

## **Effect of Internal Marketing Adoption on the Performance of the Commercial Banks in Egypt**

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*This paper investigates the relationships between internal marketing, customer loyalty and business performance with respect to the commercial banks in Egypt. In order to achieve this purpose, two broad hypotheses are formulated to link the dimensions of internal marketing with customer loyalty and bank performance. The study developed a list of eleven internal marketing practices that can be helpful for organizations when developing a comprehensive internal marketing program. Appropriate measures were identified and data was collected through a questionnaire survey of banks both customers and managers who rated self-completion questions on the basis of their perception. Data analysis showed significant relationships between the research variables. Findings indicated that internal marketing has a significant effect on the bank performance via customer loyalty. It is recommended that more attention be directed towards enhancing employees' performance through the adoption of the internal marketing strategy to attract and retain external customer patronage.*

**Field of Research:** Marketing, Human Resource Management.

### **1. Introduction**

Banking has traditionally operated in a relatively stable environment for decades. However, today the industry is operating under new, more complex atmosphere resulted from the major changes in the economic and political conditions, and the storming effects of the financial crisis which the whole world is still recovering from. All these factors have forced the banks to find a new basis for competition in order to build and protect their competitive position. Most major banks have realized that improving service quality and creating customer relationships that deliver value beyond the provided by the core product itself is the key for fighting competition and driving performance. Customer relationship management (CRM) has been adopted by many organizations in recent years because of their efforts to become more customer focused to face the increasing competition. This focus on customer relationship building is derived from the recognition of the importance of customer loyalty and its critical effect on business performance. Internal marketing with its unique philosophy plays a critical role in the relationship building orientation, as it works on assuring the employees satisfaction and commitment which is an important prerequisite for providing high service quality (Sasser and Arbeit, 1976; Berry, 1981). IM entails the application of the traditional marketing concept and its associated marketing mix inwards to

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the organization's own staff, in which employees are treated as customers of the organization in order to improve corporate effectiveness by improving internal market relationships (Vary, 1995). Also, it works on preparing the employees to act in a customer oriented manner (Gronroos, 1981; George, 1990) and assuring that all employees have the skills, abilities, tools and motivation in order to deliver promises made by the company to its customers (Barnes et al., 2004).

However, despite the critical role of internal marketing as a link between the organization's external marketing objectives and its internal capabilities, very few organizations use IM in practice (Gounaris, 2006). This can be attributed to the fact that most of the work on IM is normative and the proportion of the empirical studies still limited (Vary, 1995). Even most of these empirical studies focused on examining the relationship between internal marketing and employees' satisfaction and commitment, with a little focus on examining the effect of internal marketing practices on enhancing the external marketing outcomes. There is also little clear empirical evidence of a positive relationship between IM practices and organizational performance (Ahmed et al., 2003). Furthermore, despite of its growing literature, only limited number of studies focused on investigating the internal marketing adoption in the Egyptian environment, which was the main motive for conducting this study. It provides an empirical investigation of the role of internal marketing in enhancing customer loyalty and improving the performance of the commercial banks in Egypt. Therefore, this study aims to answer the following questions:

- What is the level of IM adoption within the commercial banks in Egypt?
- What is the effect of IM adoption on the customer loyalty?
- What is the effect of internal marketing adoption on the performance of the banks?

This paper starts by first delineating the concepts of internal marketing and customer loyalty and proceeds to outline the expected relationships in a research model. Research methodology is explained, results and implications are discussed, and finally possible areas for further research are identified.

## **2. Literature Review**

### **2.1 Internal Marketing**

Internal marketing emerged in 1960s as a way to deliver high quality products and services (Rafiq and Ahmed, 2000; Bennett and Barkensjo, 2005). The rationale behind internal marketing is the belief that by satisfying internal customers (employees) the organizations will strengthen its human capital and will be better positioned to satisfy the requirements of its external customers (Berry, 1981). This is based on the assumption that fulfilling employees' needs will increase their motivation and commitment, and enhance their performance. Vary (1995) emphasizes the societal nature of internal marketing and asserts that it is not limited to economic exchange. The societal nature of internal marketing appears through the concept of managerial consideration. Consideration, in this context, refers to the degree to which managers develop a work climate of psychological support, helpfulness, friendliness, and mutual trust and respect (Lings, 2004). It does not mean that supervisors cater to employees' needs on a carte blanche basis, but is simply the degree to which

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supervisors recognize employees as individuals and treat them with dignity and respect (Lings, 2004). The major point of the concept is that employees feel that management cares about them and their needs (Ewing and Caruana, 1999; Ahmed and Rafiq, 2002).

Since its introduction in the service marketing literature, internal marketing concept has experienced major developments, according to Rafiq and Ahmed (2000) internal marketing has evolved along three separate and intertwined phases. In the early developmental phase during the 1970s and the 1980s, the majority of the work on internal marketing focused upon the issue of employee motivation and satisfaction (Rafiq and Ahmed, 2000). A key assumption underlying this view of IM is based on the notion that “to have satisfied customers, the firm must have satisfied employees”. Employee satisfaction was hypothesized to be an important parameter affecting upon customer satisfaction. The fundamental tool for achieving employee satisfaction in this approach is the treatment of employees as customers and jobs as products of the firm (Berry, 1981). The second major step in the development of the IM concept was undertaken by Gronroos (1981), who suggests that IM objective shouldn't only focus on satisfying employees to motivate them to do better job, but it must promote them to provide customer conscious behavior in order to have a positive impact on the perception of the customer about the quality being delivered and the firm as a whole and take advantage of the marketing opportunities that may occur during the interaction between the customers and contact employees. Also, he suggests that to provide superior value to the external customer, it is important that superior value is provided at each point of the value chain. Hence, internal suppliers need to focus on satisfying the requirements of their internal customers, which makes every employee is both a supplier and a customer to other employees within the organization. This approach to IM was also adopted by Gummesson (1987), who termed customer-contact employees as “part-time marketers”. He argued that a service provider's ability to function as a “part-time marketer” often have a major impact on customers' future purchasing decisions than full-time marketers. Thus, the skills, customer orientation, and service mindedness of customer-contact employees are of critical importance to customers' perception of the firm and to their future patronage behavior. Furthermore, Gronroos (1985) was the first to mention specifically that IM is about motivating the employees by active marketing-like activities. Gronroos suggests that the company should adopt a framework similar to that of its external marketing, and by applying marketing-like activities internally, it will be able to stimulate service awareness and customer oriented behavior among personnel. In the third phase, authors began to recognize the role of IM as a vehicle for strategy implementation. Piercy and Morgan (1991) considered internal marketing as a strategic tool that can be used to facilitate the implementation of the external marketing strategies, where the goals of the internal marketing plan are taken directly from the implementation requirements for the external marketing plan. Rafiq and Ahmed (1993) extended the role of IM by arguing that it can be used as a mechanism to facilitate the implementation of any functional or corporate strategy, through using marketing like activities to overcome the employees' resistance to change. This has led to a widening of IM applications to any type of organization, not merely to services. Rafiq and Ahmed (2000) proposed an expanded definition of internal marketing, suggesting that it is “a planned effort using a marketing-like approach to overcome organizational resistance to change and to align, motivate and inter-functionally co-ordinate and integrate employees towards the effective implementation of corporate and functional strategies, in order to deliver customer satisfaction through a process of creating motivated

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and customer orientated employees. Rafiq and Ahmed's conceptualization of internal marketing provided the backbone for this study.

As demonstrated, although the body of knowledge on internal marketing is constantly growing since 1970s, still there are some problems that can be observed on the IM literature. One major problem is the confusion over what internal marketing actually is, its role, and how it can be implemented (Vary, 1995). The extant literature on internal marketing contains a variety of interpretations of the domain of internal marketing. Moreover, marketing scholars have not yet derived a single, unanimous, definition of IM (Ahmed and Rafiq, 2002). This lack of a generally accepted operational definition of internal marketing also means that there is no generally accepted instrument to measure the concept or to examine its impact (Lings, 2004). There is no consensus between the studies about the aspects of internal marketing. However, a number of key elements were derived from IM literature to represent the components of the internal marketing in this study. The elements of the IM mix are marketing-like approach, customer orientation, strategic reward, senior leadership, internal communications, vision awareness, employee training and development, management commitment to service, quality, inter-functional coordination, empowerment, and employee motivation.

Several authors (e.g., George and Gronroos, 1989; Ahmed and Rafiq, 2002; Joseph, 1996) assert on the necessity of the cooperation between marketing and human resource management departments for the purpose of delivering successful internal marketing program. Effective implementation of IM requires service organizations to implement HR practices from a marketing perspective. Ahmed and Rafiq (2002) assert on the need for a marketing oriented human resource department in which marketing ideas have a significant input into recruitment, training and other HR functions. Without a marketing perspective, HRM loses its link with external marketing program, and hence internal marketing competitive advantage. IM is the practice to gain a synergistic advantage by aligning the internal resources to the external marketing (Ahmed et al., 2003).

Successful internal marketing programs can lead to important payoffs for an organization. Arnett et al., (2002) believe that the benefits of internal marketing stem from four main sources. First, the reduction in employee turnover rates which in turn will decrease both recruiting and training costs. When fewer new employees are needed, resources that would have been directed to filling empty positions and training new employees can be used for other purposes (e.g., improving the skills of existing employees). In addition, low turnover rates translate into less stress for existing employees. When people leave an organization, other employees are often called on to fill in until new employees are hired and trained, which can increase those reassigned employees' level of stress. Moreover, low employee turnover is found to be linked closely to high customer satisfaction (Heskett et al., 1994). Second, the increase in service quality, this is because internal marketing is designed to improve the way a company serves its customers and encourage employees to continually improve the way they serve customers and each other. Third, the increase in employee satisfaction which motivates workers to be more engaged and, as a result, they are more likely to take actions that result in increased customer satisfaction and profitability. Fourth, one of the most difficult things to manage in organizations is change. For organizations in transition, internal marketing is crucial. Internal marketing helps to reinforce and develop a

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culture where the need for change is understood and accepted. As a result, the organization is more successful at implementing new strategies, which improves the chances that the strategies will be successful.

### 2.2 Customer Loyalty

The conceptualization of loyalty has evolved over the years. In the early days customer loyalty was defined strictly from a behavioral perspective (Tucker, 1964; McConnell, 1968; Eshghi et al., 2007) and loyalty to tangible goods (i.e., brand loyalty) was the main focus of many studies (Gremler and Brown, 1996; Caruana, 2002; Siddiqi, 2011). The assumption here is that internal processes are spurious and behavior can better capture the loyalty of a customer towards the brand of interest (Tucker, 1964; McConnell, 1968; Bandyopadhyay and Martell, 2007; Boora and Singh, 2011). The behavioral measurement considers consistent, repeat purchase as an indicator of loyalty, and ignores the cognitive processes underlying that behavior (Boora and Singh, 2011). Behavioral measures include proportion of purchase devoted to a given brand, probability of purchase, purchase frequency, and purchase sequence.

After the failure of the behavioral definitions of loyalty to explain how and why customer loyalty develops and changes (Boora and Singh, 2011), scholars have questioned the adequacy of using behavior as the sole indicator of loyalty. Newman (1966) was the first to challenge the approach of equating behavior patterns to loyalty (Bandyopadhyay and Martell, 2007). Overtime, researchers (e.g., Day, 1969; Jacoby and Kyner, 1973; Gremler and Brown, 1996; Oliver, 1999) started to recognize the need for the inclusion of “attitude” along with behavior to define brand loyalty. Day (1969) argues that “there is more to brand loyalty than just consistent buying of the same brand”. As he points out that the consistent purchasing of one brand can be a result of many reasons other than loyalty such as the lack of availability of other brands, or because a brand offers a long series of deals, or it has a better shelf or display location, etc. Also, he points out that spuriously loyal buyers lack any attachment to the brand and they can be captured by any other brand offers a better deal. So, he concludes that true loyalty should be evaluated with both attitudinal and behavioral criteria. Based on this work, Jacoby and Kyner (1973) provided a conceptualization of brand loyalty that incorporates both a behavioral and an attitudinal component. Also, they assert that brand loyalty is biased repeat purchase of a specific brand based on a rational evaluation process of the benefits of competing brands. The attitudinal approach infers customer loyalty from psychological involvement, favoritism, and a sense of goodwill towards a particular products or service. Attitudinal loyalty reflects the consumer’s psychological disposition towards the brand (Boora and Singh, 2011).

Finally, in addition to the behavioral and attitudinal approach to customer loyalty, it has been argued that there is also a cognitive side to customer loyalty (Gremler and Brown, 1996; Bloemer et al., 1999; Oliver, 1999; Caruana, 2002). It is seen as a higher order dimension and involves the consumer’s conscious decision-making process in the evaluation of alternative brands before the purchase (Caruana, 2002). In 1996 Gremler and Brown extended the concept of loyalty to intangible goods, and proposed a definition of service loyalty that incorporates the three specific components of loyalty suggesting that it is “the degree to which a customer exhibits repeat purchasing behavior from a service provider,

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possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises.”

Customer satisfaction is frequently suggested as the leading determinant of loyalty (Heskett et al., 1994; Gremler and Brown, 1996; Oliver, 1999; Boora and Singh, 2011). Much of the marketing literature gives the impression satisfied customers automatically are loyal customers (Gremler and Brown, 1996). A common assumption is that customers who experience repeated satisfaction with suppliers are motivated to continue this relationship and less likely to look elsewhere (Flint et al., 2011). However, research provides mixed results in analyzing the relationship between satisfaction and loyalty. Several studies indeed find satisfaction to be the leading factor in determining loyalty (e.g., Ball et al., 2004; Harris and Goode, 2004; Deng et al., 2010; Aborumman et al., 2011). Other studies, on the other hand, suggest satisfied customers may not be sufficient to create loyal customers (e.g., Oliver, 1999; Reichheld, 1993). Reichheld (1993) argues that increasing customer satisfaction does not necessarily lead to increased customer loyalty to an organization (Gremler and Brown, 1996). Moreover, Leverin and Liljander (2006) state that: “customer satisfaction with a bank relationship is a good basis for loyalty although it does not guarantee it, because even satisfied customers switch banks.” Service quality is also a commonly cited antecedent to loyalty (e.g., Bloemer et al., 1999; Caruana, 2002; McCain et al., 2005). However, the relationship between loyalty and quality is mainly mediated by customer satisfaction (e.g., Eshghi et al., 2007; Deng et al., 2010; Siddiqi, 2011). Many scholars find service quality to have a significant effect on customer satisfaction. Zeithaml et al., (1996) contend that the customer’s perception of service quality is the main factor predicting customer satisfaction. Furthermore, Caruana (2002) found that, in retail banking, service quality has a positive effect on loyalty through customer satisfaction.

Another factor that is considered crucial for the development of customer loyalty is interpersonal relationships. Gremler and Brown (1996) argue that interpersonal relationships are more important in the development of loyalty to services. This is because with services an additional important component of the product offering can be the interpersonal interaction between employees and customers. The “bonding” that frequently occurs in customer-service provider employee relationship is conceptualized as the construct interpersonal bonds. Gremler and Brown (1996) define interpersonal bonds as the degree to which customers perceive having a personal, sociable relationship with service provider employees, including customer feelings of familiarity, care, friendship, rapport, and trust. This supports Joseph’s (1996) study, as he suggests that the interpersonal bonds between customers and employees that develop from ongoing interactions in the service encounter will affect a customer’s future buying behavior.

Switching costs is also considered by many scholars as an important determinant of customer loyalty (Gremler and Brown, 1996; Beerli et al., 2004; Deng et al., 2010). Switching costs include investments of time, money, or effort, perceived by customers as factors that make it difficult to purchase from a different firm (Gremler and Brown, 1996). According to Burnham et al., (2003), all varieties of switching costs can be simplified as three types: procedural, financial, and relational switching costs. Procedural switching costs mainly include evaluation costs, setup costs, and learning costs; financial switching costs involve benefit loss costs and monetary loss costs; relational switching costs contain

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personal relationship loss costs. Switching costs can affectively strengthen service loyalty by making it difficult for the customer to go to another provider (Gremler and Brown, 1996). Specifically, increasing a customer's perceptions of the risks in switching to other providers, the trouble in building a new contact relationship, and the difficulty in using an alternative service, will increase the likelihood that he/she keeps the relationship with the current service provider (Deng et al., 2010). Previous studies tested the relationship between switching cost and customer loyalty, and findings indicated that switching cost was an important factor in predicting customer loyalty (Beerli et al., 2004; Deng et al., 2010).

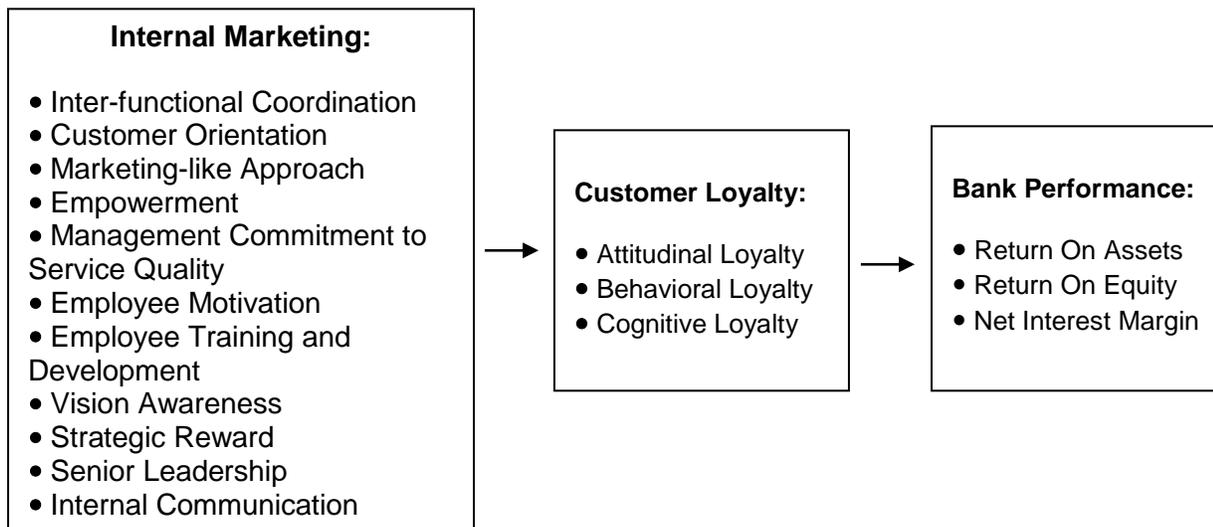
Companies can enjoy many economic benefits from having a loyal customer base; this can be attributed to many reasons. First, it is less costly to retain customers than to attract new ones. There is a fundamental belief among marketers; that it is cheaper to market to existing loyal customers, than to acquire new ones. It also costs less to serve loyal customer than new customers. This is because the company knows a lot about its existing customers and how to get touch with them. In other words, transactions are routinized and therefore less expensive because a non-routinized transaction is subject to bargaining with its resulting loss of efficiency (Boora and Singh, 2011). Furthermore, Cohen et al., (2007) found that a loyal customer takes less of the company's time during transactions. Second, several researchers argue that loyal customers are willing to spread positive word of mouth (Ganesh et al., 2000; Bridson et al., 2008) and act as enthusiastic advocates for the organization (Harris and Goode, 2004). This will lead to decrease costs of attracting new customers, and will ensure a steady stream of future customers. Third, it is believed that loyal customer is less price sensitive than new ones (Boora and Singh, 2011; Siddiqi, 2011). Fourth, many studies revealed that loyal customers are willing to spend more, when committed to specific brand/ company (Dowling and Uncles, 1997; Ganesh et al., 2000). Reichheld (2006) also states that companies with the highest customer loyalty typically grew revenues at more than twice the rate of their competitors, which can be done either by increasing purchase and usage levels or by increasing the range of products bought (Siddiqi, 2011). Hence, if relationship costs are minimized and relationship revenue is maximized over time, long-term customers should generate greater profitability than short-term customers. Given this evidences, it is no wonder that companies are rushing to implement retention and loyalty programs.

### **3. Research Model**

This study examines the relationship between internal marketing, customer loyalty and business performance with respect to the commercial banks in Egypt. The expected relationships between the research variables are outlined in the model shown in Figure1.

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Figure 1: Research Model



First, the model postulates that there is a positive relationship between internal marketing mix and customer loyalty. This is consistent with the internal marketing literature. According to Joseph (1996) the customer's experience with the service providing personnel heavily influences customer satisfaction; this is due to the nature of service itself, as it can't be separated from its provider. During the service delivery process, customer satisfaction levels are revealed through critical marketing events such as "moment of truth" and "first encounter" (Joseph, 1996). Employees shape these moments of truth, not only by the tasks they perform, but also by the way they look, act, talk, and interact with the customer, with other customers, and with fellow workers. Thus, the frontline employees play a pivotal role in delivering service that is consistent and of high quality; especially when several firms can provide a similar technical quality, managing the interaction processes becomes imperative and the employee role becomes more critical in determining the perceived quality by the customer and consequently his/her satisfaction (George, 1990; Gronroos, 1994; Barnes et al., 2004). Therefore, employees' behavior must be carefully orchestrated and managed (Joseph, 1996).

Internal marketing works on providing employees with adequate knowledge and training in order to enable them to provide the required service, which will improve the perception of the customers regarding the quality of service provided, and in turn, these customers will initiate positive word of mouth advertising as they communicate with family and friends, and these people, in turn, communicate with their family and friends, and so on (Cooper and Cronin, 2000). Moreover, internal marketing provides employees with the specialized skills and sensitivity to customer needs which is required to enable them to act in a customer oriented way. Also, it provides employees with a holistic view of the service strategy and with an understanding of the role of each individual in relation to other individuals and the various functions within the firm (Conduit and Mavondo, 2001). Thus, advertising and public relations messages intended to improve the image of the organization will be reinforced rather than negated by the employees' behavior. The message in the external marketing campaign will be more believable, because it will not conflict with the community's actual

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experiences when they come in contact with staff (Cooper and Cronin, 2000). Moreover, Piercy and Morgan (1991) assert that the importance of internal marketing to external marketing programs stems from its ability to promote and position the external marketing plans and strategies in the internal marketplace and its ability to tackle the problem of employees resistance to the changes required for implementing the marketing plans and strategies (Piercy and Morgan, 1991; Rafiq and Ahmed, 1993). Internal marketing works on changing the attitudes and behavior of employees and managers who are working at the key interfaces with customers and distributors, to those required to make marketing plans work profitably.

Many studies have empirically proven the ability of internal marketing to affect the employees' behavior and enhance the service provided by the employee, which is an important prerequisite for customer satisfaction (Eshghi et al., 2007; Deng et al., 2010; Siddiqi, 2011) and consequently customer loyalty (Ganesh et al., 2000; Ball et al., 2004; Beerli et al., 2004; Harris and Goode, 2004). Arnett et al., (2002) investigated how hotels can use internal marketing to encourage their employees to develop a sense of satisfaction and pride of their jobs. The study found that successful internal marketing practices can enhance both job satisfaction and pride in the organization, which result in an increase in positive employee behavior; this is because when individuals are satisfied with their jobs, they feel more responsible and committed to the organization. Similarly, Bennett and Barkensjo (2005) showed in their study of the volunteers of the national UK charities that there is a positive and significant connection between the introduction of an internal marketing program and subsequent improvements in volunteers' satisfaction and commitment. Farzad et al., (2008) also found that internal marketing has a positive impact on organizational commitment of the Iranian state owned banks employees. Furthermore, Nittala and Kameswari (2009) found that there is a positive relationship between internal marketing, job motivation, and job satisfaction of employees in the retail stores in India. Moreover, in her study of the role of internal marketing in supporting the competitive position of the five star hotels in Cairo, Seliman (2000) showed that there is a positive relation between IM and the competitive position of the organization. Seliman found that internal marketing practices can increase the employees' job satisfaction and enhance the customer perceived quality, which consequently improves the competitive position of the organization. Bansal et al., (2001) proposed a model that relates internal marketing practices to external customer satisfaction and loyalty, mediated by internal customer attitude leading to extra role behavior directed at external customers. Supporting results were obtained by Tansuhaj et al., (1987), as they found that internal marketing leads to enhancing customer satisfaction in the banking sector. In addition, in his study of the effect of internal marketing implementation on the customer loyalty in the health care centers of Egyptian universities, Hussien (2005) showed that there is a positive relationship between internal marketing and customer loyalty.

Also, the model postulates that customer loyalty is positively related to the bank performance. According to Reichheld and Sasser (1990), a 5% improvement in customer retention can cause an increase in profitability between 25% and 85% (in terms of net present value) depending upon the industry. Moreover, Fornell and Wernerfelt (1987) have noted that the relative costs of customer retention are substantially less than those of acquisition. Furthermore, Uncle et al., (2003) have demonstrated many benefits for loyalty

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programs developed by companies for enhancing organization profitability, for example, it leads to decrease customer price sensitivity, increase brand loyalty, reduce the willingness to consider alternative brands, encourage word-of-mouth support, and increase revenues through increasing the amount and range of products bought.

From the discussion above it is possible to put forward two broad hypotheses:

**H1:** The more the internal marketing adoption by the bank's management, the higher the loyalty of its customers.

**H2:** The higher the loyalty of the bank's customers, the better the performance of such bank will be.

### 4. Methodology

Construct measures were based on extensive review of the literature on human resource practices, internal marketing, bank performance, and customer loyalty. A total of 72 items were generated for measuring the 11 components of the internal marketing. 3 items were used to measure the bank performance and 10 items were adapted to measure customer loyalty.

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**Table 1: Research Variables and their Corresponding Measurements**

Constructs	Source	No. of Items
Marketing-like approach	Ahmed et al., (2003)	10 items were used to measure this variable.
Customer orientation	Narver and Slater (1990)	6 items were used to measure this variable.
Strategic reward	Ahmed et al., (2003)	4 items were used to measure this variable.
Senior leadership	Ahmed et al., (2003)	3 items were used to measure this variable.
Internal communications	Ahmed et al., (2003)	7 items were used to measure this variable.
Vision awareness	Foreman and Money (1995)	4 items were used to measure this variable.
Employee training and development	Foreman and Money (1995) and Ahmed et al., (2003).	9 items were used to measure this variable.
Management commitment to service quality	Seliman (2000) and Che Ha et al., (2007).	7 items were used to measure this variable.
Inter-functional coordination	Narver and Slater (1990) and Ahmed et al., (2003).	5 items were used to measure this variable.
Empowerment	Ahmed et al., (2003) and Che Ha et al., (2007).	8 items were used to measure this variable.
Employee motivation	Linder (1998)	9 items were used to measure this variable.
Bank performance	Mahrous (1998), Elbolok (2008) and Almazari (2011)	3 items were used to measure this variable.
Customer loyalty	Gremler and Brown (1996)	10 items were used to measure this variable.

In order to achieve the research objectives, two questionnaires were designed in order to collect the required data for testing the research hypotheses. The first questionnaire targeted the management of the bank in order to measure the degree of the internal marketing adoption by the bank's management and measure its performance. The second questionnaire targeted the customers in order to measure the degree of their loyalty to the bank they are dealing with.

The data collection process was conducted in two successive phases. The first phase involves collecting data from all commercial banks operating in Egypt which include 3 public banks, 26 private and joint venture banks and 7 foreign banks. A questionnaire was sent to the marketing manager and HR manager of each bank; because they are mostly the responsible for implementing the internal marketing strategy.

Accompanied with a well-designed covering letter, the questionnaire is divided into 2 sections. Section (A) is concerned with measuring the internal marketing dimensions. For each dimension, items are measured on a seven-point Likert scale, with 1 for "not at all" and 7 for "to a very great extent". Section (B) of the questionnaire is meant to test the performance of the bank. For each measure, a seven-point Likert scale ranges from "decreased more than 3%" to "increased more than 3%" was used. The questionnaire was

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developed and distributed in English, no translation was involved. This is because the respondents here represent the top management of the banks, and one of their job requirements is to be professionals in English. So, no translation was needed. After 3 months, and due to several excuses, data was collected only from 27 banks (3 public owned banks, 21 private and joint venture banks and 3 foreign banks) out of 36 banks, with response rate of 75% (27/36) and with a total of 53 valid questionnaires.

After the completion of the first phase, the researcher began the second phase of data collection process, which is collecting data from customers of the commercial banks in Egypt. Due to the security and privacy reasons, it was difficult to obtain a sampling frame from the banks. Using statistical tables the sample size was determined to be 384 units. The sample units were equally divided on all the banks in the sample. Fifteen sample units (384/27) were derived from the customers of each bank. Due to time and cost constraints, only one branch was selected to represent each of the 27 banks. The branches were selected in a way as to represent all the greater Cairo districts. Fifteen sample units were derived for each branch. The sample units were selected depending on systematic sample, where the interviewer selects the first customer entering the bank branch, and then the rest of the sample units are selected based on regular intervals (e.g. every 5<sup>th</sup> customer entering the bank).

Personal interviews using questionnaire was the main method for collecting data from customers. Accompanied with a well-designed covering letter, the questionnaire is divided into 2 parts. The first part is concerned with measuring customer loyalty. Five-point Likert scale ranges from “strongly agree” to “strongly disagree” was used. The second part asks the participants to self-report their demographics: age, gender, level of income, and years of experience with their bank. The questionnaire was originally designed in English, and then was translated into Arabic language. This is because many of the customers, even though quite wealthy and educated, may not be fully proficient with written English. After 3 months of work, the researcher was able collect 384 valid questionnaires (40 from the customers of the public owned banks, 304 from the customers of the private and joint venture banks, and 40 from the customers of the foreign owned banks).

## **5. Results**

For measurement validation, conventional methods, namely coefficient alpha, item-to-total correlations, and uni-dimensionality factor analysis, were used. The Cronbach alpha coefficient for all the variables (IM mix and customer loyalty) ranged between 0.792 and 0.949 and item-total correlations were between 0.415 and 0.932. This means that each variable has high level of internal consistency and the questionnaires are considered reliable and can be used in practice.

After all variables were submitted for factor analysis, results showed that the components of all the variables explain more than 50% of the total variance for each variable with eigenvalues greater than one (see Table 2). Therefore, the construct validity is considered acceptable and all variables and items were retained for further analysis.

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**Table 2: Descriptive Analysis of IM Mix and Customer Loyalty**

Constructs	Mean	Standard Deviation	Cronbach's Coefficient Alpha	%of Variance
<b>Internal Marketing Mix:</b>	<b>5.42</b>	-	-	-
Customer orientation	6.2547	0.57975	0.820	53.21%
Strategic reward	5.7547	0.86114	0.878	73.44%
Senior leadership	5.4780	1.08113	0.903	83.85%
Internal communications	5.5633	0.88348	0.918	67.32%
Vision awareness	5.6792	0.99805	0.920	80.79%
Employee training and development	5.7023	0.81962	0.933	65.34%
Management commitment to service quality	6.0081	0.66205	0.834	54.08%
Inter-functional coordination	4.9849	1.10860	0.924	77.01%
Empowerment	4.9717	1.05744	0.939	70.80%
Employee motivation	5.1614	0.93816	0.913	60.03%
Marketing-like approach:				
a. Marketing philosophy	4.1415	0.86627	0.796	55.23%
b. Application of marketing tools	5.4340	1.10574	0.892	70.15%
<b>Customer loyalty</b>	<b>4.0221</b>	<b>1.11020</b>	<b>0.949</b>	<b>6.886%</b>

The previous table shows that the grand mean of internal marketing dimensions is 5.42, which means that the internal marketing strategy is adopted, to a fairly great extent, by the different managements of the commercial banks operating in Egypt. The most applicable dimensions of internal marketing within the commercial banks are customer orientation, management commitment to service quality and employee training and development. While the least applicable internal marketing dimensions are inter-functional coordination, empowerment and the marketing-like approach (Marketing philosophy and application of marketing tools). Furthermore, the grand mean of customer loyalty items is 4.02, which indicates that the level of customer loyalty is above the average.

### ***The effect of internal marketing mix elements on customer loyalty***

*H1* predicts that there is linear relationship between the IM mix elements and customer loyalty. The results in table 3 for this regression model shows that 99.2 per cent of the observed variability in customer loyalty is explained by only five elements of the internal marketing mix (independent variables) namely, marketing philosophy, employee motivation, empowerment, management commitment to service quality, and employee training and development ( $R^2 = 0.992$ ). Also, the value of the *F* ratio 541.565 ( $p = .001$ ) indicates that it is safe to accept *H1*, that there is significant linear relationship between IM mix elements and customer loyalty.

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**Table 3: Regression of Customer Loyalty on IM Mix**

No.	Independent Variables	Estimated Coefficients	VIF	T-test		F-test		R <sup>2</sup> %
				Value	Sig.	Value	Sig.	
	<b>Constant</b>	0.159	--	0.874	0.392	541.565	.001	0.992
1	Marketing philosophy	0.200	5.521	8.828	0.001			
2	Employee motivation	0.070	4.139	3.730	0.001			
3	Empowerment	0.116	2.038	7.779	0.001			
4	Management commitment to service quality	0.185	4.083	7.813	0.001			
5	Employee training and development	0.150	6.029	4.853	0.001			

### ***The effect of customer loyalty on bank performance***

*H2* predicts that there is linear relationship between customer loyalty and bank performance. The results in table 4 for this regression model shows that 92 per cent of the observed variability in bank performance is explained by only two elements of the customer loyalty (independent variables) namely, cognitive loyalty and attitudinal loyalty ( $R^2 = 0.920$ ). Also, the value of the *F* ratio 138.390 ( $p = .001$ ) indicates that it is safe to accept *H2*, that there is significant linear relationship between customer loyalty and bank performance.

**Table 4: Regression of Bank Performance on Customer Loyalty**

No.	Independent Variables	Estimated Coefficient	VIF	T-test		F-test		R <sup>2</sup> %
				Value	Sig.	Value	Sig.	
	<b>Constant</b>	2.568	--	7.092	0.001	138.390	.001	.920
1	Cognitive loyalty	0.418	1.009	15.164	0.001			
2	Attitudinal loyalty	0.423	1.009	5.351	0.001			

## **6. Discussion and Conclusion**

This study will add to the body of knowledge by showing how internal marketing concept is applied in Egypt. The findings indicate that the questionnaires identified to measure internal marketing and customer loyalty exhibit acceptable psychometric properties in terms of both reliability and validity. The results confirm the hypothesized relationships in the research

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model. Internal marketing has a significant effect on the bank performance via customer loyalty. These findings are consistent with the popular “service profit chain” concept, which proposes that key driver of organization performance is employee attributes, such as employee loyalty. Service employees who are satisfied and loyal to their employing organizations will be committed to delivering services with higher levels of quality to customers. The study is also consistent with results obtained by Ahmed et al., (2003), Hawng and Chi (2005) and Che Ha et al., (2007), that there is a positive relationship between internal marketing and business performance. Therefore, Managers and policy-makers in the banks need to open their minds to new ideas such as internal marketing and marketing-like approach and apply these concepts in a more focused and thorough manner. Managers can increase employee’s satisfaction for his job by designing jobs with features that appeal to the employees rather than just concentrating on the task requirements of the job. Management must consider the organization as its first market, and depend on the marketing tools along with the human resources practices to identify and satisfy the needs of its internal customers. For example, market research can be used to find out the employees’ needs and wants, whereas market segmentation can be used to identify employees who have the similar characteristics that foster or reduce their motivation or resistance. The phrase “them and us” must be changed to “treat employees by the way you want them to treat customers”. Management must also conduct regular improvements in the work environment and depend on the latest technology in order to improve the performance; also management must take into consideration the requirements of different groups of employees in setting up our workplace. It is also of high importance that all the departments of the organization to be connected to each other via internal network. This can facilitate the flow of information between departments, and help to build trust and thereby reduce the areas of inter-functional conflict.

Furthermore, managers need to adopt a participative management style and allow a degree of discretion to frontline employees, so that they can meet customers’ expectations and take advantage of interactive marketing opportunities. At the same time, appropriate recruitment procedures and training are necessary to ensure that the frontline employees have the requisite personal characteristics and skills to cope with empowerment, as not all employees can cope with the extra responsibilities associated with empowerment. Moreover, it is vital for organizations to invest in training and employees development. However, it is surprising, that so many organizations fail to provide their members with sufficient training, or if they do offer training programs, these are often available only when the company is profitable and these programs are cut back or eliminated when times are lean. This philosophy is misguided; during times of economic prosperity, employees are the busiest and have little time for training, whereas during economic downturns, employees need to be encouraged to enrich their skills and help pull the organization out of its slump (Bansal et al., 2001). Therefore, “training and education” is recommended to be continuous process with no end for both managers and employees.

In order to increase the rate of customer retention, organizations must understand that the “bonding” that frequently occurs in customer-service provider employee relationships, can have a significant effect on the level of customer loyalty. Therefore, managers might consider ways they might facilitate the development of interpersonal bonds, including encouraging the development of friendships between customer-contact employees and

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customers, reducing employee turnover so that familiarity with customers can be developed, and (whenever practical) encouraging self-disclosure by both customers and employees. Selective employee recruitment and proper training of personnel may also help to strengthen the interpersonal relationships an organization can have with its customers.

This study has several limitations. First, Due to time and cost constraints, data collection took place inside greater Cairo only to represent the Egyptian banking customer. Second, the study only includes the retail bank customers. Third, Other variables more than those included in this study may influence customer decision-making process in retail banking industry, such as price, convenience, interest rates....etc.

This study provides a number of directions for future research. Work can focus on replicating the study in other service contexts such as hotels, hospitals...etc. Additional knowledge of IM practices can be gained from the different industries. It is also important to investigate other factors that might have effect on enhancing customer loyalty. The applicability of the internal marketing practices in the public sector or the non-profit organizations in Egypt could be an interesting area of study. Also, future research should focus on investigating the role of internal marketing on enhancing the competitive position and increasing the market share of the bank.

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