Chapter 14
Establishing the Linkage between Internal Market Orientation and Service Innovation

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ABSTRACT
This chapter proposes that internal intelligence generation and dissemination are significantly correlated and have substantial impact on responsiveness. In addition, responsiveness determines the success of internal market orientation and its effect on various employee-related outcomes. The study examines the extent of internal market orientation in Indian banking and its consequences as perceived by the employees of a highly successful private bank that has a wide network of branches in a northern city of India. Structural model was proposed and structural equation modelling was used to test the research hypotheses. The findings reveal that internal intelligence generation and dissemination are correlated to the extent of 0.89 and have significant impact on a bank’s responsiveness to employees’ needs and wants. Results of the study reveal that internal market orientation ought to be considered as an important strategy for retaining internal customers. Internal market orientation has an indirect significant impact on service innovations in terms of new product/service development, technology advancement, and process innovation through greater staff compliance, strong team work, and greater moral responsibility.

INTRODUCTION
As developed nations emerge from the financial turmoil and economic retrenchment of recent years, they are relying more on the developing economies to serve as the engine of global growth. Emerging economies, despite the turbulence, have managed stronger and more sustained economic expansion. These economies have been bolstered by a record of improved financial and fiscal stability. The main driver of accelerated success by financial organizations in emerging markets is product and service innovation. Innovation is critical to accelerate progress and expand the market
Establishing the Linkage between Internal Market Orientation and Service Innovation for financial services, through lower barriers to entry, increased productivity, and transformed economics of service delivery. Many economies are characterized as service economies, yet little attention is devoted to analyze service innovation and value creation (Ostrom et al., 2010). In this regard, Burgess and Steenkamp (2006) argued that the current knowledge of marketing phenomena derives almost exclusively from research conducted in western developed economies (industrialized nations such as the US or UK), and it is critical for marketing scholars to pay greater attention to emerging economies. While considering the views of Burgess and Steenkamp (2006) and Ostrom et al. (2010) about the gaps in the services research and the lack of research in emerging economies, O’Cass and Sok (2013) explored innovation driven value creation in B2B service firms in Cambodia. Many studies in the area of service innovation demonstrate a primary focus on single country analysis with the focus on developed economies, including North America (e.g., Scheuing & Johnson, 1989), Europe (e.g., Edvardsson, Haglund, & Mattson, 1995) and Australia (e.g., Alam & Perry, 2002). Aside from two studies (viz., Alam, 2007; Song et al., 2000), comparative research of service innovation concepts between developed and emerging economies is lacking. The emerging-market financial institutions rising into the top ranks of global market capitalization (ranking came mostly from China). More recently, institutions from Brazil, Chile, Indonesia, Thailand, Malaysia, Turkey, India, and South Africa have made their way up the rank. With increasing consumer awareness and global connectedness, the competitive picture has changed and thus today new emerging-market and service innovation strategies are required. Research on service innovation is regarded as being of significant importance by marketing practitioners and scholars due to the large proportion of wealth created by the service sector in both developed (e.g., U.S., Canada, & UK among others) and emerging (India, Brazil & others) economies (Chapman et al., 2003; Tidd & Hull, 2003) especially in financial sector. Previously Indian firms had little need or incentive for innovation, before the period of economic liberalization particularly in the service industry, because India was a protected and inward-looking economy lacking intense competition (Krishnan, 2003). Also Dutz (2007) posited that stronger competition among enterprises unleashes innovation in emerging economies like India. Dutz’s study also indicates that businesses in India should focus on increasing competition that will drive innovation. Deregulation and heightened competition in India force companies to innovate (Alam, 2007). As a result, innovation becomes a key activity in the service industry in India.

Employees, constituting an internal market of an organisation, play a very significant role in bringing service innovations. They are the ones who bring forward new ideas, concepts, and successful innovations. Facing the intensive competition, service firms in almost all industries need not only deliver superior service quality but also create new approaches to service (Lovelock & Wirtz, 2004). The key to the well-implemented new service lies in the attitude and competence of the employees (Varey, 1995). In this regard, internal marketing is used to develop and maintain a service culture and to introduce new products and new marketing activities (Tansuhaj et al., 1988). While many other factors could determine the success of a new service (e.g., de Brentani, 1989; Edvardsson, Haglund, & Mattsson, 1995; Martin & Horne, 1995), internal marketing is expected to help the employees gain awareness and acceptance of new services being developed and offered to the market (Gronroos, 2000). Thus, the two concepts, viz., internal market orientation and innovation are of utmost importance. The present study is an effort towards establishing the linkage between these two concepts in the area of financial services.
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