
Relationship between Organizational Culture and Service Innovation: An Empirical Case Study in Insurance Industry

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Received: 19th May 2017, Accepted: 26th July 2017, Published: 1st September 2017

Abstract

Today, service is one of the important competitive advantages of organization in today's competitive environment and different organizations attempt to move to this goal in the organization. For optimal use of this, we need to recognize its capabilities and true understanding of strategic needs and organization culture. The present study aims to evaluate the relationship between organizational culture and innovation capability of services in Novin insurance company. The study population is employees of Novin insurance in Tehran province. The study sample is selected via Morgan Table as 186. The data are collected using questionnaire. The data are analyzed using regression analysis and correlation using SPSS, version 16 software. The results show that organizational culture variables have significant relationship with innovation of services. Market culture, adhocracy and clan culture have direct relationship and hierarchy culture has inverse relationship with innovation capability. We find that among different types of culture, market culture is highly associated with innovation capability of services.

Keywords: Organizational culture, Service innovation, Strategic direction

Introduction

Now, a few studies have been conducted on service innovation and most researches focus on goods innovation. Also, innovation in services is mostly evaluated in terms of theory not empirical studies (Johne and Storey, 1997; de Berentani, 2001; Scott J. Grawe et al., 2009; Gremyr et al., 2010). Services can create value for organizations. The companies enter a new competition to present new products. Under these conditions, service-based competition can be the best response (Daugherty et al.; Sahin et al., 2012). According to Berry et al., (1999), services innovation attracts much attention from the researchers.

According to James A. Fitzsimmons, some aspects of services and its development are different to be perceived for successful innovation. Most of the differences are based on this reality that services are intangible. Culture is effective on decision making and problem solving, motivation, satisfaction and morale, creativity and innovation. In management, we can not find something independent from the culture role (Robins, Stephen, 2006). Culture is the

guidance of formulation and execution of strategy in which the organization follows its strategies. Thus, there should be a consistency between the culture and strategy of organization (Karimzade, 2004). In other words, strategic direction is a part of organization culture (Deshpande et al.; Hurley and Hult; Narver and Slater, 1990). Based on the studies on interaction of innovation and culture, the relationship between organizational culture and innovation of services is evaluated. A few studies have been conducted on the relationship between culture and innovation of services. Regarding the significance of strategic planning and the weakness of insurance companies in this regard, the organizations and managers should apply the results of such studies. The present study evaluates the relationship between organizational culture and services innovation in insurance services of Novin insurance company in Tehran province.

Statement of Problem

Strategic management enables the organization to act by creative methods and don't be passive. This management method increases the innovation to define the destiny of the company and control its future (Fred.R David, 2000, 45). Organizational culture is the source of sustainable competitive advantage (Barney, 1991). In today's intense competitive world, the companies attempt to use their resources to present services and create value for their products and this leads to competitive advantage (Matthyssens, 2011), the culture giving value to external concentration (e.g. improvement of competitive situation) and internal concentration (e.g. keeping technical-social systems) and can maximize the efficient use of innovation (Harvey et al., 2011). In service sectors, we have a 70 million market consisting of internal consumers. In our country, a loyal consumer doesn't exist. The foreign companies give much importance to the opinion of customer and propositions and critics of consumers. Based on the variety of insurance services, no study has been performed on Novin insurance company regarding the relationship between organizational culture and innovation of services. Today, organizational culture is one of the important factors on innovation (Carmeli, 2005; Tesluk et al., 1997). Innovation of services is associated to value creation for the customer or the customer perception preferences of the features of product, performance and outcomes of consumption (Woodruff, 2012). With the market changes, the value of customer is

changed (Flint and Mentzer, 2011). Thus, service innovation should be futuristic or the companies should predict the future needs of customers and to develop new services, the environmental changes should be predicted and analyzed (Kandampully, 2010). The present study is aimed to evaluate the relationship between organizational culture and service innovation in services sectors of Novin insurance company of Tehran province.

Hypotheses of Study

Main hypothesis:

There is a significant relationship between organizational culture and innovation of services of employees.

Sub-hypotheses:

There is a significant relationship between adhocracy culture and services innovation of employees.

There is a significant relationship between market culture and services innovation of employees.

There is a significant relationship between clan culture and services innovation of employees.

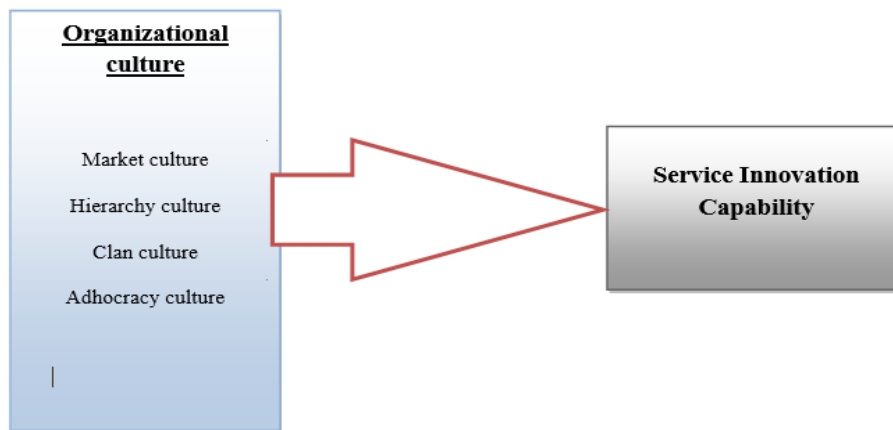
There is a significant relationship between hierarchy culture and services innovation of employees.

The study population is employees of Novin insurance of Tehran province as 344. Due to the qualitative nature of studied variables, to determine a good sample size, Morgan Table is used and 186 employees are selected as study sample.

Research methodology

This study is applied in terms of purpose as the applied studies are performed to achieve new technical and scientific knowledge with special application. In terms of method, it is survey study and it is descriptive in terms of the result. Thus, the present study is an applied-descriptive design. Figure 1 shows conceptual model according to model presented by Yesiland Kaya (2012).

Fig 1. Study model Yesil& Kaya, 2012



Here, we define the variables of study and their evaluation method is expressed.

Organizational culture: in the late 20th century, organizational culture was one of the most important factors in the change of attitude, criteria and values on organization. The organizations are different regarding the views, beliefs and acceptable values of employees of organization as other materialistic elements can be similar to each other. Organizational culture is the set of values, criteria and social ideals for collaboration, participation and association of employees of organization. The set of factors creating attachment to duties and responsibilities as logical can meet the emotional and spiritual demands of employees and it is called organizational culture. Fundamental changes are possible in the performance of people and social

groups in organizations, in the form of basic changes in organizational culture space (Soltani, 2011).

Fundamental changes are possible in the performance of people and social groups in organizations, basic changes in organizational culture space (Soltani, 2011). Organizational culture is a set of factors and good organizational spaces developing capabilities, healthy inclination, public trust and good feelings of employees and the cohesion, individual behavior and collective collaboration are provided in the organization. The pioneer management in the early 21th century considers organizational culture as the main ground to make changes in organization and dynamic adaptability with the environmental conditions (Kashani, 2010).

Based on competitive value framework, Cameron and Queen presented a model of organizational

culture as explained in the second chapter. TO measure this variable, Organizational culture assessment index (OCAI) is used as a questionnaire. 6 key dimensions of culture, 1-dominant features, 2-organizational leadership, 3-Employees management, 4-Organizational consistency, 5-Strategic emphasis and 6-success criteria distinguish organization from four aspects of clan, adhocracy, market and hierarchy. Thus, “organizational culture” is evaluated with 24 items and for each type of culture, there are six items of the mentioned dimensions.

Hierarchy culture: Bureaucracy features from the view of Weber are based on the organizations as their major challenge is creating return with high efficiency and prediction. These are related to stable environmental conditions. Here clear decision making and will, standardized rules, control and mechanism of response are key success factors. The organizational culture of this form is a formal work place. The procedures are dominant on what people do. The effective leaders are those who can coordinate and organize. What organization searches in the long-term are stability, predictability and efficiency. They hold the formal rules of organization. Some organizations as McDonalds and car factories are some relevant examples. Great and state organizations have this culture and they have many standardized procedures, multiple hierarchy and rule-based.

Clan culture: This type of culture is mostly similar to a family (family organizations). After the study of Japanese companies in the late 1960 and the early 1970, some researchers observed basic differences between the market and hierarchy organizational forms in US and clan culture in Japan. This type of culture is regarding the common goals and values, participation and collective feeling.

Adhocracy culture: with the transition of industrial era to information era, fourth form of organization was created with the feature of responding the varied environmental conditions. Under these conditions, different assumptions were raised. Here, different assumptions were raised as innovation, pioneer and

creativity. The organizations attempt to create new products and services for future and the major task of management is enhancing entrepreneurship, creativity and activity at the highest and best level. Innovation and adaptability lead to finding new resources and profitability. Thus, we emphasize on creating a perspective for future. Here, most people work in committees with temporary work forces as dissolved with the end of project. They change their own form in accordance to new conditions. The major goal of this organizational form is enhancing the adaptability, flexibility and creativity. Adhocracy organization is found mostly in the industries as space, software, consulting groups and film making. The important challenges of these organizations are production of innovative services and products as adapted rapidly with the new opportunities. Despite market or hierarchy types, these organizations don't have concentrated power and power is transferred from a person to another one or from one work to another one. Much emphasis is on individualism, risk taking and future prediction as each person is involved in production, customers and research.

Service innovation: Innovation is the ability of production of new and useful ideas leading to problem solving. Innovation and creativity are changes of human thought as having a capability in combination with the previous factors and new factors and innovation is using mental abilities to create a thought, solution or new concept to the creative person. The new scale of Scott J. Grawe et al. (2009) is used to evaluate innovation of services. These researchers have state that to evaluate innovation of services, there is no available tool. They provided a new scale for assessment and raised services innovation capability in 5 dimensions of innovation planning, strategic emphasis of top management, searching new services, modification or change of services and competition in services. In this study, linear regression analysis is used to evaluate the impact of strategic direction variables and organizational culture on innovation of services.

Table1. Study variables

Service innovation capability	Organizational culture	Variable
1-Innovation planning	1-Clan	Operating measures
2-Strategic emphasis of top management	2-Adhocracy	
3-Search new services	3-Market	
4-The reforms or change of services	4-Hierarchy	
5-Competition in services		

Results

The general features of respondents: The study population is novin insurance employees in Tehran province. After collection of data, the respondents and relevant companies are described from different aspects. In this section of analysis, we evaluate the

statistical sample distribution in terms of some variables as education, gender and work experience of respondents.

Education: As shown in Table 2, most respondents are BA.

Table 2- Frequency of education

	F	%	Cumulative percent
Diploma and associate	16	8.60	8.60
BA	135	72.58	81.18
MA and above	35	18.82	100
Total	186	100	

Gender: In Table 3, classification of respondents based on gender, 53.76% of respondents are men and 46.24% are women and the frequency charter is presented in the following Table.

Table 3.Frequency of gender of respondents

	F	%	Cumulative percent
Man	100	53.76	53.76
Woman	86	46.24	100
Total	186	100	

Age of respondents: In Table 4, frequency of age of respondents is presented. 27.96% of respondents are 20-30 years, 40.32% as 30-40 years, 23.66% as 40-50 years and 70.6% above 50 years.

Table 4. Frequency of age of respondents

Cumulative percent	%	F	
27.96	27.96	52	20-30 year
68.28	40.32	75	30-40 year
92.94	23.66	44	40-50 year
100	7.06	15	Above 50 years
	100	186	Total

Uni-variate analyses: This section summarizes the collected data for each of variables of study in which the population is explained in terms of central measures, dispersion and deviation separately.

Organizational Culture

The variable “organizational culture” is evaluated with 24-items. As shown in the chapter 2, the scores of 6 key dimensions of culture, 1- Dominant features, 2- Organizational leadership, 3-Employees management, 4- Organizational solidarity, 5-Strategic emphasis and 6- Success criterion of organization are defined based on four types of culture clan, adhocracy, market and hierarchy. The central measures, dispersion and deviation of four types of cultures are shown in Table 5.

Table 5.Descriptive statistics of organizational culture

Statistics	Mean	SD	Skewness	Kurtosis
Variable				
Clan	1.85	0.70	0.21	-0.29
Adhocracy	1.38	0.59	1.3	0.77
Market	2.55	0.95	0.38	-0.46
Hierarchy	2.71	0.83	-0.2	-0.42

The mean of response to four types of culture clan, adhocracy, market and hierarchy is 1.85, 1.38, 2.55, 2.71, respectively and hierarchy culture is the dominant culture in the population of study and adhocracy culture has the lowest share. Skewness and Kurtosis show the symmetry of responses. Approximately, if the absolute value of skewness and kurtosis is smaller than 0.05, we can say the distribution is almost normal. Skewness and kurtosis coefficients except adhocracy culture show the approximate distribution in terms of skewness and kurtosis. IN other words, the distribution of responses in these three types of culture is almost normal.

Services Innovation

Services innovation is the dependent variable of present study. To evaluate this variable in the questionnaire, 5 questions with a five-item Likert scale with very low to very much is used. Table 6 shows variable of central measures, dispersion and deviation.

Table 6. Descriptive statistics of services innovation variable

Variable Statistics	Mean	SD	Skewness	Kurtosis
Services innovation	3.08	0.78	0.29	-0.53

The mean of organizational innovation variable is 3.08 and based on the measures, it is close to average. In other words, service innovation is evaluated higher than average by the respondents and the organizations didn't achieve high score in this regard. Standard deviation 0.78 shows above average dispersion in the responses. Regarding the type of distribution, based on the small absolute value, skewness and kurtosis from 0.5, we can say the distribution of this variable in terms of skewness and kurtosis is almost normal.

The Normality Test of Variables

To evaluate the normality of variables, Kolmogorov-Smirnov (K-S) is applied (Table 7).

Table 7. The normality test of variables

Variables	Kolmogorov-Smirnov (K-S)	Significance level
Clan	1.031	0.238
Adhocracy	0.712	0.691
Market	0.450	0.299
Hierarchy	0.741	0.642
Clan	0.777	0.582
Innovation	1.235	0.094

As shown, as significance level in all variables is higher than 0.05, the study variables have normal distribution.

Bivariate Analyses

After the univariate analyses and description of features of population, we evaluate the relationship between pairs of variables. Thus, Pearson correlation coefficient is applied. These results are useful to under the relationship between variables better. According to the study model, to evaluate the accuracy of hypotheses, multivariate linear regression is used to show the simultaneous relationship of independent variables on dependent variable. Table 8 shows the results of correlation of study variables.

Table 8. The results of correlation test of study variables

	Clan	Adhocracy	Market	Hierarchy	Service innovation
Clan	(0.68)	-	-	-	-
Adhocracy	0.509 0.091	(0.73)	-	-	-
Market	0.448** 0.001	0.702** 0.000	(0.77)	-	-
Hierarchy	** -0.453 0.001	** -0.634 0.000	** -0.726 0.000	(0.84)	-
Service innovation	0.541** 0.000	0.732** 0.000	0.869** 0.000	** -0.883 0.000	(0.81)

**Correlation is significant at the level 0.01. n=55 (Sample size)

***Cronbach's alpha for strategic direction is not defined for the unified nature of question

The values on the main diameter of Cronbach's alpha are correspondent with the variable.

Multi-VariateAnalyses

Although correlation coefficient shows the intensity of the relationship between two variables, in terms of change in dependent variable, if some independent variables affect it, it is real. In these situations, multiple regression analysis helps the researcher to know how much of dependent variable variance is explained by a set of predictors (Danayifard, Alvani and Azar, 2009).

Linear Regression Analysis of the Relationship BetweenOrganizational Culture and Service Innovation

Durbin-Watson statistics (1.945) is ranging 1.5-2.5 and the correlation between errors is rejected and we can use regression. Based on the above Table, the coefficient of determination of regression model is 0.632 and shows that about 63% of changes of innovation of services are defined by the independent variables in the model. In the next stage, the model acceptability is evaluated statistically. As shown in Table 9, significance level

of F statistics is less than 0.05 and shows that the change is not random. Thus, linearity of hypothesis is supported. In other words, significance level of F statistics is less than 0.05 and shows the significance of explanation of independent variables on dependent variable (innovation of services). After the support of general reliability, by variance analysis test, the coefficients of each of variables should be estimated. Based on the significance level in the above Table, the independent variables of clan, adhocracy, market culture have positive relationship with service innovation as significance level is less than 0.05 and the calculated coefficients show the positive relationship between these variables and dependent variable. Hierarchy culture with negative coefficient of β has negative relationship with service innovation.

Variables	Standard regression coefficients β	Estimation standard error	T value	Significance level	Regression Statistics
Clan	0.13	0.098	2.927	0.048	-
Adhocracy	0.15	0.087	2.511	0.015	-
Market	0.23	0.060	3.580	0.001	-
Hierarchy	-0.28	0.071	-4.089	0.000	-
Coefficient of determination	-	-	-	-	0.638
Adjusted coefficient of determination	-	-	-	-	0.632
F value	-	-	-	-	149.09
Standard error estimation	-	-	-	-	0.228
Significance level	-	-	-	-	0.000
Durbin-Watson	-	-	-	-	1.954
Constant	-	-	-	-	1.933

Table 9. The Results of Mult-Variate Regression (Dependent Variable: Service Innovation)

Among different types of culture, market has the highest positive relationship with service innovation ($\beta=0.23$). Adhocracy culture ($\beta0.15$) and clan ($\beta=0.13$) have positive relationship with service

innovation in the companies listed on stock market. There is a negative and significant relationship between hierarchy culture and service innovation ($\beta=-0.28$).

5-6 Hypothesis test

IN other words, in all hypothesis, we attempt to test the significance or non-significance(positive or negative) between independent and dependent variables. The support or rejection of each of hypotheses of study are performed based on linear regression tests and they are evaluated using multi-variate analyzes. Organizational culture has significant relationship with service innovation.

H2.a. Adhocracy, clan and market culture have no significant relationship with service innovation.

H2.b. Hierarchy culture has a significant relationship with service innovation.

Based on the significance level, F value is calculated in regression analyses to evaluate the relationship between organizational culture and service innovation as less than 0.01 and we can say at confidence interval 0.99, the test is significant. Based on the positive relationship of regression coefficients for adhocracy, market and clan culture at significant level less than 0.05, we can say independent variables of clan culture ($\beta=0.13$), adhocracy culture ($\beta=0.15$) and market culture ($\beta=0.23$) has positive and significant relationship with service innovation (support H2.a). Also, hierarchy culture with the significance level less than 0.01 and regression coefficient $\beta=-0.28$ has negative and significant relationship with service innovation (support H2.b).

The research is dedicated to the analysis of study. This is performed in five stages. In the first phase, by descriptive statistics, we describe the features of each of variables in the population of study. Then, uni-variate analyses and features of each variable are explained. Then, in bi-variate analyses, the pair evaluation of variables is tested. Finally, in multi-variate linear regression, we evaluate the effect of variables on each other using SPSS software and the support or rejection of hypotheses is tested. The data analysis is summarized in the Table.

Discussion and Conclusion

In this study, the relationship between organizational culture and innovation is evaluated. As it was said regarding the data analysis and relevant conclusion and theoretical basics in the second chapter, the clear results are achieved. Adhocracy culture and market have positive relationship with service innovation. Clan culture has positive and significant relationship with service innovation. Hierarchy culture has negative and significant relationship with innovation of services. This type of culture focuses on external environment during the control of employees and processes and the result of employees in final goals of organization is the main criterion of this culture. Among different types of culture, market culture has positive relationship with service innovation. In terms of innovation of adhocracy is in the best ranks (review

of literature), in this study market culture is high and this shows that market culture has high share. This shows that lack of control, freedom and flexibility are not used according to the high goals of organization as general and specifically improving the strategic dimensions of organization and increasing innovation of services as optimized. This shows that top managers have no accurate perception of guiding the strategies leading to the high service innovation. If this perception is true, it can have positive effect on strong culture on strategic direction. This result supports the findings of some studies that strategic direction of application of strategic instructions is for continuous performance and if it is development in organization, it is converted to organization culture (Gatignon and Xuereb; Menguc and Auh; Narver and Slater, 1990). The mean response to four types of clan, adhocracy, market and hierarchy culture is 1.85, 1.38, 2.55, 2.71, respectively. Hierarchy culture is the dominant culture in the study population and adhocracy culture has the lowest share. Based on the results of the main hypothesis and sub-hypothesis, we can raise the following recommendations to the managers of Novin insurance company in Tehran province:

- Encourage the employees to high participation in organization and providing the required facilities to develop the ideas.
- Create balance between moving to organic culture and motivation for innovation and control of employees and processes for effectiveness and efficiency.
- High development of capabilities in service innovation to achieve competitive advantage.
- Investment on capabilities and allocation of organizational resources to use strategies as market development and develop new services.
- Increase the organizational facilities and planning to modify the current services and change of services with low quality
- Increase the competition in services namely via the notes 1,2

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