The Impact of Internal Marketing on Customer Orientation in the Banking Industry

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The connectivity between internal marketing and customer orientation especially in a banking industry cannot be over emphasized. The unsatisfactory output of some banks' employees cannot be divergent from the input of the affected banks. The present paper explores neglect of customer orientation often displayed by many Nigerian banks' employees with a view to analysing its impact on internal marketing practices of those banks. In other words, this paper therefore seeks to determine the relationship between internal marketing and customer orientation. Relevant data were gathered from Banks' Frontline Employees and the Management Staff from four (4) branches of the existing banks in major business areas in Lagos State, South-West Nigeria. These areas include Victoria Island, Ikeja, Ikoyi, Apapa, Idumota, Yaba, Isolo/Oshodi and such other business areas. Meanwhile, the paper computed the required sample size for the two groups of population using the Yamane's (1968) sample size determination method leading to an estimate of sample sizes 341 and 253 from the frontline employees and management staff of the banks respectively. The data obtained are subjected to statistical analysis using Partial Least Square–Structural Equation Modelling (PLS-SEM). The PLS-SEM which is an alternative technique for covariance based SEM is confirmatory statistical analysis software adopted to analyse the relationship between the internal marketing and customer orientation. The outcome of this paper reveals that internal marketing has a statistically and practically significant effect on customer orientation which therefore suggests that internal marketing has great impact on customer orientation. The contribution of this paper to the body of knowledge and research is that more than ever before the bank management should take into cognizance the roles played by employees thereby putting all effort in place to increase job satisfaction.

Keywords: Internal marketing; Customer orientation; Commercial banks; Partial Least Square

1. Introduction

The need to deliver superior value to customers or clients as the case may be has always been a major concern for managers in different industries especially in the banking industry where there is a stiff competition on daily basis (Al-alak *et al.,* 2011; Jemenez *et al.,* 2007). According to Oakley (2012) and Poujol and Tanner (2009) meeting customers' expectations is not only about delivering high quality products or services but also involves how charmingly the value is delivered to them. However, Hennig-Thurau and Thuarau (2003) opined that even though the essence of delivering high quality products or services has been to meet the latent needs of the customers while keeping them satisfied, the knowledge of employees' customer orientation who deal directly with the customers is sometimes questionable; especially where the problems of job satisfaction subsist (Pantouvakis, 2013). This, according to Zaman *et al.* (2012) may inhibit the effort of an organization toward delivering customer value.

Customer orientation, being 'employees' tendency to meet customer needs and the extent to which they enjoy doing so' as defined by Brown *et al.* (2002) has been a growing contention especially in the

banking sector in Nigeria. The issue at stake here is that with the level of internal marketing efforts on rampage by most banks in Nigeria, bank managements are concerned about their employees' customer orientation.

Furthermore, internal marketing is practically a process of engaging employees at all levels in the marketing activities of the organization so to understand their job roles within the process and deliver the roles in line with organizational goals. Since several organizations have adopted various ways to enhance internal marketing practices for promoting sustainable customer orientation among employees in organizations as revealed in the studies by Mohammadi *et al.* (2012); Shahsavani *et al.*(2012); Amangala and Amangala (2013); Vazifehdoost *et al.*(2012) as well as Rainey (2014), there have been a growing divergence in the researchers' choice of appropriate constructs to be used for addressing this research area.

Meanwhile, there have been a number of studies on the internal marketing and other constructs or variables among which are briefly mentioned in this paper. For instance, Narteh (2012) had carried out a research on internal marketing using its identified four variables (reward, internal communication, empowerment and training and development) and employees' commitment to examine employees' commitment in retail banking industry in Ghana. His findings showed that internal marketing variables (with the exception of communication showing otherwise) are positively associated with employee job commitment. Similarly, Al-Hawary, Al Quadah, Abubayeh *et al.* (2013) in their study on the impact of internal marketing on employees' job satisfaction in commercial banks in Jordan found that internal marketing had positive effect on employees' job satisfaction.

Using two variables: internal marketing and employee motivation in their research, Amangala and Wali (2013) found that there are positive and significant correlations between internal marketing and job satisfaction. In the same token, Taiwo and Kola (2013) studied the effects of internal marketing [using – motivation, job satisfaction, training, understanding and differentiation, inter-functional coordination and integration] on organizational commitment in Nigerian banking industry. Their results showed that inter-functional coordination and integration, motivation and training aspects of internal marketing had positive effects on organizational commitment among Nigerian bank employees. Nevertheless, However, Kosile and Ajala (2012) studied internal marketing and Bank performance in south western Nigeria; the result indicated that direct marketing and internal marketing are insignificant predictors of bank performance. Hence, since not many studied have been carried out about the relationship between internal marketing and customer orientation, the current paper therefore attempts to bridge this gap by conducting an empirical study on the impact of internal marketing and customer orientation.

2. Research Model

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┌─────────────────────┐          ┌──────────────────────┐
│ Internal Marketing  │─────────▶│ Customer Orientation │
└─────────────────────┘          └──────────────────────┘
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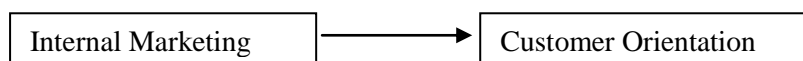
The figure above seeks to determine the effect of Internal Marketing practices on employees Customer Orientation. This is therefore first put to test by adopting Kolmogorov Smirnov Z-test to ascertain the Normality of the distribution of the data after which a method of Multiple Linear Regression Analysis is adopted. The justification for choosing this regression method was because the method is not suitable for detecting the regressability of the practices of internal marketing by bank management staff on the customer oriented behavior of frontline employees (Sukati *et al.*, 2013; Amangala and Amangala, 2013) but also because it can determine the percentage extent to which customer orientation is affected through its functional relationship with internal marketing. The below regression model was therefore formulated to explain the interaction between internal marketing and employees' customer orientation.

$$Y_i = a_i + b_i X_i + b_{ii} X_{ii} + b_{iii} X_{iii} + b_{iv} X_{iv}$$

Y_i represents Employees' Customer Orientation a_i represents the y-intercept [constant value] which explains the level of employees' customer orientation where or when internal marketing practices is zero [i.e. where no internal marketing is practiced]. X_i, X_{ii}, X_{iii}, and X_{iv} represent Internal Marketing elements – internal communication; reward and recognition; training and development; and

empowerment while b_i, b_{ii}, b_{iii}, and b_{iv} represent the determinants of internal marketing. Each of these represents the percentage effect that each internal marketing element has on the employees' customer orientation behavior.

3. Methodology and Data

The current study adopted survey research design quantitative method. The study was carried out in Lagos, Southwest geopolitical zone of Nigeria in 20 Local Government Areas and 37 Local Council Development Areas [LCDAs]. The study took into account the banks operating in the state with concentration on four branches of each of the 21 banks in major business areas within the state. By default, Lagos is the main business hub of the country and is surrounded by ocean which facilitates internationalization of businesses. It has a considerable number of high-rise buildings which dominates its skylines.

The population for this study comprises of the Banks' Frontline Employees and the Management Staff of the banks. The justification for selecting the two groups was selecting the two groups was simply because of their divergent roles. While the construct of Internal Marketing could be better studied from the point of view of banks' management staffs that are assumed to be involved in its practices; the effect of this IM practices which is geared towards a desired level of customer oriented behavior could as well be best studied from the frontline employees' perspective. In other words, the population groups for this study are the Frontline Employees of Nigerian banks as well as the Management staff. The frontline employees include the Teller/Cashiers, the Customer Service Personnel, and the Marketing Staff of the banks, while the Management Staff of the banks include only the Lower Level Managers like the Head of Customer Service, Head of Sales/Marketing, Head of Operation, Head of Cashiers/Tellers, and the likes.

The sample for the above defined population groups was determined using the Yamane's (1968) sample size determination method and formula. It states as follows:

$$n = \frac{N}{1 + N(e^2)}$$

Where N is the total population

n is the required sample size for the study

e is the tolerable error margin.

Therefore, at 95% confidence level, the sample size for the Banks' Frontline Employees was determined as thus;

$$n = \frac{2,326}{1 + 2,326(0.05^2)} = 341.3059428 \approx 341$$

In the same vein, the sample size for the Management Staff of the banks was determined as thus:

$$n = \frac{687}{1 + 687(0.05^2)} = 252.8058878 \approx 253$$

Based on the foregoing computation, the sample sizes of 341 and 253 from the frontline employees and management staff of the banks would be drawn respectively. To choose the samples of 341 and 253 frontline employees and management staff from the each of the 21 banks, the entire population of the banks was further broken into strata using the ratio of the population of each bank to the total population as the basis for the stratification. The mathematical formula below was utilized.

$$k = \frac{a}{N} \times n$$

Where k is the number of samples drawn from each bank; a is the population of each

bank's frontline employees and management staff;

   N is the overall total population of banks' frontline employees and management staff;

   n is the sample size value determined is shown above.

This method has been considered appropriate for the study simply because of its advantage of being probabilistic in its method of choosing samples. Each element or person in the population has equal chance of being chosen for the study, and it helps to reduce the chances for being biased while choosing the samples.

4. Empirical Results

The data collected numbering 221 and usable questionnaire responses were entered and coded into the statistical packages for social scientist (SPSS) version 21. Based on the result of the initial tests conducted, no value was found to be outside the expected range. Also, the data obtained was subjected to univariate outliers detection using standardized value with a cut-off of $\pm$ 3.29 (p <.001) as the recommended threshold. The outcome indicated that none of the cases was identified to have been too far away from the cluster of other variables. Besides using standardized value to detect univariate outliers, multivariate outliers were also subjected to multivariate data detection analysis using Mahalanobis distance (D^2). Mahalanobis distance measures the distance of a case from the centroid of the remaining cases where the centroid is the point created at the intersection of the mean all the variables. Based on 40 observed variables used in this study, the recommended threshold of chi-square is 72.06 (p = .001). Consequently, the Mahalanobis values that surpassed this threshold were deleted.

Sequel to the aforementioned, this current study adopted a graphical method to assess the normality of data retrieved. Given that the sample size of this study was greater than 200, it was essential to look at the shape of the distribution graphically rather than looking at the value of the skewness and Kurtosis estimates. The figure below indicated that data collected in the current study followed normal shape since all the bars on the histogram were closed to a normal curve.

Histogram
Dependent Variable: ID
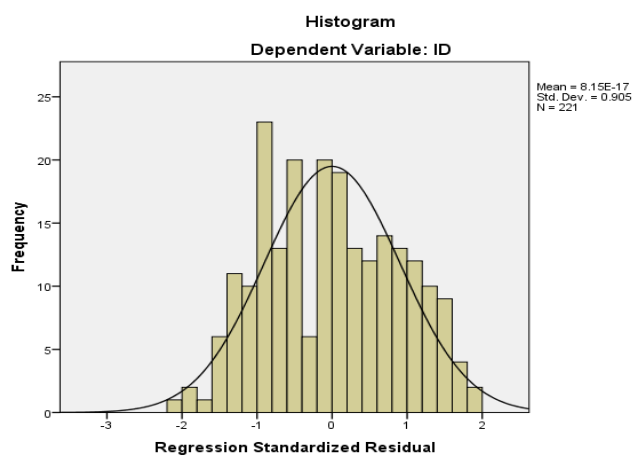
Mean = 8.15E-17
Std. Dev. = 0.905
N = 221

Figure 1: Histogram and Normal Probability Plots

Both internal marketing and customer orientation constructs were tested for both statistical and practical significance. While the former was used to assess the magnitude of the coefficient estimates obtained, the latter focused on the expected sign direction of the paths. Since in PLS-SEM, there are usually no fit indices used to assess whether or not the data fits the model, thus; the interpretation of the measurement model and structural models depend on the magnitude of paths based on PLS algorithm, while statistical significance is based on bootstrapped estimates. The figure below depicts the assessment criteria for both the measurement and structural models.

The assessment of the measurement model in this study comprised determining individual item reliability, internal consistency reliability, convergent validity, discriminant validity and content validity[1].
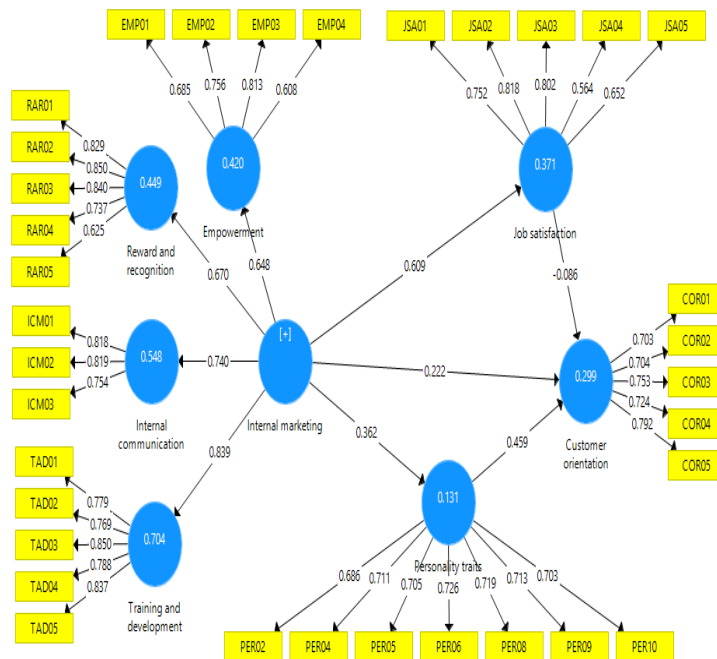
5. Summary

The result of the analysis estimated by SPSS in the form of means and standard deviations is hereby given. The mean for each of the latent variables ranged between 2.787 and 4.186. For rewards and recognition construct of the internal marketing, the mean and standard deviation are 2.787 and 0.853 respectively. The implication of this is that respondents seem to have reasonable level of perception on reward and recognition. With regards to internal communication, the mean for internal communication is 4.025 and the standard deviation is 0.537 which confirms that there is high perception about internal communication among the respondents. Besides, training and development and employee empowerment have mean scores of 3.828 and 3.285 with their standard deviations of 0.694 and 0.592 respectively. This further confirmed that respondents have moderate perception about the constructs.

The present study applied a two-step process to investigate and analyse the result of PLS-SEM path as recommended by Henseler *et al.* (2009). The two-step process used in this current study involves the valuation of measurement model and the assessment of structural model. A valuation of measurement model involves examining individual item reliability, internal consistency reliability, convergent validity, discriminant validity and content validity. Individual item reliability was examined by investigating the outer loading of each constructs size, it was disclosed that out of the 33 items, none was deleted because the threshold condition was fulfilled. Therefore, in the whole model, 34 items was used and retained as possessed loading between 0.564 and 0.850.

The composite reliability coefficient was selected to establish the internal consistency reliability of measure used. The composite reliability allows indicators with dissimilar loadings to be explained in similar way as cronbach's α (i.e no matter which particular reliability coefficient used, an internal consistency reliability value greater than 0.7 is viewed as satisfactory for a satisfactory model; But, a coefficient less than 0.60 implies absence of reliability). The composite reliability coefficients for the latent constructs confirmed that the composite reliability ranges between 0.810-0.902, with each greater than the threshold of 0.70, confirming that satisfactory internal consistency reliability of the measure adopted for this study (Bagozzi and Yi, 1988; Hair *et al.*, 2011).

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[1]In the PLS-SEM, both the measurement and structural models are depicted on the same diagram. While the relationship between indicators and their associated latent constructs are used to assess the measurement model, the interrelationship among the latent constructs are used to assess the structural model

Convergent validity indicates the degree to which items truly characterizes the projected latent construct and indeed correlate with other measures of the same latent construct (Hair et al., 2006). Convergent validity was evaluated by investigating the Average Variance Extracted (AVE) of each latent construct, as recommended by Fornell and Larcker (1981). Based on the recommendation of Chin (1998) who opined that in order to realize adequate convergent validity, AVE of each latent construct should be > .50 or more. Thus, the AVE values presented high loading greater than 0.50 for its respective constructs, indicating adequate convergent validity.

In this current paper, Discriminant validity was confirmed using AVE as recommended by Fornell and Larcker (1981). To attain reasonable discriminate validity, fornell and Larcker (1981) highlighted that square root of the Average variance extracted (AVE) should be greater than the correlations between the latent constructs. The result reports the coefficient for the average variance extracted array from 0.503 to 0.648, implying acceptable coefficient while the correlations between the latent constructs are related with the square root of the average variance extracted. Also that square root of the all average variance extracted exceeded the correlations among latent constructs, signifying adequate discriminant validity.

To attain ample discriminate validity, Chin (1998) recommends that all indicators loadings should be greater than the cross loading. The result relates the indicators loading with other reflective indicators. All indicators loadings are greater than the cross loading, indicating adequate discriminant validity for subsequent analysis. Next after establishing the measurement model is the evaluation of direct structural model. The results disclose the estimates for the full structural model, which includes direct variables (i.e internal marketing and customers' orientations)

The four dimensions of internal marketing (i.e. reward, internal communication, empowerment and training and development) were used in our investigation. The impact of Internal Marketing (IM) practices on Customer Orientation (CO) of employees in Nigerian banking industry was examined accordingly. The finding shows that internal marketing is positively related to customer orientation. The positive impact of internal marketing on customer orientation is revealed in the figure below with statistical significant and positive relationship between internal marketing and customer orientation (β= .34, t = 6.18, p < 0.01).

This finding is in line with Narteh (2012) who investigates the impact of Internal Marketing on Employees' commitments. Four dimensions of internal marketing (i.e. reward, internal communication, empowerment and training and development) were examined with employees' commitment in retail banking industry in Ghana. The findings reveal that Internal Marketing dimensions are positively associated with employees' job commitments except communication dimension of internal marketing.
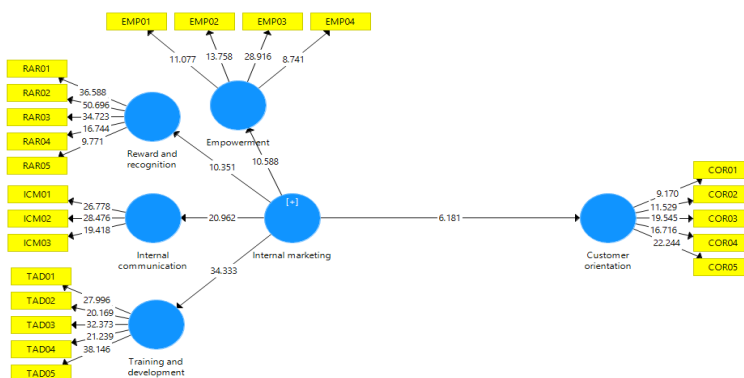
6. Concluding Remark

The growing concern about the customers' orientations among employees of Nigerian banks has been the motivation for the present paper. The fact that since the 2005 banking industry reforms employees of Nigerian banks have consistently changed their jobs moving from one bank to another or as the case may be has been a great concern to the management of these banks. Consequently, it has become imperative for the management to design a plan on how best possible to attract the best

personnel and motivate them so as to deliver best quality services to the consumers and survive in a fiercely competitive environment as always the case in the country.

Meanwhile, the management should make judicious and effective use of internal marketing to be able to keep and retain employees which in the long run improve customer orientation of the employees because of their sensitive role of direct contact with the customers. Thus, to enhance the effort of an organization toward delivering customer value, this paper argues that gaining satisfaction and loyalty of external customers is an impossible task unless the needs and wants of organization's human force (internal customers) is met. Apparently, external consumer satisfaction cannot be maximized without the fundamental contribution of the employees who provide the service.

Based on these foregoing however, employees' beliefs and attitudinal dispositions are two factors that make differences in terms of their nature and quality of services delivery. In fact, lack of empowerment within an organization may prevent an employee that possesses customer oriented attitudes from behaving in a customer oriented way. Generally speaking, Customer orientation consists of both "attitudinal" and "behavioral" dispositions of the employees toward helping customers in the course of making choices and decisions in their purchase.

Employee that is customer oriented is described through his/her behavioral intentions and readiness to perform some customer services satisfactorily and diligently, that is, the service that would give customers the feeling that the products or services offered to them meet their expectations. Besides, the kind of relationship that exists between banks' employees and the management is like the agent-principal relationship which actually portrays the keystone of the agency theory. The moment it is evident that the agent, in this case the Nigerian bank employees may not act in the best interest of their management; they may not exhibit the desired customer oriented behavior and attitudes required of them toward the customers, this unequivocally will affect the overall marketing objective of the organization. The components of Internal Marketing vis-à-vis employee training and development; employee empowerment; employee reward and recognition; and of course internal communication with employees are therefore the tools or mechanism the bank management, in our circumstance, the principal could adopt to control this divergence.

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