The study impact of internal marketing on customer loyalty (Case study: Iran Insurance Company - Kermanshah province)

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ABSTRACT: Nowadays in the competitive world, customers are in the center of companies considerations and their loyalty is the main factor of competitive advantage of organizations, on the other hand, organizations are needed motivated to obtain these benefits, so the purpose of this research is studying the effect of internal marketing on customer loyalty of Iran Insurance company - Kermanshah province. Also, marketing strategy variable and customer satisfaction as mediate variables have been studied. The current research, based on its aim is a practical work and in terms of the used method are a descriptive and a correlation kind work. The statistical Population Of This research contains staffs' population, 217 persons and customers’ population of Iran insurance, Kermanshah province with 265842 persons. The sample of research contains 135 persons of staff and the same amount of customers according to insurance courses was selected. In order to collecting datas, the library and questionnaire studies were used. Datas’ analyziz and hypothesis test are used by structural equation modeling and especially the path analysis technique is used by Lisrel software. The results of this study showed that internal marketing through the marketing mix and customer satisfaction has influenced the customer loyalty. Also, the results showed that employees and organizations must consider the process of overall marketing strategies with regard to competitive conditions in order to attain customer loyalty and satisfaction. Finally, the software output represents suitability of the model.

Keywords: Internal marketing, Customer loyalty, Marketing strategies, Customer satisfaction, Iran Insurance Company

INTRODUCTION

In today's increasingly changing world, most companies are seeking to find innovative ways to enhance their competitive advantage in order to maintain customers and their loyalty. Intelligent and prospective companies focus primarily on the way of behavior and relationship to their employees, and first of all attempt to satisfy them. Employees are the most significant asset of a company and lack of efficient ones create several problems for companies in the current increasingly competitive world. This is more pronounced in service organizations. Studies indicate that satisfied employees results in satisfied customers and eventually their loyalty (Khodabakhsh and Gorgani, 2010). Generally, loyalty is significant from different aspects. Loyal customers help to determine predictable sale and increased benefit to organization. In addition, customers familiar with the organization brand endeavor to recommend that to their friends and acquaintances and influence organization's feedback and evaluation cycle and these play significant roles in today's business world (Hart and Smith, 1999). Due to the significance of customer loyalty in organization development the awareness of the concepts and loyalty models plays significant roles, otherwise service institutions select inaccurate indices to measure customer loyalty and they are not capable of linking customer loyalty to the performance indices and consequently make mistakes in planning loyalty programs and identifying customers' proper behavior (James and Baartlett, 2001). In this regard, internal marketing is a critical instrument which consider employees as internal customers and acts based on the premise that internal customers need could not be satisfied unless external customers' needs is met. The internal marketing significantly helps employees
and organization achieve their goals (Keler, 2006). Therefore, the present study attempts to determine whether a direct and significant correlation between internal marketing and customer loyalty exists or not, and finally it seeks to find a model that effectively investigates the relationship between internal marketing and loyalty through effective indices.

The Study Literature

**Internal Marketing and its Significance in Insurance Companies**

Internal marketing is regarded as an opportunity to create an internal market in organization which its members receive rewards and encouragement, and are equipped with necessary information to meet external customers’ needs and expectations. Internal marketing refers to attraction, development, encouragement and consistency of employee's quality through their job as a product and meeting their needs. In other words, it is the philosophy of the relationship between customers (internal ones) and employees (Cahill, 1995). Hogg, G. and Carter, S. (2000) defined internal marketing as an indispensable part of marketing which entails using marketing techniques within an organization in order to create and establish organization's values (Hogg, G. and carter,S,2000). By development of marketing and competition concepts, commercial companies such as insurance companies have found that to achieve the goals, customer satisfaction must be fulfilled, because the promoter of each business is customer rather than product and market. In the recent years, many companies have been seeking to find a key strategy for creating some methods to tend employees toward customer-orientation, which one significant strategy is internal marketing (Liao, 2009).

**The Relationship Between Internal Marketing and Marketing Strategies Components**

In the area of marketing strategies, most literature indicates that internal marketing is a key factor to succeed in external marketing strategies. In the other words, recruiting and maintaining employees which have been sufficiently encouraged, educated, progressed and are more inclined to customer give rise to some internal employees more inclined to customer and capable of providing a distinguished product and carving a good picture in the customer’s mind, more concerned about value rather than money, and more able to provide customer with high quality products in a right time and place and by a facile way (Berry, 1995; Forman And Money,1995). Therefore, it could be said that internal marketing is significantly associated with marketing strategy components.

**The Relationship Between Internal Marketing and Customer’s Satisfaction**

This is more significant in internal dimension because it not only Gronroos claims that more improved service results in more satisfied customers leads to an improved workplace atmosphere, but also enhances service level in organization.(Gronroos, 2000).

**Customer Satisfaction**

It is customer's good feeling to buying and using a product or service. And it results from customer rational expectation to the money paid. The customer satisfaction is achieved when payment is equitant to rational expectations (Khalili 2000). Customer satisfaction is a consumer and customer's feeling or reaction toward buying a product or service. (Maleki, Darabi, 2008).

**Customer Loyalty**

Richard Oliver defines as follows: maintain ardor commitment to buying or repeated selection of product or service in the future, despite situation influence and marketing efforts change customer behavior ((Oliver, Richard, 1999). Loyalty could be investigated from different aspects: by showing a preference and commitment to a company versus competitors (Pritchard, 1999), by re-buying same product or service form a company (O.Malley, 1998), or by increase in exchange with company in the future (Zeithaml, 1994). There is a high degree of exclusive loyalty in service market, compared to consumer goods market. Understanding the relationship between different types of market guarantees that marketers do not distribute resources in a market where access to goals is impossible (Randel and Bennet, 2001). Therefore, the main task of marketing is to control the duties of all parts of an organization in order to provide a unique and higher value and ultimately lead to customer loyalty (Payne 1995).

**The Study Conceptual Model**

In this study, using the intermediate variables for marketing mixed components and customer satisfaction, the influence of internal marketing on Bimeh Iran Company (Iran Insurance Co.) customers is investigated. Therefore, the current study attempt to investigate the casual effects of internal variables, mixed marketing components, customer satisfaction and customer loyalty using the proposed model and diagram (1) deriving from the study hypotheses, and consequently the study analyzes the conceptual model and study framework within insurance industry and hypotheses testing.
Study hypotheses

Main hypotheses

Internal marketing has a positive and significant effect on customer loyalty.

Sub hypotheses

Hypothesis 1: Internal marketing has a positive and significant effect on product strategy.
Hypothesis 2: Internal marketing has a positive and significant effect on price strategy.
Hypothesis 3: Internal marketing has a positive and significant effect on promotion strategy.
Hypothesis 4: Internal marketing has a positive and significant effect on distribution strategy.
Hypothesis 5: Internal marketing has a positive and significant effect on customer satisfaction.
Hypothesis 6: Product strategy has a positive and significant effect on customer satisfaction.
Hypothesis 7: Price strategy has a positive and significant effect on customer satisfaction.
Hypothesis 8: Promotion strategy has a positive and significant effect on customer satisfaction.
Hypothesis 9: Distribution strategy has a positive and significant effect on customer satisfaction.
Hypothesis 10: Customer satisfaction has a positive and significant effect on customer loyalty.

Methodology

Since the goal of the study is to determine the causal relationship between internal marketing and customer loyalty using the intermediate variables of marketing mix components and customer satisfaction, so the study is applied in terms of objective, and it is descriptive and of a correlational type in terms of data collection, and it is specifically dependent upon structural equations.

In this study, in order to identify the hidden variables, exploratory factor analysis was used, and to test the significance of the relationship between questions and variables and obtained measurement models fit and also to measure reliability, confirmatory factor analysis was applied. Finally, in order to investigate the effects of the study variables, structural equation model (SEM) and specially path analysis technique using software Lizrel were used.

The main data collection instrument in this study was questionnaire, one for employees and the representatives of Iran Insurance Company in Kermanshah and another for Iran Insurance Company’s customers in Kermanshah, and in order to examine the validity of the questionnaire, a primary sample composed of 30 questionnaires was pre-tested and then using data obtained by the questionnaire, trust coefficient was calculated by using Cronbach's alpha, which for employees and customers’ questionnaire it amounted to 0.87 and 0.81 respectively, which indicates the validity of the questionnaire.

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Findings

measurement models

Prior to investigate the study hypotheses test and the conceptual model, the accuracy of the internal marketing measurement models, marketing mix components and customers’ satisfaction and loyalty must be ensured. So the measurement models of such variables using confirmatory factor analysis are presented at the following. Confirmatory factor analysis is one of the oldest statistical procedures applied to estimate the
relationship between hidden variables (obtained factors) and observed variables (questions) and represents measurement model (Byrne, 1994).

Figure 2. The internal marketing measurement model in significance coefficients state.

Figure 3. The model for measuring marketing strategies in the significance coefficient state.
**the model for measuring marketing mix components**

The estimation results (model fit) indicate the suitability of the indices. Based on Lizrel output, calculated $\chi^2$ is equal to 479.06, which is less than 3, compared to freedom degree 224. The degree of RMSEA is equal to 0.077 and indices NFI, GFI and AGFI are equal to 0.95, 0.91 and 0.98, respectively which indicates a relatively high fit.

**internal marketing measurement model**

The estimation results (model fit) indicate the suitability of the indices. Based on Lizrel output, calculated $\chi^2$ is equal to 36.86, which is less than 3, compared to freedom degree 20. The degree of RMSEA is equal to 0.072 and indices NFI, GFI and AGFI are equal to 0.86, 0.90 and 0.94, respectively which indicates a relatively high fit.

**the model for measuring customer satisfaction and loyalty**

The estimation results (model fit) indicate the suitability of the indices. Based on Lizrel output, calculated $\chi^2$ is equal to 479.06, which is less than 3, compared to freedom degree 199. The degree of RMSEA is equal to 0.066 and indices NFI, GFI and AGFI are equal to 0.95, 0.93 and 0.99, respectively which indicates a relatively high fit.

**The study structural model**

Ensuring the accuracy of the factors measurement models, the study hypotheses are considered, which are the basis for rejecting or confirming the hypotheses. The hypotheses results in two standard estimation states which measure the effect of factors measurement and in significance state which investigates the extent of the significance between variables are specified, and they are the basis for rejecting or confirming the extent of significance, which if it is between 1.96 and -1.96, the hypothesis is rejected, otherwise it is confirmed.
A: the model in standard estimation state

![Figure 5. The study main model in standard estimation coefficients state](image)

B: The model in significance state

![Figure 6. The model in significance coefficients state](image)

Fitting the study final model

To investigate the study conceptual model, the fit of the model must be ensured. In fact, it must be determined whether or not such effect or relationship between variables is confirmed with regard to the sample and data obtained by it. So given the output of software Lisrel the model fit criteria must be investigated. Table 4 shows the most significant indices for the model fit, their standard degree and obtained degree using Lisrel.

<table>
<thead>
<tr>
<th>Chi-Square</th>
<th>df</th>
<th>P-VALUE</th>
<th>RMSEA</th>
<th>GFI</th>
<th>AGFI</th>
<th>NFI</th>
<th>CFI</th>
<th>RFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.20</td>
<td>11</td>
<td>.00049</td>
<td>.061</td>
<td>.92</td>
<td>.97</td>
<td>.94</td>
<td>.94</td>
<td>.92</td>
</tr>
</tbody>
</table>

Table1. The model fit indices

HYPOTHESES RESULTS

Sub hypotheses

Based on the above models (in standard and significance state) the results of Sub hypotheses are as follows (Table 2).

Suggestions

Since the effect of the internal marketing on the product strategy and promotion is insignificant and employees have not sufficiently apprehended it, to raise the awareness of employees and their satisfaction level, Iran Insurance Company managers must recruit those who act in a customer-based manner, provide employees with necessary training on the distribution of high quality services and products, utilize different reward systems (cash and non-cash encouraging actions) to encourage employees, and establish a permanent and mutual relationship (regular visits) with employees. In order to improve the ways to implement product/service strategies and promotion and consequently to raise customer satisfaction, following issues must be considered. With regard to product strategy, employees must provide customers with distinct services, different service groups and different high quality services, and in order to further enhance price and distribution
strategies, mangers must utilize different price levels for adapting to services provided in market and determine prices of products and services based on their values to customers. Regarding place strategy, company must provide necessary investment to employ effective representatives, and in order to further enhance price and distribution strategies, mangers must utilize different price levels for adapting to services provided based on market and determine prices of products and services based on their values to customers. Regarding place strategy, company must provide necessary investment to employ effective representatives, and in order to further enhance price and distribution strategies, mangers must utilize different price levels for adapting to services provided in market and determine prices of products and services based on their values to customers. Regarding place strategy, company must provide necessary investment to employ effective representatives.

Table2. Results of Sub hypotheses

<table>
<thead>
<tr>
<th>Sub- Hypotheses</th>
<th>Research Sub- hypotheses text</th>
<th>Path Coefficient</th>
<th>significance coefficients (t-value)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1</td>
<td>Internal marketing has a positive and significant effect on product strategy</td>
<td>0.07</td>
<td>0.61</td>
<td>Rejected</td>
</tr>
<tr>
<td>Hypothesis 2</td>
<td>Internal marketing has a positive and significant effect on price strategy</td>
<td>0.46</td>
<td>0.11</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>Hypothesis 3</td>
<td>Internal marketing has a positive and significant effect on promotion strategy</td>
<td>0.12</td>
<td>0.09</td>
<td>Rejected</td>
</tr>
<tr>
<td>Hypothesis 4</td>
<td>Internal marketing has a positive and significant effect on distribution strategy</td>
<td>0.32</td>
<td>0.99</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>Hypothesis 5</td>
<td>Internal marketing has a positive and significant effect on customer satisfaction</td>
<td>0.12</td>
<td>0.24</td>
<td>Rejected</td>
</tr>
<tr>
<td>Hypothesis 6</td>
<td>Product strategy has a positive and significant effect on customer satisfaction</td>
<td>0.21</td>
<td>0.36</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>Hypothesis 7</td>
<td>Price strategy has a positive and significant effect on customer satisfaction</td>
<td>0.45</td>
<td>0.02</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>Hypothesis 8</td>
<td>Promotion strategy has a positive and significant effect on customer satisfaction</td>
<td>0.20</td>
<td>0.23</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>Hypothesis 9</td>
<td>Distribution strategy has a positive and significant effect on customer satisfaction</td>
<td>0.32</td>
<td>0.46</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>Hypothesis 10</td>
<td>Customer satisfaction has a positive and significant effect on customer loyalty</td>
<td>0.55</td>
<td>0.24</td>
<td>Not Rejected</td>
</tr>
</tbody>
</table>

CONCLUSION

The present study investigated the effect of internal marketing on customer loyalty in Iran Insurance Company, Kermanshah province. Unlike previous studies on internal marketing, the above mentioned effect was examined in relation to the variables such as marketing strategies (product, price, promotion and place) and customer satisfaction variable, and considering the confirmed effect of internal marketing on price strategy and promotion and also the confirmed effect of product, price, promotion and place on customer satisfaction and the effect of customer satisfaction on customer loyalty, the above mentioned hypotheses were confirmed as well. The results were consistent with those of Hwang and Ozment (2006) on internal marketing, and Philip kotler (1999) and Saser and Bennet (1999) on marketing mix, and Oughlin and Szmin (2006) on satisfaction and loyalty. Based on the results from secondary hypotheses (1 and 3), it could be said that employees and representatives in Iran Insurance Company did not have a proper understanding of the service/product and promotion quality because the degree of effectiveness and significance of internal marketing on product/service and promotion strategies is low; but Based on the results from secondary hypotheses (2 and 4), it could be said that the employees have appropriately understood price and place strategies. This could be due to insufficient training or some legal considerations, for example pricing and the selection of manpower for representations is evaluated by legal bodies, and there are some controls and supervision on each legal cases. Therefore, by taking advantage of a good knowledge, employees can appropriately implement it. Considering employees' understanding of marketing strategies, customers' satisfaction of the way to implement marketing strategies is different, despite confirming the hypotheses 6, 7, 8 and 9, because they were more satisfied with the ways to implement price and place strategies than the ways to implement quality/service strategies and promotion.

The result from hypothesis 5 indicates that internal marketing or employees satisfaction do not solely increase Bimeh Iran Company's customer satisfaction, and employees must fulfill the customer's demand through market situation, so that this reply might results in advantage. As all customers do not remain loyal, the result of hypothesis 10 indicates that given the extent of effectiveness (0.55) and significance (6.24), a high percent of satisfied customers have remained loyal. Regarding the study results (main hypothesis), organizations must accept heuristic process and marketing strategies which leads to customer satisfaction and loyalty, based on theoretical findings. The results indicate that the effects of marketing mix factors on creating satisfaction and eventually loyalty is different, but managers must adopt an appropriate marketing mix strategy which acts as an inter-linked system in order to fully satisfy customers and make them loyal to their company;
otherwise, using an incoherent and distinct marketing mix strategy results in only temporal satisfaction and affects negatively some customers.

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