

# **Internal Market Orientation Adoption: Why and how it is important for New Service Development**

## **Abstract**

New service development (NSD) literature is void when it comes to the drivers that explain the NSD team's ability to successfully deliver the new service. We develop a conceptual framework suggesting that the adoption of internal market orientation (IMO) influences the dynamics of the NSD team, which in turn impact on its performance by allowing the team to better use the kind and amount of resources the management allocated in the NSD effort. We test this framework against 116 NSD managers and 543 NSD team members. The results demonstrate the importance of adopting IMO as a nomological antecedent to the NSD team's ability to successfully deliver the new service. We produce fresh insights of the importance the management of the NSD team for new service success and the profound impact of IMO adoption, laying the ground for HR to form strong bridges with marketing.

*Keywords: Internal Market Orientation; New Service Development*

## 1. Introduction

A working definition for IMO is *'the manifestation of the company's effort to generate value for the employees so that employees genuinely contribute in the company's effort to generate value for the customer'* (Gounaris 2006). Companies that adopt such a practice improve the organisation's control over the human resources, which they can better align with the firm's objectives (Madhavaram and Hunt 2008). This brings a substantial change as it constitutes: a) a sensing routine enabling the service organisation to understand and measure opportunities and challenges from the labour environment, both internally and externally (Helfat and Peteraf 2015); b) a seizing routine enabling the mobilisation of (human) resources to create a shared understanding of the company's strategic priorities and employees' role for their achievement (Lings 2004), and c) a transforming routine, as the service organisation develops the ability to better coordinate the human resources and redeploy them more effectively relatively to the task employees have to perform, and the served strategic objectives (Gounaris 2006). IMO's adoption has implications for NSD team management. IMO's adoption helps to reduce role ambiguity within the team as it increases the amount of direct information team members exchange between them and with their team leader (Lings 2004). IMO's adoption further enables team coaching (Kahn *et al.* 1964). IMO's adoption prompts and encourages the managers to understand and note what drives the actual behaviour of individual employees and help them to better align employees behaviour to eventually serve this set of objectives (Gounaris *et al.* 2010) minimising confusions regarding roles boundaries. On these grounds, we investigate:

*H1: The adoption of IMO will reduce role ambiguity among the members of the NSD team.*

The climate within the team reflects the recurring patterns of behaviour, attitudes and (importantly) feelings that characterise life in the team as conditioned by the individual member's perception of policies, practices and procedures (Anderson *et al.*, 1994). When it comes to NSD teams for which innovation is the main outcome the management expects the team needs to inspire and stimulate the members' novelty and creativity. IMO's adoption involves generating intelligence to understand employees' feelings towards their work, the benefits they seek, their met and unmet needs in their roles improving the NSD climate. This intelligence is then shared (Lings and Greenley 2010). Thus:

*H2a: IMO adoption will enhance the climate within the NSD team.*

The multiples channels of internal communication that emerge as a result of IMO adoption facilitates the dissemination of market intelligence across stakeholders from different functions and enables the organisation to overcome functional silos and group thinking (Perks 2000). Moreover, diffusing market info and explicitly communicating the team's objectives to members adds to their understanding of other diverse perspectives regarding the team's task, synthesis and execution. Then:

*H2b: IMO adoption will have a positive effect on the NSD team's level of integration.*

Organizational politics are defined as the behaviour directed toward furthering self or group interest at the expense of others' well-being (Kacmar and Baron 1999) and is fuelled by conditions such as uncertainty about decisions or ambiguity about expectations and role stressors (e.g. Ferris *et al.* 2005). Politicking is dysfunctional because it consumes time, restricts information sharing, and creates communication barriers. It undermines NSD teams' works contracting team members' effort-reward expectancy, introduces uncertainty, and reduces perceived control over the task completion process (Elovainio *et al.*, 2001). Then:

*H3: Political activity in the firm team weaken the impact of IMO adoption on NSD team management.*

Several dimensions capture the performance of a NSD team (Limpibunterng and Johri 2009, Storey and Kelly 2001, Weiss *et al.*, 2013). However, when looking at the use of resources the NSD team makes "perceived resource adequacy" (PRA) and "perceived resource competence" (PRC) matter. PRA captures

‘the extent to which the members of the NSD perceive that key organizational resources like information, personnel, equipment, time and money, are sufficiently provided for successful project completion’ (Gounaris *et al.*, 2016). PRC captures NSD team perceptions that the organizational resources were made available were also suitable, echoing the need for timeliness efficiency (Kogut and Zander 1996) as well as appropriateness (Galunic and Rodan 1998) of resources during the NSD effort. Thus:

*H4: PRA and PRC will jointly and positively impact on NSD project team performance.*

Conditions of high ambiguity reduces participants’ creativity and reduce PRA and PRC (Tang and Chang 2010). A positive team climate is also key for both PRA and PRC as the team explores and employs new approaches in problem-solving and task delivery (Gilson and Shalley 2004). Interfunctional integration also improves resource allocation and use optimization (Smith and Tushman 2005). Then:

*H5: Role ambiguity will have a negative impact on both PRA and PRC for the members of the NSD team.*

*H6: Team climate will have a positive effect on both PRA and PRC for the members of the NSD team.*

*H7: Team integration will have a positive effect on both PRA and PRC for the members of the NSD team.*

## 2. Methodology and Results

We collected information from 116 service companies (with >50 employees) which have developed new services. Our sample is 116 managers of new services and 543 NSD team members (19.4% response rate of the original population frame). IMO is measured by 17 items (Gounaris, 2006). A six-item measure tapping perceptions of political activity (Ferris *et al.*, 2005). Role ambiguity is based on Rizzo *et al.*’s (1970), cross-functional integration is based on Li and Calantone (1998), while the NSD team climate measure is based on Joshi and Sharma (2004). PRA and PRC are newly developed scales obtained from a large separate pilot study. The outcome of the purification and validation process resulted in five items to measure PRC and another five for PRA. Moreover, two control variables (size and service innovativeness) are also tracked (Hitt *et al.*, 1997).

We first tested the validity of the measures. Our comprehensive factorial analysis resulted in using 52 items. These included measuring IMO as a 2nd-order latent variable (17 items) and another 35 items reflecting the other 6 latent variables in our theoretical model, namely role ambiguity (RA), team climate (TC), integration (I), perceived resource adequacy (PRA), perceived resource competence (PRC) and performance (P). We then centred the item scores for our constructs and formed composite scores using our CFA-based loadings. We also created the interaction between IMO and PL (IPO x PL). We tested for endogeneity and constructed a term (coded VhX) to correct the estimates. Our investigation of common method variance identified minimal contamination leading us to proceed without further corrections. We subsequently tested all our models and identified that the use of a multilevel model would fit the data better.

Our multilevel analysis results show that H4 is only partially accepted, H3 is rejected, and all other hypotheses were supported.

## 3. Conclusions

Managing effectively the dynamics of the NSD team becomes thus a key area, which again the extant literature has failed to address sufficiently. The analysis of our data has confirmed hypotheses H1, H2a and H2b, H4, H5, H6 and H7, demonstrating that IMO adoption is indeed a significant capability (especially for service organisation that are at the forefront of innovation and develop and introduce significantly innovative new services), which allows the manager to successfully intervene and reduce role ambiguity with a NSD team, while improving the integration and the climate within the team. These lead to better use of resources, especially adequacy. For academics in NSD and more general in services marketing, this finding has various important implications. IMO is a strong and important capability that allows the management, like for example the manager of a NSD team, to intervene and gain control over how the

members of the team interact with each other and how they, as an entity, tackle the task they have been assigned with. As such, IMO adoption and the practice of internal marketing are clearly not relevant only to the frontline employees. An implication for marketing academics in general thus is the need to start exploring the interdisciplinary bonds between Marketing and HRM. The rejection of H3 adds more evidence on the strength of the effect IMO adoption has on the NSD team dynamics attesting thus further to the importance of building a strong IMO and subsequently the need to bridge Marketing with HRM.

#### 4. References

- Anderson, Neil R., Hardy, G., and Michael A. West. (1994). Innovative teams at work. *Managing Learning*, 197-206.
- Elovainio, Marko, Mika Kivimäki, and Klaus Helkama (2001). Organizational justice evaluations, job control, and occupational strain. *Journal of Applied Psychology*, 86(3), 418.
- Ferris, G. R., Treadway, D. C., Kolodinsky, R. W., Hochwarter, W. A., Kacmar, C. J., Douglas, C., and Frink, D. D. (2005). Development and validation of the political skill inventory. *Journal of Management*, 31(1), 126-152.
- Galunic, D. Charles, and Simon Rodan. (1998). Resource recombinations in the firm: Knowledge structures and the potential for Schumpeterian innovation. *Strategic Management Journal*, 19(12), 1193-1201.
- Gounaris, Spiros (2006). Internal-market orientation and its measurement. *Journal of Business Research*, 59(4), 432-448.
- Gounaris S., Chatzipanagiotou, K., Boukis, A., and Perks, H. (2016). Unfolding the recipes for conflict resolution during the new service development effort. *Journal of Business Research*, 69(10), 4042-4055.
- Gounaris, Spiros, Vassilikopoulou, A., and Chatzipanagiotou, K.C. (2010). Internal-market orientation: a misconceived aspect of marketing theory. *European Journal of Marketing*, 44(11/12), 1667-1699.
- Helfat, Constance E., and Margaret A. Peteraf. (2015). Managerial cognitive capabilities and the micro-foundations of dynamic capabilities. *Strategic Management Journal*, 36(6), 831-850.
- Hitt, M.A., R. E. Hoskisson, and H. Kim (1997). International diversification: effects on innovation and firm performance in product-diversified firms. *Academy of Management Journal*, 40(4), 767-798.
- Joshi, Ashwin W., and Sanjay Sharma (2004). Customer knowledge development: antecedents and impact on new product performance. *Journal of Marketing*, 68(4), 47-59.
- Kacmar, K. M., & Baron, R. A. (1999). Organizational politics: The state of the field, links to related processes, and an agenda for future research. In G. R. Ferris (Ed.), *Research in Human Resources Management*, Vol. 17, pp. 1-39).
- Kogut, Bruce, and Udo Zander (1996). What firms do? Coordination, identity, and learning. *Organization Science*, 7(5), 502-518.
- Li, Tiger, and Roger J. Calantone (1998). The impact of market knowledge competence on new product advantage: conceptualization and empirical examination. *Journal of Marketing*, 62(4), 13-29.
- Limpibunterng, Tharinee, and Lalit M. Johri (2009). Complementary role of organizational learning capability in new service development (NSD) process. *The Learning Organization*, 16(4), 326-348.
- Lings, Ian N. (2004). Internal market orientation: Construct and consequences. *Journal of Business Research*, 57(4), 405-413.
- Lings, Ian N., and Greenley, Gordon E. (2010). Internal market orientation and market-oriented behaviours. *Journal of Service Management*, 21(3), 321-343.
- Madhavaram, Sreedhar, and Shelby D. Hunt (2008). The service-dominant logic and a hierarchy of operant resources: developing masterful operant resources and implications for marketing strategy. *Journal of the Academy of Marketing Science*, 36(1), 67-82.
- Perks, Helen (2000). Marketing information exchange mechanisms in collaborative new product development: The influence of resource balance and competitiveness. *Industrial Marketing Management*, 29(2), 179-189.

- Rizzo, John R., Robert J. House, and Sidney I. Lirtzman (1970). Role conflict and ambiguity in complex organizations. *Administrative Science Quarterly*, 15(2), 150–163.
- Smith, Wendy K., and Michael L. Tushman. (2005). Managing strategic contradictions: A top management model for managing innovation streams. *Organization Science*, 16(5), 522-536.
- Storey, Chris, and David Kelly (2001). Measuring the performance of new service development activities. *Service Industries Journal*, 21(2), 71–90.
- Weiss, Matthias, Martin Hoegl, and Michael Gibbert. (2013). The influence of material resources on innovation projects: the role of resource elasticity. *R&D Management*, 43(2), 151-161.

**Table 1: Results of Multilevel Analyses**

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 1M (with interaction)</i>	<i>Model 2M (with interaction)</i>	<i>Model 3M (with interaction)</i>	<i>Hypothesis</i>
<i>Dependent: Construct</i>	<i>RA B(SE)</i>	<i>TC B(SE)</i>	<i>I B(SE)</i>	<i>RA B(SE)</i>	<i>TC B(SE)</i>	<i>I B(SE)</i>	
Intercept	3.33*** (.13)	3.56*** (.14)	4.54*** (.20)	3.35*** (.15)	3.49*** (.14)	4.30*** (.21)	
<b>Level-2 Covariates</b>							
Firm Size	-.16 (.17)	-.04 (.17)	-.54* (.24)	-.27 (.17)	.09 (.16)	-.27 (.24)	
Project Innovativeness	-.10* (.04)	.11* (.05)	.18* (.07)	-.01 (.05)	.05 (.04)	.13* (.06)	
<b>Level-2 antecedents</b>							
IMO (IMO)	-.75*** (.19)	1.12*** (.20)	1.95*** (.28)	-.34 (.21)	.54** (.20)	1.15*** (.29)	H1,H2
Endogeneity Correction	.46* (.19)	-.78*** (.20)	- 1.37*** (.29)	.21 (.20)	-.42* (.18)	-.66* (.27)	
Politics (PL)				.25*** (.05)	-.31*** (.05)	-.34*** (.08)	H3
<b>Cross-level interactions</b>							
IMO x PL				-.15 (.08)	.05 (.08)	-.01 (.12)	H3
AIC	1809.04	981.37	1384.64	1784.74	955.46	1369.53	
BIC	1831.50	1003.82	1407.09	1816.18			

\*\*\* p<0.001; \*\* p<0.01; \* p<0.05; *B (SE)* refers to unstandardized coefficients with standard errors in parentheses. Small size ( $\leq 50$  people) is the reference category for Firm Size.

	<i>Model</i> 4	<i>Model</i> 5	<i>Model</i> 6	<i>Hypothesis</i>
<i>Dependent:</i>	<i>P</i>	<i>PRA</i>	<i>PRC</i>	
Construct	<i>B(SE)</i>	<i>B(SE)</i>	<i>B(SE)</i>	
Intercept	3.30*** (.09)	3.73*** (.11)	2.35*** (.11)	
<b>Level-2</b>				
<b>Covariates</b>				
Firm Size	.45** (.11)	.36** (.13)	.47*** (.13)	
Project Innovativeness	.07 (-.04)	.06 (.05)	-.09 (.05)	
<b>Level-1</b>				
<b>antecedents</b>				
Perceived Resource Adequacy (PRA)	.41*** (.05)			H4
Perceived Resource Competence (PRC)	.07 (.05)			H4
(RA) Role Ambiguity		-.08* (.02)	-.10** (.03)	H5
(TC) Team Climate		.57*** (.05)	.46*** (.05)	H6
Integration (I)		.19*** (.03)	.12* (.04)	H7
<b>Cross-level interactions</b>				
IMO x PL				
AIC	678.04	757.25	954.21	
BIC	700.49	784.20	981.15	

\*\*\* p<0.001; \*\* p<0.01; \* p<0.05; *B (SE)* refers to unstandardized coefficients with standard errors in parentheses. Small size ( $\leq 50$  people) is the reference category for Firm Size.