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The Impact of Internal Marketing and Market Orientation on Performance: An Empirical Study in Restaurant Industry

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The Impact of Internal Marketing and Market Orientation on Performance: An Empirical Study in Restaurant Industry

Abstract

Purpose – The purpose of this paper is to investigate the effects of internal marketing and market orientation on organizational performance based on the balanced scorecard (BSC).

Design/methodology/approach – A cross-sectional research design, drawing upon a questionnaire survey was employed to collect data from a sample of restaurants. Structural equation modeling was performed to test the relationship among the research variables using findings from the 164 participants.

Findings – The results revealed that internal marketing positively influenced market orientation and performance. In addition, market orientation was a direct antecedent of performance.

Originality/value – The findings provide important academic, practical, and political implications for restaurant industry.

Keywords Internal marketing, Market orientation, Performance, BSC

Paper type Research paper

1. Introduction

People worldwide enjoy eating out, regardless of whether it is with friends or family members (Rhee et al., 2016). Over the years, the restaurant industry has grown because of the changings in our ways of lives. Modern lifestyle which leaves no time to cook leads to booming of this industry (Andaleeb and Conway, 2006). Restaurant industry is highly competitive and a key objective of a successful business is satisfying consumers' needs and ensuring their positive post-purchase behavior. Numerous various factors limit the ability of a restaurant to provide proper quality services; namely business size, employees' attitudes, intangibility of service, intense competition, volatile demand, and the choice amongst wide range of beverage and food products offered (Kukanja et al., 2016). Therefore, a restaurant's performance is very important for its survival. For this reason, a wide range of studies have been undertaken in the field of restaurant's performance and service quality (e.g., Andaleeb and Conway, 2006; Chow et al., 2007; Gupta et al., 2007; Namkung and Jang, 2008; Ha and Jang, 2010; Chang et al., 2010; Min and Min, 2011; Min and Min, 2013; Chang, 2013; Lee, 2015; Kim et al., 2016; Kukanja et al., 2016).

In general, organizational performance has been an attractive research topic in different sectors for many years (Carroll et al., 2011). However, there is a lack of complete consensus among experts about the dimensions and indicators of organizational performance. Undoubtedly, human resources are the greatest assets in service organizations (Ramadhan, 2015). Improving and optimizing human resources has always been a motive for profit and non-profit organizations. According to experts on management, performance evaluation is a suitable strategy for improving human resources.

Moreover, the purpose of performance evaluation should be to improve the staff productivity (Ramos and Caeiro, 2010). In this regard, the subject of internal marketing is introduced. Internal marketing (IM) helps companies to enhance employees' capabilities in achieving the organizational goals (Fu, 2013).

According to several studies, internal marketing is one of the factors influencing organizational performance and service quality (Sarmad Saeedi and Jamshidian, 2013; YounesiFar et al., 2012; Ramezanpour et al., 2012; Gounaris et al., 2010; Tabatabaei and Akhavan, 2010; Lings and Greenley, 2009; Panigyrakis and Theodoridis, 2009; Abzari et al., 2009; Hwang and Chi, 2005). In recent years, organizations have tried to increase their quality of services and provide better customer satisfaction through the concepts and approaches of internal marketing. One important feature in service industry is employee-customer direct interaction and customer-oriented behaviors (Awwad and Agti, 2011). Providing quality services is one of the essential strategies to increase organizational effectiveness (Ben et al., 2014). In service organizations, employees are in the frontline and their activities are very important in development of effective relationships with customers. Therefore skills, attitudes and behavior of employees are essential to provide quality services that meet customer expectations (Tajeddini, 2011). In some cases, researchers have ignored the need to focus on internal customers (employees) especially those who are in direct contact with external customers (Lings, 2004). Companies should treat their employees as their first customers and increase their satisfaction level (Fernando, 2012). The implementation of an internal marketing program has a significant impact on training, motivating and leading human resources to higher levels of success

(Mishra, 2010), and consequently improving the organizational performance (Lings and Greenley, 2010).

Another factor that influences organization performance is market orientation (Guo, 2002; Agarwal et al., 2003; Shoham et al., 2005; Olavarrieta and Friedmann, 2008; Theodoridis and Panigyrakis, 2010; Kajalo and Lindblom, 2015; Guo and Wang, 2015; Amin et al., 2016). Market orientation (MO) is defined as a marketing strategy wherein an organization places the customer's wants and needs at the center of its tactics and beliefs and focuses on learning about customers, competitors, and environment (Narver and Slater, 1990; Song et al., 2015). Developing and implementing market orientation leads to acquiring market information and integrating the customer voice into firms' daily business (Kumar et al., 2011). In other words, MO is "the set of beliefs that puts the customer interest first" (Deshpande et al., 1993, p. 27). Generally, two components are assumed for market orientation: responsive (customer-led) MO (RMO), that is the capability to meet customers' expressed needs and is related to marketing exploitation; and proactive (lead-the-customer) MO (PMO), that is the capability to meet customers' latent needs and is related to marketing exploration (Narver et al. 2004; Herhausen, 2016; Jaeger et al., 2016). Scoring high on both components is crucial for any business to maintain a competitive advantage (Narver et al., 2004).

The purpose of the current study is to investigate the effect of internal marketing and market orientation on organizational performance based on the balanced scorecard. This study was carried out in restaurant industry in Iran. Restaurant industry in Iran has a very old history (Jafari Momtaz et al., 2013). In most emerging economies, including Iran's,

consumers' behavior with regards to food purchase has significantly changed due to an increase in the average income, changes in family structure, information and communication technologies, and global interaction (Ali et al., 2010; Nejati and Parakhodi Moghaddam, 2013). Therefore, this field needs more research. After carefully reviewing the literature, it seems that there is no specific research on the relationship between these variables in restaurant industry. Therefore, the findings of this study provide important implications for this context. Also, the BSC method includes a set of financial and non-financial measures and consequently provides a holistic structure for measuring the organizational performance (Salehzadeh et al., 2015). In the subsequent sections, the theoretical foundations of research will be presented. Then the research model and hypotheses will be developed and examined. Finally, the research findings and managerial implications will be discussed.

2. Theoretical framework and hypothesis development

2.1 Internal Marketing

Service industry and service organizations play a key role in national economic development (Joung et al., 2015). In service organizations, intangible assets such as human resources are the core of a firm's competitive advantage (Sayyed Javadin et al., 2011). Investment in human capital resources and improvement in internal administration processes will lead to improved quality of the services (Campo et al., 2014). Internal marketing was first proposed in the 1970s as a method to provide high quality services (Panigyrakis et al., 2008). Since the introduction of internal marketing, a wide range and

variety of academic theories in this field have supported it (Yafang and Shih-Wang, 2007). After seeing the significant attention in the academic literature, managers in service industry have acknowledged the importance of internal marketing (Lings and Greenley, 2010).

Literature review shows that there are many discussions about the internal marketing concept and for more than three decades forty-two definitions have been proposed for this construct (Huang and Rundle-Thiele, 2014). Berry (1981) defines internal market as a management philosophy that sees “employees” as “internal customers” and “jobs” as “internal products” that satisfies the wants and needs of these internal customers while the goals of the organization are taken into consideration. Cooper and Cronin (2000) see internal marketing as an organizational effort to train, reward and manage human resources in order to provide better service. According to Rafiq and Ahmed (1993, 2000) internal marketing is a designed effort that uses a marketing approach to overcome the resistance to organizational changes and to align, integrate, and motivate employees towards the effective implementation of functional and corporate strategies. Based on Gronroos (1980), each employee should be trained as a marketer. In this regard, IM can be used as a tool for enhancing employees’ capabilities for showing the customer-oriented behaviors (Fu, 2013). As mentioned by Huang and Rundle-Thiele (2015), two perspectives concerning internal marketing concept exist in the literature. Gronroos (1983) focuses on creating customer-oriented attitude in employees through a process of influence rather than motivating and satisfying employees as suggested by Berry (1981). Measures and definitions arising from Gronroos (1983) are externally focused, while measures and

definitions originating from Berry's (1981) are internally oriented. In the 1990s, Rafiq and Ahmed (1993) attempted to draw internal and external orientations into one and developed a hybrid approach to internal marketing.

2.2 Market Orientation

The core element of the marketing concept is delivering the superior customer value and this concept is implemented in the theory of market orientation (Kohli and Jaworski, 1990). Since the early 1990s, the literature has developed around market orientation (Vega-Vazquez et al., 2016) comprising different views regarding the true nature of the subject (Gainer and Padanyi, 2005). According to Narver and Slater (1990) there are three dimensions in measuring market orientation including customer orientation, competitor orientation and interfunctional coordination. Customer orientation is defined as fully understanding target buyers and being able to create permanent values for them. Competitor orientation refers to understanding the short-term weaknesses and strengths and long-term core competencies of both existing and potential future competitors, and interfunctional coordination is the effective coordination of resources in order to create added value for target customers through all of the functions in the organization. Based on Kohli and Jaworski's (1990), there are three elements for a market orientation consisting of intelligence generation (organizational capabilities in data collection and systematic analysis of customers' needs, competitors, technology, future regulations and other environmental factors), intelligence dissemination (participation of all departments in organization for responding effectively to a market need), and responsiveness (the action

taken in response to intelligence that is generated and disseminated). According to Grinstein (2008), all “orientation” constructs such as learning orientation, entrepreneurial orientation, technological orientation, and market orientation can be considered as the dimensions of the higher-order construct entitled “strategic orientation”. These constructs are representative of a culturally determined focus, specified by the adjective used. Therefore, market orientation can be defined as a culture that effectively and efficiently generates those essential behaviors that may create superior value for customers (Ozkaya et al., 2015). Vega-Vazquez et al. (2016) use the concepts such as resource-based view and organizational learning theory to define market orientation as an intangible knowledge based resource that helps firms to deliver a higher value to their customer.

2.3 Performance

During the past decade, many organizations have used a variety of tools and mechanisms to improve their performance (Salehzadeh et al., 2015). That is why the assessment of the performance is an important activity in organizations (Lin and Kuo, 2007). A typical way to measure organization performance is to use financial measures such as return on assets (ROA) or return on investment (ROI). This method was criticized for its short-term oriented and incomprehensive approach (Chen and Liang, 2011). An appropriate performance management system should be focused on the short and long-term results and include a portfolio of measures (e.g., quality, cost, flexibility, delivery, and dependability) and various perspectives (e.g., the internal, the innovativeness, the shareholder, the customer, and the competitor perspective) in different organizational levels (e.g. local and

global performance) (Tangen, 2004). In addition to financial metrics, there are some other methods; for example, according to Lee and Choi (2003), four different approaches can be used for performance measurement include financial, intellectual capital, tangible and intangible benefits. Furthermore, Kaplan and Norton (1992) proposed a holistic method in management research namely balanced scorecard (BSC). This method uses a set of financial and non-financial measures for evaluating the performance of the organization (Moore and Craig, 2010; Ghalayini et al., 2011). The BSC is based on four well known perspectives; one financial, and three non-financial (i.e., customer, internal business processes, and learning and growth perspective) (Milis and Mercken, 2004; Khomba, 2015; Hu et al., 2015).

- Financial perspective: This perspective uses the measurement criteria such as profit, cash flow, ROI, ROA, return on invested capital (ROIC), and economic value added (EVA) to evaluate the financial performance of the organization (Kaplan and Norton, 1996; Lee et al., 2008).
- Customer perspective: This perspective is used to determine the level of customer satisfaction (Stewart and Mohamed, 2012) and recognize the importance of customers toward firm success. The source of existence of any public or private organization is the need to serve a certain group of consumers or customers (Khomba, 2015).
- Internal business processes perspective: This perspective focuses on an organization's internal processes in terms of conducting operations efficiently and effectively. The goal is to focus on the internal business results that lead to the

customers' and shareholders' satisfaction and financial success (Dirks, 2010; Khomba, 2015).

- Learning and development perspective: The goal of this perspective is to fill the gaps and develop appropriate indicators to monitor the organization's progress. This perspective focuses on continuous learning and developing new products and services with emphasis on innovation (Stewart and Mohamed, 2012; Perkins et al., 2014).

Such as other corporate functions, marketing is a related aspect for evaluation because of the different market challenges facing many companies nowadays (Kotler, 1999). According to Pimenta da Gama (2011a), assessment of marketing performance has been studied for decades. The ability to assess marketing performance in a suitable way enhances business performance (Frosen et al., 2013). Based on previous research, many marketing performance measurements have focused on outputs. The accounting-based measures such as margins, profits, and sales (Ambler et al., 2004) have some shortcomings. They are often considered static, ignoring long-term values of marketing (Frosen et al., 2013). Therefore, input measures and processes should also be considered. In fact it is hard to find related contributions on this topic, except for several conceptual modellings, the tool known as marketing audit, and the concept of market orientation (Pimenta da Gama, 2011a). Today's competitive marketplace requires marketing that is both efficient and effective (Pimenta da Gama, 2011b). Therefore, there is a need to consider a broader set of indicators such as multidimensional input measures (e.g., marketing audits), financial output measures (e.g., company profit), and non-financial output measures (e.g., customer satisfaction) (Pimenta da Gama, 2011a).

2.4 Internal Marketing and Market Orientation

Several studies have implied that internal marketing influences market orientation (e.g., Ahmed et al., 2003; Bouranta et al., 2005; Theodoridis and Panigyrakis, 2010). According to Hogg and Carter (2000), internal marketing is an inseparable part of market orientation. Also, based on Souchon and Lings (2001), the establishment of the internal marketing increases the staff retention, customer satisfaction, tendency towards market orientation, and ultimately organization's profitability. To create a market-oriented organization there should be a balance between internal and external focus (Piercy, 1995); and internal marketing enables employees to behave in a more market-oriented manner (Theodoridis and Panigyrakis, 2010). If organizations try to provide better services to their internal customers (their employees), then the external customers will receive higher quality services as well (Bouranta et al., 2005). Managerial and organizational activities in areas such as effective communication systems, managing human resources, and employee training are very important to building a market orientation (Conduit and Mavondo, 2001). A common view among scholars is that internal marketing encourages employees to adopt and display those strategic directives that are related to the organization's marketing strategy (Lings and Greenley, 2010). In general, adopting an internal marketing philosophy leads to a stronger market orientation (Voola et al., 2003). Thus, the first hypothesis is formulated as follows:

H1: Internal marketing positively influences market orientation.

2.5 Internal Marketing and Performance

In the service sector, the contact personnel have a key role in the firm's relationship with customers (Tortosa et al., 2009). Internal marketing programs include activities that improve customer consciousness among employees and enhance the internal communication effectiveness. These activities make employees feel that they are pioneer in the organization and contribute to their higher motivation and job satisfaction, consequently encouraging their positive response towards firm's customers (Bell et al., 2004; Boukis et al., 2015). According to Huang and Rundle-Thiele (2015), internal marketing is a strategic weapon that helps service marketers to deliver high quality services and achieve customer satisfaction. Hosseini and Rahmani (2012) indicated that internal marketing has a significant positive effect on organizational performance and its key dimensions. Also, Tortosa et al. (2009) attempted to investigate the effect of internal marketing on the internal aspects of organization's performance such as employee satisfaction and its external aspects such as customer satisfaction and perceived service quality. The findings showed that internal marketing influences employee satisfaction, quality of services, and customer satisfaction. In addition, according to Yu and Barnes (2010), internal marketing through improving employee and departmental performance improves the overall organizational performance. In general, human resource management practices have positive effect on productivity, firm profits and financial performance (Theodoridis and Panigyrakis, 2010). Thus, the second hypothesis is formulated as follows:

H2: Internal marketing positively influences performance.

H2a: Internal marketing positively influences performance in respect of financial criteria

H2b: Internal marketing positively influences performance in respect of customer criteria

H2c: Internal marketing positively influences performance in respect of internal processes criteria

H2d: Internal marketing positively influences performance in respect of learning and growth criteria

2.6 Market Orientation and Performance

In recent years, marketing literature has focused on marketing capabilities and market orientation as key concepts that help firms to achieve their competitive advantages and performance (Najafi-Tavani et al., 2016). A market-oriented organization explores environmental changes and emerging opportunities, anticipates competitor actions, and continuously monitors customers' needs (Theodoridis and Panigyrakis, 2010). According to Sin et al. (2005) several empirical studies have tried to investigate the relationship between market orientation and profitability, market share, new product success, and customer satisfaction. Market orientation is the heart of business management (Brik et al., 2011) and one of the strategic approaches that positively influences firm's performance (Morgan, 2012; Murray et al., 2011). As mentioned by Slater and Narver (1994), the combination of market orientation and a learning orientation leads to the improvement of organizational performance. Thus, the third hypothesis is formulated as follows:

H3: Market orientation positively influences performance.

H3a: Market orientation positively influences performance in respect of financial criteria

H3b: Market orientation positively influences performance in respect of customer criteria

H3c: Market orientation positively influences performance in respect of internal processes criteria

H3d: Market orientation positively influences performance in respect of learning and growth criteria

Based on above-mentioned theoretical background, the research model is illustrated in Figure 1.

Insert Figure 1 Here

3. Methodology

A cross-sectional research design, drawing upon a questionnaire survey was employed to collect data from a sample of restaurants in north of Iran (Guilan, Mazandaran and Golestan provinces). The research instrument was translated and back-translated from English to Persian. Survey questionnaires were pre-tested using a small number of restaurant's managers in Mazandran province. After pre-testing, minor modifications were made in several of the questionnaire items. Eventually, the last version of the questionnaire was mailed to 230 restaurants. The questionnaire included a cover letter and a stamped return envelope. The mail package was addressed to the restaurants managing director and data collection was undertaken during the April and May 2015. Because of the incorrect

addresses, sixteen restaurants could not be reached, resulting in an effective base of 214 restaurants. Within the cut-off period of five weeks after the mailing and a follow-up phone call to non-respondents, 164 completed questionnaires from restaurants were received, resulting in the response rate of 76.63 percent. Because of time limit, the number of questionnaires is presumed to be sufficient for analysis. Although a bigger sample size is more reliable, if the model is not overly complex and the variables are consistent, a smaller sample will suffice (Iacobucci, 2010). Some studies have recommended that the sample size less than 200 can be used for structural equation modeling (Wolf et al., 2013; Sideridis et al., 2014). The demographic features of the statistical sample are illustrated in Table 1.

Insert Table 1 Here

All items were adapted from existing literature and based on validated scales to improve content validity. In addition, the authors met with the managers of several restaurants to determine which questions must be included in the survey. Accordingly, the study used a scale of twelve-item adapted from Ahmed et al. (2003) to measure the internal marketing. A four-item scale was adapted from Wang et al. (2012) to measure the market orientation; and a sixteen-item scale was adapted from Shahin et al. (2014) to measure the performance (See Appendix). All items were measured with a five-point Likert scale ranging from

extremely disagree (1) to extremely agree (5). The statistical procedures and measures were reliability and validity analysis and structural equation modeling (SEM) and data were analyzed using statistical software SPSS 20 and AMOS 20.

4. Results

4.1 Reliability and validity

Cronbach's alpha was used to verify the internal consistency of the variables. The results of reliability analysis indicated that internal marketing, market orientation and performance had a significant internal consistency of 0.89, 0.81, and 0.95 respectively. All alpha coefficients are greater than the value of 0.7 suggested by Nunnally and Bernstein (1994), indicating evidence of good internal reliability.

Confirmatory factor analysis (CFA) was used to determine construct validity (Carmines and Zeller 1979; Hair et al., 1998). Also, composite reliability (CR) and average variance extracted (AVE) were computed to analyze convergent validity. As observed in Table 2 the items have moderate to strong loadings, ranging from 0.52 to 0.91 and CR and AVE have acceptable values.

Insert Table 2 Here

In addition, Harman's single factor test was used to examine the potential common method variance (CMV). The result explained maximum variance of 18.24 on a single factor which is below the limit of 50 percent (Podsakoff et al., 2003). Therefore, CMV bias was not a critical concern in this study.

Furthermore, fit indexes for three measurement models are illustrated in Table 3. The indexes of the overall fit of the measurement models included normed chi-square (CMIN/DF), goodness-of-fit index (GFI), adjusted goodness-of-fit index (AGFI), comparative fit index (CFI), and root mean squared error of approximation (RMSEA). For a good model fit, CMIN/DF must be less than 3; GFI, AGFI and CFI must be greater than 0.90; and RMSEA must be less than 0.1 (Allameh et al., 2015). As observed in Table 3, the values of fit indexes all reach the acceptable level.

Insert Table 3 Here

4.2 SEM

After analyzing the fitness of three measurement models, the research hypotheses were tested using structural equation modeling method. Figure 2 shows the specified relationships among internal marketing, market orientation and performance. The overall model fit was acceptable; CMIN/DF= 2.01, RMSEA= 0.07, GFI= 0.95, CFI= 0.98, and AGFI=0.94.

Insert Figure 2 Here

The results of hypotheses testing along with the beta coefficients have been presented in Table 4. As observed, all hypotheses were supported.

Insert Table 4 Here

5. Discussion and conclusions

Many scholars have argued that creating close relationships with customers will lead to organization success (Hansen et al., 2013) and those relationships need market-oriented perspective (Guo and Wang, 2015) and internal marketing process (Caldwell et al., 2015). Many studies have indentified the positive consequences of market orientation (e.g., Kajalo and Lindblom, 2015; Guo and Wang, 2015; Amin et al., 2016) and internal marketing (e.g., Hwang and Chi, 2005; Lings and Greenley, 2009; Gounaris et al., 2010). The purpose of the current research was to investigate the effect of internal marketing and market orientation on organizational performance based on the balanced scorecard. This study was conducted in the restaurant industry. The findings showed that internal

marketing has a significant direct impact on market orientation ($\beta= 0.44$, $CR= 7.40$). Also, internal marketing ($\beta= 0.39$, $CR= 6.12$) and market orientation ($\beta= 0.58$, $CR= 8.36$) have a significant direct impact on performance. These findings are in line with the findings of Ahmed et al. (2003), Bouranta et al. (2005), Kyriazopoulos et al. (2007), and Theodoridis and Panigyrakis (2010).

The findings reveal the direct impact of internal marketing on dimensions of performance; financial ($\beta= 0.23$), customer ($\beta= 0.15$), internal process ($\beta= 0.26$), and learning and growth ($\beta= 0.25$). As numbers indicate, amongst the dimensions of performance, internal process is most impacted in the presence of appropriate internal marketing activities. In addition, market orientation also has a significant direct impact on dimensions of performance; financial ($\beta= 0.88$), customer ($\beta= 0.94$), internal process ($\beta= 0.86$), and learning and growth ($\beta= 0.91$). As numbers indicate, amongst the dimensions of performance, customer dimension is most impacted in the presence of appropriate internal marketing activities.

5.1 Managerial implications

According to Fatma and Timothy (2005), the service industry is the fastest growing industry in the 21st century. Many scholars have proposed different terms to refer to the phenomenon of manufacturers moving toward service offerings such as high-value manufacturing, service-driven manufacturing, service transition, service orientation, servicizing, and servicization (Eloranta and Turunen, 2015). In service organizations, intellectual capital and intangible assets are very crucial for satisfying customers and

organizational success (Sayyed Javadin et al., 2011; Campo et al., 2014). Frequently, it has been mentioned that service-encounter performance leads to customer satisfaction (Jani and Han, 2011). As mentioned in previous studies (e.g., Lings and Greenley, 2010), our findings suggest that, marketing managers need to understand and respond to the external market and develop a better understanding of the internal market to succeed in marketing. Since the 1980s, the restaurant industry has extensively grown. From the 1980s to 2011, global restaurant industry sales increased more than ten-fold, from US\$42.8 billion to US\$536.7 billion (Chen et al., 2015). The key principles of restaurant operations include cheerful greeting, delicious food, attentive service, and appropriate cost. Satisfied customers are a key factor for restaurants' success (Gupta et al., 2007). Satisfying customers increases their intention to return and consequently influences profitability of the restaurant (Lee, 2015). Consumers determine which restaurants fulfill their quality standards, and therefore customer-oriented behavior prevents consumers to move toward competing restaurants (Barber et al., 2011). A customer orientation focuses on identifying customer needs and interests and delivers suitable responses to their demands (Bellou 2009). Also, the literature suggests that employees' satisfaction is an important antecedent of customers' satisfaction (Jung and Yoon, 2013). The main contribution of this research is to suggest empirical evidence to support the impact of internal marketing and market orientation on restaurant performance.

Findings from this study provide several practical implications for full-service restaurateurs in Iran. These restaurants must improve their performance through the

adoption of internal marketing and market orientation approaches. In this regard, the following recommendations are suggested:

- Periodic evaluation of restaurant's internal marketing and market orientation helps managers have more control over changes through time.
- Restaurant managers should increase the employees' motivation by applying internal marketing practices such as providing proper reward system and internal communications, allocating adequate resources to train and develop their employees' productivity and increasing morale and intellectual leadership abilities in order to move the restaurant and its employees towards the goal set for the business (Ahmed et al., 2003).
- In order to increase employee satisfaction, their opinions should be taken into account on a daily basis by management (Tortosa et al., 2009).
- To improve the market orientation activities restaurants should be fast to detect changes in their customers. When a vital change is detected amongst customers' wants and needs or competitors' tactics, the management and staff must be informed. Restaurant should develop a shared understanding of the available market information and the implications of a marketing activity (Wang et al., 2012).
- Restaurants need to continually monitor the internal processes and tactics of their competitors in order to outperform them. In this regard, external benchmarking at the industry level provides a significant comparison with main competitors (Sin et al., 2005).

- Full implementation of IM and MO requires top management commitment in all levels of the restaurant.

5.2 Limitations and directions for future research

Although the present research has provided relevant insights into the impacts of internal marketing and market orientation on business performance in the restaurant industry, it is essential to identify its limitations. Although, many studies have reported a significant direct effect of market orientation on organization performance, some studies have found non-significant and even negative relationships between these variables (Qu et al., 2014; Dong et al., 2015). In this regard, future studies can examine the relationship between market orientation and organization performance by considering the unaddressed moderators. Data for this research were collected based on manager's perception. Although, using managers as key informants is sufficient for creating valid and reliable data (Sin et al., 2005), future studies can take into consideration the use of multiple informants. In this research, only restaurant industry in Iran was examined, and more research in the international scale is needed for generalizability of results. In addition, a subjective approach was used to measure the restaurant performance, it is recommended to use the performance data using objective approach.

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Appendix. Variables and items used in the questionnaire

Variables	Items	Source
Internal Marketing	Our reward system is linked to our business goals.	Adapted from Ahmed et al. (2003)
	Our employees are informed about how they are rewarded.	
	Our employees are informed about why they are rewarded.	
	Our reward system emphasizes motivating those behaviors, actions, and accomplishments that help advance our organization towards our business goals.	
	Our internal communications is the key to creating understanding among our employees.	
	Our internal communications is the key to building ownership among our employees.	
	Our internal communications is the key to providing information to all our employees.	
	We set aside adequate resources to train our employees.	
	Our training and development program is clearly directed at creating the competencies that are important to our business.	
	We believe that keeping up with changing technologies requires continuous re-examination of our training programs.	
	We believe that our leadership possesses the moral ability to move the organization and its employees towards the right direction.	
	We believe that our leadership possesses intellectual ability to move the organization and its employees towards the right direction.	
	Market orientation	
	We are fast to detect fundamental shifts in our industry.	
	When something important happens to major customers, the whole restaurant knows about it shortly.	
	We are fast to respond to changes in our customer's service needs.	
Performance <i>Financial</i>	Our restaurant has been successful in efficient and effective use of its investment.	Adapted from Shahin et al. (2014)
	Our restaurant has been successful in reducing unnecessary costs and wastage.	

Variables	Items	Source
<i>Customer</i>	Our restaurant has a good rate of return.	
	Compared to similar restaurants, the average productivity rate is better in our restaurant.	
	Our restaurant has succeeded in achieving customer satisfaction.	
<i>Internal Process</i>	Our restaurant has been successful in identifying customers' demands.	
	Our restaurant has been successful in providing customer service.	
	Our restaurant has been successful in addressing customer complaints.	
	Our restaurant has been successful in improving quantity and quality of services.	
<i>Learning and Growth</i>	Our restaurant has succeeded in implementing internal processes in a timely fashion.	
	Our restaurant has been successful in research and development.	
	Our restaurant has been successful in its working methods.	
	Our restaurant pays appropriate attention to increase the skills and knowledge of staff.	
	Our restaurant pays great attention to increase the employee satisfaction.	
	Our restaurant has been successful in developing creative ideas.	
	Our restaurant pays great attention to identify the staff development needs.	

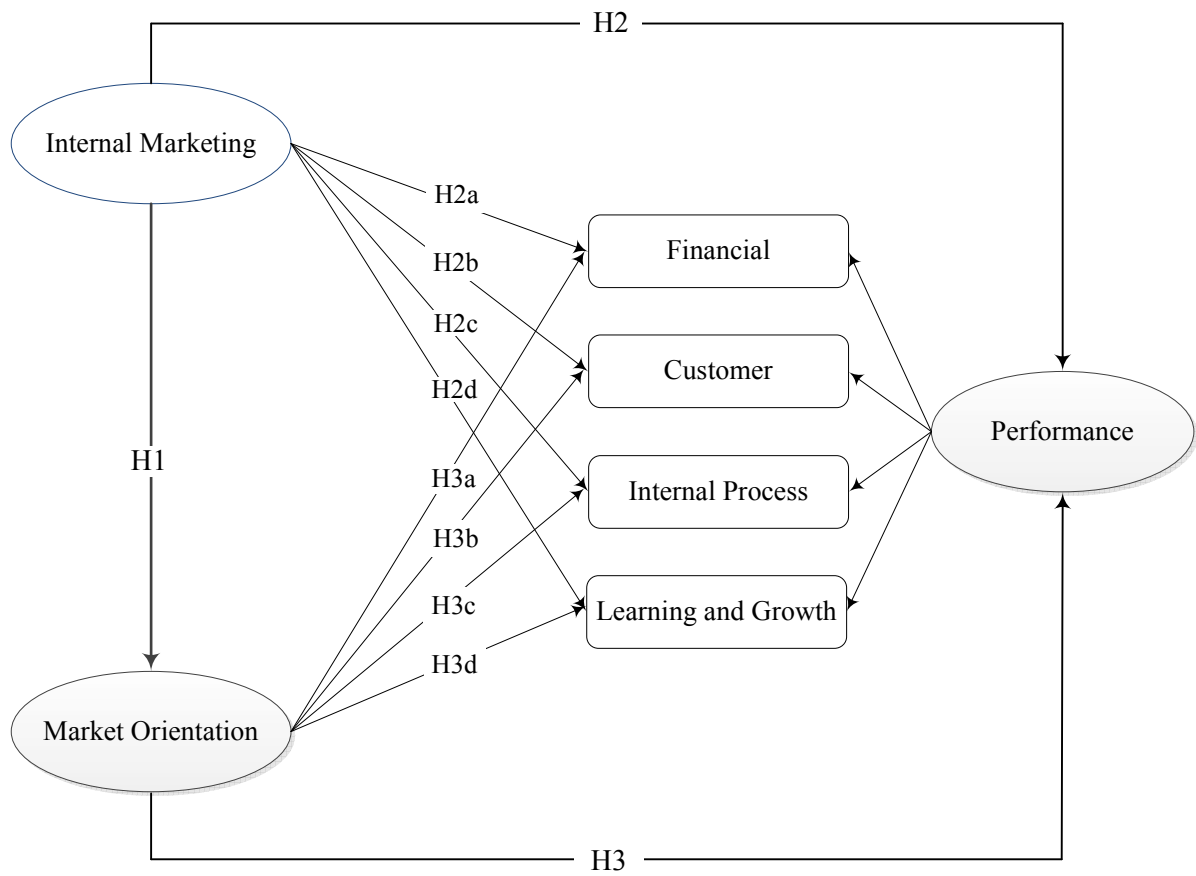


Figure 1. Conceptual research model

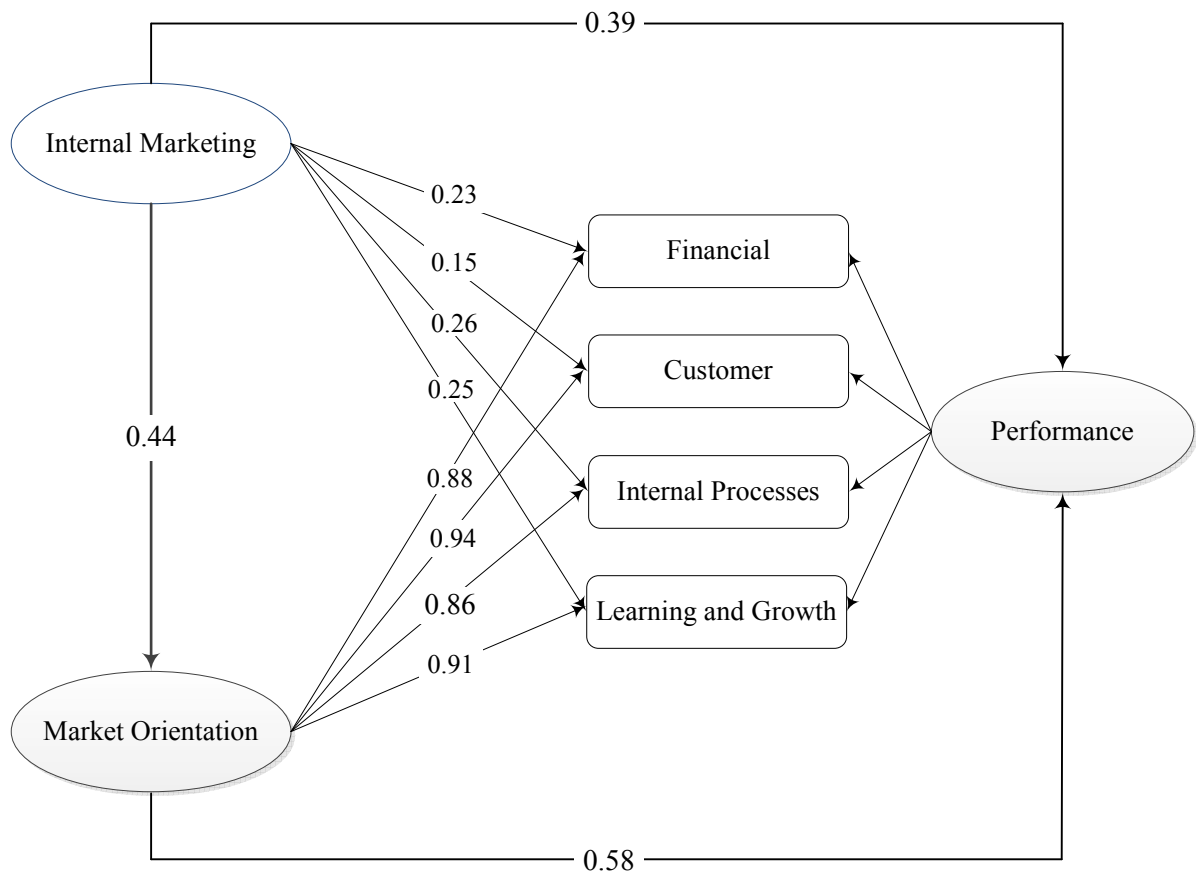


Figure 2. Standardized path coefficient

Table 1. Demographic features

Demographic characteristics	Frequency	Percent
Gender		
Male	118	71.95
Female	46	28.05
Tenure		
1-4	43	26.22
5-8	67	40.85
9-12	30	18.29
13-16	18	10.98
>16	6	3.66
Education		
High school or less	64	39.02
Bachelor	69	42.07
Master	20	12.20
PhD	11	06.71

Table 2. Results of validity and reliability tests

Variable	Items	Factor loading	α	AVE	CR
<i>Internal Marketing</i>	IM1	0.78	0.89	0.57	0.94
	IM2	0.82			
	IM3	0.91			
	IM4	0.81			
	IM5	0.72			
	IM6	0.71			
	IM7	0.63			
	IM8	0.83			
	IM9	0.87			
	IM10	0.91			
	IM11	0.69			
	IM12	0.62			
<i>Market Orientation</i>	MO1	0.91	0.81	0.67	0.89
	MO2	0.88			
	MO3	0.65			
	MO4	0.84			
<i>Performance</i>	PRF1	0.55	0.95	0.61	0.96

Variable	Items	Factor loading	α	AVE	CR
	PRF2	0.83			
	PRF3	0.76			
	PRF4	0.71			
	PRF5	0.82			
	PRF6	0.65			
	PRF7	0.77			
	PRF8	0.80			
	PRF9	0.59			
	PRF10	0.87			
	PRF11	0.65			
	PRF12	0.60			
	PRF13	0.82			
	PRF14	0.69			
	PRF15	0.91			
	PRF16	0.52			

Table 3. Fit indices of measurement models

Variables	Fit indices				
	CMIN/DF	GFI	AGFI	CFI	RMSEA
Internal Marketing	2.54	0.98	0.94	0.99	0.03
Market Orientation	2.12	0.93	0.92	0.95	0.07
Performance	2.24	0.96	0.93	0.97	0.05
Acceptable Level	3>	>0.90	>0.90	>0.90	0.10>

Table 4. Results of hypothesis testing

Hypothesis	Path	β	C.R.	Result
H1	Internal Marketing → Market Orientation	0.44***	7.40	Supported
H2	Internal Marketing → Performance	0.39***	6.12	Supported
H2a	Internal Marketing → Financial	0.23***	4.55	Supported
H2b	Internal Marketing → Customer	0.15***	4.28	Supported
H2c	Internal Marketing → Internal Processes	0.26***	4.78	Supported
H2d	Internal Marketing → Learning & Growth	0.25***	5.62	Supported
H3	Market Orientation → Performance	0.58***	8.36	Supported

Hypothesis		Path		β	C.R.	Result
H3a	Market Orientation	→	Financial	0.88***	9.60	Supported
H3b	Market Orientation	→	Customer	0.94***	9.50	Supported
H3c	Market Orientation	→	Internal Processes	0.86***	9.65	Supported
H3d	Market Orientation	→	Learning & Growth	0.91***	10.58	Supported

Note: *** P< 0.001.