STUDYING THE EFFECT OF INTERNAL MARKETING ON CUSTOMER LOYALTY: CASE STUDY OF A PRIVATE BANK IN IRAN

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Abstract
Today, the dynamic and competitive environment of banking industry made having loyal customers as one of the most important capitals and success factors and the superiority of the organization according to its rivals. Therefore, knowing factors influencing customer loyalty can help to develop this capital. Hence, this research examined this issue that how and to what extend the internal marketing dimensions influence loyalty of customer. This research is descriptive and correlational. Its population is made up of two parts. The first part includes employees and managers working in bank branches of Eghtesad Novin bank in Tehran, Iran as total number of 1985 people and with stratified random sampling, 384 people were selected; the second part includes clients of these branches that 384 people were selected by cluster sampling. The results show that all aspects of the internal marketing have a positive significant effect on customer loyalty. On this basis, recommendations are made at the end.

Keywords: Customer loyalty, Internal marketing, Job security, Extensive training, Empowerment, Information sharing, Incentives
INTRODUCTION

Today, the process of globalization and the unstable economic situation has led most businesses to operate in a highly competitive and dynamic environment. In such circumstances, one of the most important competitive advantages of organizations is having permanent and loyal customers for service organizations especially banks, and investment is vital. Since the cost of attracting a customer is six to nine times of the cost of maintaining old customers and the new customers were less profitable, long-term relationships between customers and organizations is important (Sheikhi et al., 2014). Loyal customer is who buys goods and services frequently from one seller and has positive attitude toward him and because of this, encourages others to buy from him and lead organization to have growth and profitability (Moghadasi, 2011). Studies have shown that one of the factors contributing to create customer loyalty is perceived quality of him toward provided service by organization. So the quality of service has a vital role in success of organization in creating competitive service and increasing power of competition (Hosseini and Qapanvary, 2013). On the other hand competencies, capabilities and motivation of employees of service organizations can play a key role in providing high quality service. This is new dimension in the marketing that is called internal marketing. Internal marketing is built to attract, develop, motivate and continuation of employees quality through job as a product and satisfying their needs (Soleimani Besheli, 2012). Meeting the needs for employees leads to increase their motivation and thus increase their satisfaction, which in turn create more loyalty to the organization and the quality of services provided by them will be promoted (Hosseini and Rahmani, 2012).

Given the importance of customer loyalty in the organization and factors affecting it, in this study, this issue will be investigated that how internal marketing can be used for customer loyalty promotion. Accordingly, we expect this study be able to understand the role of the internal marketing and each of its dimensions helps in retaining customers and preventing the loss of customers that are capital of organization.

THEORETICAL BACKGROUND

Customer loyalty

Customer loyalty occurs when the same customer purchases product or service and the customer tend to recommend it to other customers without any obvious advantages. In fact, a loyal customer is one who is not easily influenced by price cuts by competitors, and purchases more than less loyal customers (Al- Rousan, et al., 2010). In other words, the customer loyalty is to create commitment for customer to do business with certain organizations and the purchasing goods and services are frequently defined, but there is no general definition of loyalty. In this
view, loyalty is defined as a strong commitment to repurchase a superior product or service in the future, as the same brand or product are purchased even with marketing efforts of potential competitors (Allame & Nokte dan, 2010). According to Cheng (2011), customer loyalty is a sense of belonging to the employees, an organization's services or products that would lead him to repurchase, the cost spent by him, the possibility of his recommendation this organization to others and even his willingness to become part of the organization.

In many studies, two attitudinal and behavioral dimensions and considering both is equally essential. Attitudinal loyalty understands consumer to a particular service provider and his preference to a product or service compared to other alternative products and services. When a customer has behavioral loyalty, repurchases the same brand again, and maintain his relationship with a specific service provider. Some studies believe attitudinal loyalty as background of behavioral loyalty. However, others believe that this is company's image, which significantly increases the behavioral loyalty (Cheng, 2011).

**Internal marketing**

Main hypothesis of internal marketing is considering employees as internal customers of organization and thus satisfying their needs is essential (Berry, 1981). Because organization will have better situation to offer high quality products and service to satisfy the needs of external customers by meeting the needs of internal customers. Also in this context it is assumed that meeting the needs of employees, their motivation increases, resulting in a higher level of employee satisfaction and this will lead to improve external satisfaction and loyalty (Ahmed & Rafiq, 2003). In fact, internal marketing concept refers to this point that to have satisfied customers, the company must also have satisfied employees. Satisfied employees will satisfy more loyal customers and as a result, bring more benefits to organization. Satisfied employees should be motivated to achieve better levels of performance and to improve customer relations, internal and external. Therefore, employees having high satisfaction and high motivation, play a major role in the success of service organizations (Akroush et al., 2012). Internal marketing has six dimensions of job security, extensive education, empowerment, information sharing, offering incentives and reducing the gap between employees. In the following, these six dimensions are described:

- **Job security**: Job security means providing reasonable assurance about the absence of dismissal for employees even during the difficult economic period (Bansal et al., 2001).
- **Extensive training**: In fact, the training of employees is considered as a means to provide better service to customers (Bansal et al., 2001).
- Empowerment: Empowerment means increasing the motivation of people at work by delegating to the lowest levels of the organization that technical decisions are made there (Thomas & Velthouse, 1990).
- Information sharing: The importance of this flow of information is at creation ease during decision-making and creation of a suitable feedback mechanism. In addition, it leads to improve capabilities (The oven Younes et al., 2013).
- Offering incentives: Providing salary and benefits higher than average level according to performance and productivity (Soleimani Besheli, 2012).

**EMPIRICAL BACKGROUND**

Table 1 is a summary of some of the most important studies in the field of factors influencing customer loyalty. The present study investigates the effect of a comprehensive and deeper effect of internal marketing on customer loyalty.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Researcher</th>
<th>Satisfaction</th>
<th>Perceived quality</th>
<th>trust</th>
<th>Value</th>
<th>Internal marketing</th>
<th>Factors related to the brand</th>
<th>Customer Relationship</th>
<th>Displace costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Giovanis et al. (2014)</td>
<td>✔</td>
<td>✔</td>
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<td>✗</td>
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<tr>
<td></td>
<td>Akroush et al. (2013)</td>
<td>✔</td>
<td></td>
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<td></td>
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<td>✗</td>
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<td></td>
<td>Segoro (2013)</td>
<td>✔</td>
<td>✔</td>
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<td></td>
<td>Chinomona and Sandada (2013)</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td></td>
<td>Choi and Kim (2013)</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td></td>
<td>Abdolrahman and Kumaralzaman (2013)</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td></td>
<td>Amin et al. (2012)</td>
<td>✔</td>
<td>✔</td>
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<td></td>
<td>Ming Wei He and colleagues (2011)</td>
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<tr>
<td></td>
<td>Yasin et al. (2011)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Akhtar et al (2010)</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td></td>
<td>Ramsey et al (2010)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bansal et al. (2001)</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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</tr>
</tbody>
</table>

Although many studies have been done in the field of customer loyalty, about how the internal marketing can be achieved through increasing the quality of services provided to customers to increase their loyalty, there have not done empirical research comprehensive enough. Therefore, this issue will be examined in this study.
In this study, based on literature stated, the dimensions of the internal marketing as independent variables and customer loyalty are considered as the dependent variables. For measuring internal marketing we used a model that Bansal et al. (2001) presented and for customer loyalty, the definition by Cheng (2011) is considered. On this basis of the conceptual model can be found in Figure 1.

**Figure 1: Conceptual Model**

![Conceptual Model](image)

With regard to the issues about effect on internal marketing based on customer loyalty hypotheses of this study are:
1. Job security has a significant and positive effect on customer loyalty.
2. Training of employees has a significant and positive effect on customer loyalty.
3. Empowerment of employees has a significant and positive effect on customer loyalty.
4. Sharing information has a significant and positive effect on customer loyalty.
5. Offering incentives has a significant and positive effect on customer loyalty.

**METHODS**
The present study is an applied one in terms of objectives and is descriptive survey and correlational. It is also cross-sectional based on time aspect and in terms of data type is quantitative. Its statistical population is made up of two parts. The first part consists of 1980 employees and managers working in bank branches of Eghtesad Novin in Tehran who were
selected and by stratified random sampling, 384 of them were selected. The second part consists of customers of same bank branches and 384 of them were selected using cluster sampling. The tool to collect data is 20-item questionnaire that have been developed as a range of five-point Likert scale. The questionnaire of customers consists of 5 questions that measure customer loyalty and questionnaires of managers and employees consists of 15 questions that measure the dimensions of internal marketing. To test the reliability of the questionnaire, a prototype including 30 questionnaires has been pre-tested and then confidence coefficient has been calculated with Cronbach’s alpha method using collected data and SPSS. The reliability of the questionnaire and dimensions and variables has been provided in table 2.

Table 2. The coefficient of reliability of questionnaire and each of the variables and their dimensions

<table>
<thead>
<tr>
<th>Customer loyalty</th>
<th>internal marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job security</td>
<td>Reliability</td>
</tr>
<tr>
<td>Extensive training</td>
<td>87%</td>
</tr>
<tr>
<td>Offering incentives</td>
<td>76%</td>
</tr>
<tr>
<td>Empowerment</td>
<td>74%</td>
</tr>
<tr>
<td>Information Sharing</td>
<td>68%</td>
</tr>
<tr>
<td>Reliability</td>
<td>76%</td>
</tr>
<tr>
<td>Information Sharing</td>
<td>65%</td>
</tr>
</tbody>
</table>

ANALYSIS AND FINDINGS

In this study, in order to analyze the obtained data and determine the presence or absence of simultaneous relationship between variables, structural equation modeling was used. In structural equation model, the relationships between latent traits have been extracted based on the theory, are studied according to collected data (Kalantari, 2009). In this model, there are 20 observable variables (including the research questions) and 6 latent variables (dependent and independent expressed variables). After modeling, to assess the validity of model, specific indicators were used including ratio of chi 2 to the degree of freedom, which should be less than 3, the value of root mean square error of approximation that should be less than .08 and P-value should be smaller than .05, and GFI should be greater than 0.9. To determine the significance of effect of internal marketing on loyalty, significance model and in order to assess the quality and extent of this effect, standard model were used. About significance of obtained numbers, it can be said that since the hypothesis test was done at confidence level of 0.95, those numbers will be significant that are not between 1.96 and -1.96; means if a number is between 1.96 and -1.96, it will not be significant. The effect of dimensions of internal marketing on customer loyalty in significance mode has been shown in figure 2. Based on indicators of table 3, we can judge about fitness of mentioned model.
Figure 2. Model of internal marketing influencing on customer loyalty in significance mode

Table 3. Fitness indicators of internal marketing model influencing customer loyalty

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Allowed value</th>
<th>Result</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of Chi two to degrees of freedom</td>
<td>$\chi^2$/df&lt;3</td>
<td>1.97</td>
<td>Perfect fitness</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.08&lt;RMSEA</td>
<td>0.046</td>
<td>Perfect fitness</td>
</tr>
</tbody>
</table>

Fitness indicators of model show the measurement model of related variables; because ratio of chi 2 to degrees of freedom is 1.97 and is less than 3, RMSEA is 0.046 and is less than 0.08. Accordingly based on this model, effect of predicted relationships in all hypotheses are significant; because their values for H1-H5 are 7.25, 9.82, 10.14, 9.91, 8.15 respectively and all are greater than 1.96. Using standard model, the extent of the effect of relationships in this model can be investigated whose significance have been confirmed.
The standard model shows a positive effect of internal marketing dimension on customer that is confirmable with intermediate role of perceived quality. Thus, based on the obtained results of a significant model and the standard model, the results of hypotheses study can be summarized in table 5.

**Table 5. The results of the hypotheses study**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Route</th>
<th>Standard rate</th>
<th>Significance level of numbers (Sig.)</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The effect of job security on customer loyalty</td>
<td>0.42</td>
<td>7.25</td>
<td>Confirmed</td>
</tr>
<tr>
<td>2</td>
<td>Extensive training effect on customer loyalty</td>
<td>0.65</td>
<td>9.82</td>
<td>Confirmed</td>
</tr>
<tr>
<td>3</td>
<td>The effect of offering incentive on customer loyalty</td>
<td>0.74</td>
<td>14.10</td>
<td>Confirmed</td>
</tr>
<tr>
<td>4</td>
<td>Empowering effect on customer loyalty</td>
<td>0.68</td>
<td>6.91</td>
<td>Confirmed</td>
</tr>
<tr>
<td>5</td>
<td>Information sharing effect on customer loyalty</td>
<td>0.58</td>
<td>8.15</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>

The overall pattern of relationships between variables in the structural equation model were consistent with expressed hypotheses; each of five studied relationship were important and significant. Given obtained results, dimensions of internal marketing have significant effect on
customer loyalty. Also, based on these results, "offering incentive" have the highest determining effect on customer loyalty (0.74) and after that the empowerment, extensive training, information sharing and job security have other ranks of effect on customer loyalty. These findings are consistent with the results of former studies carried out in this area; for example, Younesi fard and colleagues (2013) and Choi and Kim (2013) have suggested in their research that increasing employee satisfaction – created as a result of improved internal marketing in organization created - can increase the quality of services and thus increase customer satisfaction. This satisfaction increase ultimately leads to increased customer loyalty to the organization.

CONCLUSIONS AND RECOMMENDATIONS
In competitive banking industry, customers are one of the most valuable assets of the organization. Therefore, customer retention and customer loyalty development have become one of the main priorities of these organizations. Among the various factors that affect customer loyalty, in this research the role of internal marketing has been studied. For this purpose, the effect of 5 main dimensions of internal marketing on improving customer loyalty have been examined: job security, extensive training, empowerment, information sharing and offering incentives. The results of the data analysis have confirmed positive and significant effect on all these dimensions of internal marketing on customer loyalty. In this regard, it can be concluded about how each dimension of internal marketing influence customer loyalty as below:

The more effective dimensions of internal marketing are done in an organization, the more will be employees’ satisfaction and they will meet their tasks more motivated and they work harder with more peaceful mind and their productivity will be higher. When a bank employee is satisfied with his job and with interest and without any concern for peace of mind, does his duties, in addition to provide service customer requested more accurately and in less time, he will be more respectful and friendly. This makes the customer feel more satisfied with the service provided, and shows interest to go to that bank again and in addition to the need of the bank service, he puts receiving service from this bank his first priority, the possibility that in other communities, recommends treatment of employees of the bank and the quality of it and use of its service to others, will be increased. As a result, bank will be able to increase its income and profitability and surpasses its competitors by attracting potential customers.

The most important thing that can affect the mind of an employee is job security, i.e. the certainty of a fixed and permanent job and this issue that he will not be excluded from his jobs without any reason. Having job security contributes in peace of mind and satisfaction of employees.
I before assigning a task to an employee he was provided enough training; this will increase confidence in him and makes him be powerful enough to do his duties the best and in less time. Training leads to increase organizational commitment and allows its employees to know themselves as part of their organization. So it improves the quality of services by them.

Empowerment can make employees be flexible during providing service. If employees have sufficient freedom of action, they can quickly resolve if there is the event of a service failure. Accordingly, they can flourish their creativity and use new ideas in the performance of their duties. Using the creativity and innovation leads employees to have more interest in their jobs and to increase their self-confidence, it can create a dynamic and active environment in an organization and organization can discover the hidden skills and knowledge of its employees and can use it to achieve organizational goals.

Providing sufficient information about the organization and its goals, as well as the publishing accurate news about it, and providing appropriate facilities for employees’ easy access to information they need, makes employees understand organization more and better and also makes them feel closer to the organization and know themselves a part of the organization and believe organization to be their own.

Offering bonuses in addition to wages commensurate with the performance of each employee, not only makes their income situation improved and reduce the mental involvement of their employees in the economic issues, but also it can be incentive for them to do their duties better and more effective and makes them achieve higher level of performance. If employees are ensured that these bonuses are in proportion to the level of performance of each employee and their efforts cannot be ignored, they feel more justice in organization and this sense of justice will increase their satisfaction with organization and their sense of belonging to organization.

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