

INTERNAL AND EXTERNAL MARKET ORIENTATION AS ORGANIZATIONAL RESOURCES - CONSEQUENCES FOR MARKET AND FINANCIAL PERFORMANCE

INTERNA I EKSTERNA TRŽIŠNA ORIJENTACIJA KAO ORGANIZACIJSKI RESURSI – POSLJEDICE ZA TRŽIŠNU I FINANCIJSKU USPJEŠNOST

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SAŽETAK

O pojmu internoga marketinga u marketinškoj se literaturi raspravlja više od 30 godina. Unatoč tome, malo je teorijskih i empirijskih dokaza o učinku koji interna tržišna orijentacija ima na tržišnu i financijsku uspješnost. S druge strane,

ABSTRACT

The concept of internal marketing has been discussed in marketing literature for over 30 years. Despite this fact there is little theoretical and empirical evidence of the way in which the internal market orientation impacts market and

postoji mnogo empirijskih dokaza o učinku eksterne tržišne orijentacije na tržišnu i financijsku uspješnost. Stoga se vrlo malen broj istraživačkih projekata pozabavio utjecajem obiju ovih tržišnih orijentacija na uspješnost poduzeća. Za potrebe ovog rada izrađen je strukturni model, koji se sastoji od interne tržišne orijentacije, eksterne tržišne orijentacije, tržišne uspješnosti i financijske uspješnosti. Njime je dokazana hipoteza da je interna tržišna orijentacija značajna prethodnica eksterne tržišne orijentacije. Utvrđeno je da eksterna tržišna orijentacija ima značajan utjecaj na tržišnu, kao i na financijsku uspješnost.

financial performance. On the other hand, there is considerable empirical evidence concerning the impact of the external market orientation on market and financial performance. Consequently, very few research projects have dealt with the impact of both market orientations on the performance of companies. In this paper a structural model was constructed, consisting of the internal market orientation, external market orientation, market performance and financial performance. With the help of the structural equation model the hypothesis that the internal market orientation is a significant predecessor of the external market orientation was confirmed. The external market orientation was found to significantly influence market as well as financial performance.

1. INTRODUCTION

Customer needs, wants, expectations and their behavior are constantly changing, driving companies¹ to devote special attention to their markets and the business environment which they should monitor continuously. At the same time, companies are expected to disseminate an internal customer- (employee-) oriented culture, and to develop skills in order to produce creative solutions to external market demands. Generally market-oriented companies are considered to be externally focused, responding to present and anticipating future customer needs.² This means that companies have to emphasize the centrality of customers by putting them first³ as a means of attracting and, more importantly, retaining customer patronage. According to numerous research findings, external market orientation (EMO) can be a critical determinant of company performance.⁴ EMO has been proved to positively influence market and financial performance.⁵ Although EMO is viewed as a critical way to anticipate and respond to market demand and create superior value, the relationship between EMO and performance is probably more complicated than expected.⁶ Despite abundant literature on the impact of EMO on performance this topic still calls for more explanation.⁷ In some studies authors did not find a direct positive correlation between these two variables.⁸ At the same time, Jaworski and Kohli⁹ and Grewal and Tansuhaj¹⁰ found contradictory results. These varying outcomes demonstrate that there is no unequivocal evidence regarding the effect of EMO on performance¹¹ and a holistic approach is yet to be adopted.¹² Consequently, developing measures of EMO and evaluating the impact of EMO on performance are still among the main areas of investigation in this field.¹³ This external focus, however, should be equally balanced and put in relation with a strong focus on employees as internal customers.¹⁴ This internal focus represents internal marketing activities aimed at raising employee satisfaction, which results in a stronger EMO.

The representative research produced some influential models, indicating the importance of adopting the internal market philosophy (e.g. "service profit chain" by Heskett, Jones, Loveman, Sasser and Schlesinger¹⁵). However, there is still much confusion regarding the definitions and use of internal marketing and internal market orientation (IMO), leading to poor understanding and lack of generalization of IMO as a concept. Also, to date, there has been little empirical evidence of the way in which IMO impacts market performance and financial performance. The absence of a single and unified concept of IMO may result in limited use of the internal marketing knowledge by companies.

Following the logic of the resource-based theory, two main purposes of this paper are: (a) to provide a clear conceptualization and operationalization of IMO, and (b) to empirically test the effects of IMO on EMO, and their impact on market performance (customer loyalty, market share / sales volume) and financial performance (overall profit levels achieved compared to competitors, return on investment compared to competitors, profit margins compared to competitors).

2. MARKET-FOCUSED RESOURCES AND COMPETITIVE ADVANTAGE

The manner in which companies achieve and maintain their competitive advantages has aroused great attention in the strategy literature with the emergence of two dominant, yet competing perspectives: competitive forces perspective¹⁶ and the resource-based theory (RBT).¹⁷ The former suggests that the industry structure and company's strategic positioning are primary drivers of competitive advantage, whereas the latter argues that competitive advantage stems from the company's unique assets and inimitable capabilities. At the end of last century, some

prominent authors¹⁸ using the long neglected work of Penrose¹⁹ emphasized the importance of company factors in competitive advantage creation in contrast to the industry-based determinism of the Porterian view. The principal contribution of the RBT to date has been as a theory of competitive advantage. By mid-1990s, thanks to its cogent mix of economic rigour and management reality, this theory had taken a central stage in the field of strategic management.²⁰

Resources can be defined as any attribute, tangible or intangible, physical or human, intellectual or relational, available to the company that enables it to produce efficiently and/or effectively a market offering that has value for some market segment(s).²¹ Several authors²² tried to classify company resources but none of the classification schemes have been broadly accepted to date. However, according to Fahy²³ and Hooley et al.,²⁴ resources can be divided into (a) tangible assets (land, plant and machines, people etc.), (b) intangible assets (procedures and systems, knowledge, brands and reputation etc.) and (c) capabilities - individual, group and corporate.

On their own resources are barely productive. Rather, they should be assembled in a specific assortment, which holds a high potential for the development of competencies and leads to the development of competitive advantages.²⁵ A company has a competitive advantage when it implements a value-creating strategy that is not being implemented simultaneously by any current or potential competitors in a given market or industry.²⁶ Not all resources, however, are likely to be of equal importance in creating competitive advantage. Therefore, resources with a potential for creating competitive advantage should have at least four characteristics: (a) they must be valuable to the company, in the sense that they exploit opportunities and/or neutralize threats in the company's environment, (b) they must be rare among current and potential competitors, (c) they must resist imitations by current and potential competitors, (d) they do not have appropriate substitutes.²⁷

Sustainable competitive advantage could be achieved through the deployment of mechanisms (e.g. causal ambiguity, complexity, tacitness, path dependency, economics, legal barriers) that protect its competitive advantage from imitation.²⁸ The generation and the maintenance of sustainable competitive advantage are the fundamental objectives of strategic management and strategic marketing. Sustainable competitive advantage is the basis for achieving superior performance, and serves as the crucial mechanism by which a company manages its survival and development.

Some authors assert that intangible resources are probably the most important in creating and sustaining competitive advantage.²⁹ Market-focused resources (e.g. IMO, EMO, reputation and innovation) certainly achieve the criteria of intangibility therefore they are among resources that are important for creating sustainable competitive advantage.³⁰

The RBT can help in understanding the nature of IMO, EMO and their impact on competitive advantage competitive. According to Day,³¹ market oriented companies develop "inside-out" capabilities, which connect the internal processes that define company's capabilities with the external environment, thus allowing the company to be competitive by creating solid relationships with customers, distributors and suppliers. According to the RBT, EMO may be considered to be an important marketing resource for creating and implementing sustainable competitive advantage.³² Namely, it is an intangible property of the company that enables it to manage market information and deliver superior value to its external customers. A similar status could also be ascribed to IMO since it activates internal customers (employees) to give their best in using market and other relevant information in creating and delivering superior value to the company's its external customers. According to Hunt and Morgan,³³ EMO could lead to a position of competitive advantage and, hence, superior performance only when it is rare among competitors; the same also holds true for IMO.

3. INTERNAL MARKET ORIENTATION

Internal marketing is used as a tool, based on a marketing perspective, for managing the company's human resources to build internal competencies for external success.³⁴ According to Joseph,³⁵ internal marketing "... is the application of marketing, human resource management, and allied theories, techniques, and principles to motivate, mobilize, and manage employees at all levels of a company to continuously improve the way they serve external customers and each other." Berry and Parasuraman³⁶ suggest that internal marketing entails a company's effort to improve its attractiveness as a potential employer so that it can attract, select and retain the best employees in delivering excellent quality of service to external customers.

The service profit chain concept³⁷ recognizes the importance of employee satisfaction as the very essence of the success of companies, since employee satisfaction is strongly positively related to the employees' productivity, quality of their services, loyalty, creativity and, consequently, to the perceived value of output (services), external customer satisfaction, loyalty and financial performance. George and Grönroos³⁸ suggest that the "internal market of employees is best motivated for service-mindedness and customer-oriented behavior by an active, marketing like approach, where marketing like activities are used internally." The internal marketing process can, therefore, be defined as a conscious generation of target group (employee) reaction through developing and offering "packages" of benefits.

By drawing the analogy with external marketing, it may be that the concept of internal marketing is still not widely adopted because a similar cultural "infrastructure" is missing.³⁹ Adopting EMO leads companies to take specific actions concerning their external markets. The conceptualization of IMO should be complementary to the concept of EMO. From this point of view

internal marketing could as well be understood as a part of company culture.⁴⁰ While EMO focuses on external markets, IMO is the internal perspective, focusing on the needs and expectations of employees.⁴¹ Literature still lacks a clear conceptualization of IMO. However, there have to date been very few empirical efforts⁴² to measure IMO.

In the sense of Narver and Slater's⁴³ and Kohli and Jaworsky's⁴⁴ EMO approach, the concept of IMO may be conceptualized as the orientation on: employees, competitors (on the employee market) and inter-functional coordination. On the other hand, Lings⁴⁵ and Gounaris⁴⁶ derive their definitions of IMO from Kohli & Jaworski's⁴⁷ definition of EMO. According to them, IMO comprises three sub-dimensions, consisting of internal market intelligence generation (e.g. information about external employee markets), internal market intelligence dissemination (e.g. between employees and management) and response to internal intelligence (e.g. actions for delivering employee value) with the aim of developing employee job satisfaction and, consequently, customer satisfaction. Consequently, these two conceptualizations could be regarded as complementary.

4. EXTERNAL MARKET ORIENTATION

EMO is an aspect of marketing resources that has received extensive attention in the literature.⁴⁸ EMO reflects the propensity to adopt the marketing concept.⁴⁹ EMO has been proposed by the majority of strategic management⁵⁰ and marketing researchers⁵¹ as a key differentiating resource, and as a key predictor of company performance. Therefore, it should be an important determinant of managerial performance.⁵² A recent meta-analysis supports a positive, significant and robust link between EMO and performance.⁵³ In general terms, the majority of available studies reveal that EMO results in various ben-

efits that may be converted into higher profits,⁵⁴ changed attitudes and culture,⁵⁵ more customer-orientated sales forces⁵⁶ and increased potential for the success of new products.⁵⁷ Some researchers⁵⁸ even argued that market orientation is the key component in the culture of a learning company. According to them, market orientation provides the cultural foundation for the company's learning.

On both empirical and conceptual bases, it has been widely accepted that EMO can be used successfully as long as the following two basic viewpoints are considered: (a) market orientation as a business philosophy, and (b) market orientation as a behaviour.⁵⁹ Employee as a business philosophy, EMO includes customer orientation, competitor orientation and inter-functional coordination.⁶⁰ Customer orientation focuses on "the sufficient understanding of one's target buyers," whereas competitor orientation emphasizes the understanding of "the short-term strengths and weaknesses and the long-term capabilities and strategies of the key current and potential competitors."⁶¹ Inter-functional coordination, a third dimension of EMO, promotes the coordinated use of resources and customer-related activities throughout the entire company. Behavioural dimension of market orientation incorporates company-wide intelligence generation, intelligence dissemination across departments and company-wide responsiveness.⁶²

5. HYPOTHESES DEVELOPMENT

External customers' satisfaction is, according to the empirical evidence, strongly positively linked with employee (internal customers') satisfaction.⁶³ Managers should also concentrate on satisfying the needs and wants of their employees and, therefore, implement IMO. According to Hauser et al. (1996), orientation on employees is one of the pillars for the development of exter-

nal customers' orientation. Raising the IMO level enables and increases the level of symmetry of both types of market orientation, consequently resulting in better strategic response and performance.⁶⁴ On the other hand, Kohli and Jaworski⁶⁵ argued that EMO provides psychological and social benefits to employees, that it leads to a sense of pride in belonging to the company in which all departments and individuals work towards the common goal of satisfying customers and that this positive response towards the work situation results in increased commitment to the company. As already said, both orientations could be assumed to be among the key organizational resources in creating sustainable competitive advantage.

Hence we propose the following hypothesis:
H1: Internal market orientation (IMO) is positively related to external market orientation (EMO).

In the markets facing intense competition lasting customer loyalty comprises an important strategy for establishing and sustaining customer focus on a company.⁶⁶ It has long been recognized in most marketing situations that loyal customers are more valuable than sporadic or occasional customers thanks to the absence of acquisition costs, perhaps coupled with the possibilities of cross-selling.⁶⁷

Drawing on a traditional resource-based theory, the majority of literature posits that companies with superior EMO achieve superior business performance because they have a greater understanding of customers' expressed wants and latent needs, competitor capabilities and strategies, channel requirements and developments, and a broader market environment than their rivals.⁶⁸ Market-oriented companies not only discover customer needs and anticipate their future needs but, even more importantly, they involve individual departments to act on meeting those needs. Also, EMO fosters behaviors for delivering superior value to customers. Therefore, EMO is positively related to superior customer value, and also to customer satisfaction and

customer loyalty.⁷⁰ EMO also has an important role in growing and fragmented markets, since it enhances market share and sales volume even when buyers' power is low. This represents a 'know-what' advantage that enables companies to be more effective and more efficient by allowing managers to select the most productive available resource combinations to match market conditions.⁷¹

Therefore, literature suggests that:

H2: External market orientation (EMO) is positively related to customer loyalty.

H3: External market orientation (EMO) is positively related to market share and sales volume.

When a company is consistently able to offer better value and achieve customer loyalty, market share and sales volume increase while costs of attracting and serving customers decrease.⁷² Superior judgmental performance (e.g. corporate and brand image and reputation, customer satisfaction and customer loyalty) is a prerequisite for superior objective performance (e.g. market share, sales volume and profitability). To maximize its long-run performance, a company must build and maintain a long-run mutually beneficial relationship with its buyers.⁷³

Thus:

H4: Customer loyalty is positively related to market share and sales volume.

Since the costs of obtaining a new customer are very high and the profitability of a loyal customer grows with the relationship's duration, loyalty is one of the keys to long-term profitability.⁷⁴ Companies with large groups of loyal customers have large market shares, and market share is positively associated with higher rates of return on investment.⁷⁵ Market share leads to profitability due to economies of scale and experience effects. Profit impact of market strategy (PIMS) studies⁷⁶ identified product/service quality and market share as the most important factors that influence the percentage of return on sales. Other studies have also shown market

performance to have positive effects on financial performance.⁷⁷

Therefore, we propose:

H5: Customer loyalty is positively related to financial performance.

H6: Market share and sales volume are positively related to financial performance.

6. METHODOLOGY

Measurement instrument for the empirical model verification was developed in three phases. In the first phase some of the relevant items for the questionnaire were taken from the literature. For the measurement of IMO we used items from Gounaris⁷⁸ and Lings.⁷⁹ EMO was measured by using fourteen items from Narver and Slater's⁸⁰ 7-point rating scale. Since previous studies indicated that there were some problems with construct validity considering Narver and Slater's⁸¹ scale, some additional items were added in order to ensure higher consistency of the measure. The second phase consisted of in-depth interviews that were conducted with senior marketing executives at 17 companies in Slovenia. In the third phase the questionnaire was examined by 5 expert judges (4 from the field of marketing and marketing resources and 1 from the field of finance) in terms of achieving content validity and in order to avoid redundancy of the questions. In the third and final stage (quantitative research) the items for IMO and EMO were measured on the 7-point Likert scale (from 1 "strongly disagree" to 7 "strongly agree"). Twelve items were used for the measurement of IMO and the scale for EMO consisted of 17 items. An additional 7 items were generated for the measurement of market and financial performance. The respondents were asked to evaluate their market and financial performance on the 7-point scale from "much worse" to "much better" in comparison with their key competitors in the period of the past 3 years.

In every company, we identified a single respondent in the position of CEO or member of the Board of Directors responsible for marketing or a marketing director. Key respondents were used, as senior managers have been shown to be generally reliable in their evaluations of company activities and performance.⁸² The questionnaire was mailed to the 3000 randomly selected companies from a population of 3475 companies with more than 20 employees in Slovenia. In total, 415 usable questionnaires were received, representing a response rate of 13.8%. Responding companies came from a variety of industries (manufacturing 40.8%, construction 13.2%, wholesale and retail 11.0%, real estate 10.0%, transportation 5.1%, catering industry 4.9% and other industries 14.7%).

7. ASSESSMENT OF RELIABILITY AND VALIDITY OF MEASUREMENT SCALES

The dimensionality of the single constructs (IMO, EMO, customer loyalty, market share/sales volume and financial performance) was assessed with the help of confirmatory factor analyses (CFA). CFAs were performed for each of the scales in order to compare the one-factor model and the multi-factor model for single constructs. In the first case the constructs for IMO and EMO were conceptualized as uni-dimensional, and in the second case as multi-dimensional con-

Table 1: Summary statistics of CFA for IMO, EMO, market and financial performance

	IMO	EMO	Market and financial performance CFA
One-factor model	1 factor $\chi^2/df = 300.55 / 20$ $p < .05$ RMSEA = .184 NFI = .776 NNFI = .696 CFI = .783 RMR = .165 GFI = .777	1 factor $\chi^2/df = 432.90 / 44$ $p < 0.05$ RMSEA = .164 NFI = .729 NNFI = .682 CFI = .746 RMR = .189 GFI = .805	3 factors $\chi^2/df = 30.88 / 11$ $p = .001$ RMSEA = .066 NFI = .980 NNFI = .975 CFI = .985 RMR = .021 GFI = .973
Multi-factor model	3 factors* $\chi^2/df = 18.16 / 17$ $p = .378$ RMSEA = .013 NFI = .987 NNFI = .990 CFI = .994 RMR = .0381 GFI = .984	3 factors** $\chi^2/df = 34.36 / 24$ $p = .078$ RMSEA = .032 NFI = .976 NNFI = .977 CFI = .985 RMR = .030 GFI = .978	

* Internal market orientation – employee orientation, competitor (on the employee market) orientation, and inter-functional coordination

** Market orientation - customer orientation, competitor orientation and inter-functional coordination

structs. Summary statistics in Table 1 show that, according to our conceptualization, IMO and EMO constructs were indeed multi-dimensional constructs. In both cases the multi-dimensional

model outperformed the one-factor model. In order to be able to assess reliability, convergent and discriminant validity of market share/sales volume and financial performance constructs,

Table 2: Items, standardized loadings, CR and AVE

Constructs	Items	Loadings (λ coefficients)	CR	AVE
IMO - Employee orientation	We aspire to high employee satisfaction.	.871	.89	.72
	The appreciation of the single employee is stressed strongly.	.798		
	We place great value on a feeling of belonging among the employees.	.881		
IMO – Competitor orientation (on the employee market)	We systematically analyze the working conditions of the employees working for competition.	.639	.81	.59
	We know the danger of losing our employees because of our competitors.	.835		
	We know about new jobs created that could attract employees in this firm.	.776		
IMO – Inter-functional coordination	In our company, we place great value on inter-functional teamwork. (marketing, R&D, production etc.).	.893	.89	.80
	In our company, we aspire to a high degree of inter-functional information exchange.	.901		
EMO - Customer orientation	We closely monitor and assess our level of commitment in serving customers' needs.	.826	.76	.52
	We pay close attention to after-sales service.	.549		
	Our strategy for competitive advantage is based on our understanding of customers' needs	.765		
EMO - Interfunctional coordination	Market information is shared with all departments.	.834	.79	.55
	All departments are involved in preparing business plans/strategies.	.763		
	Information about customers is freely communicated throughout our company.	.593		
EMO - Competitor orientation	We respond rapidly to competitive actions.	.734	.80	.56
	Top management regularly discuss competitors' strength and weaknesses.	.780		
	We regularly monitor our competitors' marketing efforts.	.739		
Market share/sales volume	Market share compared to competitors.	.879	.88	.79
	Sales volume achieved compared to competitors.	.896		
Customer loyalty	Levels of customer loyalty compared to competitors.	.900	.84	.73
	Levels of customer satisfaction compared to competitors.	.807		
Financial performance	Overall profit levels achieved compared to competitors.	.881	.91	.78
	Return on investment compared to competitors.	.910		
	Profit margins compared to competitors.	.863		

which consisted of only two (three) indicators, an additional CFA was implemented combining those three constructs.

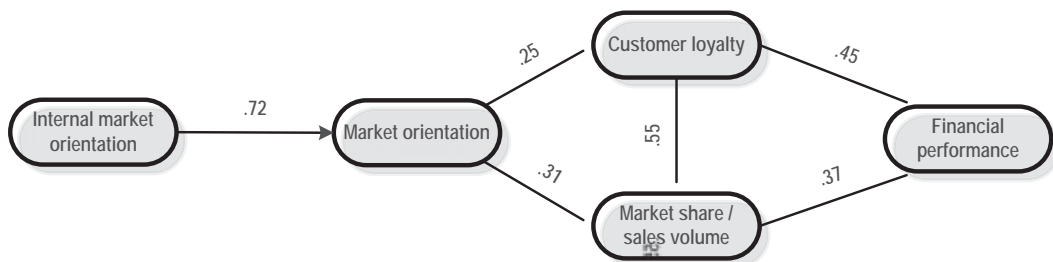
Reliabilities for IMO (3 constructs), EMO (3 constructs), customer satisfaction, market share/sales volume and financial performance were assessed with composite reliability measures. The reliability (Table 2) coefficient of the scales ranges from .76 to .91, which met the standard of 0.6, as suggested by Fornell and Larcker (1981). Next in order to show the degree to which a measure represents the construct it is supposed to represent, construct validity of single scales was assessed by examining convergent and discriminant validity. Evidence of *convergent validity* was determined by inspection of the variance extracted for each factor, as shown in Table 3. According to Fornell and Larcker,⁸³ convergent validity is established if the variance extracted value for a factor exceeds 0.50. CFA results show that in all of the cases this criteria is met. Additionally, all items of the single measures loaded significantly on their underlying factors (all loadings were higher than .50 with significant *t* values) and that, indeed, itself is a test of convergent validity of the scale (see Table 3). Finally, *discriminant validity* was assessed for the scales with more than 1 construct (IMO and EMO). Discriminant validity indicates the degree to which the measures of conceptually distinct construct differ. Several CFA's were run for each possible pair of constructs, first allowing for correlation between the two various constructs and then fixing the correlation between the constructs at 1. In every case, the chi square differences between the fixed and free solutions were sig-

nificant at $p < .05$ or higher. Additionally, discriminant validity was assessed by the more rigorous test provided by Fornell and Larcker,⁸⁴ in which the pair-wise squared correlations between factors were compared with the variance extracted estimates for the dimensions making up each possible pair. In every case the Fornell-Larcker criteria was met, which means that the variance extracted estimates exceeded the square of the correlation between the factors making up each pair.

8. RESULTS

The proposed conceptual model was tested with the help of structural equation modeling (Figure 1). To obtain a more favorable number of parameters to be estimated, we conducted an additional simplification of our nine-factor model to a final five-factor model. For each of the first order factor models, with more than two underlying factors (IMO and EMO), second order factors were computed. This was achieved by averaging the corresponding indicators leading to a single composite indicator. Final result of this stage are the IMO and EMO latent variables with three indicators. Other constructs constituting market and financial performance were unchanged. Once again, reliability and validity was assessed for both simplified constructs. The composite reliabilities computed for the newly generated latent variable IMO was .80 (AVE = .57) and .73 for EMO (AVE = .48). All loadings had reached the value of .64 or higher. A discriminant analysis was performed for all the constructs.

Figure 1: Standardized path estimates



A chi-square difference test was performed on the nested models to assess if the χ^2 values were significantly lower for the unconstrained models.⁸⁵ The critical value (at $p < .05$) was exceeded in every case.

All path significant at $p < .01$

$\chi^2 = 126.74 / df = 59$; RMSEA=.053; NFI = .950; NNFI = .960; CFI = .969; SRMR = .043 GFI = .947

With respect to the overall model fit, the chi-square statistic indicate some discrepancies between the data and the proposed model ($\chi^2=126.74 / df = 59$; $p < .05$). A significant chi-square indicates a non-perfect fit of the model to the data. Although the analysis of a covariance structure has traditionally relied on a chi-square likelihood ratio test to assess how well a model fits, it is very sensitive to the sample size, number of items and number of factors in the model.⁸⁶ Another possible explanation for the discrepancy may be the use of composite indicators which typically worsens the model fit.⁸⁷ However, other global fit statistics suggest an adequate fit of the model. The RMSEA index of the model was .053, which is in fact close to the range for a good fit. Also, the majority of other incremental and stand-alone fit indices (Figure 1) suggest that the global model fit is acceptable.

Table 4 provides the regression coefficients of estimated effects within the causal model with

regard to the selected hypotheses. Hypothesis H1 predicted a positive relationship between IMO and EMO. Concerning the strength of relationship, ($\gamma_1=.718$; $p < .01$) it can be fully confirmed. The relationships between EMO and customer loyalty, and EMO and the market share / sales volume are both positive and significant ($\gamma_2=.254$; $p < .01$ and $\gamma_3=.314$; $p < .01$). Therefore, we can confirm the second and third hypotheses. The relationship between market and financial performance is also positive. According to H4 and H5, customer loyalty not only influences financial performance ($\beta_1=.453$; $p < .01$) directly but also indirectly, through the market share / sales volume ($\gamma_4=.552$; $p < .01$). Finally, we can confirm H6, as the market share/sales volume also impacts financial performance ($\beta_2=.368$; $p < .01$)

9. CONCLUSIONS

The accelerating dynamism of their environment requires complete internal and external fitness of the companies in the sense of fast adaptive and even proactive behavior. These trends demand that companies give special attention to their external as well as internal markets. Therefore, besides developing a culture oriented towards external customers, companies are expected to disseminate an internal, customer-oriented culture that serves as a supporting platform for

Table 3: Estimated effects within the causal model

Relationships	Standardized regression coefficient	t-values	Significance
H1: IMO – EMO	$\gamma_1=.718$	9.400	$p < .01$
H2: EMO – Customer loyalty	$\gamma_2=.254$	4.384	$p < .01$
H3: EMO – Market share/sales volume	$\gamma_3=.314$	6.243	$p < .01$
H4: Customer loyalty - Market share/sales volume	$\gamma_4=.552$	8.357	$p < .01$
H5: Customer loyalty – Financial performance	$\beta_1=.453$	6.358	$p < .01$
H6: Market share/sales volume - Financial performance	$\beta_2=.368$	5.238	$p < .01$

the development of externally-oriented culture. The literature review reveals that, regarding IMO, there is an obvious shortage of empirical and even conceptual research. Research on EMO is developed much further regardless of the fact that empirical testing began in the early nineties. With the present paper we tried to shed some more light on the neglected concept of IMO. IMO could be operationalized as the company's orientation on employees, competitors (on the employee market) and inter-functional coordination, and should contain: internal market intelligence generation, internal market intelligence dissemination and internal market responsiveness. Consequently, the impact of IMO on EMO and the impact of EMO on market and financial performance were tested.

Our research gives clear empirical insight into the importance of IMO as the predecessor of EMO and market and financial performance. The results of the study reveal a strong positive impact of IMO on EMO. The relationships between EMO and customer loyalty, and between EMO and the market share / sales volume are positive as well. This also holds true for the relationship between market and financial performance. This is the case despite the fact that 79.3 % of companies in our sample were from B2B markets, and 63.8 % of the companies were from other industries than services. In other words, the main research stream dealing with internal marketing has focused mainly on the services industries.

However, the results of our study indicate that IMO impacts EMO and, consequently, market and financial performance in the manufacturing industries too.

In order to achieve better market and financial performance, managers should start with IMO as a root cause of success. However, focusing only on the needs of employees (internal customers) does not automatically mean that a company can also satisfy the needs of its (external) customers. Obviously, IMO serves as a tool enabling the harmonization among various types of employee behavior with the external market strategy. This is in accordance with other research, revealing that there is a strong relationship between employee and customer satisfaction and loyalty.

One of the limitations of our study lies in the fact that it did not include additional marketing resources, which might represent important mediators between EMO and market performance (e.g. innovation resources, reputational resources and customer-related capabilities). Also, additional control variables, such as buyer and supplier power, seller concentration, ease of entry, market growth, technological change, differentiation of companies according to the type of customers (B2B, B2C) and according to the type of product (physical, services) could be included. We also propose that more objective data from multiple respondent sources should be obtained in future studies.

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