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The Effect of Internal Marketing on Organizational Commitment in Iranian Banks

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Abstract: The purpose of this research is to investigate the effects of internal marketing criteria on organizational commitment of employees among Iranian state-owned banks. Internal marketing 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 which is growing recognition with the increasing competition and commoditization of products and services. The main criteria of internal marketing were derived from the literature, provided the backbone for the study. A questionnaire survey of managers established that "inter-functional coordination and integration", training and motivation have positive effects on organizational commitment of employees. Therefore if the state-owned banks want to ultimately provide a better service experience for their customers; it is recommended that more attention be directed toward enhancing organizational commitment among personnel, with a focus on the effective criteria of internal marketing. Due to the lack of similar experience, the research findings help managers in state-owned banks network to adopt proper policies in this direction.

Keywords: Internal marketing, organizational commitment, bank, employee, manager

INTRODUCTION

The shift toward recognizing the importance of human capital in the industrial age has led companies to change their paradigms about people management. Successful companies no longer see employees as a resource whose primary function is to provide goods and services. Instead employees are seen as critical to the capability of service organizations.

Internal marketing is treating both employees and customers with equal importance through proactive programs in order to achieve organizational objectives[1]. Payne suggests that the key aims of internal marketing are the development of internal and external customer awareness and the removal of functional barriers to achieving organizational effectiveness[2]. Lack of commitment from employees can be harmful to an organization, resulting in poorer performance arising from inferior service offerings and higher costs[3]. The resultant positive effect of internal marketing will mean that employees will input maximum rather than minimum effort, thereby better satisfying the needs and wants of external customers[4-7]. Hogg has suggested that internal marketing could be the answer to gaining employee commitment, succeeding where traditional internal communications programs have failed[8]. Internal marketing (IM) is a pre-requisite for effective external marketing and over its relatively short history has developed along three streams of thinking[9]. The early approaches were suggested by Berry in the 1970s[4]. Berry approached IM from a traditional marketing view, focusing primarily on 4Ps. He posited that employee could be considered as internal customer and the job could be seen as the firm's products. He developed traditional marketing models and approaches that were based on the idea of making the worker's job attractive and desirable in the belief that employee satisfaction would lead to customer satisfaction which would, in turn, build more customer loyalty. Consequently, attraction of the best personnel, their retention and motivation becomes of critical importance[7-10].

In the 1980s, Gronroos introduced a new approach to IM[11-12]. In this view, it is not sufficient that employees are motivated to perform better but they must also be sales minded. Thus, the employees facing customer were key to the firm's success. Each employee should be trained as a marketer to do add-on, cross-selling and the like along with customer retention

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skills that would enable the building of ongoing customer relationships. The company should adopt a framework similar to that of its external marketing and by applying marketing-like activities internally, stimulate service awareness and customer oriented behavior among personnel. The critical difference between Gronroos' approach and that of Berry is that Gronroos focuses attention on creating customer orientation in employees through a process of influencing, rather than satisfying and motivating employees[9].

In the 1990s Rafiq and Ahmed developed a hybrid approach to IM[13-14]. In their approach, they proposed that internal marketing was inherently difficult to implement because of inter-functional conflicts between departments, management and employees and the firm's inherent resistance to change[9]. Finally in 2000 Rafiq and Ahmed[15] proposed the following definition for internal marketing: Internal marketing 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 and customer orientated employees. In fact the employees need the right type and level of training to perform their jobs. This can help to reduce ambiguity surrounding their role and help employees to meet the needs of customers more effectively[15-16]. In spite of these well researched streams of thought, practicing managers still find internal marketing to be a most difficult task[9].

The purpose of this research is to investigate the effects of internal marketing criteria on organizational commitment of employees. The main criteria of internal marketing, postulated by Rafiq and Ahmed[15] provided the backbone for our internal marketing construct. Due to lack of similar experience the researchers tried to perform this research and complement previous studies in this field.

Internal marketing was hot in the 1980s but seemingly disappeared in the 'go-go' days of the internet bubble of the 1990s[9]. Clearly, it is the growing recognition of both scholars and professionals with the increasing commoditization of products and services, where differentiators are commonly short-lived or even non-existent. Ongoing customer relationships with the brand and the organization may well be the only way for the firm to build long-term, sustainable competitive advantage[17]. In addition, the continuing failure of techno-driven customer relationship management (CRM) approaches reinforces that view[18].

Today the Iranian financial sector has been experiencing privatization, increasing competition, technological innovation and customization. There is no doubt that dominance of state-owned banks relative to competitors, forms through application of modern methods of internal and external marketing. A sustainable differential competitive advantages starts with an increased focus on internal marketing and turning employees into the firm's supporters, advocates and customer-service providers. Despite many efforts for external marketing, there is little consideration of internal marketing in Iranian organizations because historically employee relations have been regarded as a second order strategy, purely facilitative and not fully integrated into overall business strategy; hence research about internal marketing is severely needed.

The most popular definition of organizational commitment used in the relevant literature is the three-component model of organization commitment namely affective, normative and continuance commitment. The understanding of affective commitment can include identification with, and involvement in the organization (psychological attachment). Employees with strong affective commitment remain with the company because they see their goals and values to be congruent with that of the organization.

Continuance commitment includes the cost awareness when leaving the organization. Employees with strong continuance commitment remain in the company because they need to do so. McGee and Somers suggest that continuance commitment is sub-divided into high sacrifice commitment (personal sacrifice associated with leaving) and low alternative commitment[19-20].

Normative commitment reflects a feeling of obligation to the company. Strong commitment in this situation is where employees feel they ought to remain with the company based on a sense of duty, loyalty or moral obligation[21]. Meyer et al found that affective, normative and continuance commitments were distinguishable, but affective and normative commitments appear to be related[22].

Research shows that employees who are more committed demonstrate higher job performance, less job displeasure, more ethical behavior, diminished intent to leave, less stress and organizational citizenship[23]. Furthermore they perceive the value of organizational goals and think of their goals and those of the organizations in personal terms, thereby a lot of cost efficiencies accrue from committed employees. The relationship of internal marketing is most significant with the affective dimension of organizational commitment[3]. Also Shore and Barksdale found that both managers and employees viewed affective commitment as positive and continuance commitment as negative[24]. In this study an integrated perspective of affective, normative and continuance organizational commitment has been considered.

MATERIALS AND METHODS

In order to investigate the effects of internal marketing criteria on organizational commitment of employees and also the importance of these criteria, the following research question has been proposed:
What are the effects of internal marketing criteria on organizational commitment among employees?
Also related to this, a set of hypotheses have been formulated that link the criteria of internal marketing to organizational commitment as follows:

H1: Inter functional coordination and integration has a positive effect on organizational commitment
H2: Training has a positive effect on organizational commitment
H3: Motivation has a positive effect on organizational commitment
H4: Understanding and differentiation has a positive effect on organizational commitment
H5: Job satisfaction has a positive effect on organizational commitment

The research is conducted among managers in state-owned banks situated in the city of Isfahan, Iran. There are some 533 branches of state-owned banks in Isfahan. Data was gathered by means of a questionnaire survey from 128 managers who rated self completion questions on the basis of their perception.

The questionnaire which has been used in this research consists of general and specific questions. The questionnaires were originally designed in Persian language. A pilot test of the questionnaire with 30 questionnaires was carried out. Furthermore, several experts with knowledge of banking and marketing also test the questionnaire. To reduce non-response rate the questionnaire was accompanied with a letter to describe that what purpose the survey was conducted. All of these actions were taken to help increasing the response rate.

By using validity, reliability and pilot test, we further analyzed the data that respondents provided us in more accurate. In order to recognize the validity and reliability of the data, principal component factor analysis was performed and Cronbach's coefficient alpha for each criterion has been calculated.

Multiple regression allows researchers to examine the effect of many different factors on some outcome at the same time. In this research in order to test the mentioned hypotheses, all of the items that make up each of the internal marketing criterion, including motivation, understanding and differentiation, job satisfaction, training, inter-functional integration and coordination have been summed up and then a multiple regression has been run with these as independent variables and organizational commitment as the dependent variable.

RESULTS AND DISCUSSION

A total number of 118 fully completed questionnaires were used. The response rate of this survey is %92 which was desirable and higher than corresponded research in social science. The initial analysis using SPSS consisted of descriptive statistics in terms of means and standard deviation for each item. For investigating the internal consistency of the questionnaire, the most common index of reliability, namely Cronbach's coefficient alpha for each criteria of internal marketing was computed. The result of alphas that exceeded the threshold of 0.7 has been listed in Table 1. According to Sekaran[25] scores in the range of 0.8 are considered good providing support for the reliability of the questionnaire.

The construct validation of the questionnaire was confirmed by principal component factor analysis. A factor analysis using SPSS was first performed on 75 questionnaire items to test the factor loading of different criteria in the questionnaire. Principal component factor analysis was performed with 8 iterations. The Varimax (with Kaiser Normalization) rotation was applied. Rotated factor loadings were examined and variables having value above 0.30 were considered valid for the final analysis[26-27]. The rotated component matrix has been appeared in Table 2.

Regression analysis was conducted by using SPSS in order to examine the effect of internal marketing criteria on organizational commitment at the same time. The ANOVA (Analysis of variance) in Table 3 has been used to check how well the model fits the data.

Table 1: Cronbach's coefficient alpha of internal marketing criteria

Internal Marketing Criteria	Cronbach's Coefficient Alpha
Understanding and Differentiation	0.8433
Motivation	0.8697
Job satisfaction	0.8721
Training	0.8274
Inter-functional Coordination and Integration	0.8545

Table 2: Rotated component matrix for internal marketing criteria

Questions	Component				
	1	2	3	4	5
Job Satisfaction					
Cleanliness and decoration of bank	0.834				
Great number of branches			0.430		
Up to date services		0.911			
Cooperation of bank in social welfare				-0.437	
Security and variation of services				0.431	
Lower bureaucracy in offering the operations			-0.344		
Stability in service delivery methods		0.828			
Understanding and differentiation					
Adequate number of employees	0.888				
Offering service according to employees preferences	0.834				
Equity of salaries and fringe benefits	0.878				
Involving of employees in decision making			-0.311		
Friendly contacts with personnel					0.332
Gratitude of the personnel’s attempts			0.655		
Offering service to employees based on education			-0.344		
Offering service to employees based on experience		0.828			
Reception and attention to criticisms and suggestions employees	0.888				
Training					
Comprehensive employee training	0.834				
Capable and experienced instructor	0.430				
Inter functional coordination					
Rapid and synchronized flow of information	0.911				
Adoption between structure and strategy	-0.437				
Motivation					
Job security	0.723				
Sense of job importance		0.820			
Task variation			0.392		
Freedom in job				0.373	
Clarity of tasks			0.412		
Inform employees their performance results	0.325				
Suitable insurance facilities	0.811				
On time salaries and benefits payment			0.443		
Equity of salaries and fringe benefits	0.878				
Involving of employees in decision making			-0.311		
Friendly contacts with personnel					0.332
Gratitude of the personnel’s attempts			0.655		
Coordination between personal life and job			0.344		0.393
Considering employees as the main asset			0.443		
Clear advancement path		0.561			
Responsibility of a similar purpose activities				0.351	
Challenging work					0.379
Arranging junket				0.393	
Sport facilities					0.625

Table 3: Model summery and ANOVA

Sig	F	Mean Squares	DF	Sum of Squares	Model
0	215.479	73.20 0.340	1 117 118	730.20 105.31 178.51	Regression 1/ Residual ‹ Total
0	130.882	40.434 0.313	2 116 118	81.86 96.64 51/178	Regression 2/ Residual Total

Note: 1/: Predictors (constant): motivation, understanding and differentiation, Dependent variable: organizational commitment 2/: Predictors (constant): Training, Inter-functional coordination and integration, Job satisfaction Dependent variable: organizational commitment

Specifically the F ratio represents the ratio of improvement in prediction that results from fitting the model (labeled Regression in the table) relative to the inaccuracy that still exists in the model (labeled residual in the table. Here the F-ratio is highly significant. This result means that the final model significantly improves our ability to predict the outcome variable.

The Sig. column on the table 4 presents the statistical significance of that variable given all the other variables have been entered into the model. For this reason, the Sig. column has been checked for values below approximately 0.05 levels in table. Three out of five constructs including inter-functional coordination and integration, training and motivation

Table 4: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	4.893	3.084		1.587	0.012
Inter-functional	-0.335	0.360	-0.098	-1.935	0.035
Training	-0.547	0.638	-0.093	-1.852	0.039
Motivation	0.233	0.336	0.065	1.691	0.049
Understanding	0.106	0.309	0.032	1.343	0.073
Job Satisfaction	-0.123	0.379	-0.031	-1.325	0.075

Note: a: Dependent variable: commitment

meet this standard and they are significant predictors. Also the standardized coefficients in the B column have been used to assess the effect of each predictor. According to table 4 the findings provide support for the 3 hypothesis. In significance level less than 5% we can state with 95% confidence that training, "inter-functional coordination and integration" and motivation have positive effects on organizational commitment. The effects of these criteria on organizational commitment of employees proposed by the hypotheses are observed in our data. Also the findings fail to support the 2 hypotheses including understanding and differentiation and job satisfaction. We fail to observe the effect proposed by the hypotheses in significance level less than 0.05.

The higher the absolute value of Beta, the more important is the variable in predicting the organizational commitment. In this case the most important predictors are inter-functional coordination and integration (Beta = 0.098) training (Beta = 0.093) and motivation (Beta = 0.065) among all other criteria.

The results revealed that managers believe that inter functional coordination and integration has the first priority and then respectively training and motivation, therefore they are more important. Understanding and differentiation and job satisfaction have the lowest ranks, therefore they are less important for the enhancement of organizational commitment among state-owned banks in Isfahan. It is important to note that inter-functional coordination and integration is the most important criterion. Respondents believe that high levels of inter functional coordination and integration were associated with more organizational commitment thereby superior organizational performance and better service quality.

Integration is defined as the extent to which distinct and interdependent organizational components constitute a unified whole. Inter functional coordination refers to having cohesive relations between the various business areas of a firm[28]. Organizational structure plays a critical role because it determines the power of people in organizations and their perceptions of their roles. Good inter-functional coordination acts as a binding ingredient in the implementation of a successful marketing strategy. Inter-functional coordination facilitates the dissemination of information generated about the market throughout the organization such that the entire organization is well informed about the market[29].

In order to achieve inter-functional coordination, the state-owned banks need coherent and consistent management of internal systems. Internal systems include relationships between and within departments. Manager should be aware that their attempts to facilitate inter-functional coordination will succeed or fail on the effectiveness of the internal communications.

The state-owned banks should conduct regular internal training sessions on all their services. The important thing is to have very best presenter do the training. Too often, internal training is relegated to either a department head or the most technically astute employee. An energetic, likable, enthusiastic instructor will help capture the attention of others, and generate excitement about the service. Indeed increasing employee training and awareness of their marketing role and appropriate behaviors among state-owned banks in Isfahan is beneficial.

Another important criterion is motivation. In fact when motivation rises, productivity is increased, staff turnover and absenteeism are reduced, teamwork can be better, there is less resistance to change. It should be noted that no internal training policy can produce positive results unless it is integrated with motivating management methods, personnel policy, and planning and control procedures[30].

According to Table 5 and 6 the result of one-way ANOVA test indicated that there were no significant differences between managers' attitudes and their educational level; instead there are significant differences between their attitudes and their experience, regarding the effect of internal marketing criteria on organizational commitment of employees. Thereafter in order to figure out where the differences between managers' attitudes lay, Tukey test has been performed.

Table 5: One-Way ANOVA results for differences based on educational level

F	P	Internal marketing criteria
1.171	0.324	Understanding and differentiation
1.248	0.296	Motivation
0.484	0.694	Job satisfaction
0.164	0.92	Training
0.411	0.745	Inter functional coordination and integration

Table 6: One-Way ANOVA results for differences based on their experience

F	P	Internal marketing criteria
2.822	0.028	Understanding and differentiation
2.22	0.071	Motivation
1.486	0.211	Job satisfaction
0.868	0.486	Training
0.616	0.652	Inter functional coordination and integration

The Tukey test revealed that concerning understanding and differentiation, mean of managers' attitude whose experience is less than 10 years has significant difference at the level of $p<0.05$ compared to managers whose experience is more than 10 years. In this manner managers whose experience is more than 10 years emphasized to service offering according to preferences, experience, age and skill of employees but managers whose experience is less than 10 years emphasized to prioritize employees based on value creation capabilities of employees in organization, service offering based on employees' education, on time service offering to employees and estimating employees' needs. Also managers whose experience is 16 to 20 years emphasized to creating and retaining close relationships with employees as well as estimating their needs and finally managers whose experiences is more than 20 years emphasized to dividing employees in team works in order to enhance organizational commitment of employees.

CONCLUSION

This study shows the importance of internal marketing criteria and their influence on organizational commitment in Iranian financial service arena. The research highlighted the effect of inter-functional coordination and integration, training and motivation on organizational commitment. Through recognition of effective criteria of internal marketing on organizational commitment managers in state-owned banks can adopt proper policies, allocate their resources more efficiently and perform their strategies as well as proper marketing plans more successfully.

This research has focused on state-owned banks in Isfahan and generalization of the research findings to other banks in Iran, requires further research. It is useful to replicate this research in other contexts. It is also suggested that future researchers investigate other factors that might have effect on enhancing organizational commitment of employees in state-owned banks and comparing state-owned banks with private banks and overseas banks on the basis of internal marketing criteria and also establishing an internal marketing program for state-owned banks.

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