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Enhancing firm performance through internal market orientation and employee organizational commitment

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Abstract

Considering the importance of retaining key staff and managing the negative impact of high labor turnover on firm performance, this study investigates the notion of internal market orientation (IMO) as an employee management tool for helping companies retain employees and leverage performance via their organizational commitment. Drawing on data from three different managerial respondents in 275 companies based in China, the findings demonstrate the precedential effect of IMO on corporate performance through employees' organizational commitment and retention. Interdepartmental relationship and interdepartmental communication, together with ownership types are identified as potential moderating variables, which may vary IMO's effectiveness in the framework. This study provides scholars and practitioners with empirical evidence of IMO's contribution to different industries and markets. Building on a western perspective, this study extends the literature in an emerging market context and specifically has implications for managing Chinese employees.

Key words: internal market orientation, organizational commitment, employee retention, firm performance, China

Introduction

Internal marketing was developed based on the notion of exchange between employers and employees by viewing jobs as products and employees as internal customers (Berry et al., 1976). In a bid to satisfy the needs of customers, a significant portion of the internal marketing literature has been primarily concerned with the role of customer-contact employees with specific focus on service delivery (Berry & Parasuraman, 1991). In terms of its practical benefits, internal marketing has suffered from some confusion among practitioners as they grapple to implement such an approach. In response, internal market orientation (hereafter IMO) has been suggested as a useful managerial mechanism for facilitating the rationale of internal marketing by strengthening the employment relationship (Yu et al., 2016).

IMO is commonly defined as information generation and dissemination with respect to better satisfying the needs and wants of an organization's internal customers i.e., its employees. Existing research on IMO has tended to focus on customer-contact employees within the service sector environment and has emphasized the importance of having satisfied employees as a precursor to happy external customers (Lings & Greenley, 2005). Previous studies have examined the direct relationship between IMO, employee job satisfaction (Gounaris, 2008), customer satisfaction (Tortosa et al., 2009), staff attitudes, retention and compliance (Lings & Greenley, 2005), brand identification and brand supportive behavior (Yu et al., 2016). However, they have not empirically examined IMO's impact on employees' organizational commitment, and thus neglecting the fact that commitment is often a more important indicator of employee retention than satisfaction (Camp, 1994).

Increasing employee commitment has been continuously considered as a salient task surrounding employee management, as highly committed staff members are more likely to buy into organizational goals and share the organization's values, mission and vision (Knox & Walker, 2003). Behavioral wise, committed employees are often more loyal leading to better job performance, work ethics, intelligence sharing and willingness to spread positive word-of-mouth about the company among other factors (Allen & Shanock, 2013). Considering the importance of employee organizational commitment, this study attempts to investigate whether and how the practice of IMO can influence the level of employee organizational commitment.

Though employees often need to be external customer conscious, they should also effectively cooperate and coordinate with members from other departments within the organization, as their experience of satisfaction, motivation and commitment to the organization may be greatly influenced by internal service quality (Heskett et al., 1994). As existing research has failed to consider interdepartmental relationships and communication when studying internal marketing, this study proposes to specifically examine these two institutional factors' moderating effects on the IMO framework.

As the largest emerging economy in the world, China has a work force of 767 million people (China National Bureau of Statistics, 2013) and the current Chinese labor market is experiencing unprecedented instability due to significant social and economic changes (Friedman & Kuruvilla, 2015). Employee turnover ranks among the highest in the World, at approximately 18 percent in 2015 (51jobs.com, 2016). This may be because the new generation of Chinese workers have very different values and interests of employment, compared with those some 20 years earlier (Friedman & Kuruvilla, 2015). Such high employee turnover is a pressing matter for firms operating in China, as they grapple to manage employee retention. Identifying effective employee management tools to positively influence employees' attitudes and behavior and reduce the impact of high turnover on firm performance is therefore critical within this context (Choi & Peng, 2015).

As existing work has tended to overlook IMO's contribution to corporate performance, we postulate IMO as a novel employee management approach with potential to positively enhance Chinese employees' attitudes and behavior, and thus contributing to a firm's better corporate performance in terms of market share, sales and profitability. Furthermore, considering China's particular institutional backgrounds, the study explores to what extent a firm's type of ownership can moderate relationships proposed in the IMO framework.

Findings derived from this research offer several contributions. Firstly, by linking the internal marketing and employee management literature together, this study makes a holistic attempt to illustrate IMO's effect on firm performance via its influence on employees' attitudes and behavior. We explain that IMO can help firms ensure core competencies through facilitating employer-employee relations with committed and loyal employees. Secondly, this paper discusses the institutional environment's influence on the proposed IMO employee management framework by specifically highlighting the moderating effects of interdepartmental relations and interdepartmental communication. Thirdly, findings reveal that IMO's impact at both employee and firm levels can be country specific due to different ownership types that exist. Finally, the research demonstrates the significance of IMO as an employee management tool beyond just customer-contact employees in the service industry.

Theoretical Background

The existence of an internal market provides a mechanism for further facilitating internal exchange through emphasizing interactions among parties from a social exchange perspective (Bagozzi, 1975). Social exchange occurs between actors to foster the long-term exchange of favors and is based on an obligation to reciprocate (Cropanzano & Mitchell, 2005). Blau (1964) defined social exchanges as 'voluntary actions' which might be initiated by an organization's treatment of its employees, with the expectation that they would eventually be reciprocated. When firms are perceived as being highly committed to their employees' welfare, staff members tend to have more favorable attitudes and behavior to the organization (Allen & Shanock, 2013). The emotions that people acquire from the exchange may therefore lead to an attachment or detachment towards the organization (Lawler, 2001). Social exchange theory offers an explanation in terms of why internal marketing will positively influence employee attitudes and behavior.

Internal marketing can also represent a way of attracting, developing, motivating and retaining qualified employees (Berry & Parasuraman, 1991), which leads to the assumption that internal marketing is aligned with effective human resource management, as these practices traditionally lie in the HRM domain. Some scholars even suggested that marketing and human resource departments should work together to achieve corporate success, as marketing techniques would benefit human resource management, if applied internally (Joseph, 1996).

Earlier research proposed an internal marketing mix consisting of treating jobs as products, salaries and rewards as price, meetings as place and communications as promotion (Rafiq & Ahamed, 1993). However, the internal marketing mix has been criticized for its over-emphasis on applying the 4Ps marketing framework internally, as it may not be easily understood or adopted by managers from non-marketing disciplines (Varey & Lewis, 1999). Instead, Lings (2004) proposed IMO as a more useful mechanism to help operationalize this notion. As IMO can be used at strategic and operational levels, it can often be easily understood and applied by management teams from different disciplines (Lings & Greenley, 2005).

Based on the market orientation constructs developed by Kohli, Jaworski and Kumar (1993), Lings and Greenley (2005) modified three pertinent constructs to operationalize IMO. Whereas the market orientation constructs look to create competitive advantages through identifying and satisfying the needs of external customers, IMO is considered important for managers to grasp as it advocates that employees also have their own needs and wants within their working environment. IMO represents management's understanding, listening and willingness to communicate with employees as internal customers. IMO is therefore considered to play a critical role in facilitating effective employer-employee relationships. Employees in firms that practice IMO effectively often feel valued, respected and fairly treated (Yu et al., 2016).

Existing research on employee management tends to study factors such as personal characteristics (Meyer & Allen, 1984), job characteristics (Meyer & Maltin, 2010), supervisor-subordinate relations (Zhu et al., 2013), organizational characteristics (Allen & Shanock, 2013), and role states (Biswas & Bhantnagar, 2013) from the perspective of HRM practices. Relatively less research has tended to investigate the links between such factors and organizational performance (Sun et al., 2007). Furthermore, although research is growing in momentum within the Chinese context regarding employee management (Peng et al., 2014), no prior research has examined employee management from an internal marketing perspective, investigating the effect of IMO. To help bridge this gap surrounding internal marketing and employee management in China, the conceptual framework presented in this study was developed to examine various relationships between IMO, organizational commitment, staff retention and firm performance (see Figure 1).

[Figure 1 about here]

Hypotheses development

Organizational commitment

Commitment has been variably and extensively defined. Under the individual/organizational goal congruence definition, organizational commitment refers to an employee's identification, involvement in, and attachment to their organization (Reichers, 1985). Commitment also includes employees' willingness to make an effort to accomplish organizational goals and comply with organizational values (Bansal et al., 2001). Organizational commitment occurs when employees obtain a worthwhile feeling in terms of their contribution and a sense of pride in belonging to an organization where all people work towards a common goal (Kohli & Jaworski, 1990).

Previous research has identified a wide range of antecedents to organizational commitment, including individual demographic attributes, role stress, job satisfaction, personal feelings, goals in life and the supervisor-subordinate relationship (Reichers, 1985; Chen & Francesco, 2000; Cloninger et al., 2015). The existing literature argues that internal marketing activities can serve as a proxy for employee organizational commitment. The effectiveness of IMO on employees' organizational commitment has somehow been intuitively accepted (Bennett & Barkensjo, 2005) with no empirical evidence to support such claims.

Within this study, it is argued that enhancing the level of IMO will lead to employees being more committed to the firm and its goals. Happy and motivated employees tend to exert positive work attitudes and behavior (Aryee et al., 2002) which can be characterized by greater trust (Robinson, 1996), loyalty (Hart & Thompson, 2007) and attachment toward the organization (Lawler, 2001). Organizational commitment was selected as a predictor of employee behavior rather than job satisfaction, because employees who are satisfied with their job are not necessarily committed (Allen & Shanock, 2013). It is therefore hypothesized that:

H1: The higher the level of IMO in an organization, the more committed employees are to their organization.

Employee Retention

An impending shortage of highly skilled employees in the current job market represents challenging times for many organizations. Retaining talented employees is therefore often regarded as a primary concern for many organizations (Hausknecht et al., 2009). Among studies relating to employee retention, organizational commitment has been well-considered as a particularly strong predictor of employee behavior i.e., intention to leave, or actual turnover (e.g. Kampkotter & Marggraf, 2015). Previous studies of employee turnover tend to focus on individual attributes associated with staff and their intention to leave. Baysinger and Mobley (1983) argued rather than focusing on each employee's job termination decision, it is the overall organization turnover rate that needs to be effectively controlled. Waldman and Arora (2004) further argued that both researchers and managers need to focus on retention, rather than turnover, because retention is not only more stable to measure than turnover, but is also about discovering reasons why people stay. Therefore, instead of measuring each employee's intention to leave, this study focuses more on employees remaining within an organization (Lings & Greenley, 2005).

Employees who understand and positively identify with a firm's values and strategies can venture beyond attitudinal commitment and present behavioral loyalty. Hence it is of particular importance to value and respect strong performing individuals in order to obtain their loyalty and retention to the organization (Yu et al., 2016). Employees who are less connected to an organization emotionally or mentally may demonstrate more negative attitudes and behavior and are increasingly likely to leave their jobs (Chen & Francesco, 2000). Therefore, it is proposed that:

H2: The higher the level of employees' organizational commitment, the better the firm's employee retention.

Firm performance

Apart from external factors, internal factors can also significantly affect firm performance. An impending shortage of highly skilled employees in the workforce represents a challenge for organizations. Those that fail to retain high performing staff may struggle to be competitive in the marketplace (Zhang & Morris, 2014) as losing critical employees may come at an incredible cost (Harris, 2000). For example, when a key sales person leaves a firm, s/he may take away all her/his major clients. Similarly losing critical staff from other functions can also have a negative impact on innovation, product development, the consistency of service provision and sometimes major delays in terms of service delivery (Abbasi & Hollman, 2000).

This can be particularly true for Chinese firms, where a mid-manager who has a powerful influence on his/her team members may take an entire team away with him/her when moving companies (Chen et al., 2002). Excessive employee turnover often engenders far-reaching consequences and may jeopardize efforts to attain organizational objectives (Park & Shaw, 2013). Happy and dedicated staff members, who in turn are motivated to provide better service, can enhance customer satisfaction and positively contribute to a firm's bottom line financials, such as sales growth, market expansion or even profitability (Tortosa et al., 2009).

Hale (1998) revealed that employers cite recruitment costs of 50 to 60% of an employee's first year salary and this can rise to 100% for certain specialized or skilled positions. Fitz-enz (1997) meanwhile stated that the average company loses approximately one million U.S. dollars when 10 managerial and professional employees leave an organization. Despite other moderating reasons, Park and Shaw's research (2013) presented a strong correlation between turnover and organizational performance, showing that a one percent increase in turnover, results in a 40% reduction in workforce productivity and a 26% loss in financial performance. This suggests failing to keep employees can detrimentally affect profitability (Whitt, 2006). Thus, it is hypothesized that:

H3: High levels of employee retention will have a direct positive impact on firm performance.

Moderation hypotheses

The moderating role of interdepartmental relations

Sayles (1964) identified inter-departmental/functional relationships including 'workflow' and 'service' relationships. Identifying interdepartmental relations can help firms obtain integrated work processes. Previous research on internal marketing also recognized the importance of identifying departmental needs and wants, so that internal service providers for these departments can perform better (Dibb & Simkin, 2000). When internal customers are provided with poor service from their colleagues, they are more likely to be dissatisfied and have resentment or other negative emotions. Consequently this hinders the value-added process and demoralizes employee attitudes towards the organization (King & Burgess, 2008).

This is particularly true in the service industry if front-line employees are not happy with the support that they receive from back-office staff (Heskett et al., 1994). Research argues that efficient internal service delivery, improved information sharing and liaison across functional departments will mean fewer barriers between functions, smoother implementation of management strategies and better achievement of a firm's objectives (Dibb & Simkin, 2000). To illustrate this point, Heskett et al. (2003) posited a 'service-profit chain' with an internal focus, showing that high-quality internal service increases customer satisfaction and loyalty, which in turn enhances performance. External market success also depends on how well and effective functional departments collaborate and cooperate (Kohli & Jowarski, 1990).

Research shows that departments or groups inside the firm prioritize their work based on their own interests, which may stem from natural desires of individual departments to become more important or powerful (Kohli and Jowarski, 1990). Within the Chinese context, the clan culture particularly tries to protect in-group benefits more than considering overall organizational objectives (Xiao & Tsui, 2007). When there is a lack of internal customer orientation, interdepartmental conflict may arise and tension between individuals across departments can prohibit their willingness to share information, which leads to less cooperation between departments and individuals (Conduit & Mavondo, 2001).

Such interdepartmental tension may weaken the effect of IMO on commitment because an institutional environment consists of not only line managers but also colleagues from different departments (Heskett et al., 2003). Even when individuals are committed to the organization, they may still develop a high intention to leave if the institutional environment is considered unpleasant. On the contrary, when staff retention is high and interdepartmental relationships are good, firms are expected to perform well (King & Burgess, 2008). Thus, it is hypothesized that:

H4: The relationship between **(a)** IMO and employee organizational commitment; **(b)** employee organizational commitment and employee retention; **(c)** employee retention and organizational performance will be moderated by the level of the interdepartmental relationship such that a positive relationship will be stronger when the interdepartmental relationship is better.

The moderating role of interdepartmental communication

Interdepartmental communication refers to ways by which departments in the organization transfer information. Employees need information to perform their tasks better as service providers to internal and external customers (Conduit & Movando, 2001). Interdepartmental factors such as sharing ideas, resources and activities, developing mutual understanding of interdepartmental responsibilities and achieving corporate goals collectively are positively associated with performance, especially in terms of high perceived levels of customer service, customer satisfaction, profitability and sales growth (Ellinger et al., 2000). Internal integration among departments is positively related to firm performance, acting on the premise that frequent exchange of information at both horizontal (i.e. interdepartmental) and vertical levels reduce misconceptions and misunderstandings (Droge et al., 2004).

Employees often feel less satisfied because of wasted time, unfinished work stress and negative visions of the future created by a lack of communication between departments (Ballard & Seibold, 2006). When effective interdepartmental communications are available, there is a greater opportunity for departments to coordinate and integrate their resources to achieve overall organizational objectives and make the IMO application more successful (Lings, 2004). When there is poor interdepartmental communication, highly committed employees may also have increased intention to leave, as they may be unable to carry out their work and contribute as much as they are willing to, due to the lack of sufficient information (Jehn et al., 1999). Thus open communications, increased information flow and healthy interdepartmental interactions increase employees' job satisfaction and organizational commitment, whilst a lack of interdepartmental communications causes false product design, inefficient work and poorer organizational performance (Ballard & Seibold, 2006). Therefore, it is posited that:

H5: The relationship between **(a)** IMO and employee organizational commitment; **(b)** employee organizational commitment and employee retention; **(c)** employee retention and organizational performance will be moderated by interdepartmental communication, such that the positive relationship will be stronger when interdepartmental communication is better.

The moderating role of different ownership types

China had little organizational diversity as the country's Constitution declared that all means of production were publicly owned before the 1970s (Peng et al., 2004). Historically, there were only two types of firm: state-owned enterprises and collectively-owned enterprises.

After the 1970s reforms, two new types of ownership emerged: privately-owned enterprises and foreign-invested enterprises (Peng et al., 2004). With the development of the economy and further transition, state-owned enterprises faced many problems and challenges such as out-of-date facilities and technology, huge bank debts and a lack of capital to upgrade. The corporatization of state-owned enterprises introduced in the early 1990s transformed them into shareholding companies. These newly formed *State-invested enterprises* (hereafter SIEs) are still considered to conform to the public ownership principle as they are not completely privatized (Sun & Tong, 2003). In China despite the fact that SIEs put little effort into improving employer-employee relations, many employees still prefer to stay with SIEs, as they have the tradition of providing humanistic assistance for their workers and do not fire employees easily (Wang et al., 2007). Although figures show that SIEs have made great improvements after privatization, they still tend to very much under-perform (Sun & Tong, 2003).

Privately-owned Enterprises (POEs) imply family-run shops or businesses. Compared with state-owned enterprises, POEs in China represent the opposite group of organizations i.e., they are usually small, nimble and are not proficient in terms R&D. They often adopt simple, flexible structures, but have aggressive strategies to react to market opportunities quickly and proactively (Peng et al., 2004). Based on findings from a survey report covering 21 industries in China, the average employee turnover rate in China was 17.7% in 2015. The turnover rate of POEs was ranked the highest (20%). Comparatively, the average turnover rate for SIEs was roughly 8% and 15% for foreign-invested enterprises (51jobs.com, 2016). However, POEs are making fast progress and are often outperforming other types of companies in many aspects (Wang et al., 2007).

Foreign-invested Enterprises (FIEs) in China include joint equity ventures, contractual or cooperative joint ventures and wholly foreign-owned subsidiaries (Peng et al., 2004). FIEs having direct connections with foreign companies often adopt Western high-performance employee management practices and enjoy a stable financial state. Research argues that although FIEs pay the most attention to improving employment relationships, their performance is not necessarily better than their Chinese competitors (Wang et al., 2007). In reality, many FIEs face great challenges in recruiting and retaining skilled workers and managers (Jackson & Bak, 1998). High turnover rates in FIEs have become a prevalent phenomenon in local labor markets (Sheldon & Li, 2013).

To investigate whether different parameter estimates occur for each different sort of firm, ownership type is introduced here as a categorical moderating variable. Three different ownership types are used in this study, but it is argued that it should not be limited to these three. Addressing the moderating effect of ownership type on the proposed IMO model will provide very important managerial insights which may be critical for firms to identify ways to reduce high employee turnover rates. Thus, it is hypothesized that:

H6: The typology of ownerships has a moderating effect between **(a)** IMO and employee organizational commitment; **(b)** employee organizational commitment and employee retention; **(c)** employee retention and organizational performance.

Methods

The initial questionnaire was developed in English and then translated into Chinese. To verify its linguistic equivalence, this was later back translated into English by an experienced translator (Wong et al., 2003). Before commencing the main field work, the survey instrument was pre-tested among a targeted sample. Then data were collected in China via a purposive sample of small and medium sized enterprises, as anecdotal experience suggests that accessing large companies may prove more difficult to obtain representative or accurate views from staff on organizational-level issues.

Key informants were used in this study and these consist of individuals who have certain social roles in a research setting and can provide more extensive, detailed or privileged knowledge on the topic than ordinary people (Kumar et al., 1993). Such informants can share generalized views "about patterns of behavior, after summarizing either observed (actual) or expected (prescribed) organizational relations" (Seidler, 1974, p. 817). Three informant questions were asked to ensure data reliability e.g. how familiar, how knowledgeable and how confident they were with the issues addressed in the questionnaire. Those that scored less than four on any of the three informant questions (measured on a 1-7 Likert scale, anchored by 1 = very low and 7 = very high) were excluded.

To avoid common method bias, three different respondents were recruited from each company surveyed. For the questions relating to employee retention and organizational commitment, human resource or personnel officers were approached because they have more knowledge and awareness of employee opinions resulting from in house surveys, training programs and team building events. Questions relating to organizational performance were obtained from marketing or financial managers who were considered the most informed to comment. Specifically, mid-level managers were asked to answer questions relating to IMO, interdepartmental relations and interdepartmental communication, as they are involved in everyday operations. Hence they were considered the most suitable. Finally, from 650 firms contacted, 354 returned the questionnaires. Among these, 79 did not meet the full requirements as they failed to provide complete responses from all three respondents. This yielded a grand total of 275 useable cases from 825 respondents i.e. each case including three levels of response.

Measures

Table 1 illustrates the measurement items for each construct (Likert scales anchored from 1 = strongly disagree, to 7 = strongly agree were used). The measures of IMO built on previous empirical studies referring to a higher-order construct of three sub-dimensions, which allows assessment of the degree to which a firm is internal market-oriented, rather than forcing an either-or evaluation (Yu et al., 2016). *Internal information generation* refers to the collection and assessment of internal customers. *Internal information communication* refers to the process and extent of information exchange within a given organization. *Responsiveness to information* refers to actions taken by the management team in response to information generated and communicated about internal customers' expectations.

Organizational commitment was measured by items demonstrating the extent to which firms' employees identified with the firm, saw their future tied to that of the organization and were willing to make personal sacrifices for the firm (Jaworski & Kohli, 1993). *Employee retention* was measured by three items capturing the tenure of employment (Lings & Greenley, 2005). *Organizational performance* was captured by business performance items i.e. sales growth, market share growth and profitability compared with previous results (Jaworski & Kohli, 1993). Management judgment was used rather than objective measures of firm performance because Chinese business people are very sensitive about revealing business performance information (Cooke, 2002). In considering the moderation variables, the *interdepartmental relationship* was measured by modifying scales from Conduit and Movando (2001). Together they measure the existence of an internal supply chain and its quality. *Interdepartmental communication* was measured by adapting items from Gounaris (2006). Together they measure the means, frequency and the quality of communication among different functional departments. Three different types of ownership i.e. SIEs, POEs and FIEs were used as categorical moderators.

[Table 1 near here]

Results

Before the main analysis, a check against non-response bias of the sample was conducted by comparing early with late responses. No significant difference was found, which means non-response bias does not represent a problem associated with the data (Armstrong & Overton, 1977). Table 2 provides a profile of the sample. As a further check against industrial type, service organizations (48%) were compared with non-service respondents (52%). The data found no significant differences between the two sub-samples for organizational commitment (p=0.833) and employee retention (p=0.714).

[Table 2 near here]

Initially, the findings sought to confirm IMO as a second-order construct with reflective factors, indicating that the overall degree of IMO could be reflected by the three dimensions (Jarvis et al., 2003). The reliability of all seven constructs in the model was then tested. In each case the Cronbach's alpha was greater than 0.76, indicating acceptable internal consistency (Field, 2012). Confirmatory factor analysis was used to assess the correspondence of all items with their respective latent variables, indicating a robust model fit (CFI = 0.994, GFI = 0.910, and RMSEA = 0.026). Convergent and discriminant validity was assessed for the three antecedent constructs (i.e., IMO, organizational commitment, and employee retention). The convergent validity exceeded the recommended threshold value of 0.70 (Hair et al., 2006). Discriminant validity was assessed by measuring the AVE statistic, which was higher in every case than the largest squared pairwise correlation between each construct (Fornell & Larcker, 1981). In summary, the items and scales exhibited acceptable levels of reliability and validity (see Tables 1 and 3).

[Table 3 near here]

Hypotheses testing

Lisrel 9 was used to test the hypotheses. Based on Kline's (2006) recommendation, a sample size over 200 is considered appropriate and suitable for running SEM unless the model is overly complex. The findings demonstrate support for hypotheses H1 - H3 (see Table 4). The result indicates H1 is supported with a strong positive relationship between IMO and organizational commitment (β = 0.608, $p<0.05$). The relationship between organizational commitment and employee retention (H2) is also supported (β = 0.445, $p<0.05$). Moreover, the path coefficient for H3 shows the impact of employee retention on organizational performance is also significantly positive (β = 0.213, $p<0.05$).

[Table 4 near here]

Further mediation tests were undertaken to examine the mediating effect of organizational commitment between IMO and employee retention while controlling for the influences of all other variables in the model using SEM (Maxham & Netemeyer, 2002). Following the four-step practice recommended by Baron and Kenny (1986), results indicate that commitment has a partial mediating effect between IMO and retention (see Table 5). The analysis also verified such a mediating effect through applying the Sobel test (Z=2.88, $p<0.05$) (Preacher & Leonardelli, 2006). This suggests that IMO's impact on employee retention is partially influenced by the level of employee organizational commitment.

[Table 5 near here]

Interdepartmental relationship as a moderator

Multiple-group analysis was used to check the validity of the hypothesized model across different interdepartmental relationships (i.e., low vs high levels). A test of invariance regarding the structural coefficients revealed that the null hypothesis cannot be rejected. The results show that the model is supported in both groups and pooling the different types was appropriate. The effect is significant among respondents from both groups (i.e. γ=0.576, p<0.05 from a high level of interdepartmental relationship and γ=0.499, p<0.05 from a low level of interdepartmental relationship). To statistically test the significance of this moderating effect, a chi-square difference test was conducted ($\Delta\chi^2$=0.054 p< .05 $\Delta d.f.$ = 1,). The results show that the interdepartmental relationship has no moderating effect on the relationship between IMO and commitment (see Table 6).

The results of a chi-square test ($\Delta\chi^2$=5.823 p< .05 with $\Delta d.f.$=1) however reveals that the interdepartmental relationship has a positive moderating effect on the relationship between commitment and retention. The group with better interdepartmental relationships has higher retention rates (i.e. γ=0.484 p<0.05). By running a chi-square difference test, there is a significant moderating effect of interdepartmental relations on the relationship between retention and performance ($\Delta\chi^2$=5.041 p<0.05, $\Delta d.f.$=1). The results indicate the importance of interdepartmental relationships to turn retention into performance. Companies with high levels of interdepartmental relationships interacting with their retention achieve better performance (γ=0.275 p<0.05).

[Table 6 near here]

Interdepartmental communication as a moderator

The same analysis to consider the hypothesized role relating to interdepartmental communication was undertaken (see Table 6). The statistics reveal that interdepartmental communication had no moderating effect on the relationship between IMO and commitment as there was no significant difference found between the high and low level groups for interdepartmental communication ($\Delta\chi^2$=1.310 with $\Delta d.f.$=1, p> .05). The results also show that interdepartmental communication had no moderating effect on the relationship between commitment and retention. The effect is significant for both high (γ=0.214 p<0.05) and low (γ=0.449 p<0.05) level groups. However, the chi-square difference was non-significant

($\Delta\chi^2$=2.865, Δ*d.f.*=1, *p*>0.05). Interestingly however, the statistics show that interdepartmental communication has a positive moderating effect on the relationship between retention and performance ($\Delta\chi^2$=5.256, Δ*d.f.*=1, *p*<0.05). For companies with high levels of interdepartmental communication (γ=0.278 *p*<0.05), the retention of employees translates into better performance.

Ownership types as a moderator

Multiple-group analysis was conducted and the main model was run separately for different ownership types as subgroups. The statistics found that pooling the different ownership types was considered appropriate. Following the existing practice recommended by Garcia and Kandemir (2006), multi-group SEM was used to test the moderating roles of ownership types on the relationship between the independent and dependent variables respectively (see Table 7). The multi-group comparison showed that FIEs (γ=0.748, *p*<0.05) score significantly higher than SOEs (γ=0.675, *p*<0.05) and POEs (0.487, *p*<0.05) in the IMO-commitment path. For the commitment-retention path, FIEs (γ=0.586, *p*<0.05) were significantly higher than SOEs (E=0.242, *p*<0.05). As demonstrated in Table 7, for the retention-performance path, the path coefficient of POEs (γ=0.309, *p*<0.05) was significantly larger than for SOEs (γ=-0.024 *p*>0.05). No significant difference was found for SOEs and FIEs, suggesting that retention rate plays much more of a critical impact for POEs than their counterparts (SOEs and FIEs). Overall, the results show that the moderating effect of ownership was partially supported.

[Table 7 near here]

Findings and Discussion

IMO leads to positive firm performance via employees' organizational commitment and retention

The study empirically confirms IMO’s contributions in employee management and firm performance. First, it enriches the understanding of IMO’s role in managing employees by demonstrating that firms with high levels of IMO are rewarded with positive and committed workforces (Boukis & Gounaris, 2014). The empirical findings also uncover the effectiveness of IMO in terms of retaining employees. As the employee retention rate is improved, firms perform better in the competitive market from an internal marketing perspective (Lings & Greenley, 2005). The partial mediating effect of organizational commitment between IMO and employee retention implies the important role that IMO plays in employee retention, however one also needs to consider employee organizational commitment as this can be critical in predicting employee retention.

The findings of this study extend previous research outcomes in terms of employee satisfaction, customer satisfaction and loyalty by measuring firm performance via sales growth, market share and company profitability. The study also makes a first attempt to empirically prove the association between IMO and commitment. Furthermore, this paper extends the previous literature by examining institutional environmental factors such as the role of (1) interdepartmental relationships and interdepartmental communication; and (2) different forms of ownership in China. Finally, this study argues that IMO is not only important for companies purely operating in the service industry, but is also applicable for manufacturing and other non-service firms.

Moderating effects of interdepartmental relations and interdepartmental communication

The results from this study demonstrate the moderating effect of interdepartmental relationships on organizational commitment - employee retention - firm performance linkages. Although the study did not find a moderating effect of interdepartmental relationships on the IMO - employee organizational commitment relationship, this research confirms previous studies that interdepartmental relationships can interact with employees' attitudes and thus change their behavior (e.g. Conduit & Movando, 2001). Based on these findings, it is argued that for companies having high levels of IMO, interdepartmental relationships may not play such a critical role in terms of influencing employee organizational commitment, but it does contribute greatly in converting employee organizational commitment into retention.

The study revealed that good interdepartmental relationships interact with employee organizational commitment and employee retention, leading to better firm performance (Ellinger, et al., 2000). Maximizing this internal relationship among different departments will have the effect of increasing mutual understanding and improved internal service quality (Lings, 2004). Such improved support delivered from other departments in the organization will make it easier for individuals to fulfil their roles and perform better in their jobs.

In terms of interdepartmental communication, the results however did not reveal any interactive effect on the IMO – organizational commitment and organizational commitment – employee retention relationships. Perhaps this is due to the higher power distance associated with the Chinese culture. When companies have good internal market orientation, i.e. good communication at the employer - employee level, peer communications that occur at the interdepartmental level may be perceived as something procedural and has relatively less influence on employees' overall attitudes and behavior. Once Chinese employees are highly committed, their devotion and loyalty to the organization will not be influenced by interdepartmental communication styles or its frequency.

The results do however illustrate a moderating effect of interdepartmental communication on the relationship between retention and performance. Communication between internal customers and suppliers on expectations, providing feedback, offering help and being aware of potential problems in a firm result in better internal and external service delivery. When there is a lack of effective interdepartmental communication, company performance can be dragged down (Ellinger et al., 2000). Improved interdepartmental communication among peer work groups and between departmental managers leads to better overall organization performance (Ballard & Seibold, 2006).

Ownership types matter

The current result shows that ownership typology as a moderator in the framework is partially supported. POEs stand out from their counterparts. The paths in the conceptual model are all significantly positive. The result suggests that if POEs pay more attention to IMO, they will in return have better employee commitment, retention and organizational performance. This is understandable as POEs face more challenges in terms of recruiting and retaining skilled staff in the competitive Chinese labor market (Zhu et al., 2013). Unlike SIEs which are constrained by their historical heritage, i.e., some government control as well as enjoying governmental benefits, POEs have more flexibility and autonomy to run their own business but are somewhat lacking in terms of their sustainability and long-term employment commitment. Also, unlike FIEs which are constrained by having limited local cultural knowledge or by their parent companies in home countries, POEs work diligently to adapt and keep pace with every challenge coming from the market competition, especially in terms of employee management (Wang et al., 2007).

Although all of the three ownership types show a significant influence of IMO on employees' organizational commitment, the impact varies among the groups. The results show that higher levels of IMO can have greater impact on organizational commitment for both SIEs and FIEs than for POEs. The findings reveal that all three ownership types have significant relationships between commitment and retention. FIEs enjoy the highest association between commitment and retention, whilst SIEs appear to show the lowest, suggesting that employees in SIEs are not necessarily the most committed (Xu et al., 2005).

Having long-term values, Chinese employees tend to show favorability towards organizations that can provide stable career development and job security (Chen & Francesco, 2000). SIEs in general do not fire their employees. On the other hand, if FIEs want to retain staff, they must find ways to improve their commitment as their employees have the intention to leave the company more readily should they find that the company or the job is no longer fit for them (Wang et al., 2007)

Surprisingly, the only significant relationship between retention and performance was found among POEs. Unlike SIEs, which are protected by policies, industrial experience, government relationships, and being monopolies in certain areas, POEs are more likely to pay a price if staff members leave. The loss of key personnel can lead to a significant deterioration in performance (Wang et al., 2007). SIEs still carry over traditional planned economy social responsibilities and often retain ineffective or underperforming employees. Therefore, a high rate of employee retention for SIEs in China does not necessarily lead to better performance (Xu et al., 2005). The result supports the opinion that POEs have problems in retaining capable employees, whereas SIEs struggle to offload problematic staff (Chiu, 2002).

The situation is different for FIEs that have better designed working processes, established internal systems and technological advanced online office systems. Their performance relies more on the development and perfection of the systems, rather than on individuals (Wang et al., 2007). Traditionally, FIEs enjoy more advantages compared with their local competitors, such as adequate financial resources, brand reputation, advanced technology and remuneration packages. They can attract, retain, promote and train the best talent in China. However, there is no clear indication that FIEs out-perform other Chinese firms (Xu et al., 2005). The research would suggest that those firms with better performance also tend to have better IMO practices.

Conclusion

This study empirically investigates IMO's effectiveness in directing firm performance via employee management in China. Interdepartmental relationships and communication are found to have varying moderating effects on the proposed IMO employee management framework. Considering the transportability of Western theory into Eastern contexts, this study also discovers noteworthy findings regarding the moderating effect among different types of firms competing in China.

The study's limitations help to direct future research. First, as the sample did not tend to focus on different types of firm ownership, further research could investigate such factors. This may offer fresh insights into different organizational cultures and values, and in particular the role played by the CEO surrounding such issues. Secondly, this study only examined the impact of IMO at the employee level leading to organizational performance. There may be an opportunity for furthering this study by investigating its impact on different departmental level performance. Thirdly, the data were collected at one period of time. The total impact of IMO on performance may take time to occur. A longitudinal study with a time lag effect is therefore recommended in future research. Furthermore, objective measures of organizational performance in terms of market share growth, sales growth and profitability may be considered. As the notion of IMO is relatively under researched, future endeavors may wish to explore its possible antecedents. Finally, researchers who are interested in this area may also want to examine this topic from a humanistic management perspective and include further variables that relate to employee care and well-being (Melé, 2016). Such research in these areas is likely to be highly valued by both academicians and practitioners alike.

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Table 1: Measurement Items, Factor Loading and t-values

Construct/Item	Loadings	α[a]/CR[b]
Internal marketing orientation		.89/.88
Internal information generation		.80/.84
1. We do formal internal market research to find out employees' feelings about their jobs and the company.	0.808	
2. We survey our employees at least once a year to assess the quality of their employment.	0.811	
3. We have regular staff appraisals in which we discuss what employees want.	0.836	
Internal information communication		.86/.88
1. Before any policy change, managers explain concerns to their employees in advance.	0.795	
2. We usually listen to employees sincerely when they have problems in doing their jobs.	0.916	
3. We are always willing to talk to employees when there is a need.	0.870	
Internal information responsiveness		.76/.83
1. Employee needs drive employee job-design, training program selection, and personal development efforts.	0.764	
2. We periodically review our staff development strategies / schemes to ensure that they are in line with what they want.	0.810	
3. Staff policies within our company depend more on company policies than real employee needs.‡	0.888	
4. Even if we came up with a great employee development strategy, we probably would not be able to implement it in a timely fashion.‡	0.865	
Employee organizational commitment		.86/.88
1. Employees feel as though their future is intimately linked to that of this company.	0.765	
2. In general, employees are proud to work for this company.	0.771	
3. Employees often go above and beyond the call of duty to ensure this company's well-being.	0.803	
4. Our people have little or no commitment to this company.‡	0.795	
5. It is clear that employees are proud of this company.	0.816	
Employee retention		.89/.87
1. Most of our employees have been working here for more than five years.	0.760	
2. Compared to others in this industry, this company has a lower turnover of staff.	0.971	
3. Employees of this company stay with us for a long time.	0.795	
Organizational performance		.79/.81
1. Sales growth rate	0.756	
2. Market share	0.838	
3. Company profitability	0.749	
Interdepartmental relationship		.79/.79
1. In this company, we take views from other departments as if they were customers.	0.746	
2. We undertake research with other departments to assess the quality of our department's product / service offerings at least once per year.	0.762	
3. We have interdepartmental meetings at the management level routinely to understand departmental needs.	0.723	
Interdepartmental communication		.82/.85
1. In this company, departmental managers regularly meet to discuss problems and listen to what other departments have to say.	0.806	
2. If a department in this company is faced with a serious problem, the relevant department will become aware of it promptly.	0.784	
3. We have cross-department meetings at least once a quarter to discuss how to cooperate to achieve organizational goals.	0.802	
4. In this company, we communicate well with other departments to ensure we understand their on-going requirements.	0.820	

Notes. All loadings are standardized; [a] Internal Consistency Reliability: Cronbach's alpha coefficient; [b] Composite Reliability (Fornell and Larcker 1981) ; ‡ Reversed item.

Table 2: Sample Profile

Demographic variables	N	%	Demographic variables	N	%
Ownership type			Years from being established	(years)	
State-share holding	74	27	Less than 5 years	43	16
Privately-owned	147	53	6-10	125	45
Foreign- invested	54	20	11-20	71	26
Industrial types			Over 20	36	13
Service	133	48			
Non-service	142	52			

Table 3: Descriptive Statistics

	1	2	3	4	5	6	7	8	9	10	Mean	S.D.
1. IMO	*0.71*[a]										4.28	1.16
2. IIG	.86*	*0.64*									4.16	1.52
3. IIC	.83*	.59*	*0.70*								4.76	1.41
4. IIR	.86*	.60*	.56*	*0.56*							4.02	1.21
5. OC	.51*	.37*	.47*	.46*	*0.59*						4.68	1.06
6. ER	.40*	.30*	.36*	.37*	.39*	*0.69*					4.39	1.51
7. OP	.30*	.25*	.22*	.29*	.22*	.24*	*0.58*				4.35	1.00
8. OT	.13*	.09	.10	.15*	.07	-.12	.10	-----			1.93	0.68
9. IDR	.61*	.63*	.45*	.47*	.40*	.21*	.25*	.12*	*0.55*		4.27	1.42
10. IDC	.66*	.56*	.61*	.52*	.39*	.28*	.30*	.12*	.58*	*0.58*	4.91	1.21

Notes: *=p<.05; N=275

[a] Diagonal values in italics show average variance extracted (Fornell and Larcker 1981) for each construct.

IMO= Internal marketing orientation; IIG= internal information generation; IIC= internal information communication; IIR= internal information responsiveness; OC= Organizational commitment; ER= employee retention; OP= organizational performance; OT= ownership types; IDR=interdepartmental relation; IDC=interdepartmental communication.

Table 4: Structural Parameter Estimates and Goodness-of-Fit Indices for Full Model

	Paths	Hypotheses	Estimate	S.E.	t-value
1	IMO → Organizational commitment	H_1	0.608	0.074	8.559*
2	Organizational commitment → Retention	H_2	0.445	0.091	5.470*
3	Retention → Organizational performance	H_3	0.213	0.053	3.023*
	χ^2 (180 d.f.)=207.083	p-value=0.081	RMSEA=0.023	NFI=0.966	
	CFI=0.994	GFI=0.933			

Notes: All estimates are standardized. *=significant at the p < 0.05 level

Table 5: Summary Results of Commitment as Mediation Between IMO and Retention.

Items	Relationships	Estimates	Mediation#
Mediating role of employee commitment between IMO → employee retention			
	IMO → retention	.46*	Partial
	IMO → commitment	.62*	Sobel Z
	Commitment → retention	.44*	=2.88*
	IMO → retention (commitment is included)	.27*	

Notes. All estimates are standardized; * significant p < 0.05; #Partial=partial mediation; no=no mediation.

Table 6: Structural Parameter Estimates and Moderated Effects

	Interdepartmental relationship		Interdepartmental communication	
	Low (*t-value*) N=130	High (*t-value*) N=145	Low (*t-value*) N=127	High (*t-value*) N=148
IMO → Commitment	0.499* (4.976)	0.576* (5.891)	0.581* (5.505)	0.489* (5.083)
$\Delta\chi^2$	0.054		1.310	
Commitment → Retention	0.225* (2.445)	0.484* (5.171)	0.449* (4.492)	0.214* (2.437)
$\Delta\chi^2$	5.823*		2.865	
Retention → Performance	0.024 (0.244)	0.275* (2.859)	-0.023 (-0.225)	0.278* (2.893)
$\Delta\chi^2$	5.041*		5.256*	

Notes: All estimates are standardized; * = significant at the $p < 0.05$ level; $^{\#}$ numbers in parentheses = *t-value*

Table 7: Structural parameter estimates and moderated effects of ownership types

	Ownership type			
	Type I (t-value) N=74	Type II (t-value) N=147	Type III (t-value) N=54	Multi-group comparison
IMO → Commitment	0.675* (5.404)	0.487* (5.558)	0.748* (5.104)	I>II, $\Delta\chi^2(\Delta df=1)= 7.982^{*}$ II<III, $\Delta\chi^2(\Delta df=1)= 4.474^{*}$ I=III, $\Delta\chi^2(\Delta df=1)= 0.658$
Commitment → Retention	0.242* (2.014)	0.399* (4.488)	0.586* (3.984)	I=II, $\Delta\chi^2(\Delta df=1)= 2.163$ II=III, $\Delta\chi^2(\Delta df=1)= 0.078$ I<III, $\Delta\chi^2(\Delta df=1)= 4.091^{*}$
Retention → Performance	-0.024 (-0.181)	0.309* (3.230)	0.192 (1.243)	I<II, $\Delta\chi^2(\Delta df=1)= 4.194^{*}$ II=III, $\Delta\chi^2(\Delta df=1)= 0.824$ I=III, $\Delta\chi^2(\Delta df=1)= 3.285$

Notes: I = State-invested; II = Privately-owned; III = Foreign-invested; All estimates are standardized; * = significant at the $p < 0.05$ level; # numbers in parentheses = T-value.

Figure 1: Conceptual Framework