



THE ROLE OF INTERNAL MARKET ORIENTATION IN BUSSINESS INNOVATION

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ABSTRACT

Businesses operating in the knowledge economy often struggle with rapid technological advancements, compressed product lifecycles, and a variety of other bewildering challenges. This study investigates how employee motivation influences employee job satisfaction, organizational commitment, and willingness to stay, as well as their capabilities to acquire, transform, apply and protect knowledge, all of which ultimately influence innovation performance. The most notable result is the influence of internal market orientation on innovation performance, demonstrating the value of the implementation of internal market orientation for the improvement of innovation performance. The study also finds that internal performance can positively influence employees' knowledge management capabilities, which in turn can positively influence innovation performance. Finally, the study also establishes the role of internal performance as an important mediation variable for the influence of internal market orientation on innovation performance. Directions for future research are suggested.

Keywords: *Internal market orientation; Internal performance; Employee knowledge management capability; Innovation Performance*

1. INTRODUCTION

In today's knowledge economy, due to rapid technological advancements, a fiercely competitive environment, technological quick changed and compressed product lifecycles, distances throughout the world are narrowing continuously, and differences are convergent. In order to survive such fierce competition, enterprises need to maintain their status in their industry through "innovation". As a consequence, innovation performance is crucial for an enterprise to gain competitive advantages (Teece, 1994).

Amabile (1998) and Kanter (1988) believed that individual creativity was an important element of organizational innovation as without individual creativity, there would be no organizational innovation. The organizational creativity and componential theory of creativity proposed by Amabile (1997) stated that there were mutual influences between creativity that emerged due to the intersection of work motivation, creativity skills and industry-related skills, and innovation shaped by resources, organizational motivation and methods of management practice. However, Higgins (1995) proposed that innovation was the combined

result of creativity and organizational culture, and that when creativity occurred in a proper organization, there came the innovation. Therefore, it is only when an enterprise provides a proper environment, that it can motivate the innovation of individuals in organization. Enterprises need to build a proper environment and pay attention to the personal demands of their employees. Lings (2004) believed that organizations should consider their employees as customers, and satisfy their employees' personal demands. As a consequence, enterprises should consider how to treat their employees as internal customers from the viewpoint of customers within the organization. Consequently, when establishing an organizational environment that is suitable for employees' innovation, enterprises need to consider implementing the strategies of internal market orientation to motivate their employees. Enterprises should also pay attention to their employees' requirements, systematically analyze employees' working conditions, and provide comprehensive reward policies and systems to increase employees' work satisfaction and commitment to the organization (Bell, Menguc and Stefani, 2004; Powpaka, 2006; Arnett, Laverie and Mclane, 2003; Gounaris, 2006). When an enterprise provides a proper



environment, employees will become more willing to acquire, transform, apply, and protect knowledge, which will enhance an employee's knowledge management capabilities, motivating them to generate creative ideas continuously. In this event, employees will be more willing to innovate, and produce new products that satisfy customers' requirements faster than the organization's competitors. This is an aspect that enterprises need to carefully consider during their operations in order to improve innovation performance (Teece, 1994; Brentani, 2001).

This study attempts to explain internal marketing from the perspective of internal marketing orientation and the view of employees. In other words, when a company implements strategies for internal market orientation based on the concept of internal marketing, the issue is whether it can enhance employees' work satisfaction by making employees perceive that the company is treating them as customers, and thus further enhance internal performance (Rafiq and Ahmed, 2000; Lings, 2004). As a consequence, it is necessary for this study to discuss the implementation conditions for internal market orientation perceived by employees, and the relationships between employees' work satisfaction, commitment and willingness to stay (Gounaris, 2006). Therefore, the first problem to be discussed by this study is how to construct a conceptual framework for internal market orientation from the perspective of employees. The aim of the framework is to understand the influence of such internal market orientation implementation conditions of Taiwanese enterprises on internal performance.

Porter (1990) studied enterprise competitiveness, and concluded that the most important success factor was continuous "innovation", stating that to sustain competitive advantages, enterprises needed to innovate continuously in order to establish value chain advantages. Since the economic development of Mainland China, India, South America, and Eastern Europe, Taiwanese enterprises that were good at manufacturing and operation efficiency have been under tremendous pressure to maintain their position and, consequently, have started to pay attention to innovation in recent years. "Innovation" is essential to core competence and the competitive advantages of enterprises. Both Amabile (1998) and Kanter (1988) believed that organizational innovation came from individuals, and without individual creativity, there would be no organizational innovation. As a consequence, in order to improve organizational innovation performance, enterprises need to value the requirements of

their employees so as to motivate their innovation capabilities. To achieve this, enterprises need to establish a management model to promote an organizational culture and an environment that will effectively enhance the innovation capabilities of their employees (Nerkar, McGrath and MacMillan, 1996; Mumford, 2000). Therefore, the second issue to be discussed by this study is how enterprises need to construct correlations between internal market orientation and organizational innovation performance from the perspective of their employees, and then further discuss the influence of internal market orientation on the improvement of innovation performance.

Organizational innovation stems from employees, and "knowledge" is the power that drives global change, as well as the power source for the sustainable innovation of enterprises. Therefore, an employee's knowledge management capability is an important factor in an enterprise's innovation performance. Due to the influences of economic globalization, the value chains of different industries have entered a reconstruction stage (Porter, 1990). Facing a new competitive profile, Taiwanese enterprises need to consider how they can enhance their status in the global industry value chain. In order to survive, enterprises need to innovate continuously in order to obtain competitive advantages. The knowledge management capabilities of internal employees are the basis for innovation, but it is only satisfied employees who have the motivation to innovate and knowledge management. Consequently, the third issue to be discussed by this study is how enterprises can understand the influences of internal market orientation on internal performance, employees' knowledge management capabilities, and organizational innovation performance.

2. INTERNAL MARKET ORIENTATION

Internal market orientation means treating employees from the perspective of a human resource (Berry and Parasuraman, 1991; Collins and Payne, 1991; Joseph, 1996; Lings, 2004; Lings and Greenley, 2005), and focusing on employees who have direct contact with customers during service procedures. Internal market orientation emphasizes how to promote employee-customer relationships (Berry and Parasuraman, 1991), and how to treat employees as customers of the company.

Lings (2004) believed that internal market orientation had two meanings, the internal dimension and the external dimension of



organizational performance. Lings deduced that internal market orientation would influence the internal perspectives of performance (employee satisfaction, willingness to stay, and commitment), and then further influence external market orientation and external perspectives regarding performance (customer satisfaction, customer retention, and profit). Therefore, internal market orientation is an internal marketing strategy that is partial to the viewpoint of human resources (Lings, 2004; Lings and Greenley, 2001), whereby the interactions between employees and customers are closely related to the employees' customer service experiences. Such interactions need enterprises to satisfy and encourage their employees (Berry and Parasuraman, 1991). In other words, if enterprises consider their employees as customers, they need to consider and respond to their requirements as a matter of importance, and satisfy their employees with a work design that meets the employees' requirements (Berry and Parasuraman, 1991), further strengthening employees' positive attitudes towards the organization they work for (Tansuhaj et al., 1988). In order to attract outstanding prospect customers (employees) and motivate their current customers (employees), organizations should value market researches, internal market segmentation, promotion-type communication, and advertisements (Lings and Greenley, 2001; Rafiq and Ahmed, 2000).

The frameworks for internal market orientation, as proposed by Lings (2004) and Lings and Greenley (2001), contained the three main dimensions of internal market research (the confirmation of value exchange, external employee market orientation, internal market segmentation, and strategies for each segment), internal communication (between management and employees, and management requirements from employees), and internal responses (work leasing assignments meeting the requirements of employees, bonus and salary systems, management reward, and training). Lings and Greenley (2005) directly implemented the ideas of market orientation in the internal market. Thus, the internal market was regenerated with the spread of intelligence regarding the employees' needs and requirements, and with organizations designing good responses in order to satisfy their employees' requirements. Gounaris (2006) conducted a two-stage empirical study, and proposed a scale for internal market orientation that contained primary dimensions (the generation of intelligence regarding the internal market, the spread of internal intelligence, and responses to such intelligence) and secondary dimensions (ten

sub-dimensions of confirmation of value exchange, concern regarding conditions of the labor market, segmentation of the internal market, segmentation of internal goals, communication between management and employees, communication among the management echelon, job description, salary system, care from management, and training). Gounaris obtained an empirical result whereby if an enterprise took its internal market orientation to a higher level, it could positively influence employee participation, employee authorization, and work satisfaction.

3. RELEVANCE BETWEEN INTERNAL MARKET ORIENTATION, INTERNAL PERFORMANCE, KNOWLEDGE MANAGEMENT CAPABILITIES, AND INNOVATION PERFORMANCE

As marketing ideas develop, market orientation has always been the focus of researches. Market orientation refers to the type of organizational culture that promotes an organization to adopt the most efficiency and efficacy methods in order to produce activities that create superior value for customers (Narver and Slater, 1990). According to literature review, either from the action perspective (Kohli and Jaworski, 1990) or the culture perspective (Narver and Slater, 1990), the focus is on customers and competitors. However, this idea overlooks the fact that employees of an organization can also influence organizational performance and customer satisfaction, and that by emphasizing the external market, an organization overlooks the internal service market (Lings, 1999a). As a consequence, from the perspective of employees, this study adopts the idea of internal market orientation to discuss internal performance, employees' knowledge management capabilities, and organizational innovation performance.

In interactive marketing service contacts (between employees and customers), good service can be obtained from employees, whereby the attitudes of the employees can influence customers' satisfaction with the perception service (Berry, 1981). In other words, service can be turned into a competitive advantage, which is also the basic idea emphasized by internal marketing. For over 30 years, although the literature on internal marketing has been booming, a rare amount has been applied to practice. The main reason is that scholars haven't reached agreement on the definition of internal marketing (Rafiq and Ahmed, 2000; Gounaris, 2006). This study



attempts to use literature as the basis, and adopts the ideas of internal marketing to clearly define internal market orientation (Lings and Greenley, 2005), confirming the practical implications of internal market orientation by empirical study.

In order to obtain better competitive advantages, enterprises need to establish an environment that enhances employees' capacities to store knowledge management capabilities, such as encouraging employees to exchange information, understanding employees and providing a good work design to satisfy employees. In a satisfied state, employees will be motivated to manage the knowledge they acquire, and thus an employee's knowledge management capabilities will be enhanced. However, in the literature related to internal market orientation, some studies have mentioned the need to pay attention to the spread of internal intelligence (Gounaris, 2006) so as to increase the information communication between different departments and between employees (Gronroos, 2000). However, there is no literature discussing the influence of the implementation of internal market orientation on employees' knowledge management capabilities or the relationship between internal market orientation and organizational innovation. Consequently, this study will discuss the holistic relationships between internal market orientation, internal performance, employees' knowledge management capabilities, and organizational innovation performance.

Internal market orientation plays its role through the generation of internal market intelligence, the spread of internal intelligence, and responses to such intelligence (Lings, 2004; Lings and Greenley, 2005; Gounaris, 2006). These activities are based on employees, and employees doubtlessly play an important role in the successful implementation of internal market orientation. However, does the enhancement of internal performance play a mediation role regarding the influence of internal market orientation on employees' knowledge management capabilities?

In addition, the existing literature related to knowledge management presents opinions from different viewpoints, but there is a lack of discussion on employees' knowledge management capabilities from the perspective of internal employees, and the influences of employees' knowledge management capabilities on organizational innovation. Furthermore, there is rare literature on employee's knowledge management capabilities, a reason why this study believes that innovation is important for enterprises.

This study plans to connect the relationships between internal market orientation, internal performance, employees' knowledge management capabilities and organizational innovation performance, and will conduct a holistic research on how an organization's management can improve its employees' knowledge management capabilities using the strategies of internal market orientation, thereby further improving the innovation performance of enterprises, and make a integrity of research with the hope of making several contributions.

4. RESEARCH FRAMWORK AND HYPOTHESE

According to the literature discussion, internal market orientation, internal performance, and employees' knowledge management capabilities have huge relevance to the innovation performance of an enterprise. Keller et al. (2006) believed that internal marketing combinations had positive influences on internal customer and inter-departmental customer orientation, and on internal customer performance. Gounaris (2006) believed that by means of the generation of internal market intelligence, the spread of internal intelligence, and the responses to such intelligence, internal market orientation could improve employee participation, employee authorization, and work satisfaction. If an enterprise is unable to enhance its employees' knowledge management capabilities, even if the enterprise has established a complete knowledge management system, it will be unable to valid integrate its core knowledge when required to respond to fast changes in the market. Teece (1994) also believed that enterprises could survive global competition only if they could ensure fast product innovation. Based on the research problems generated and relevant literature reviewed, this study establishes a research framework, as shown in Figure 1. Apart from the support from the past literature on related theories, this study has also interviewed the managers of four representative companies from the aerospace industry, petrochemical industry, service industry, and American electronics industry. Using a dig case study, this study understood and verified the applicability and rationality of the research framework, and used it as the basis for the research hypotheses, questionnaire design and measurement variables.

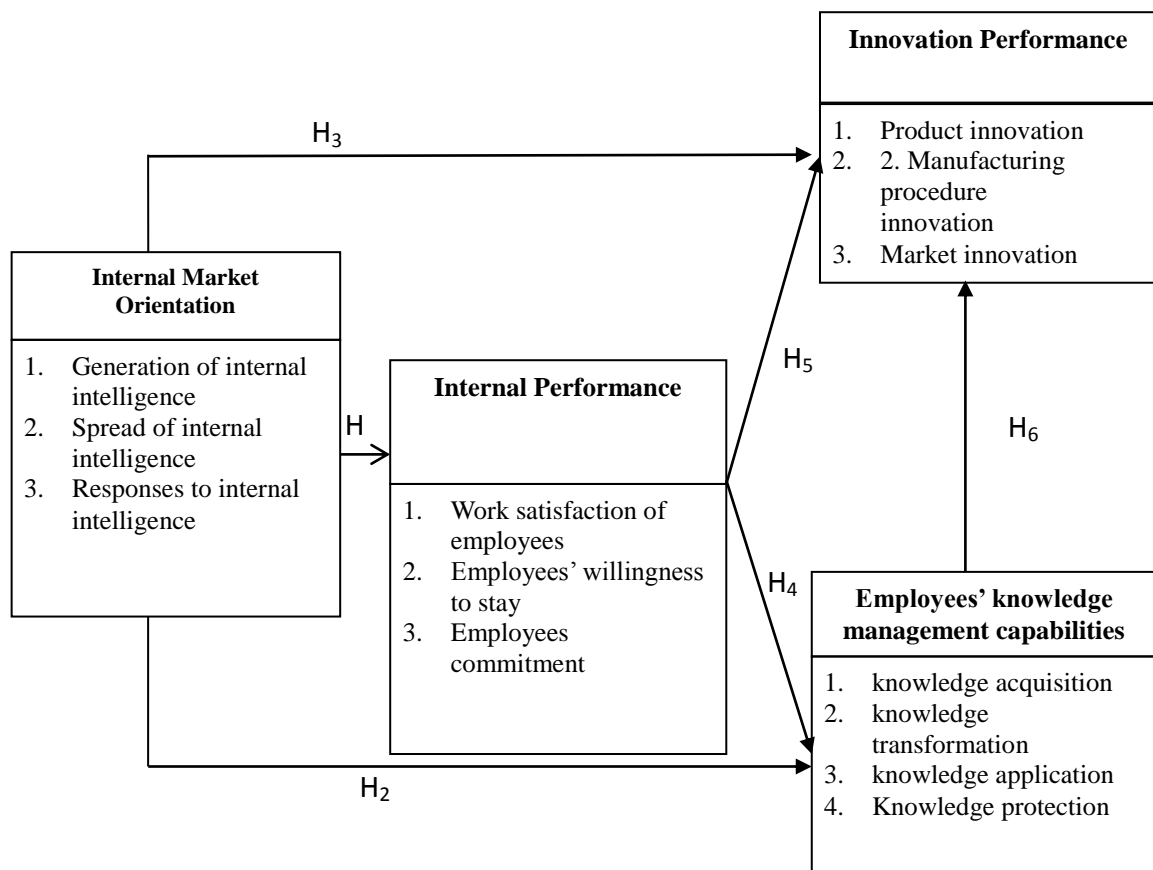


Figure 1 Research Framework

4.1 Operational Definitions And Measurement of The variables

Based on studies by Lings and Greenley (2001) and Lings (1999, 2004), this study defines "internal market orientation" as "internal marketing strategies that are partial to the ideas of human resources, treat employees as customers of the work or integration organization, and its management conditions, attitude, behavior, and values use methods similar to marketing methods to attract and motivate internal employees, using a work design that meets the requirements of the employees, with the intention to enhance employees' positive attitudes toward the organization, and promote external customers to perceive better customer service from employees". Referring to studies by Lings (2004), Lings and Greenley (2005), and Gounaris (2006), internal market orientation is

divided into the three dimensions of the generation of internal intelligence, the spread of internal intelligence, and responses to internal intelligence. This study adopts the idea of Lings (2004), and will discuss "internal performance" from the perspectives of work satisfaction and the organizational commitment of employees. In addition, Porter, Steers, Mowday, and Boulian (1974) divided the organizational commitment of employees into "value commitment", "effort commitment", and "retention commitment". This study simplifies the construct of internal performance, whereby "value commitment" and "effort commitment" are combined to become "employee commitment", with "retention commitment" revised as "an employee's willingness to stay". This study also refers to the opinion of Andrew, Arvind and Albert (2001), and conducts a discussion from the perspectives of knowledge acquisition ability, knowledge



transformation ability, knowledge application ability, and knowledge protection ability of employees. It subsequently defines “employees’ knowledge management capabilities” as employees’ capabilities to acquire, transform, apply, and protect knowledge. Comprehensively considering the studies by Damanpour (2000, 2001), Schumann (1994), Higgins (1995), and Yamin, Gunasekaran and Mavondo (1999), this study defines “innovation performance” as the innovation performance of organization introduced from the external market or generated by the internal products (services), manufacturing procedures (service procedures), and marketing, and such innovation performance has specific contributions for organizations and employees. This study uses product (service) innovation, manufacturing procedures (service procedure), innovation, and marketing innovation to discuss innovation performance.

4.2 Influences of Internal Market Orientation On Internal Performance

Internal market orientation considers internal employees from the viewpoint of human resources, focusing on employees who have direct contact with customers in service procedures, and adopting a method similar to marketing to treat those employees who have face-to-face contact with customers (Lings, 2004; Lings and Greenley, 2001; Rafiq and Ahmed, 2003; Gronroos, 2001). In other words, internal market orientation treats employees as the customers of the company so as to promote employee-customer relationships (Sasser and Arbeit, 1976; Berry and Parasuraman, 1991). Joseph (1996) reviewed the related literature, and proposed that internal market orientation enhances employees’ work satisfaction, including the work itself, interpersonal relationships, and real remuneration.

In addition, Lings (2004) summarized the related literature, and concluded that internal market orientation could enhance employees’ work satisfaction and organizational commitment by means of incentive human resource management, and thus improve employees’ work performance. The work satisfaction and organizational commitment here can be regarded as the internal performance of enterprises. Several scholars have proposed similar empirical results (Tansuhaj, Randall and McCullough, 1991; Arnett, Laverie and McLane, 2003; Caruana and Calleya, 1998). Meanwhile, internal market orientation emphasizes the use of internal products to satisfy the requirements of internal customers. Gounaris (2006) further

divided internal market orientation into the three dimensions of the generation of internal market intelligence, the spread of internal intelligence, and responses to such intelligence, obtaining the empirical result that when an enterprise brought in more internal market orientation, there are positive influences on employee participation, employee authorization, and work satisfaction. To summarize, if an enterprise implements strategies for internal market orientation, there is no doubt that employees’ work satisfaction and organizational commitment will be enhanced (Banai, Reisel and Probst, 2004; Ackfeldt and Coote, 2005; Boyt, Lusch and Mejza, 2005), and the work satisfaction and organizational commitment of employees belongs to the internal performance of the enterprise (Lings, 2004). As a consequence, this study deduces that:

H₁: Internal market orientation has positive influences on internal performance.

4.3 Influences of Internal Market Orientation On Employees’ Knowledge Management Capabilities

Internal market orientation means that enterprises consider their employees as internal customers, understand employees’ expectations, feelings, and requirements by means of the generation of internal market intelligence, the spread of internal intelligence, and responses to intelligence (Lings, 2004; Lings and Greenley, 2005; Gounaris, 2006; Mohr-Jackson, 1991; Lings, 2000c), and satisfy employees by the introduction of work designs and employment conditions that meet the employees’ requirements (Lings, 2004; Sasser and Arbeit, 1976). The above mentioned appropriate measures and activities can motivate employees and encourage them to have a positive attitude towards their organization, thus also promoting a transformation in their knowledge management (Tansuhaj et al., 1988; George and Gronroos, 1989; Gronroos, 1985, 1990; Lings and Greenley, 2001; Lings, 1999b, 2000c, 2004; Osterloh and Frey, 2000).

Some scholars have also pointed out that internal market orientation can reduce conflicts between different departments or functions of an organization, and further promote cross-functional integration. When different departments and employees start to communicate properly, the knowledge acquisition, transfer, communication, transformation, creation, spread, and accumulation of organizational knowledge management will become easier (Rafiq and



Ahmed, 1993, 2000; Lings, 1999b, 2004). Nonaka et al. (2000) have also pointed out that it is only when there is love, care, trust, and commitment among the members of an organization, that the action of knowledge sharing among members of the organization can be triggered. Consequently, if an enterprise adopts marketing methods to deliver information to its employees, it promotes the enterprise's deep understanding of its employees, and encourages its employees to express their opinions and requirements through various channels. Administrator should actively try to understand whether employees need help with their work, just as the communication between a company and its customers. Top manager should consider the specific requirements of their employees, and generate related policies to respond to the employees' requirements.

When an enterprise implements internal market orientation, it considers its employees as its customers and satisfies their requirements. This creates mutual communication and responses among internal employees, making it easier to establish trust, and enabling employees from different echelons to actively exchange information and ideas in an open and trusting atmosphere, thus helping to enhance an internal employee's knowledge management capabilities when acquiring, transforming, applying, and protecting knowledge. To summarize, if an enterprise adopts the strategies of internal market orientation, it will doubtlessly enhance employees' knowledge management capabilities. As a consequence, this study deduces that:

H₂: Internal market orientation has positive influences on employees' knowledge management capabilities.

4.4 Influences of Internal Market Orientation On Innovation Performance

Slater and Narver (1995) believed that innovation was the "ability to create core value", and guide the relationships between market orientation and performance. They also discovered that innovation and the success of new products mostly originated from market orientation. Jaworski and Kohli (1993) also believed that market orientation is, essentially, concerned with different or new responses to market conditions, and, basically, could be considered as a form of innovative action. Internal market orientation is progressed from the internal views of an organization, and when the organization can consider from the viewpoint of a supporter, there will be a positive help effect on innovation capabilities. Amabile (1997) also

pointed out that an organization can create an innovative environment by considering fair and constructive comments and proper payment rewards for creative work by means of organizational culture, encouraging innovation by establishing a system for developing new ideas, being willing to bear proper risks and sharing the future development vision of the organization. Therefore, encouragement from an organization can help employees to share risks, and enable employees to attend to their innovation capabilities and work with a new thinking method without any burden, thus producing more creative results. If an organization is supportive of its employees' innovation capabilities, and is willing to properly reward its innovative employees, in such an atmosphere, employees' innovation capabilities will be enhanced. This result conforms to the idea proposed by Sethi, Smith and Park (2001) whereby encouraging innovation and allowing employees to realize the policy trends and thinking processes of a company could help to enhance their innovation capabilities. The more positive the attitudes of the manager, as in the more they are willing to care for their employees, help employees to solve problems encountered during their work, and generously praise the good performance of employees, then the more this will help to increase employees' working motivation, further influence employees' willingness to propose innovative ideas, and have positive influences on their innovation capabilities. This result conforms to the idea proposed by Ramus (2001) whereby support and praise from the manager can help to enhance innovation capabilities. Similarly, the model for organizational change and innovation paradigm proposed by Zaltman, Duncan, and Holbek (1973) stated that the implementation of innovation after the collection of proper market intelligence and decision-making could enable an organization to effectively achieve its goals (Nakata, Imb, Park, and Ha, 2006; Ozer, 2004). In other words, when an organization implements internal market orientation and pays attention to the requirements of its employees, an innovative organizational culture can be created that encourages employees to innovate, thereby improving the innovation performance of the organization. As a consequence, this study deduces that:

H₃: Internal market orientation has positive influences on innovation performance.

4.5 Influences of Internal Performance On Employees' Knowledge Management Capabilities



Employees' work satisfaction can enhance their organizational identification. Employees' organizational identification can increase organizational commitment and willingness to stay, as well as their willingness to accept new things and reforms, and can encourage employees to study and acquire external knowledge and skills. Therefore, when employees are willing to make an effort when working for their organization, this promotes their self-growth, and helps them to accumulate knowledge management capabilities, which is beneficial for the enhancement of their professional competence and enables them to make comparatively accurate judgments during knowledge selection. The "internal performance" mentioned in this paper refers to an employee's work satisfaction, commitment, and willingness to stay. It can be seen that the enhancement of the internal performance of an enterprise is beneficial for enhancing an employee's knowledge management capabilities. Papows (1999) believed that one of the difficulties in implementing knowledge management within an organization is the lack of motivation (such as work satisfaction and organizational commitment) that encourages employees to enhance their personal knowledge. Bonora and Revang (1991) also believed that the storage methods of knowledge and knowledge coordination were influenced by individuals and their subjective attitudes. For example, Spek and Spijkervet (1997) proposed that knowledge management was influenced by culture and motivation, organizations and personnel, management, and information technology. Detienne, Dyer, Hoopes and Harris (2004) proposed the common factors that promoted knowledge management include organizational culture and employee effectiveness. The theory of knowledge management enablers, proposed by Janz and Prasarnphanich (2003), states that the work satisfaction and work performance of knowledge workers are important factors of knowledge management activities. The former factor measures the perspective of an employee's feelings towards work and self-growth, and the latter factor measures the efficiency of budget, effectiveness of goal realizing, and timeliness of deadlines. Consequently, when promoting knowledge management, it is very important that employees are enthusiastic and devoted, that participating members have the core skills to acquire knowledge, and are willing and motivated to concentrate on knowledge acquisition and transfer (Szulanski, 1996).

Most tacit knowledge is stored in the minds of employees but it is difficult to contextualize tacit

knowledge, and face-to-face teaching needs to be conducted to pass on knowledge. If an employee's commitment to stay improves, the turnover rate of the organization will be reduced, and thus the knowledge acquired by employees can be preserved within the organization. In addition, if employees' retention commitment is high, they will concentrate on dealing with the organization's affairs, and their knowledge acquisition and selection will not be interfered with by external factors (Marsh and Mannari, 1977). It can be seen that when employees have higher work satisfaction and organizational commitment, and, subsequently, the enterprise has higher internal performance, it is beneficial for employees' knowledge management capabilities. As a consequence, this study deduces that:

H₄: Internal performance has positive influences on employees' knowledge management capabilities.

4.6 Influences of Internal Performance On Innovation Performance

Nerka, McGrath and MacMillan (1996) believed that employees' work satisfaction had positive influences on the innovation of their team. Mumford (2000) also discovered that innovation capabilities had significant relationships with individual-related factors, such as individuals' expectations of work and the work training provided.

In addition, Johannessen, Olsen and Olaisen (1999) believed that organizational commitment would influence the innovation performance of a company. Porter et al (1974) also believed that the organizational commitment of an employee referred to the level of identification and attitude input towards a specific organization by an individual. In other words, the individual firmly believes and accepts the goals and values of organization, is willing to input more effort for the interests of the organization, and has a strong intention to remain as a member of the organization.

Wu and Cavusgil (2006) proposed that organizational commitment not only influences the innovation performance of an organization, but is also beneficial for its financial performance. Correspondingly, once employees lack commitment to an organization, their willingness to work for the goals of that organization will doubtlessly be reduced, which reduces the cooperation and interactions between employees, finally leading to poor innovation performance.



In other words, the high performance of an organization means an organization realizes its goals at the lowest cost and with the high efficiency through high levels of employee involvement, mutual trust and interactions between its employees. Organizational commitment demonstrates the levels of employees' identification and input to an organization. As long as employees can highly identify with the tasks assigned by the organization, due to their higher willingness to make an effort, they will input extra effort, thus influencing their innovation performance in innovative research and development (Brentani, 2001). To summarize, enterprises should try to build high levels of organizational commitment and work satisfaction of their employees. Specifically, organizations should enhance internal performance as this will positively influence their innovation performance. As a consequence, this study deduces that:

H₅: Internal performance has positive influences on innovation performance.

4.7 Influences of Employees' Knowledge Management Capabilities On Innovation Performance

Forcadell and Guadamillas (2002) believed that the development processes of an employee's knowledge management had clear goals with regards to products and procedures, and made great contributions to the innovation of an enterprise. Tang (1999) also believed that there were nine major factors that influenced the innovation capabilities of an organization, with knowledge and skills two of those influential factors. When an employee can freely enable their knowledge to flow, the knowledge becomes more valuable. Specifically, if an employee can properly transform knowledge into new ideas, it will not only enhance productivity, but also motivate creativity (Davenport and Prusak, 1998). Zuboff (1988) further proposed that employees were knowledge workers, and these knowledge workers could accumulate the valuable knowledge of an enterprise by increasing their new knowledge. They could also enhance the innovation culture of the enterprise by participating in procedure innovation. McAdam (2000) believed that knowledge workers (employees) could also increase the innovation opportunities of an organization by transforming their tacit knowledge into explicit knowledge and by passing such tacit knowledge to other employees. Liu, Chen and Tsai (2005) pointed out that knowledge management could positively influence the R&D performance of

new products, effectively create, share, apply, and store knowledge through the enhancement of employees' knowledge management capabilities, and motivate employees' innovative ideas by operation of the knowledge spiral, which was beneficial for the occurrence of innovation activities (Stewart, 1998). Just as Nonaka and Takeuchi (1995) have said, innovation activities of an organization are conducted by internal employees of the organization sharing tacit knowledge with each other, subsequently creating and confirming ideas for new products, and finally establishing prototypes and spreading knowledge obtained during the various processes to different departments or organizations. Johannessen, Olsen and Olaisen (1999) believed that knowledge creation would lead to innovation and the integrated knowledge application of an organization and, after effective integration and application, such knowledge would further motivate the innovations of the organization.

Madhavan and Grover (1998) also believed that the most important management work in product development was transforming the tacit knowledge of a team into concretization knowledge. Leonard-Barton (1995) believed that in order to conduct effective innovation activities, companies should establish the four core competencies of employees' knowledge and skills, a physical technology system, management system, and values and norms. This conforms to Yang's (2005) opinion that knowledge management procedures (the acquisition and spread of knowledge) have positive influences on product and manufacturing procedure innovations. To summarize, the enhancement of employees' knowledge management capabilities plays a crucial role in either the transformation of the knowledge of an organization or the enhancement of enterprise innovation performance. As a consequence, this study deduces that:

H₆: Employee's knowledge management capabilities have positive influences on innovation performance.

5. METHODOLOGY

5.1 Sample And Data Collection

This section mainly carries out statistical analyses following the distribution and recovery of questionnaires, sample description, and the distribution of data for each construct, and uses the analysis results to verify whether or not the hypotheses are true. In order to understand the



structure of the samples collected, this study carries out descriptive statistical analyses on the basic information of the tested employees, including their educational background, gender, and age.

5.1.1 The distribution and recovery of the questionnaires

This study distributed a total of 1500 questionnaires to 500 domestic enterprises, and recovered 301 copies. Removing 16 invalid questionnaires, there were a total of 285 valid questionnaires. The recovery rate of the valid questionnaires was 19%.

5.1.2 Sample description

Of the 285 valid questionnaires recovered by this study, 66% were completed by male employees, and 34% by female employees. The majority of the employees were aged from 31 to 35, accounting for 33.3% of the total number. Secondly, 18.2% of the employees were aged from 36 to 40. The majority of the tested employees who had graduated from colleges accounted for 59.3% of the total number, with 36.5% of the employees having master's degrees. With respect to industries, employees from the manufacturing industry accounted for the majority of the respondents (46.3%), with the financial service industry in second place (16.1%). Employees from both of these industries accounted for 33.3% of the total number.

5.2 The Development And Pretesting of The Questionnaire

The questionnaire of this study was constructed and based on the literature of related theories. In addition, based on the research themes, this study selected companies from the aerospace industry (Aerospace Industrial Development Corp), petrochemical industry (Formosa Petrochemical Corporation), service management industry (Prince Management), and the American electronics industry (Dell Taiwan). The questionnaire was compiled and based on interviews with the senior managers of these four companies.

After finishing the draft of the questionnaire, this study chose 35 Taiwanese companies to carry out the pretests for the questionnaire, sending three copies to senior employees of each company, and recovering 105 copies. After conducting a reliability analysis of the pretest questionnaire and verifying the validity of the

questionnaire using confirmatory analysis, the study removed any improper items from the questionnaire. The reliability values of Cronbach's α were all larger than 0.7, and the fitness value of the confirmatory analysis also showed good fitness.

The questionnaire of this study adopted a Likert five-point scale, with five to one points related to "strongly agree", "agree", "ordinary", "disagree", and "strongly disagree", respectively.

5.3 Measurement

In mid of August, 2006, this study began to distribute questionnaires to the public relations department (or department of human resources) of 500 companies selected randomly from the top 500 companies of the manufacturing industry, top 100 companies of the financial service industry, and large-scale R&D institutions. Three copies of the questionnaire were sent to each company with a request to give them to senior employees in the plan management, R&D, and marketing departments for response. A total of 1500 questionnaires were distributed. From mid of September, the questionnaires were returned successively, and this study also started to urge for the return of the questionnaires. By the beginning of October, the questionnaire recovery had been completed. A total of 301 questionnaires were returned, of which 285 were valid copies. The efficiency recovery rate was 19%.

5.4 Reliability And Validity

The following sections explain the content validity analyses of the constructs of the framework of this study, the reliability and validity analyses of internal market orientation, internal performance, employees' knowledge management capabilities, and innovation performance, plus verification of the integral theoretical model.

5.4.1 Content validity analysis

"Content validity" refers to the level of cover by the research topic during the theoretical construction, namely, indicating the representativeness of the measurement content of the questionnaire items. This study compiled the questionnaire based on related literature, and revised or directly used the related measuring indices of the reference literature as suitable items for the questionnaire. Before distributing the formal questionnaires, this study invited five management scholars and five industry



representatives to comment on and assess the applicability of the items of the questionnaire, and the relevance between the constructs of the study. When distributing the questionnaires, this study asked the respondents several times whether the content of the items was easy to comprehend, and whether it was difficult to answer the questions. Apart from the fact that some of the respondents thought there were too many items, most of the respondents had a positive attitude towards the questionnaire, indicating that the questionnaire of this study has sufficient "content validity".

5.4.2 Reliability and validity of internal market orientation, internal performance, employees' knowledge management capabilities, and innovation performance

The latent variables of this study have multiple indicators, and the average value of the dimensions of a multiple-item scale was used as the composite score for each dimension. This study used the values of Cronbach's α to verify the consistency of all the manifest variables for the measurement dimensions of the latent variables.

As the construction of "internal market orientation" has commonly been discussed from the viewpoint of enterprises (ex; Foreman and Money, 1995; Caruana and Calleya, 1998; Ewing and Caruana, 1999; Lings and Greenley, 2001; Lings and Greenley, 2005), there are few scales that have been developed to measure employee-centered constructs (ex; Gounaris, 2006). From the perspective of the employees, this study discussed their perception regarding the implementation of "internal market orientation". As a consequence, this study developed a scale for "internal market orientation" from the viewpoint of employees, and verified the reliability and validity of the Internal Market Orientation Scale of Employees' Viewpoints. This study adopted the values of Cronbach's α to conduct reliability analyses of the three sub-constructs of "internal market orientation", namely, "the generation of internal intelligence", "the spread of internal intelligence", and "responses to internal intelligence". The reliability values of the three constructs are 0.761, 0.833, and 0.806, respectively (refer to Table 1). According to Cuieford (1965), and Rindfleisch and Moorman

(2001), values larger than 0.7 indicate high reliability, values between 0.7 and 0.35 indicate passable reliability, and values smaller than 0.35 indicate low reliability and should be refused. The reliability values of the constructs of "internal market orientation" are all greater than 0.7, indicating that the measurement of "internal market orientation" there is reliability.

This study adopted the values of Cronbach's α to conduct reliability analyses of three sub-dimensions of "internal performance", namely, "employees' work satisfaction", "employees' willingness to stay", and "employee commitment". The reliability values of the three dimensions are 0.641, 0.877, and 0.826, respectively.

This study adopted the reliability analyses on four sub-dimensions of "employee's knowledge management capabilities", namely, "knowledge acquisition", "knowledge transformation", "knowledge application", and "knowledge protection"; the reliability of Cronbach's α values are 0.753, 0.789, 0.825, and 0.897, respectively.

This study adopted the reliability analyses on three sub-dimensions of "innovation performance", namely, "product (service) innovation", "manufacturing procedure (service procedure) innovation", and "marketing innovation"; the reliability of Cronbach's α values are 0.887, 0.835, and 0.830, respectively. With respect to Cronbach's α , SMC (square multiple correlations), standardized coefficients, measurement errors, t values, latent composite reliability, and average variances extracted (AVE) of the latent variables and sub-constructs of this study, the index coefficients (carrying capacity) of the endogenous and exogenous dimensions plus the corresponding latent dimensions are all significant correlations (P-value < 0.01). The composite reliability values of the four latent variables are all greater than 0.7, plus the values of the AVE between each dimension and its abstraction corresponding item are all greater than the recommended critical value of 0.5, which demonstrates convergent validity (Fornell and Larcker, 1981), as shown in Table 1 (reliability analysis of related variables of this study).

Table 1 Reliability Analysis on Related Variables



Latent Variable	Dimension	Cronbach's α	SMC	MLE Estimation Parameters			Composite Reliability	AVE
				Standardized Coefficient (λ)	Measurement Error (δ 或 ϵ)	T-value		
Internal Market Orientation	Generation of Internal Intelligence					12.916	0.841	0.638
	Spread of Internal Intelligence					12.377		
	Responses to Internal Intelligence					-		
Internal Performance	Employees' Work Commitment					-	0.784	0.548
	Employees' Willingness to Stay					7.321		
	Employee Commitment					7.265		
Employees' knowledge management capabilities	Knowledge Acquisition Ability					-	0.863	0.614
	Knowledge Transformation Ability					9.796		
	Knowledge Application Ability					10.071		
	Knowledge Protection Ability					3.592		



Latent Variable	Dimension	Cronbach's α	SMC	MLE Estimation Parameters			Composite Reliability	AVE
Innovation Performance	Product (Service) Innovation					-	0.814	0.593
	Manufacturing Procedure (Service Procedure) Innovation					11.001		
	Marketing Innovation					10.936		

With respect to discriminant validity, according to Table 2, values on the diagonal line of “internal market orientation”, “internal performance”, “employees’ knowledge management capabilities”, and “innovation performance” has AVE values of 0.638, 0.548, 0.614, and 0.593, respectively. The remainders are the squared values of the correlation coefficients of every pair of constructs, all of which are smaller than the AVE values. This conforms to the judgment criteria of discriminant validity proposed by Fornell and Larcker (1981). Namely, when the variance

percentages of any two constructs are larger than the squared values of the correlation coefficient of these two constructs, these two constructs have discriminant validity. Therefore, the constructs of the integrated theoretical model of this study have discriminant validity. The reliability α value for “internal performance” is 0.664, and the reliability values of the remaining constructs are all greater than 0.7, indicating good reliability.

Table 2 The Examination of the Discriminant Validity of the Constructs of the Integral Theoretical Model

Construct	Internal Market Orientation	Internal Performance	Employees’ Knowledge Management Capabilities	Innovation Performance
Internal Market Orientation	0.638			
Internal Performance	0.253	0.548		



Employees' Knowledge Management Capabilities	0.202			
Innovation Performance	0.378			

Note: the values on the diagonal line are AVE values, and the remainders are the squared values of the correlation coefficients.

6. ANALYSIS OF THE EMPIRICAL RESULTS

6.1 The Integral Theory of Internal Market Orientation, Internal Performance, Employees' Knowledge Management Capabilities, And Innovation Performance

6.1.1 The empirical analysis of the model

The theoretical model of this study (shown as Figure 2) includes the four constructs of “internal market orientation”, “internal performance”, “employees' knowledge management capabilities”, and “innovation performance”. Each of these four latent variables has three observed variables. The study used AMOS 3.6 to conduct structural model analyses to verify every research hypothesis. Namely, verification of whether the routes of H₁: internal market orientation → internal performance; H₂: internal market orientation → employees' knowledge management capabilities; H₃: internal market orientation → innovation performance; H₄: internal performance → employees' knowledge management capabilities; H₅: internal performance → innovation performance; and H₆: employees' knowledge management capabilities → innovation performance whether is true. The results show that the fitness between the observed samples and the theoretical model is good. The fitness values of the empirical results of the theoretical model are as follows:

GFI=0.933, AGFI=0.897, NFI=0.914, CFI=0.949 and RMSEA=0.067, all of which are close to the standard of good fitness. The analyzed results of the model show that only hypothesis H₅ is false. In other words, internal performance has no significant influence on innovation performance; the standardized structural coefficient is 0.003 (t-value is 0.032). Internal market orientation has a significantly positive influence on internal performance, with a standardized structural coefficient of 0.659 (t-value is 8.404), which means hypothesis H₁ is true. Internal market orientation has a significantly positive influence on employees' knowledge management capabilities with a standardized structural coefficient of 0.167 (t-value is 1.686), which means hypothesis H₂ is true. Internal market orientation has a significantly positive influence on innovation performance with a standardized structural coefficient of 0.671 (t-value is 6.805), which means hypothesis H₃ is true. Internal performance has a significantly positive influence on employees' knowledge management capabilities with a standardized structural coefficient of 0.481 (t-value is 4.187), which means hypothesis H₄ is true. Finally, knowledge management capabilities have a significantly positive influence on innovation performance with a standardized structural coefficient of 0.158 (t-value is 2.025), which means hypothesis H₆ is true. Please refer to Table 3.

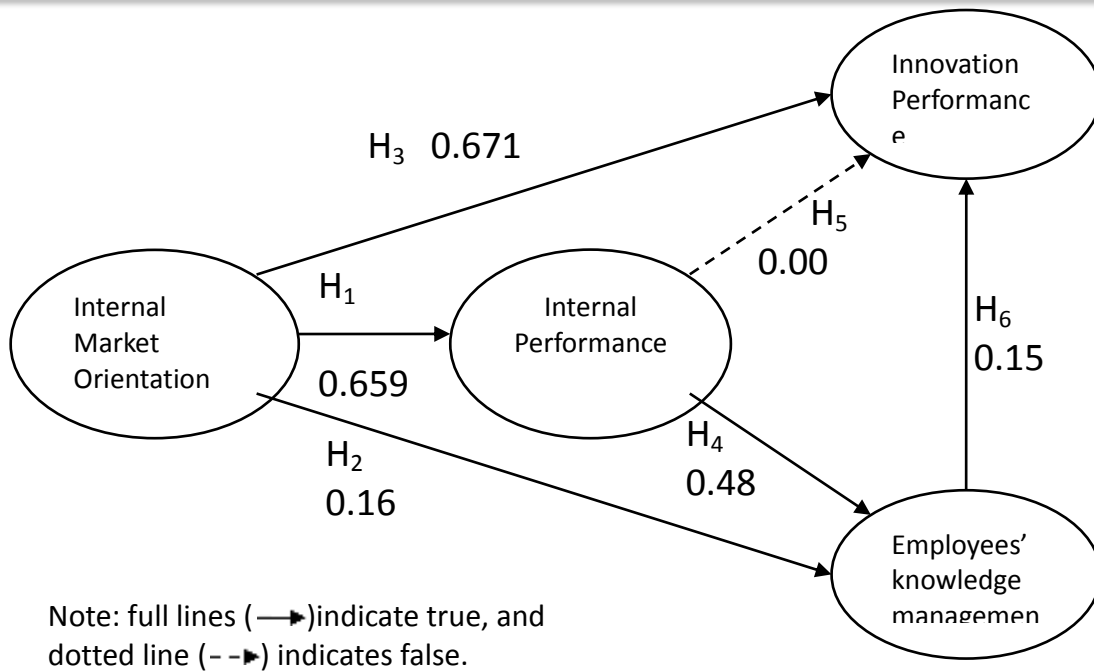


Table 2 Verification Results of the Integral Theoretical Model

Table 3 Results of the Integral Theoretical Model

Causal Route	Hypothesis	Expected Symbol	Theoretical Model	
			Standardized Structural Coefficient	T-value
IMO → Internal Performance	H1	+		8.404**
IMO → Employees' knowledge management capabilities	H2	+		1.686**
IMO → Innovation Performance	H3	+		6.805**
Internal Performance → Employees' knowledge management capabilities	H4	+		4.187**
Internal Performance → Innovation Performance	H5	+		0.032
Employees' knowledge management capabilities → Innovation Performance	H6	+	0.158	2.025**
Indices of Agreement Degree	Judgment Value		Fitness Value	Fitness



Causal Route	Hypothesis	Expected Symbol	Theoretical Model	
			Standardized Structural Coefficient	T-value
				Condition
GFI	>0.9		0.933	Excellent
AGFI	>0.9		0.897	Excellent
NFI	>0.9		0.914	Excellent
CFI	>0.95		0.949	Excellent
RMSEA	<0.08		0.067	Excellent

**P<0. 01

7. RESULTS AND SUGGESTIONS

The study results show that internal market orientation and employees' knowledge management capabilities are very important concepts for the innovation performance of enterprises. Previous literature seldom discussed the relationships between the perception of the implementation of internal market orientation and internal performance (employees' work satisfaction, employee commitment, and employees' willingness to stay), or the influence of internal market orientation on innovation performance from the perspective of employees. Additionally, in previous studies, scholars did not discuss internal market orientation from the perspective of employees. Therefore, based on studies on internal market orientation, internal performance, employees' knowledge management capabilities, and innovation performance, this study concludes that the implementation of internal market orientation can improve internal performance, which subsequently further improves employees' knowledge management capabilities and understand the innovation performance of enterprises.

7.1 The Positive Influences of "Internal Market Orientation" On "Innovation Performance", "Internal Performance" And "Employees' Knowledge Management Capabilities" Have Empirical Support.

In the analysis of the relationships between "internal market orientation" and "internal performance", "employees' knowledge management capabilities", and "innovation

performance", with respect to the theoretical model for the relationships between the four latent variables of "internal market orientation", "internal performance", "employees' knowledge management capabilities", and "innovation performance", the coefficients of routes H_3 (internal market orientation \rightarrow innovation performance), H_1 (internal market orientation \rightarrow internal performance) and H_2 (internal market orientation \rightarrow employees' knowledge management capabilities) are positive and significant, and the fitness of the theoretical model is good. This indicates that internal market orientation is the antecedent factor of "innovation performance", "internal performance", and "employees' knowledge management capabilities". Specifically, "internal market orientation" has a positive influence on "innovation performance of an organization". In other words, if an enterprise effectively implements internal market orientation, the innovation performance of the organization will be enhanced. On the other hand, the implementation of internal market orientation can also enhance internal performance, thus increasing the work satisfaction of employees, and enhancing employees' commitment and willingness to stay. In addition, the implementation of internal market orientation can also improve employees' knowledge management capabilities, including capabilities in knowledge acquisition, transformation, application, and protection. The above results all conform to theoretical models deduced by the literature review.

The empirical results of this study show that internal market orientation has a significantly



positive influence on “innovation performance”, “internal performance”, and “employees’ knowledge management capabilities”, with the standardized coefficient for the influence of internal market orientation on “innovation performance” being of the largest value. In other words, the implementation of internal market orientation can actually enhance the innovation performance of an enterprise, highlighting the importance of the enterprise implementation of internal market orientation.

7.2 “Internal Performance” Is An Important Mediation Variable Regarding The Influence of “Internal Market Orientation” On “Employees’ Knowledge Management Capabilities”.

With respect to the integral theoretical model, the empirical results (shown in Table 4) of the theoretical model confirm that “internal market orientation” positively influences “internal performance” (H_1 : internal market orientation \rightarrow internal performance, with a standardized coefficient of 0.659, and a t-value of 8.404), “internal performance” positively influences “employees’ knowledge management capabilities” (H_4 : internal performance \rightarrow employees’ knowledge management capabilities, with a standardized coefficient of 0.481, and a t-value of 4.187), and “internal market orientation” positively influences “employees’

knowledge management capabilities” (H_2 : internal market orientation \rightarrow employees’ knowledge management capabilities. The standardized coefficient is 0.167, and the t-value is 1.686). The research hypotheses H_1 , H_4 , and H_2 are significant. On the other hand, the direct effect of “internal market orientation” on “employees’ knowledge management capabilities” is 0.167, and the indirect effect of “internal market orientation” on “employees’ knowledge management capabilities” via “internal performance” is $0.659 \times 0.481 = 0.317$. It can be seen that the mediation effect of internal market orientation on employees’ knowledge management capabilities via internal performance is higher than the direct effect. Specifically, when an enterprise implements internal market orientation, it will improve the internal performance of that enterprise, promote employees’ work satisfaction, employee commitment, and employees’ willingness to stay, and then enhance the knowledge management capabilities of employees. If an enterprise implements internal market orientation but fails to improve internal performance (i.e. failing to achieve employees’ work satisfaction, commitment, and willingness to stay), then the direct effect of the positive influences of “internal market orientation” on “employees’ knowledge management capabilities” will be comparatively small.

Table 4 Comparison of the Effects of Internal Market Orientation \rightarrow Employees’ Knowledge Management Capabilities

Route	Hypothesis	Direct Effect	Indirect Effect
IMO \rightarrow IP	H_1	0.659	
IP \rightarrow EKMC	H_4	0.481	
IMO \rightarrow EKMC	H_2	0.167	
IMO \rightarrow IP \rightarrow EKMC			0.317
The effect of IMO \rightarrow IP \rightarrow EKMC is 0.317, larger than the effect of IMO \rightarrow EKMC, which is 0.167. Therefore, IP is an important mediation variable regarding the influence of IMO on EKMC.			

Note: IMO: internal market orientation; IP: internal performance; EKMC: employees’ knowledge management capabilities.

7.3 Internal Market Orientation” Is The Most Important Influential Factor Regarding “Innovation Performance” In The Theoretical Model of This Study.

With regards to the theoretical model of this study, the factors that influence “innovation performance” are the three constructs of “internal market orientation”, “employees’ knowledge management capabilities”, and



“internal performance”. With respect to the direct effects of the influences on “innovation performance”, the empirical results (refer to Table 5) show that the influence of “internal performance” on “innovation performance” is non-significant, while the influencing effect of “internal market orientation” on “innovation performance” is the most significant (H_3 : internal market orientation \rightarrow innovation performance with a structural coefficient of 0.671). The positive influencing effect of “employees’ knowledge management capabilities” on “innovation performance” is the least significant (H_6 : employee’s knowledge management capabilities \rightarrow innovation performance with a structural coefficient of 0.158). With respect to indirect influences on “innovation performance”, the empirical results show that “internal market orientation” has a positive influence on “employees’ knowledge management capabilities” (H_2 : internal market orientation \rightarrow employee’s knowledge management capabilities), and the direct effect is 0.167, whereas the indirect effect of internal market orientation \rightarrow internal performance \rightarrow employees’ knowledge management capabilities is $0.659 \times 0.481 = 0.317$. Therefore, the total influencing effect of internal market orientation on employees’ knowledge management capabilities is $0.167 + 0.659 \times 0.481 = 0.484$. Consequently, the indirect effect of internal market orientation \rightarrow employees’ knowledge management capabilities \rightarrow innovation performance is $0.484 \times 0.158 = 0.077$.

Comparing this indirect effect to the direct effect of internal market orientation \rightarrow innovation performance ($0.671 > 0.077$), it is obvious that internal market orientation directly influences innovation performance, and the effect of improving the innovation performance of an enterprise by enhancing employees’ knowledge management capabilities via internal market orientation is limited. As internal market orientation means that an enterprise implements strategies that are centered on its employees and that it values the requirements of its employees, the level of implementation is at enterprise level whilst, as innovation performance refers to the holistic innovation performance of the enterprise, the displaying level of innovation performance is also at enterprise level. As a consequence, the implementation of “internal market orientation” by an enterprise can effectively influence its “innovation performance”. However, employees’ knowledge management capabilities present the knowledge management capabilities of an employee. Although the enhancement of an individual employee’s knowledge management capabilities is beneficial for improvements in the innovation performance of the enterprise, which is also supported by the empirical results of this study, an employee’s knowledge management capabilities are, after all, at an individual level and using an individual level factor to influence the holistic innovation performance of an enterprise, has a limited effect. Therefore, “internal market orientation” is an important factor that influences “innovation performance”.

Table 5 Comparison of the Effects on the Innovation Performance of Enterprises

Effect	Route	Hypothesis	Direct Effect	Indirect Effect	Total Effect
Direct Effect of INNO	IMO \rightarrow INNO	H_3	0.671		
	EKM \rightarrow INNO	H_6	0.158		
	IP \rightarrow INNO	H_5	Non-significant		
IMO \rightarrow EKMC	IMO \rightarrow EKMC	H_2	0.167		
	IMO \rightarrow IP \rightarrow EKMC			0.317	
	IMO \rightarrow EKMC				0.484
Indirect Effect of INNO	IMO \rightarrow EKMC \rightarrow INNO			0.077	



Total Effect of INNO					0.748
The effect of IMO→INNO is 0.671 which is larger than the effect of IMO→EKMC→INNO which is 0.077.					

Note: IMO: internal market orientation; IP: internal performance; EKMC: employees' knowledge management capabilities; INNO: innovation performance.

7.4 Internal Performance Influences Innovation Via The Enhancement of Employees' Knowledge Management Capabilities.

The empirical results show that the route H₅ (internal performance → innovation performance) of the research framework of this study is non-significant. Namely, internal performance cannot influence innovation performance directly. However, internal performance can influence innovation performance via the enhancement of employees' knowledge management capabilities. It means that the high level internal performance of an enterprise (i.e. high "employees' work satisfaction", "employees' willingness to stay", and "employee commitment") cannot effectively enhance the innovation performance of an organization. This study believes that the possible reason may be that the internal information of large-sized enterprises is complicated, and the enterprises value company systems and professional competencies. In other words, to improve the innovation performance of an organization, the enterprise should cultivate its employees' knowledge management capabilities first. As "employees' work satisfaction", "employees' willingness to stay", and "employee commitment" tend to focus on the opinion of employees phase, these factors are not able to influence the innovation performance of the organization. As a consequence, "employees' knowledge management capabilities" is an important mediation variable regarding the influences of internal performance on innovation performance.

8. RESEARCH CONTRIBUTIONS AND MANGERIAL IMPLICATIONS

Although the research topic of internal market orientation has received attention from the academic field and has been previously discussed, most of the researches are still in the initiation phase (Gounaris, 2006). On the one hand, this study analyzes the connotations of internal market orientation by the implementation conditions of internal market

orientation for Taiwanese companies. On the other hand, this study discusses how Taiwanese companies should effectively implement internal market orientation to improve innovation performance, and deeply studies the influences of internal market orientation, internal performance, and employees' knowledge management capabilities on the innovation performance of the organizations. This study expects to provide references for both the academic and industrial fields. The research contributions and managerial implications of this study are concluded as follows:

8.1 Research Contributions On Managerial Implications

Previous studies on internal marketing have mainly remained at the stage of idea proposal, and discussing the implications, range of application, possible effects, and procedures, and combination concept of internal marketing (Berry, 1981; George, 1977; Gronroos, 1981); there are few studies that have examined internal marketing from the perspective of employees' opinions on the strategies of internal market orientation. With respect to the innovation performance of organizations, the important influences of internal performance and employees' knowledge management abilities have also been neglected. Therefore, this study discusses how to apply internal market orientation to practical operation. In other words, employees can perceive an organization's intentions due to the fact that the organization implements the actions of internal market orientation. Additionally, the implementation of internal market orientation can enhance employees' work satisfaction and organizational commitment, further enhancing their knowledge management capabilities and the innovation performance of the organization, which is the topic of interest for this study. The main contributions to management and marketing theories by this study are as follows:

8.1.1 Development of a symmetrical market orientation model and establishment of a theory for integral marketing strategies.



The study has reviewed researches on marketing from the past 10 years or more, and discovered that improving operational performance through market orientation (MO) has become one of the most important topics in the field of marketing (Slater and Narver, 1995). The literature review shows that, either from the perspective of actions (ex., Kohli and Jaworski, 1990) or the perspective of cultures (ex., Narver and Slater, 1990), the focus is on customers and competitors. However, such a concept neglects employees' influences on organizational performance and customer satisfaction (Lings, 1999b). Topics on internal market orientation have not been the focus of discussion very much. Therefore, this study discusses the implications of internal market orientation, and finds that it is beneficial for the development of a symmetrical market orientation model (Pitt and Foreman, 1999), and can make up for flaws in the theories of marketing strategy.

8.1.2 Discuss internal market orientation and make up for flaws in the theory of internal marketing.

In recent years, although the literature on internal marketing is booming, very little has been put into practice. The main reason is that there has not been an agreement on the definition of internal marketing (Rafiq and Ahmed, 2000). Although many related literatures have mentioned the concept of internal marketing, Lings (2004) proposed that there was great confusion on what exactly internal marketing was, how it should be implemented, and by whom, and that there is no generalized work to measure it. Meanwhile, internal market orientation tends to be the orientation of internal marketing strategies that are partial to the viewpoints of human resources (Hales, 1994; Lings, 1999b, 2004; Lings and Greenley, 2001; Lings and Greenley, 2005; Gounaris, 2006). Therefore, this study discusses the idea that employees are considered as internal customers from the perspective of internal market orientation, and those employees' requirements are satisfied by the generation of internal market intelligence, the spread of internal intelligence, and responses to intelligence, all of which have been empirically supported. This study expects to further clarify the concept of internal marketing.

8.1.3 Empirical examination of the dimensions of internal performance

Lings (2004) believed that internal

performance includes the dimensions of employees' satisfaction, employees' willingness to stay, and employee commitment. The incentive methods of human resource management could not only increase the benefits of external market orientation, but also enhance customer satisfaction, customer retention, and profit. Therefore, this study adopts the idea of Lings (2004), and discusses internal performance from the perspectives of employees' work satisfaction and organizational commitment. The empirical results show that internal performance is a mediation variable regarding the influences of internal market orientation on employees' knowledge management capabilities. Specifically, if a company intends to enhance its employees' knowledge management capabilities using internal market orientation, it should pay attention to the mediation effect of internal performance.

8.1.4 Propose the construct of employees' knowledge management capabilities.

Although knowledge discussed by knowledge management related literature mainly focuses on the knowledge of organizations and individuals, there was very little discussion on employees' knowledge management capabilities. This study believes that, in order to cope with a fast-changing external environment, enterprises should solve problems and respond to changes in the external environment momentarily. Consequently, organizations should put in place the means for employees to quickly acquire or possess knowledge of an event or a situation so that they can make accurate judgments and take appropriate actions, i.e. allow and encourage employees to develop their knowledge management capabilities, which is the main concern of the discussion on knowledge management capabilities by this study. In other words, an employee's knowledge management capabilities refer to an employee's capabilities to systematically manage information so as to form knowledge, and to acquire, transform, apply, and protect that knowledge by all kinds of methods and to solve problems and complete tasks assigned by their organization. This study extends the knowledge acquisition, transformation, application, and protection capabilities proposed by Andrew et al. (2001), a field that has not yet been explored by previous studies. Meanwhile, the empirical results of this study show that employees' knowledge management capabilities have a significant influence on innovation performance, which provides a reference for future studies.



8.1.5 Include innovation performance as a new index for marketing innovation.

Organizational innovation is an important function of an enterprise. Many scholars have defined innovation as the adoption of new ideas or behavior by an organization (Damanpour and Gopalakrishnan, 2000, 2001; Schumann, 1994; Higgins, 1995; Yamin, et al., 1999). Therefore, innovation can be a new product, a new service, a new technology, or a new management method. Currently, innovation discussed by the mainstream literature on marketing mainly focuses on the innovation of products or manufacturing procedures, and there is very little literature that discusses marketing innovation. This study incorporated marketing innovation performance into the research scope, and established a theoretical framework to conduct empirical analyses, obtaining considerably good empirical support. It can be seen that, when measuring innovation performance, it is necessary to consider the index of marketing innovation.

8.1.6 Integrate the relationships between internal market orientation, employees' knowledge management and issue of innovation

Internal market orientation, employees' knowledge management capabilities, and organizational innovation, are three constructs considered to be the sources of sustainable competitive advantage of an organization. However, there is no study integrating the relationships between these three constructs. Apart from developing the connotations of internal market orientation, this study also includes employees' knowledge management capabilities and organizational innovation performance when discussing the different relationships. Meanwhile, this study has also developed a theoretical framework, and conducted empirical examinations to further understand how internal market orientation enhances innovation performance via employees' knowledge management capabilities, which makes up for the lack in research topics of this type, and which can be used for the extension of further theories.

8.2 Managerial Implications

The study results show that introducing strategies for internal market orientation, enhancing internal performance, and increasing employees' knowledge management capabilities

can significantly improve the innovation performance of an organization. It proves that the strategies of internal market orientation and employees' knowledge management capabilities are topics that are worthy of considerable attention from enterprises. This study concludes with managerial implications of the empirical results, shown as follows, and expects that the study results can help to improve the innovation performance of enterprises, and provide references for practical operation.

8.2.1 Pay attention to the implementation of strategies for internal market orientation.

When implementing internal market orientation, an enterprise should develop methods that meet the requirements of its employees through training, communication, and encouragement, and to keep the employees it needs. Internal market orientation is a management philosophy whereby enterprises treat their employees as internal customers, and focus on meeting their employees' product requirements (work) so as to establish employees' loyalty to the enterprise (Tansuhaj et al., 1988; Berry and Parasuraman, 1991). The empirical results of this study show that the implementation of strategies for internal market orientation has a significant influence on internal performance, employees' knowledge management capabilities, and organizational innovation performance. Therefore, enterprises should strengthen their relationships with their internal customers (employees), and communications should be mutual rather than just asking employees to receive information. In the meantime, enterprises need to understand their employees' requirements and listen to their voices through the generation of internal market intelligence, the spread of internal intelligence, and responses to intelligence, establish the confirmation of value exchanges between the enterprise and employees, pay attention to conditions of the labor market all the time, and properly segment internal goals to enable employees to be qualified for their work (Gounaris, 2006). On the other hand, enterprises should value the manager care for employees' requirements, and communication between managers and employees, and among the management echelon. Establishing a complete salary system and generating training plans are also important aspects in the implementation of internal market orientation (Gounaris, 2006).

8.2.2 The enhancement of internal performance

When enterprises pursue innovation



performance to strengthen their competence, employees' levels of devotion to work, work satisfaction, and organizational commitment all have a positive influence on organizational innovation. Employees play a critical role in the innovation performance of an organization. Consequently, enterprises should enhance their employees' feeling of commitment to them, increase employee satisfaction in order to maintain skills, and bring higher productivity and operational advantages for the enterprises. When an enterprise can take its employees' requirements and expectations as the starting point, and understand the perceived value of its employees, the entire satisfaction level of its employees will be increased, which will encourage the employees to work hard, thus enhancing the internal performance of the enterprise. The empirical results of this study confirm that the implementation of strategies for internal market orientation can enhance internal performance, including employee satisfaction and organizational commitment (Lings, 2004). Therefore, enhancement of the internal performance of an enterprise relies on the enterprise feasible implementation of internal market orientation.

8.2.3 The development of employees' knowledge management capabilities

Innovation is still a key factor for the survival of enterprises in today's fiercely competitive environment. In order to enhance organizational innovation performance, many enterprises actively carry out activities related to knowledge management so as to effectively save the cost of searching for useful information within the enterprise (Hansen, 1999). In order to pursue innovation performance, enterprises should establish an environment that is open to innovation and that gives sufficient support to knowledge-related activities and mechanisms, encouraging all employees to innovate together. Through knowledge management, employees yield innovations, and this process contains the order of knowledge creation, sharing, and integration. Enterprises can indirectly promote their innovation performance by enhancing employees' knowledge management capabilities. Therefore, enterprises should invest in the cultivation of employees' knowledge acquisition, transformation, application, and protection capabilities (Andrew et al., 2001) in order to enhance employees' innovation capabilities, and thus improve organizational innovation performance.

8.2.4 The effective enhancement of innovation

performance

This study selected large-scale domestic companies in the manufacturing, finance, and service industries as the subjects for the empirical study. By the collection and analysis of empirical data, this study verified a theoretical model for implementing internal market orientation to enhance internal performance and employees' knowledge management capabilities of an enterprise, thus influencing the innovation performance of the enterprise. The empirical results prove that the implementation of internal market orientation has a significantly positive influence on the innovation performance of an enterprise, which can be used as a reference for enterprise managers in practical operation. Taiwanese enterprises should actively promote strategies for internal market orientation in order to maintain the innovation capabilities of domestic enterprises and to obtain constant competitive advantages enhance enterprises' global competitiveness, thus enhancing the overall competitiveness of the industries of Taiwan.

9. RESEARCH LIMITATIONS

Although the research design of this study follows scientific principles, and is rigorous in all aspects, it is still subject to several research limitations, such as the limitation of measurement, the limitation of measuring the period of innovation performance, and the limitation of research topics and scope.

10. DIRECTIONS AND FUTURE RESEARCH

This study proposes a theoretical framework between internal market orientation and the innovation of enterprises, and used large-scale Taiwanese enterprises as the subjects of the empirical examinations. Most of the hypotheses are supported by the empirical results, indicating that the theoretical model has good explanation and application value. However, according to the above-mentioned research limitations, this study proposes the following suggestions as references for future researches.

10.1 The Topic of Internal Market Orientation Is Worthy of Further Discussion.

Studies on internal market orientation can practically make up for overlooking employees as internal customers by the previous literature on market orientation. Current literature on this topic is still at the stage of questionnaire



development (ex., Gounaris, 2006). Therefore, there is still large scope for development, and the topic is worthy of further discussion. As this study is a cross-sectional study, and the data of the variables were selected at the same time point, support from the study results in relation to the causal relationships between the variables is a little insufficient. On the other hand, the implementation of internal market orientation is a dynamic process, and includes the generation of internal market intelligence, the spread of internal intelligence, and responses to intelligence, which are the processes of mutual interaction between an enterprise and its employees. Consequently, if future studies can conduct vertical-section researches, the research results will be more persuasive in supporting the causal relationships of the variables.

10.2 The Extent of The Research Scope

Future studies could consider the influences of the external environment on the relationships between the main variables of this research model as the focus of the scope of this study is on the views of internal performance. It is recommended that researchers in their future studies refer to the opinion of Lings (2004), and extend the research scope to include external market orientation and external performance (customer satisfaction, customer retention, and profit). Future studies can also refer to Matsuno and Mentzer (2000), and consider adding strategic variables to the theoretical model of this study in order to discuss whether they can influence relationships between the variables.

10.3 Consider Knowledge Management From The Perspective of Networking.

This study only focuses on the knowledge management capabilities of the internal employees of enterprises. For future studies, researchers could refer to the four development stages of the knowledge management of organizations proposed by Lee and Kim (2001), and connect external knowledge networking; (1) Analyze internal and external knowledge

management efficiencies; (2) establish a knowledge coalition with cooperative partners; (3) share visions and goals of knowledge management with cooperative partners; (4) connect the enterprise's knowledge management network with that of cooperative partners; and (5) promote and manage the sharing and cooperation of internal knowledge with cooperative partners in order to discuss knowledge management.

10.4 Extend The Innovation Levels of Enterprises.

This study focuses on the internal innovation performance of enterprises. In future studies, researchers can extend the five-level model of innovation proposed by Hitchins (1992, 2000), from the internal level of an enterprise discussed by this study to a level between enterprises, subsequently reaching the level of the supply chains (Bello, Lohtia and Sangtani, 2004), or even the level of social economy. Thus, the contributions will be more complete.

10.5 Improve The Completeness of The Innovation Performance of Organizations.

There are considerable factors that can influence the innovation performance of organizations. With respect to the mediation variables, this study only considered the two variables of internal performance and employee's knowledge management abilities. Future studies can consider organizational innovation processes at the levels of technology, organization, and management, and add the concepts of industrial innovation, social innovation, and a national innovation system to discuss the interactive relationships or influences between these concepts and organizational innovation. Subsequent to this, researchers can supplement or extend the connotations and constructs of the research model to obtain a more complete and rigorous measurement model for organizational innovation, ensuring the study results for organizational innovation are more comparable and complete (Wolfe, 1994).

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