groups affected by the external communication effort (Piercy, 1995). These activities will ensure that the employees remain focused on the external customer (Gronroos, 1990). Employees' experiences with the product and the external communication create an opportunity for them to provide the organisation with feedback. This would strengthen an employees sense of involvement in the campaign and therefore, strengthen their commitment to being market oriented (Gronroos, 1990). This involvement

in external communication is not expected to impact on an employee's internal customer orientation.

H6: Employee involvement in external communication has a significant and positive relationship with market orientation.

4.2. Organisational dynamics

In conjunction with internal marketing, particular organisational dynamics should be encouraged to assure the development of an internal customer orientation and a market orientation. Jaworski and Kohli (1993) illustrate that interdepartmental integration (connectedness) and interdepartmental conflict are antecedents to market orientation, and suggest that organisational commitment may also lead to market orientation. The empirical relationship between intelligence generation and intelligence dissemination (Kohli and Jaworski, 1990) and customer and competitor orientation (Narver and Slater, 1990) is unclear and should be investigated further. It is proposed that the antecedents to market orientation are simultaneously antecedents to internal customer orientation and are a legitimate area for investigation. It is therefore important to investigate the contribution of organisational dynamics to an internal customer orientation.

4.2.1. Organisational commitment

Organisational commitment is a desirable employee characteristic, commonly defined as a perceived alliance between the individual and the organisation that is characterised by employee involvement, effort, and loyalty (Jaworski and Kohli, 1993). Organisations with high levels of market orientation have been found to elicit greater organisational commitment from their employees (Ruekert, 1992; Jaworski and Kohli, 1993; Sigauw et al., 1994). Market orientation is postulated to nurture a bonding between employees and the organisation (Jaworski and Kohli, 1993). However, it could be proposed that employees exhibiting an existing strong commitment to the organisation are more inclined to accept the organisation's objectives and values, including internal customer orientation and market orientation, and adopt them as their own. Previous evidence has suggested that organisational commitment facilitates a customer orientation (Kelley, 1992), but the nature of the relationship with internal customer orientation and market orientation requires further examination. Hence, the hypotheses below are formulated.

H7a: The commitment of employees to the organisation has a significant and positive relationship with internal customer orientation.

H7b: The commitment of employees to the organisation has a significant and positive relationship with market orientation.

4.2.2. Intelligence generation

For an organisation to exhibit a customer orientation and a competitor orientation, one or more departments within the organisation must identify the needs and preferences of customers and competitors (Kohli and Jaworski, 1990). A company must undertake a wide range of formal and informal activities that will enable it to understand customers' current and future requirements and competitors' current and future strengths, weaknesses and strategic thrust (Kohli and Jaworski, 1990). Employees who undertake intelligence generation are likely to be responsive to information they receive about customers and competitors, and therefore, demonstrate a greater level of customer orientation, competitor orientation, and inter-functional coordination. The measure of intelligence generation used for this study focused on the generation of market intelligence (external customers). Hence, no hypothesis is made here with regard to internal customer orientation.

H8: Intelligence generation has a significant and positive relationship with market orientation.

4.2.3. Intelligence dissemination

To facilitate a market orientation, market intelligence should be disseminated across and within all departments (Webster, 1988; Kohli and Jaworski, 1990). This ensures that all personnel have access to appropriate information to proactively anticipate and to creatively respond to current customer needs (Kohli and Jaworski, 1990) and the competitive environment. Similar to intelligence generation, employees who engage in disseminating customer and competitor information are likely to be responsive to information they receive, and therefore, demonstrate a greater level of customer orientation, competitor orientation, and inter-functional coordination. Disseminating market intelligence allows departments to add value to the information and incorporate it in their decision making. This facilitates an internal customer orientation as well as ensuring that departments coordinate their activities to satisfy external customer needs, hence, facilitating inter-functional coordination.

H9a: Intelligence dissemination has a significant and positive relationship with internal customer orientation.

H9b: Intelligence dissemination has a significant and positive relationship with market orientation.

4.2.4. Interdepartmental integration

Previous research has demonstrated a relationship between Kohli and Jaworski's (1990) model of market orientation and interdepartmental connectedness (integration) (Kohli and Jaworski, 1990; Selnes et al., 1996). Interdepartmental integration is theorised to facilitate interaction, and thereby ensure the necessary information dis-

semination occurs between departments to actualise a market orientation (Kohli and Jaworski, 1990). However, the relationship between interdepartmental integration (Kohli and Jaworski 1990) and inter-functional coordination (Narver and Slater 1990) is yet to be identified. Such a relationship could be expected, as a degree of formal and informal contact between departments, in the absence of any conflict, would stimulate inter-functional coordination. Employees' interaction across departments provides a greater opportunity for the resources of departments, including customer and competitor knowledge, to be coordinated and integrated to create superior value for customers. This promotes inter-functional coordination and also stimulates customer orientation and competitor orientation. It is hypothesised that this interdepartmental integration is even more critical for the development of an internal customer orientation.

H10a: Interdepartmental integration has a significant and positive relationship with internal customer orientation.

H10b: Interdepartmental integration has a significant and positive relationship with market orientation.

4.2.5. Interdepartmental conflict

Interdepartmental conflict inhibits the development of a market orientation (Jaworski and Kohli, 1993). Individuals in organisations in which tension prevails across departments are less likely to be willing to share information on customer requirements or to work in concert to satisfy these needs and expectations (Jaworski and Kohli, 1993). Limited information dissemination would reduce the customer and competitor orientation of employees and inhibit the coordination of resources toward providing superior value. It can be proposed that this relationship will be equally relevant for internal customer requirements as it is for external customer requirements.

H11a: Interdepartmental conflict has a significant and negative relationship with internal customer orientation.

H11b: Interdepartmental conflict has a significant and negative relationship with market orientation.

5. Methodology

5.1. Sample

The sample for this study was derived from three Australian-based organisations. These organisations were among the top performers, in Australia and internationally, in their respective industries; automotive, insurance, and personal and other services (Business Review Weekly,

1996). The companies were selected on the basis that they had extensive international marketing activities and were financially successful. Since the aim of this study was to investigate the extent to which internal customer orientation influences market orientation, the participant companies were selected on the expectation that they had already developed a sound market orientation. The study was initially limited to Australia on the assumption that internal customer orientation and market orientation were key ingredients of an organisational culture which would not vary much across countries for the same organisation. A detailed examination of the organisations' international marketing activities and strategies was undertaken and supplemented with in-depth interviews with senior managers. After careful examination, the Australian operations of these corporations were considered appropriate surrogates for their global activities. Therefore, while this study focuses on Australia, the conclusions and implications apply to the international marketing activities of our sample.

Questionnaires were distributed to employees at different management levels and from several departments within these organisations in a way that preserved the proportions within the organisation. Obtaining a representative sample was important for capturing the overriding culture of the organisation. Previous research has been criticised for focusing on senior management and not capturing the market orientation of general employees. A total of 650 questionnaires were distributed (200, 250, and 200, respectively). The data collection procedures were designed to ensure the anonymity of respondents. The respondents were clearly informed that participation was voluntary and the anonymity of respondents was ensured. Each company also provided a covering letter outlining the purpose of the study and stating that participation in the survey was voluntary. A reminder notice was sent to employees 2 weeks after they received the questionnaire. In total, 368 responses were returned, four of which were unusable because of missing data. Hence, a response rate of 57% was obtained; 67%, 58%, and 47% for each organisation, respectively. Non-response bias was minimised through the data collection procedures, and assessed through an examination of the profile of respondents. The respondents were found to closely represent the proportions of personnel within the organisation and no evidence of non-response bias was observed.

5.2. Construct measurement

The majority of scales used in this study were based on existing scales, however, phrasing was adapted to suit the sample which included general employees, rather than senior managers exclusively. All measures were on a 7-point Likert scale from either (1) "strongly disagree" to (7) "strongly agree" or (1) "not at all" to (7) "to a great extent." Appendix A identifies the original scale from which each measure was modified and outlines the items

used for each measure, including those omitted from the final analysis.

Confirmatory factor analysis provided support for discriminant and convergent validity of the constructs and ensured no constructs were isomorphic. All the items were found to have high loadings, above 0.5, on the appropriate constructs. The results of the confirmatory factor analysis (presented in Appendix B) suggest that the measurement models produce satisfactory goodness-of-fit (GFI) measures and therefore, can be considered to display acceptable discriminant and convergent validity. The reliability of the scales for the multi-item measures were found to meet Nunnally’s (1978) recommendations, as the Cronbach α s exceeded 0.75 for all of the constructs (presented in Appendix A).

5.3. Data analysis

An AMOS path analysis was used to identify the magnitude of direct effects on market orientation and internal customer orientation and the indirect effects on market orientation through internal customer orientation. Path analysis has been used by previous researchers for decomposing effects into direct and indirect (causal) effects and for eliminating non-causal (spurious) effects (Prescott et al., 1986; Joreskog and Sorbom, 1989; Reger et al., 1992). By identifying indirect effects, path analysis makes available results, which are not calculated using ordinary regression analysis. This provides a more holistic view of the relationships, rather than examining each pairing in isolation.

6. Results

Fig. 1 is the final model which best fits the data collected. The corresponding GFI indices for the final path model are presented in Table 1. A summary of the hypotheses supported and not supported appears in Table 2.

The results indicate that all of the internal marketing processes, training, management support, internal communication, personnel management and involvement in external communication, are correlated with each other. This suggests that these practices are consistent as part of an integrated strategy.

Internal communication and personnel management were found to have positive and significant direct relationships with internal customer orientation. Although the other internal marketing variables (training, management support, and involvement in external communication) do not have a direct influence on internal customer orientation, they do have significant and positive relationships with intelligence dissemination, which subsequently influences internal customer orientation. In addition, management support influences the interdepartmental relations (integration and conflict) which also have flow on effects to an internal customer orientation. As a result of these indirect effects, management support has a positive and significant relationship with internal customer orientation.

The internal marketing practices (training, management support, internal communication, personnel management and involvement in external communication) do not directly influence the market orientation of the firm but do impact on various organisational dynamics, all of which subse-

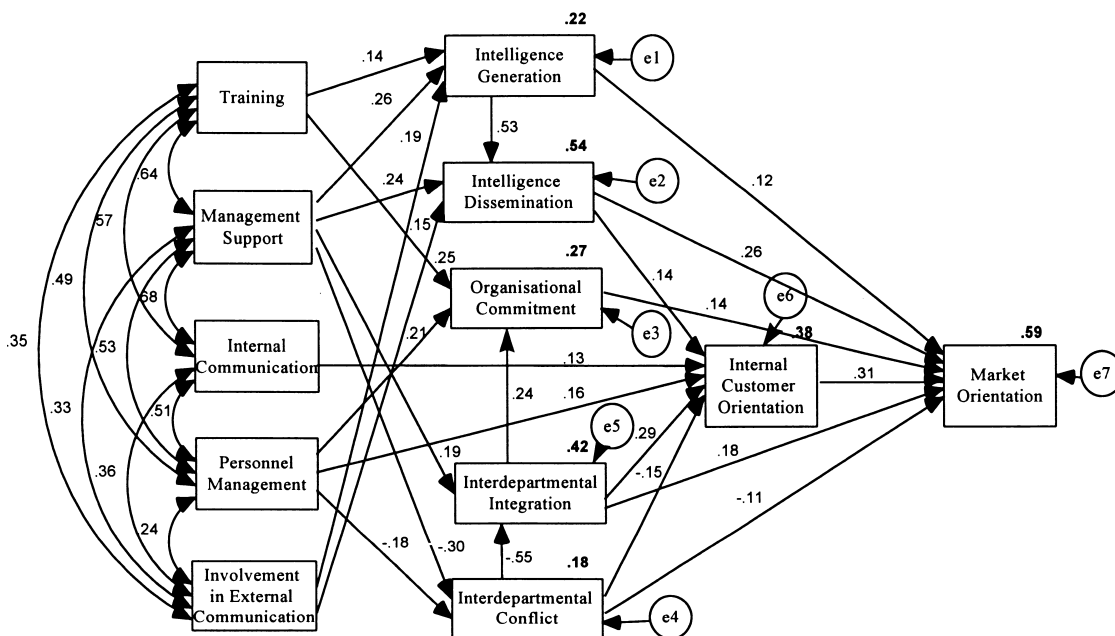


Fig. 1. Path analysis using AMOS.

Table 1
Measures of overall fit

GFI test	Model estimate	Interpretation
<i>Model fit</i>		
χ^2 value	35.244 ($df = 32, p = 0.196$)	Very good fit. The χ^2 value is not significant.
Cmin/df	1.207	Good fit, close to 1.
GFI	0.983	Almost perfect fit, very close to 1.
Adjusted GFI (AGFI)	0.959	Almost perfect fit, exceeds 0.90
Root mean standard error of approximation (RMSEA)	0.023	<0.05 indicates a good fit.
<i>Model comparison</i>		
Tucker–Lewis index (TLI)	0.993	Very close to 1, a very good fit.
Normed fit index (NFI)	0.981	Very close to 1, a very good fit.
<i>Model parsimony</i>		
Parsimonious fit Index (Pclose)	0.971	Close to 1 indicates relatively good fit.
Akaike information criterion (AIC)	130.608	Small score indicates a good fit.

quently have positive and significant relationships with market orientation. Consequently, management support and personnel management positively and significantly influence market orientation.

Table 2 highlights the relative importance of the organisational dynamics (organisational commitment, intelligence generation, intelligence dissemination, interdepartmental integration and interdepartmental conflict). Eight of the nine hypotheses positing a relationship between various organisational dynamics to either an internal customer orientation or a market orientation were supported. Only five of the nine hypotheses directly relating managerial practices to internal customer orientation and external market orienta-

tion were supported. However, as illustrated in Table 3, a number of positive and significant relationships exist between these dimensions. These results demonstrate the power of path modeling, i.e. recognizing that dimensions (independent variables) can have direct and indirect effects on each other.

7. Discussion

The primary purpose of this study was to explore the relationship between internal customer orientation and market orientation. The strength of the relationship found

Table 2
Summary of support for hypotheses

Hypothesis		<i>t</i> -Value	Result
H1	Internal customer orientation → market orientation	7.757*	Supported
H2a	Training → internal customer orientation	Not significant	Not supported
H2b	Training → market orientation	Not significant	Not supported
H3a	Management support → internal customer orientation	3.043**	Supported ^a
H3b	Management support → market orientation	4.057*	Supported ^a
H4a	Internal communication → internal customer orientation	2.596**	Supported
H4b	Internal communication → market orientation	Not significant	Not supported
H5a	Personnel management → internal customer orientation	3.243**	Supported
H5b	Personnel management → market orientation	2.163***	Supported ^a
H6	Involvement in external communication → market orientation	Not significant	Not supported
H7a	Organisational commitment → internal customer orientation	Not significant	Not supported
H7b	Organisational commitment → market orientation	3.913*	Supported
H8	Intelligence generation → market orientation	2.783**	Supported
H9a	Intelligence dissemination → internal customer orientation	3.198**	Supported
H9b	Intelligence dissemination → market orientation	5.607*	Supported
H10a	Interdepartmental integration → internal customer orientation	5.587*	Supported
H10b	Interdepartmental integration → market orientation	4.061*	Supported
H11a	Interdepartmental conflict → internal customer orientation	−2.901**	Supported
H11b	Interdepartmental conflict → market orientation	−2.471***	Supported

* $p < 0.001$.

** $p < 0.01$.

*** $p < 0.05$.

Supported^a = result includes indirect effects.

Table 3
Significant inter-dimension relationships

Relationship	<i>t</i> -Value	Conclusion
Training → intelligence generation	2.307*	Significant
Training → organisational commitment	4.786**	Significant
Management support → intelligence generation	4.245**	Significant
Management support → interdepartmental conflict	−5.461**	Significant
Management support → intelligence dissemination	6.129**	Significant
Management support → interdepartmental integration	4.508**	Significant
Personnel management → interdepartmental conflict	−3.193***	Significant
Personnel management → organisational commitment	4.062**	Significant
Involvement in external communication → intelligence generation	3.773**	Significant
Involvement in external communication → intelligence dissemination	3.828**	Significant
Interdepartmental conflict → interdepartmental integration	−12.782**	Significant
Intelligence generation → intelligence dissemination	13.425**	Significant
Interdepartmental integration → organisational commitment	5.168**	Significant

* $p < 0.05$.

** $p < 0.001$.

*** $p < 0.01$.

between these orientations indicates that an internal customer orientation is important for the development of a market orientation. The support found for the relationship between internal customer orientation and market orientation gives credence to past literature that has assumed this relationship, and hence, this study contributes to the academic literature in this domain. Importantly, the two concepts, i.e. internal customer orientation and market orientation, are found to be distinct and not isomorphic. From a managerial perspective, an organisation should strive to develop, maintain, and enhance both an internal customer and a market orientation concurrently. Without an emphasis on satisfying the requirements of employees, superior value will not be provided at every stage of the value chain and therefore, the end customer will not receive the optimal product or service. Not only does internal customer orientation have a direct effect on market orientation, but it also mediates the relationships between various antecedents and market orientation. The effects of intelligence dissemination, interdepartmental integration, internal communication, personnel management and management support, on market orientation are enhanced by their indirect effects through internal customer orientation. This further illustrates the crucial nature of internal customer orientation in the development of market orientation.

An examination of the role of internal management processes as antecedents to an internal customer orientation, and subsequently to a market orientation, produced mixed results. Since many international marketing organisations invest heavily in standardising training across countries, it was expected that significant benefits would result from such efforts. As training programs provide a means for the transmission of organisational culture, the lack of support for the influence of training on internal customer orientation and on market orientation was not expected. However, training was found to impact positively

on organisational commitment, and to have significant indirect effects on intelligence generation. This suggests training is important within an organisation, but it must be carefully targeted to raise the level of awareness of the importance of an internal customer orientation and market orientation for it to effectively improve these aspects of an organisation's culture.

Management support was not found to have a direct effect on market orientation, but demonstrated significant relationships with intelligence generation, intelligence dissemination, interdepartmental integration and interdepartmental conflict. These variables were found to significantly influence internal customer orientation and market orientation, thus, management support is shown to be crucial for the development of internal customer orientation and market orientation. On examining the total effects of management support on both internal customer orientation and market orientation, the relationships were found to be highly significant. From a practical perspective, it is often difficult to encourage managers to be supportive of organisational objectives such as internal customer orientation and market orientation. These results suggest that a lack of support could be counterproductive as visible managerial support, not mere lip service and rhetoric, is critical to the development, maintenance, and enhancement of internal customer orientation and market orientation.

Internal communication and human resource policies were the only internal marketing processes found to have a direct influence on an internal customer orientation. The importance of the development of an internal customer orientation to facilitate a market orientation has been stressed above. Therefore, although neither of these variables had a strong influence on the development of a market orientation, their inclusion in an internal marketing strategy is paramount. Involving personnel from a wide range of functional roles in the development of external

communication was not found to have a significant influence on the adoption of a market orientation. Although this relationship should be investigated further, preliminary findings suggest that this is not an activity in which organisations should be allocating a large amount of resources.

The examination of organisational dynamics as antecedents to an internal customer orientation and market orientation provides support and extends the previous literature in this area. The results support the importance of interdepartmental integration and the reduction of interdepartmental conflict in the development of a market orientation, as found by Jaworski and Kohli (1993). However, this research also illustrates that the effect of these variables is strengthened through their impact on internal customer orientation. As interdepartmental conflict was found to impact negatively on both internal customer orientation and market orientation, senior managers must ensure that parochial departmental interests are subordinated to the superordinate goal of satisfying the external customer. The association between intelligence generation and intelligence dissemination provides a link between the specific behaviors suggested by Kohli and Jaworski (1990) to constitute a market orientation, and the market orientation measure of Narver and Slater (1990). The generation and dissemination of information regarding the external customer, allows employees to obtain a greater understanding of their needs and requirements, and subsequently develop a superior customer orientation and inter-functional coordination. The lack of a relationship between organisational commitment and internal customer orientation suggests management failure to communicate the synergy between these two concepts. The level of commitment may be perceived by employees from the perspective of their specific departments and not linked to the interface with other departments. Management could link the two concepts by rewarding those employees who foster interdepartmental collaboration.

Overall, these results provide an insight into the internal managerial processes and organisational dynamics necessary for the development of a market orientation. In particular, the importance of an internal customer orientation, as a direct influence on market orientation and also as a facilitator through which other variables influence market orientation, is highlighted.

7.1. Limitations and suggestions for future research

The results of this study may be influenced by the fact that respondents were derived from three organisations. However, to investigate internal customer orientation, it appears the most appropriate research design was implemented. The conceptualization and operationalization of internal customer orientation suggest a detailed study of many departments and management levels within an organisation would allow a full appreciation of the co-

ordinated efforts across departments, and make the concept a practical reality. This permits an organisation-wide perspective to be developed and overcomes the limitations associated with single respondents per company, common in many surveys.

By replicating the study in three large corporations extensively involved in international marketing, it was intended to increase the validity and generalisability of the findings. An analysis of the variance–covariance matrices indicated that the dimensions investigated were correspondingly equivalent across the three companies, allowing the analysis to be combined. In addition, results from a random sample of 40 respondents from other corporations used in the pre-test strongly suggest our findings are generalisable. It is believed that the research design followed was reasonable since a broad survey relying on one or a few respondents per company would not be consistent with the logic and theory of internal customer orientation. A greater insight into the research area was achieved by understanding the detailed dynamics of a few organisations.

This study used three organisations with extensive international marketing operations. After carefully examining the similarities of the domestic and international marketing activities, it was concluded that an examination of one major market would provide useful insight into their international marketing cultures, activities, and strategies. This is analogous to studying McDonalds or Coca-Cola in one market with the expectation that the results will be reasonably consistent across different countries because of the common organisational culture and standardised international practices. Extending the study of the same corporations in different countries would provide further support and allow the results to be generalised. However, as detailed above, the research design and the need for a consistent theory on internal customer orientation prevented the study from involving too many organisations.

The constructs of market orientation and internal customer orientation have been operationalized from a behavioral perspective, however, they could alternatively be captured by measuring attitudes and beliefs as suggested by Deshpande et al., 1993. Thus, it is suggested that alternative conceptualizations of both internal customer orientation and market orientation be examined in future research. Naturally, as with most research, only a subset of possible variables that could impact on both internal customer orientation and market orientation were examined. Thus, the variables chosen and operationalized in this research, while important, are not exhaustive.

Appendix A. Summary of scale development results

All variables measured (1) “not at all” to (7) “to a great extent” (negative), indicate a negatively worded item, * indicates item deleted from final scale measure.

A.1. Internal customer orientation (Cronbach $\alpha = 0.8113$)

(a*) *My company systematically measures how satisfied employees are.* (b) In interdepartmental dealings, we treat each department as a customer. (c) We constantly seek to increase the value of products and services (or lower costs) we provide to sister departments. (d) We collaborate with sister departments to ensure we understand their on-going requirements. (e) Our company stresses the importance of treating other sections as customers. (f) We charge our sister departments the true value of our goods and services. (g) Our sister departments systematically evaluate the quality of products and services we offer them.

A.2. Market orientation (Narver and Slater, 1990, modified) (Cronbach $\alpha = 0.9139$)

External customer orientation ($\alpha = 0.8448$): (a) Our company vision stresses the importance of customer satisfaction. (b) We base our competitive advantage on understanding customer needs. (c) We systematically and frequently measure customer satisfaction. (d) We pay close attention to after-sales service. (e) We constantly seek to increase benefits or reduce costs to the customers. (f) We gather information to understand customers' present and future needs. (g) The company rewards those employees who provide excellent customer service. (h) We use our customers as important sources of new product ideas. *Competitor orientation ($\alpha = 0.8186$):* (a) We share information about our competitors' strategies within our company. (b) We respond rapidly to competitors' actions that threaten us. (c) Management regularly discusses competitors' strengths and strategies. (d) We target customers where we have, or can develop, an advantage over competitors. *Inter-functional coordination ($\alpha = 0.8893$):* (a) We communicate information about our customer experiences across all departments. (b) All of our departments work together to serve the needs of our customers. (c) All sections understand how everyone in our company can contribute to creating superior value for the customer. (d) Issues concerning market developments are communicated to all employees. (e) Departments in this company share their resources. (f) Our departments cooperate to give us advantages over our competitors.

A.3. Intelligence generation (Jaworski and Kohli, 1993, modified) (Cronbach $\alpha = 0.8843$)

(a) We talk to customers to find out what products and services they will need in the future. (b) We undertake market research to measure customer satisfaction. (c) We systematically assess customer perceptions of the quality of our services. (d) We gather information from our primary customers. (e) We regularly review the impact of the business environment on our company.

A.4. Intelligence dissemination (Jaworski and Kohli, 1993, modified) (Cronbach $\alpha = 0.7525$)

(a) We have meetings with other departments to discuss developments in our industry. (b) All departments periodically circulate documents that provide information on our customers. (c) Information on customer satisfaction is regularly distributed at all levels in our department. (d*) *When one department finds out something about competitors, it is slow to alert other departments.*

All variables measured (1) "strongly agree" to (7) "strongly disagree" (negative), indicates a negatively worded item, * indicates item deleted.

A.5. Organisational commitment (Jaworski and Kohli, 1993, modified) (Cronbach $\alpha = 0.8005$)

(a) I feel my future is closely linked to that of the company. (b) I have little or no commitment to this company (negative). (c) My values and those of the organisation are very similar. (d) I am proud to tell others that I am part of this organisation. (e) I really care about the fate of this organisation. (f) If I were offered a similar position with another company I would accept it (negative).

A.6. Interdepartmental integration (Jaworski and Kohli, 1993, modified) (Cronbach $\alpha = 0.7682$)

(a) People in my company are accessible to those in other departments. (b) In our company, it is easy to talk with anyone you need to, regardless of rank or position. (c) There is ample opportunity for informal conversations among individuals from different departments in our company. (d*) *Communication from one department to another are expected to be directed through "proper channels"* (negative). (e) In our company, employees feel comfortable asking for help from other sections. (f*) *Managers discourage employees from discussing work related matters with those who are not their immediate superiors or subordinates* (negative). (g) Middle managers in my department can easily schedule meetings with middle managers in other departments.

A.7. Interdepartmental conflict (Jaworski and Kohli, 1993, modified) (Cronbach $\alpha = 0.7504$)

(a) Most departments in our company get along well (negative). (b) In inter-departmental meetings, tensions frequently run high. (c) The goals of the different departments are in harmony with each other (negative). (d) There is little or no conflict between the departments in our company (negative).

A.8. *Market training and education (Lux et al., 1996, modified) (Cronbach $\alpha = 0.8535$)*

Extent of training ($\alpha = 0.7845$): (a) My company encourages me to undertake a considerable amount of training. (b) My company provides opportunities for me to undertake on-going training. (c) There is not enough on-going training in this company (negative). *Value of training* ($\alpha = 0.7099$): (a) My company reimburses employees for training they undertake. (b) My company considers formal training to be very valuable. (c) In my company, most formal training is seen as a waste of time and money (negative). (d) My company places high importance on broad employee training. *Emphasis of training* ($\alpha = 0.7390$): (a*) *My company believes technical training is more important than general training.* (b) After most training sessions, I feel I have an increased understanding of the reason for my company's existence. (c) Training sessions help me to understand current and future customer needs. (d) My company believes all employees should be trained in customer awareness.

A.9. *Management support (Jaworski and Kohli, 1993, modified) (Cronbach $\alpha = 0.8834$)*

Management risk aversion ($\alpha = 0.6110$): (a) Management believes that financial risks are worth taking for greater rewards. (b) Management accepts the occasional failure of new products as being normal. (c) Management encourages the development of innovative strategies, accepting that some may fail. (d*) *Management likes to implement plans only if they are certain they will work* (negative). *Management emphasis* ($\alpha = 0.7658$): (a) Management emphasizes the need to adapt to trends in the marketplace. (b) Management emphasizes being aware of competitors' actions. (c) Management stresses the need to anticipate customers' future needs. (d) Management views customer service as the main reason for our company's existence. *General management support* ($\alpha = 0.8660$): (a) I feel comfortable approaching members of management. (b) Management often offers guidance in solving job-related problems. (c) Management encourages open communication. (d) There is evidence that management supports training programs. (e) Management involves employees in planning and decision making. (f) Two-way information-flow across management levels is encouraged.

A.10. *Internal communication (Clampitt and Downs, 1993, modified) (Cronbach $\alpha = 0.8524$)*

Organisational perspective ($\alpha = 0.7153$): (a) I am regularly notified of important changes that occur in my

company. (b) I am adequately informed about my company's financial position. (c) I am made aware of the overall policies and goals of my company. *Feedback* ($\alpha = 0.8243$): (a) I am made aware of how my performance is being appraised. (b) I periodically receive feedback from my superior on my job performance. (c) Feedback from management has been useful in improving my job performance. *Organisational integration* ($\alpha = 0.6353$): (a) I receive regular information on our department's plans. (b) I receive communication from the personnel department on a regular basis. (c) I receive regular information on the requirements of my job. *Media quality* ($\alpha = 0.6736$): (a) Meetings in this company are well organised. (b) We hold personnel meetings to discuss relevant issues only. (c) Written communication (newsletters, brochures, magazines, internal memos) within this company is adequate. (d) Written instructions and guidelines I receive are clear and concise.

A.11. *Personnel management (Jaworski and Kohli, 1993, modified) (Cronbach $\alpha = 0.7628$)*

Human resource policies ($\alpha = 0.7192$): (a) This company has suitable policies for promotions and remuneration. (b) This is the best company to work for in our line of business. (c) This company has effective procedures for handling grievances. (d) Management encourages employees' self-education to keep abreast of developments in their fields. *Reward systems* ($\alpha = 0.7267$): (a) Senior managers are rewarded for achieving customer satisfaction. (b) Formal rewards (i.e. pay rise, promotion, public recognition) are given for providing competitor information. (c) Salespeople are rewarded for building strong customer relations. (d) The pay structure of our salespeople is based mainly on their sales volume. (e) Those people who provide the company with useful information about the market are rewarded. (f) Our company uses customer survey results for rewarding salespeople.

A.12. *Involvement in external communication (Cronbach $\alpha = 0.9033$)*

(a) I have the opportunity to comment on advertising campaigns before they are shown to the general public. (b) Even if I am not directly involved, I am made aware of on-going marketing campaigns and activities. (c) I have the opportunity to participate in the development of new advertising campaigns. (d) I am shown our company's promotional material before it is available publicly. (e) We discuss the marketing effectiveness of our company. (f*) *I have nothing to do with our advertising campaign* (negative).

Appendix B. GFI measures for the confirmatory factor analysis models

Goodness-of-fit (GOF)	Training	Management support	Internal communication	Personnel management	Involvement in external communication
χ^2 value	26.886	27.669	16.375	23.56	4.4
<i>df</i>	22	23	11	18	3
<i>p</i> Value	0.216	0.229	0.128	0.170	0.224
Cmin/ <i>df</i>	1.222	1.203	1.489	1.309	1.459
GFI	0.985	0.984	0.988	0.985	0.995
AGFI	0.968	0.969	0.969	0.970	0.976
RMSEA	0.024	0.023	0.036	0.029	0.035

GOF test	Organisational commitment	Intelligence generation	Intelligence dissemination	Integration	Conflict	Market orientation	Internal customer orientation
χ^2 value	8.641	2.564	3.862	3.283	0.024	53.306	14.279
<i>df</i>	9	3	2	5	1	39	8
<i>p</i> Value	0.471	0.464	0.145	0.656	0.877	0.063	0.075
Cmin/ <i>df</i>	0.960	0.855	1.931	0.657	0.024	1.367	1.785
GFI	0.993	0.997	0.995	0.996	1.000	0.974	0.987
AGFI	0.983	0.987	0.974	0.989	1.000	0.957	0.967
RMSEA	0.000	0.000	0.050	0.000	0.000	0.031	0.046

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