

# Internal Effects of Customer Contact within Service Organizations: Implications for Developing a Customer-oriented Organizational Culture

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**Abstract:** This paper investigates how an organization can become customer oriented in terms of subculture formation originating from customer contact. Although existing market orientation research has assumed cultural homogeneity, this paper views organizational culture as a varying degree of shared cognition among its organizational members and focuses on individual employee's customer orientation. Drawing from the literature on subculture formation, the study proposes that customer contact is a significant source of subculture formation with respect to customer orientation and tests a model that assumes customer contact exerts a positive influence on customer orientation, which subsequently leads to organizational citizenship behavior. The results support the hypotheses and provide implications for developing a customer oriented organizational culture through leveraging customer contact.

**Keywords:** customer contact, customer orientation, subculture formation

## 1. Introduction

Customer orientation is a fundamental principle that is often taken for granted in management practice. Managers lay emphasis on “staying close to the customer” and “putting the customer at the top of

the organizational chart,” consequently defining the purpose of a business as the creation and retention of satisfied customers. Many firms, however, fail to direct their businesses toward their customers. For managers in any type of business, developing a customer-oriented organization is always a big

challenge.

Since the late 1980s, marketing researchers have conducted a number of empirical studies concerning market orientation or market-oriented organization (Kohli & Jaworski, 1990; Narver & Slater, 1990). These studies mainly focus on the antecedents and consequences of market orientation through cross-sectional surveys. Until now, however, only a few researches have empirically investigated the question of “how” a firm can actually become customer oriented.

This paper tries to answer this question by focusing on individual customer orientation, which underlies market orientation. For this purpose, the organizational culture perspective adopted by existing research is critically reexamined. Although researchers agree that market orientation is a kind of organizational culture (Day, 1994; Narver & Slater, 1990), the extant conceptualizations of market orientation as an organizational culture are insufficient. Specifically, these conceptualizations implicitly assume cultural homogeneity and unity throughout the organization. By making such an assumption, existing research solely focuses on abstract and aggregated organizational activities. In contrast, this paper focuses on varying degrees of cultural strength regarding customer orientation among individuals and groups by adopting a cognitive perspective on organizational culture. Based on this perspective, the paper postulates and tests a model indicating that customer contact is the source of subculture formation

characterized by customer orientation.

First, the paper identifies the research problems by critically reviewing prior research concerning market orientation. Second, drawing from the literature on subculture formation, hypotheses are presented. Third, the results of the study of two financial service organizations are presented. Finally, the conclusions are presented through the discussion of implications and directions for future research.

## **2. Market orientation research**

Recent empirical research regarding market orientation has its origin in the management philosophy known as “the marketing concept” (Kohli & Jaworski, 1990). The marketing concept has been a cornerstone of the marketing discipline since Drucker (1954) argued that “[t]here is only one valid definition of business purpose: to create a customer” (p. 37), and described marketing as “the whole business seen from the customer’s point of view” (p. 39). Throughout its history, however, the marketing concept has been more an article of faith than a practical basis for managing a business. Little was known about the defining features or attributes of this organizational orientation, and findings regarding the antecedents and performance consequences were largely anecdotal. Consequently, managers had little guidance on how to improve or redirect their organizations toward their markets.

In the 1980s, a renewed interest in the marketing concept emerged (Webster, 1988). With the rise of

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Japanese businesses, the marketing concept was viewed in terms of an organizational culture that would provide a competitive advantage (e.g., Peters & Waterman, 1982). In response, marketing researchers began to conceptualize the marketing concept more strictly. In the 1990s, two influential articles published (Kohli & Jaworski, 1990; Narver & Slater, 1990) in the *Journal of Marketing*, which originated from the research sponsored by the Marketing Science Institute (MSI), founded the basis of a new era (Deshpande, 1999). Subsequent research has been using these articles as a point of reference, and in the academic debate, the term “marketing concept” has now been replaced by the term “market orientation.”

Kohli and Jaworski (1990) set out to understand the construct of market orientation by identifying and defining its cause, components, and outcomes, and they consequently developed a set of testable propositions. They conceptualized market orientation as the implementation of the marketing concept and defined it as the (1) organization-wide generation of market intelligence pertaining to current and future customer needs, (2) dissemination of the intelligence across departments, and (3) organization-wide responsiveness to it. On the other hand, Narver and Slater (1990) defined market orientation as the organizational culture and climate that most effectively encourages the behaviors that are necessary for the creation of superior value for buyers, and thus, the continuous superior profit for the business. In addition, they also suggested that market

orientation involves three behavioral components: customer orientation, competitor orientation, and interfunctional coordination. Each of these efforts has served to extend the marketing concept from being a purely business philosophy to one that represents the actions that an organization pursues in relation to its marketplace.

Two of the most used measures of market orientation are MKTOR, which is based on a cultural definition (Narver & Slater, 1990), and MARKOR, which is based on a behavioral definition (Kohli, Jaworski, & Kumar, 1993). Although there is a difference between the definitions on which the two measurement scales are based, both scales focus largely on concrete activities. The unit of analysis of market orientation is the organization where a single respondent is used to assess the degree of market orientation via Likert-type scales. Market orientation of a business or firm is the simple average of the scores of these components.

Most of the previous studies have focused on the antecedents and consequences of market orientation as well as the variables that might moderate the relationships between market orientation and its consequences. Although recent findings regarding the relationship between market orientation and business performance are inconsistent, the dominant view is that market orientation does improve business performance (c.f., Kirca, Jayachandran, & Bearden, 2005). Studies including potential moderators such as market turbulence, technological turbulence, and competitive intensity (Jaworski & Kohli, 1993; Slater

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& Narver, 1994) indicate that these moderators have little effect on the positive impact of market orientation on firm performance (Wrenn, 1997). Furthermore, various antecedents have been proposed and empirically tested (Jaworski & Kohli; Ruekert, 1992). In particular, top management emphasis, interdepartmental connectedness, and human resource practices are found to positively influence market orientation.

### **Problems with existing research**

Based on the research described above, a number of empirical studies on market orientation have been conducted. Given the substantial number of empirical findings suggesting a positive relationship between market orientation and firm performance, the next logical step would be to investigate how market orientation is developed. Existing research, however, is only modestly descriptive of the processes for achieving this desired orientation. For instance, Day (1994) focuses on business process redesign, either radically or gradually from the bottom up, combined with top down signaling of commitment and stretching of improvement targets. In a similar fashion, Narver, Slater, and Tietje (1998) suggest two approaches for creating a market orientation that should be tailored and managed: the “programmatic” approach and the “market-back” approach. Few empirical studies have investigated the process of developing market orientation. It is only recently that Kennedy, Goolsby, and Arnould (2003), using a paired-comparison ethnographic study, clarified the

roles of leadership, interfunctional coordination, and the processing of customer-focused data in the transformation process in a major public school district.

One possible reason for the scarcity of empirical research on the process of developing market orientation is that the prevailing conceptualizations of market orientation may not be suited to investigate the “how” question. As indicated by the measurement method noted above, the market orientation stream of research assumes homogeneous responses to the market and customers within an organization. Due to such an assumption, existing research fails to provide useful managerial implications.

### **Assumptions about organizational culture**

Based on the original thought of Drucker (1954), Deshpande and Webster (1989) defined the marketing concept as a distinct organizational culture—a fundamental, shared set of beliefs and values that place the customer at the center of the firm’s conception regarding strategy and operation. In accordance with this definition, there is considerable agreement that, in general, market orientation is an organizational culture (e.g., Day, 1994; Narver & Slater, 1990). The question is how existing research views the concept of organizational culture as the basis of market orientation. Although little attention has been given to what an organizational culture is, the answer can be found in the manner in which market orientation is treated within the extant literature.

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First, inferring from the single informant strategy, which assumes that one senior executive is able to assess the degree of market orientation of the entire organization, organizational culture is viewed as homogeneous and unitary throughout the organization. Second, as Webster (1994) argues that market orientation consists of the commitment of every employee within the organization, organizational culture is viewed as internally cohesive. Third, as previously noted, market orientation is viewed as being controllable by management actions (Day, 1994; Narver et al., 1998). In essence, this conception of organizational culture is grounded in structural functionalism. In this “unitary” perspective, organizational culture is seen as a latent variable endogenous to the firm, consisting of beliefs and values shared within the organization (Smircich, 1983). Furthermore, based on a managerial biased assumption, organizational culture is viewed as a lever or a tool to be used by managers to shape performance outcomes (e.g., Deal & Kennedy, 1982; Peters & Waterman, 1982). Despite its intuitive understandability, this perspective is not necessarily sufficient to reveal the breadth of organizational culture due to the lack of “analytical bite” (Pettigrew, 1979). Specifically, the cultural change process is difficult to explain from this perspective.

### **3. Subculture characterized by customer orientation**

More recently, there has been a marked resurgence in research into culture as a pluralistic concept, rejecting the previous unidimensionality (see for example, Martin, 1992). This organizational culture perspective focuses on the subjective beliefs that individual members share in varying degrees. According to Smircich (1983, p. 350) this cognitive orientation provokes questions “...of practical concern to those who seek to understand, diagnose, and alter the way an organization is working.” Further, in this perspective, one assumes “multiple organization subcultures, or even countercultures, competing to define the nature of situations within organizational boundaries” (Smircich, p. 346). Gregory (1983), for example, criticized the holistic view of organizational culture and proposed a multicultural model for large organizations by presenting multiple “native” views through an ethnographic study of Silicon Valley technical professionals. This cognitive perspective, which emphasizes subcultures within an organization, would be appropriate to investigate the “how” question.

#### **Effects of customer contact on subculture formation**

This paper posits that an organization develops and maintains subculture characterized by customer orientation based on customer contact. This

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viewpoint would complement the extant conceptualizations of market orientation. The fundamental premise is that customer orientation as a belief pervades the organization through an interpersonal influence process among employees, which originates from customer contact. Such an influence process can be viewed as the formation process of subcultures. According to the existing literature, subcultures are formed based on the interactions among organizational members who share common problems or situations (Lawrence & Lorsch, 1967; Van Maanen & Barley, 1984). In the context of this study, a subculture with respect to customer orientation may be developed primarily through the sharing of local customer contact.

To put it briefly, this phenomenon would be explained in terms of two interrelated processes. First, customer contact is considered to be a strong determinant of individual customer orientation. According to enactment theory (Weick, 1979), individuals act upon their environment, interpret the environmental responses to their actions, and reshape their actions based on the environmental feedback they receive. In this process, individuals create mental representations of their environment, based on inferences about the effects of their actions. The feedback from the environment in response to the individuals' actions then changes existing cognitions, which then guide their future actions. In sum, the customer—as a key dimension of employees' environment—positively influences employees' customer orientation.

Second, customer orientation as a belief may be positively associated with behavior that influences other employees. Hartline, Maxham, and McKee (2000) indicate that customer orientation prevails through the socialization process within a workgroup. It is reasonable to infer that such an influence process is based on positive attitudes and behaviors of employees. Further, service marketing literature suggests that customer-oriented employees show positive attitudes or behaviors toward the organization and others within the organization in order to ultimately satisfy customers; that is, customer-oriented employees recognize that for a successful exchange with customers to occur, an effective internal exchange is a precondition (Ballantyne, 1997; Donovan, Brown, & Mowen, 2004). In keeping with Donovan et al., this study focuses on organizational citizenship behavior (OCB). Though several dimensions are proposed (Organ, 1988), OCB generally represents a special type of work behavior that are defined as individual behaviors that are beneficial to the organization and are discretionary, not directly or explicitly recognized by the formal reward system (e.g., Smith, Organ, & Near, 1983). In summary, the following two hypotheses are presented.

H1: Customer contact will exert a positive influence on customer orientation.

H2: Customer orientation will exert a positive influence on organizational citizenship behavior.

## **4. Method**

Following the abovementioned perspective, this paper focuses on individual employees' "customer orientation" as a unit of analysis under the assumption that market orientation comprises individual employees' belief about commitment to the customer (Narver et al., 1998; Webster, 1994). Specifically, "customer orientation" is reconceptualized as an individual-level construct—an individual cognitive tendency to meet the expectations of customers from the customer's point of view. Although this perspective is normally used in ethnographic studies, this study applies it in a quantitative context (Allen, McQuarrie, & Barr, 1998). This context-free construct makes it possible to cover every employee in the studied organizations, regardless of their type of job and, consequently, explore the general characteristics of the internal influence process regarding customer orientation

Data were collected from employees of two financial service firms within a large financial group. The service industry was appropriate for the investigation since the role of each individual in creating and delivering value for the customer is prominent in service settings. Above all, a financial service organization includes various types of customer contact and non-customer contact jobs. The survey was conducted in September 2003. For Firm 1, the questionnaire was sent to a population of 258 employees. Two hundred and fifty-one completed questionnaires were returned. Of these, seven

questionnaires were discarded due to incomplete or unusable responses, thus resulting in a final response rate about 94%. For Firm 2, the same questionnaire was sent to a population of 187 employees. One hundred and eighty-two completed questionnaires were returned. Of these, eight questionnaires were discarded due to incomplete or unusable responses, thereby resulting in a final response rate about 93%.

To assess customer orientation (CO) and organizational citizenship behavior (OCB), this study introduced five and three items, respectively, for each construct in terms of face validity. To assess customer contact (CC), one item was adopted. (See the Appendix for each measure used in the analysis.) All the items were assessed on 2-point scales (1 = yes, 0 = no) for ease of response. In validating the CO and OCB measures, three of the five customer orientation items were dropped from the final analysis based on a confirmatory factor analysis, resulting in two measurement variables for customer orientation.

## **Analyses and results**

Combining Hypothesis 1 with Hypothesis 2, a causal model, as shown in Figure 1, is suggested. In order to test the model, structural equation modeling (Loehlin, 2004; Schumacker & Lomax, 2004) was used through the application of Amos 5.0.

Table 1 provides descriptive statistics and pairwise correlations for Firm 1 and Firm 2. For Firm 1, the model fit statistics were good ( $\chi^2 = 5.44$  with 8 df; GFI = 0.993; CFI = 0.000; RMSEA = 0.000). Similarly, for Firm 2, the fit statistics were

Figure 1. Empirical model

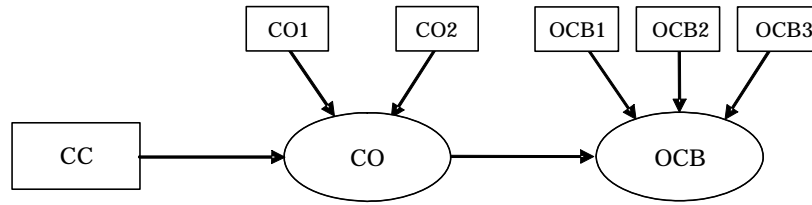


Table 1. Descriptive statistics and pairwise correlations

**Firm 1 (N = 251)**

	Mean	SD	1	2	3	4	5	6
1. CC	0.96	0.19	1.00					
2. CO1	0.93	0.25	0.20	1.00				
3. CO2	0.81	0.26	0.20	0.60	1.00			
4. OCB1	0.68	0.47	0.05	0.26	0.20	1.00		
5. OCB2	0.63	0.48	-0.02	0.29	0.20	0.28	1.00	
6. OCB3	0.75	0.43	0.09	0.25	0.12	0.19	0.22	1.00

**Firm 2 (N = 174)**

	Mean	SD	1	2	3	4	5	6
1. CC	0.64	0.48	1.00					
2. CO1	0.80	0.40	0.49	1.00				
3. CO2	0.83	0.38	0.51	0.68	1.00			
4. OCB1	0.71	0.45	0.34	0.28	0.28	1.00		
5. OCB2	0.55	0.50	0.24	0.36	0.32	0.25	1.00	
6. OCB3	0.86	0.35	0.36	0.34	0.39	0.30	0.34	1.00

good ( $\chi^2 = 8.28$  with 8 df; GFI = 0.98; CFI = 0.000; RMSEA = 0.001). Table 2 presents the standardized path coefficients (SPCs) and associated *t*-values for all relationships in the structural model.

The purpose of this research is to examine the effect of customer contact on customer orientation and, subsequently, organizational

citizenship behavior. H1 suggests that the existence of customer contact increases customer orientation. The results reported in Table 2 support this effect (Firm 1: SPC = 0.23, *t* = 3.42; Firm 2: SPC = 0.62, *t* = 7.97). H2 suggests that as employees' level of customer orientation increases, their organizational citizenship behavior increases; the results support this



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**Table 2.** Results of structural equation analysis

<b>Firm 1</b>				<b>Firm2</b>			
<b>Fit statistics</b>				<b>Fit statistics</b>			
	$\chi^2$	5.54		$\chi^2$	8.28		
	d.f.	8		d.f.	8		
	p	0.70		p	0.41		
	GFI	0.99		GFI	0.98		
	CFI	1.00		CFI	1.00		
	RMSEA	0.00		RMSEA	0.01		
<b>Path</b>				<b>Path</b>			
<b>Path</b>	<b>Estimate</b>	<b>t-Value</b>		<b>Estimate</b>	<b>t-Value</b>		
CC CO	0.23	3.42 **		CC CO	0.62	7.97 **	
CO OCBs	0.58	4.24 **		CO OCBs	0.76	5.19 **	
<b>Measurement Paths</b>				<b>Masurement Paths</b>			
	OC1	0.90	Fixed		OC1	0.78	Fixed
	OC2	0.66	5.92 **		OC2	0.85	9.68 **
	OCB1	0.55	Fixed		OCB1	0.53	Fixed
	OCB2	0.41	3.87 **		OCB2	0.62	4.84 **
	OCB3	0.49	4.18 **		OCB3	0.49	4.25 **

\*p < 0.05

\*\*p < 0.01

hypothesis (Firm 1: SPC = 0.58,  $t = 3.42$ ; Firm 2: SPC = 0.76,  $t = 5.19$ ). In summary, the results indicate that customer contact is a source of the internal influence process.

Qualitative evidences demonstrate this phenomenon. Several discussions with top managers of Firm 2 revealed that customer contact employees who occupied the front offices were highly customer oriented, in contrast with non-customer contact employees who occupied the back offices. In addition, managers pointed out the cultural gap between them. Top managers considered this gap to be a significant cause of unsuccessful product development. They also assumed that non-customer contact employees tended to act on their own accord,

not showing discrete behaviors toward the organization or other employees. This suggests that non-customer contact employees are liable to be left outside the influence process originating from customer contact. In other words, it is only within a work unit that customer orientation is amplified through the interpersonal influence process. In summary, customer contact influences the process through which customer orientation is disseminated within an organization, resulting in the formation of subcultures with respect to customer orientation.

## 5. Discussion

This study explored the internal effects of customer

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contact within service organizations. Findings from the structural analyses indicate that customer contact is a source of subculture formation characterized by customer orientation within a service organization. First, this finding suggests that organizational culture with respect to customer orientation is developed through an organizational learning process originating from customer contact. Given that cultural change can occur naturally, based on customer contact, managers who are concerned with developing a customer-oriented organization should encourage employees to maintain contact with the customers, thereby promoting experimental learning. This process is consistent with the “market-back” approach proposed by Narver et al. (1998).

The problem here is that how an organization comprising a front office and a back office can be entirely customer oriented. Theoretically, two possible prescriptions can be considered. First, managers should also encourage back office employees to maintain contact with customers. Typically, traditional Japanese firms seem to have emphasized this kind of extensive customer contact, as exemplified by the word “genba,” which means “where the action is.” Second, managers might develop an organizational structure that would facilitate cross-boundary cooperation (Kohli & Jaworski, 1990). By so doing, the influence process originating from customer contact would pervade the whole organization.

In addition to the above managerial implication,

this study presents a theoretical implication for market orientation research. The proposition that an organization has subcultures with regard to customer orientation questions the method adopted by previous research. If organizational culture is not homogeneous and unitary, measuring market orientation through the assessment by a single respondent may be insufficient or inappropriate for investigating the link between customer orientation and the firm’s performance (Kosuge, 2007). Researchers should not neglect the many faces of organizational culture because being multifaceted is the fundamental characteristic of “market orientation” of service organizations.

### **Limitations and directions for future research**

A limitation of this research is that the study did not comprehensively investigate confounding factors that might affect customer orientation. Further research should introduce other potential factors and refine the causal model. This study may also be limited by the obtained samples. Additional studies might investigate employees in various types of organizations and industries in order to determine whether the same causal relationship holds.

Another important area for further research is how the influence process, as shown in the paper, really works. Dougherty (1992) suggests that different “departmental thought worlds” including the views of customers tend to hinder successful product innovation and argued that sharing a realistic customer focus may overcome such a failure of

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cooperation. By investigating multiple thought worlds regarding views of customers and how they would be reconciled, we may understand to a greater extent the process of developing a customer-oriented organization.

In summary, the analytical viewpoint and the findings presented in this paper will contribute to a more thorough understanding of how a firm can actually become customer oriented.

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## **Appendix**

Measures used in analysis

### *Customer contact*

- In my job, it is necessary to directly contact with customers (CC).

### *Customer orientation*

- I consciously make myself aware of who the customer is (CO1).

- I try to understand what the customer wants from the customer's point of view (CO2).
- The customer has the information I need to do a better job (CO3\*).
- If I could learn more about our customer, I could do a better job (CO4\*).
- I would enjoy seeing how customers use our product and discussing it with them (CO5\*).

### *Organizational citizenship behavior*

- I am confident that I can persuade someone to do something that I think is good (OCB1).
- I do my work in a proactive manner beyond sectional boundaries (OCB2).
- Depending on the kind of the problem, I should take the initiative and exercise leadership to solve the problem (OCB3).

Note: \* indicates items that were dropped from the final analyses.

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