LEADERSHIP STYLES, INTERNAL MARKETING, AND MARKET ORIENTATION: CONCEPTUALISING THE RELATIONSHIPS

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Abstract

Market orientation is widely accepted as important for company performance. However, scholarly research on market orientation has emphasised the consequences of market-orientation rather than its antecedents. With the growth of the services industry, it has been suggested that internal marketing influences market orientation, as the product received is a human performance, with the employees playing a critical role in this performance. Consequently, employees need to be satisfied and motivated in order to exhibit those attitudes and behaviour that are conducive for market orientation. However, little research has been conducted on internal marketing as an important antecedent for market orientation, and on how leadership styles influence internal marketing. To this end, this paper integrates the marketing literature with leadership literature and proposes a conceptual framework to illustrate the relationships between these factors. Specifically, the effect Transformational and Transactional leadership styles have on internal marketing and how trust in the leader moderates the effect of Internal marketing on market orientation. Managerial implications are then addressed.

Introduction

A burgeoning literature on market orientation (MO) has rendered it a central issue in the discourse on marketing strategy (Gray & Hooley 2002). MO is an intangible management culture that is related to the organisation’s responses to consumers’ needs and wants (Narver & Slater, 1990; Ruekert 1992) and is posited to be a source of competitive advantage (Varela & Del Rio 2003), and ultimately enhanced performance (Day & Wensley 1988). Research on market orientation, however, has emphasised the consequences of market-orientation rather than its antecedents (e.g., Morgan & Strong 1998; Pulendran, Speed & Widing 2000). If, as the literature suggests, MO plays a key role in organisational profitability, then practitioners require a clear understanding of its antecedents in order to implement this philosophy.

Internal cultural issues are an important antecedent of MO. For example, anecdotal evidence indicates a need to develop an internal culture that makes the most of the external environment, (Narver, Slater and Tietje 1998 & Locander et al., 2002). Additionally, an organisational culture immersed in customer orientation is paramount for gaining competitive advantages in today’s market place (Kennedy, Lassk, & Goolsby 2002). A key variable in the development of MO is effective internal marketing (IM), which itself is a key component of organisational culture. IM has further gained importance due to the rapid growth of services industries, where contact personnel become a critical component of the customer evaluation of the service. Although, IM has been suggested as an antecedent to MO (e.g., Piercy 1997), no study to date has considered either leadership style as an antecedent of IM or the
moderating effects of trust in the leader on the IM-MO relationship in the marketing literature. Although Harris & Ogbonna (2001) in their pioneering work on leadership styles and market orientation found that certain types of leadership styles are strongly positively related to market orientation, there do not appear to be other studies that specifically related leadership styles with internal marketing. Additionally, it is unclear if their sample comprised of purely services firms. Indeed, research relating market orientation and leadership has not been emphasised in the marketing literature (Harris & Ogbonna 2001). This is significant: first, because leaders shape organisational culture — via primary mechanisms (e.g., what they attend to) and secondary mechanisms (e.g., formal documents such as mission statements) (Schein 1996) and powerfully impact how the firm operates (Kasper 2002) Second, because organisational theory literature suggests that leaders play a key role in improving organisational performance (e.g., Hennessey 1998).

It is proposed in this paper that due to the importance of managing service contact personnel in services firms, leadership affects MO directly (Harris & Ogbonna 2001), as well as indirectly through IM. This is based on the rationale that if IM is related to MO, then the antecedents of IM would be expected to affect MO, either directly or indirectly. To this end, we propose a theoretical rationale for a two-step antecedent effect of leadership and IM on MO. Specifically, as shown in Figure 1, transactional-transformational styles of leadership are regarded as antecedents of IM, and the IM-MO relationship is seen as moderated by trust in the leader, in that high levels of trust will facilitate the IM-MO relationship whereas low levels of trust will impede the IM-MO relationship. The paper is structured as follows; first a review of IM is undertaken, second, the conceptual model is developed, whereby the various relationships proposed in the model are justified. Finally, the implications of the model are discussed.

**Figure 1: Indirect effects of leadership styles on Market Orientation**

The marketing literature has predominantly focused on the importance of developing MO in an organisation (Kohli & Jaworski 1990; Narver & Slater 1990; Jaworski & Kohli 1993) and on external customers (Mohr-Jackson 1991; Lukas & Maignan 1996). However, with the increasing importance of the service sector in the economic landscape of developed countries (Esteban et al., 2002) and services increasingly driving competitive advantage (Lings 2003), the importance of employees or internal customers has been acknowledged (e.g., Sasser & Arbe 1980; Berry 1980; Gronroos 1981; Fisk et al., 1993). Given the distinct characteristics of services such as inseparability, employees play a vital role in product development.
Additionally, as the product received is a performance/service, (Lovelock 1983) the nature of the interaction between the service employees and the external customers is crucial. Therefore, successful marketing may only be realised if the firm recognises and complements its external market efforts or MO with IM (Caruana & Calleya 1998; Conduit & Mavondo 2001). Furthermore, as the two prominent theoretical advancements in MO (Narver & Slater 1990; Kohli & Jaworski 1990) explicitly state the importance of employee attitudes and behaviours, it seems apparent that effective IM may be a key antecedent in the development of MO (Piercy, et al., 1997).

There have been two schools of thought on the conceptualisation of IM: the process and human resource perspectives (Lings 2003). The basic premise of the process view is that by increasing the quality of service transactions with the internal customers, organisations can influence the quality of transactions with external customers (e.g., Frost & Kumar 2000). The proponents of the human resources school posit that external marketing success requires successful internal marketing in that satisfied and motivated employees will result in external marketing success (Berry 1984; Berry & Parasuraman 1991). Therefore, a key issue for marketing managers is to develop effective techniques of managing service employees, so that they deliver quality services (Berry 1984; Berry & Parasuraman 1991). This can be achieved by adopting IM programs that complement the external market programs (Berman et al., 1999). The rationale in this paper follows the human resources perspective and conceptualises IM as a management philosophy that allows for a framework for managing employees towards MO (Gronroos 1990). Consequently, IM is viewed as consisting of development, reward and vision dimensions as proposed by Berry and colleagues (e.g., Berry & Parasuraman 1991) and operationalised by Money and Foreman (1996).

Leadership styles and internal marketing

The role of senior management has been recognised as a vital prerequisite for both IM and MO (Jaworski & Kohli 1993; Lukas & Maignan 1996). Senior management is responsible for developing an organisational culture that allows for effective MO (Gronroos 1998) and encouraging behaviours that are market oriented. Additionally, senior management act as role models for employees and thus they need to empower employees by not only being receptive to employees’ suggestions (Lux, Jex & Hanasen 1996) but also by implementing their ideas (Gronroos 1990; Lukas & Maignan 1996). Such leadership plays a key role in developing and implementing internal cultural issues such as IM activities. Therefore, understanding specifically how different leadership styles influence IM appears to be a significant issue.

The latest and most influential leadership paradigm is that of transactional-transformational leadership (Bass 1985; House 1995). Transactional leadership (TA) essentially involves cost benefit economic exchange with followers (Bass 1985) and consists of two dimensions: contingent rewards, where the leader rewards employees materially and psychologically for their efforts; and management by exception, where the leader only intervenes when things go wrong or in anticipation of problems. However, transactional leaders do not inspire workers to go beyond what is necessary and maintain the status quo. On the other hand, transformational leaders attempt to elevate the consciousness of the employees by appealing to visions based on higher ideals and values such as liberty, justice, excellence and equality (Bass & Avolio 1989). Transformational leadership (TF) consists of: individualised consideration, where the leader treats employees as essential components of the organisation; inspirational motivation, where the leader attempts to communicate the organisational vision,
challenge workers, provide encouragement and allow autonomy; *Intellectual stimulation*, where the leader attempts to intellectually stimulate workers to be creative; and *Idealised influence*, where the leader attempts to portray themselves as a role model (Sarros & Santora 2001). Although both TA and TF generally correlate positively with various effectiveness criteria, there is evidence that transformational leadership augments the effects of transactional leadership on performance (Waldman, Bass, & Yammarino 1990), thus implying a need for leaders to behave in ways that are both transactional and transformational.

Taking a fine-grained approach to the construct of IM as proposed by Money and Foreman (1996), this paper argues that transactional leadership is related to the Reward dimension of IM and transformational leadership is related to the Vision and Development dimensions of IM. For example, transactional leaders can elevate the positive and/or ameliorate the negative effects of front line services personal by rewarding specific behaviours. In addition, monetary rewards contingent on production gains and profitability, act as extra inducements for employees to be committed and motivated to achieve organisational objectives (Pfeffer & Veiga 1999). Furthermore, transactional leaders would provide incentives for applying market-oriented behaviour, as opposed to rewarding short-term profit or sales (Jaworski & Kohli 1993). Therefore, a positive climate created by transactional leaders through the reward systems is necessary to guide employee behaviour (Chung & Schneider 2002) and consequently to implement effective IM. Thus it is hypothesised that;

\[ H1: \text{TA is positively related to the Reward aspect of IM} \]

George (1990) argues that management support is the most important component of effective IM, as this implies that employees’ jobs are considered important. Supportive and participate leadership provide an environment where market-oriented culture is possible (Harris & Ogbonna 2001). Consequently, empowering employees impacts their attitudes and behaviours and hence, the level of service they provide to the external customers (Morgan & Piercey 1998, Morrison 1996). One of the key characteristics of transformational leaders is they empower, provide autonomy and encourage employees to be creative. This provides employees with decision latitude to solve problems without any fear of being blamed when things go wrong. Consequently, employees are not constrained in their ability to develop their professional as well as personal selves. Additionally, a key feature of TF is the use of intellectual stimulation and inspirational motivation to set high standards and persuade employees to pursue the vision. Thus, it is hypothesised that;

\[ H2: \text{TF is positively related to the Development and Vision aspects of IM} \]
The relationships between leadership styles and trust

Leaders need to be trusted by their followers because trust is the mortar that binds the follower to the leader (Nanus 1989). Both TA and TF build trust in the leader, although for different reasons. Employees trust transactional leaders because these leaders keep their word (i.e., they fulfill promised contingent rewards) and demonstrate their competency (i.e., effectively manage exceptional events such as computer crashes). Thus followers see them as credible and competent, which are essential for building trust (Kouzes & Posner 1993). In relation to MO, transactional leaders, for example, reward employees for attaining specified performance targets. Strong trust in the leader is a defining element of TF (Podsakoff MacKenzie Moorman & Fetter, 1990). Transformational leaders build trust by: being perceived as charismatic; intellectually stimulating followers; and frequently empowering them by encouraging them to make their own decisions (Avolio Bass & Jung 1995). In relation to MO, TF encourages followers to develop new ways of meeting customer needs. This trust then encourages followers to put forth-extra effort, thus resulting in enhanced performance. It is therefore hypothesised that:

H3: Transformational Leadership is positively related to Trust.
H4: Transactional Leadership is positively related to Trust.

The moderating effect of trust on the IM-MO relationship

A number of variables could likely moderate the IM-MO relationship. These may include; the affective commitment of the employees, organisational learning capability and organisational climate. However, in the context of leadership, trust in the leader is regarded as crucial because it leads directly to cooperative behaviours that are conducive for relationship marketing (Morgan & Hunt 1994). It is argued here that IM can be viewed as a relationship marketing effort on the part of management towards the employees. Consequently, trust is seen as moderating the IM-MO relationship. The rationale is that when employees have high levels of trust in their leaders, they will be more likely to be committed to and persist with the implementation of IM. Such heightened commitment and persistence is essential when implementing IM because of the difficulties that will inevitably be encountered. Conversely, when employees have little faith in their leaders, they are unlikely to be willing to: undergo change behaviour (House 1995); persist in the face of difficulties (Bass 1985); or perform extra role behaviours (Pillai Schreisheim & Williams 1999), such as “going the extra mile” for customers. It is thus hypothesised that:
H5: Trust moderates the relationship between IM and MO

Internal marketing as an antecedent to market orientation

The premise of IM proponents is that winning the hearts and minds of operational employees is a prerequisite if market orientation is to succeed, specifically in the service firms (e.g., Piercey 1997). Consequently, IM has been considered as an antecedent to market orientation.
(eg. Hauser et al, 1996). Conduit and Mavonda (2001), find empirically support for this previously implied relationship. Thus it is hypothesised that;

\[ H6: \text{Internal Marketing activities are positively related to Market orientation.} \]

**Implications and conclusions**

Although this paper suffers from the obvious limitation of lacking empirical investigation, it does provide a theoretical rationale for the argument that leadership and trust are important determinants of achieving true market focus and ultimately enhanced performance. Therefore, in order for organisations to become truly market-oriented, a richer understanding of the relationships between leadership styles, trust, internal marketing and the processes that lead to MO seems essential. Additionally, due to the unique characteristics of service organisations, these organisations require leaders, who are employee-oriented, achievement-oriented, and trustworthy in order to get the most of their employees and obtain the full benefits of MO. Given the hypotheses proposed for leadership and IM, the model suggests a need for leaders to exhibit both TA and TF; specifically that TA should be used for the Reward component of IM and TF for the Development and Vision components of IM. Additionally, if IM is a prerequisite for effective MO in service firms, then both IM and MO should be developed and maintained concurrently.
References


