

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-

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