Chapter 21
Organizational Innovation beyond Technology: The Internal Market Orientation

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ABSTRACT
This chapter illustrates internal market orientation’s philosophy (IMO) and the innovative Internal Marketing practices in competitive firms. The chapter begins with an explanation of the field of innovation in services going beyond technology to IMO research topics. A brief history of Internal Marketing (IM) and main literature contributions are provided. After that, the focus turns to the empirical evaluation of IMO’s dimensions. The analysis is undertaken with data from a survey in Spanish and Portuguese knowledge intensive business services (KIBs). An exploratory factor analysis was performed and eight factors have been extracted from the data set via principal components analysis: Efforts to create a good place to work, Focus on competencies, Dissemination, Awareness of labour market conditions, Focus on individual training and development, Feed-Back communication, Managing the moments of truth, and Internal market research. The chapter concludes with some reflections and suggestions for managers and future research directions are also highlighted.

INTRODUCTION
Over the past three decades, innovation has assumed a central role in theories of economic development. Nowadays, innovation is understood including products and services, process and organizational innovation in organizations as well as social and institutional innovation. Among all organizational outputs, innovation is fundamental not only because of its direct impact on the viability of organizations, but also because of its profound effects on the paths of social and economic change (Sørensen & Stuart, 2000). According to Schumpeter (1934) sustained economic development is possible only when firms carry out of new combinations of resources, methods, systems and processes to generate new products and services that fulfill actual and potential needs of customers. Somehow Schumpeter was the pioneer in recognizing that innovation was one of the most important sources of competitive advantage in firms.

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Organizational innovation adoption is receiving increasing attention in the management and marketing literature beyond technologic innovation (Frambach & Schillewaert, 2002). According to Lam (2004), organizational innovation is necessary as pre-condition for technological innovation and, consequently it is necessary to take greater account of the role of endogenous organizational forces such as values, organizational culture, interests, capacity for learning, and power in shaping organizational transformation.

Recognizing the innovation challenges organizations face the emergence of internal marketing (IM) field of research. IM was first proposed as a way to deliver high levels of quality in service industries (Berry, 1981; Grönroos, 1981) but nowadays it is considered a paradigm of organizational change, management and implementation strategies (Ahmed & Rafiq, 2002), an organizational innovation, especially in services companies (Sanchez-Hernandez & Miranda, 2011) and, in general, an innovative approach for doing business where organization’s employees have the right skills, participate in the strategy, are involved, are satisfied and engaged (Sanchez-Hernandez & Grayson, 2012). In addition, IM has a role to play in innovation strategies because it can reinforce and emphasize the process of transforming an organization into an innovation-focused entity. IM is able to create real and effective employee voice incorporating various forms of participation that facilitate direct employee involvement in work-related decisions (Boxall & Purcell, 2010).

Insights from reviewing the management literature suggest that the IM can be viewed as a responsible and innovative approach of doing business taking into account employees needs and wants before the aspirational role of any company for external market orientation. At a practical level, there are a number of practices which scholars suggest can improve organizational innovation through IM ensuring the internal policy is aligned with external marketing. As main objective, this chapter illustrates internal market orientation’s philosophy (OMI) and the innovative IM’s practices in competitive firms. Related to this theoretical purpose, a complementary objective emerges: the empirical evaluation of IMO’s dimensions.

The chapter is organized as follows. After this introduction, the theoretical background is exposed to understand innovation in the service sector. Then, the concept of IMO is contextualized as a success factor in service innovation. After that, an empirical analysis is developed to assess the IMO through the perceptions of managers in the context of two European countries, Spain and Portugal. Results are shown followed by some reflections and recommendations for managers.

THEORETICAL BACKGROUND: INNOVATION IN THE SERVICE SECTOR

Services dominate most developed economies given that significantly more than half of these countries’ gross domestic product is in the service sector, and projected economic and job growth through the 21st century is expected to be dominated by services (Pilat, 2000). The growing importance of the service industry has prompted greater attention being paid to services innovation management. The management of new service development (NSD) has become an important competitive concern in many service industries (Gallouj & Weinstein, 1997; Meredith & Roth, 1998; Johne & Storey, 1998; FitSimmons & FitSimmons, 2000; Johnson et al., 2000). However, NSD remains among the least studied and understood topics in the service management literature (Menor et al., 2002) despite the plethora of rigorous research and models on product development, especially in recent years.

A recurring theme in the new product development literature is that the development of a service product is different from the development of a tangible product. There are doubtless important differences which are captured under
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