

# **An empirical investigation on the impact of internal marketing on organizational effectiveness within human resource capabilities perspective (Case study: Islamic Azad University branches in region 4 of Isfahan municipality)**

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DOI: 10.6007/IJARBSS/v4-i1/574 URL: <http://dx.doi.org/10.6007/IJARBSS/v4-i1/574>

## **Abstract**

The purpose of the current study is to determine the impact of internal marketing on organizational effectiveness. The statistical population consists of managers and experts in Azad university branches in region 4 of Isfahan municipality. In order to collect data, we used 35 to capture ideas and perceptions of 120 managers and experts selected as the sample of the research. The conceptual model of the study was proposed based on literature review and examined through LIZREL software. The findings indicate that internal marketing has an indirect impact on organizational performance and through human resources' potential. In other words, human resources' improvement derived by internal marketing affects organizational effectiveness. The suitability of the model was confirmed by amount of goodness indexes (GFI= 0.99, AGFI=0.96).

**Keywords:** internal marketing, human resources' capabilities, organizational effectiveness.

## **Introduction**

The emergence of internal marketing concept dates back to the 1980s, when attempts were to enhance the quality in service sectors through study and control the delivery and service mechanisms used by employees. The basic idea of internal marketing is based on this fact that effective service delivery requires motivated employees who know customers' needs (Gronroos, 1981). The object of primary studies was retail marketing indicating a significant relation between employees' satisfaction and customer's satisfaction (Piercy, 1999; Rafiq and

Ahmed, 1993). Further researches were conducted based on this fact expanding the concept of internal marketing.

Today, internal marketing is considered as a way for improving the potential of human resources. Relevant studies in this scope show that internal marketing activities have improved the organizational performance and increased the organizational compatibility by motivating the employees (Ahmed and Rafiq, 2004). Generally speaking, implementing internal marketing in service organizations enable these organizations to capture environmental opportunities leading them to customer satisfaction as well. In service sector education sector in particular, employees facilitate the execution of organization strategies and excellent performance via effective interaction with customers, facilitate the execution of organization strategies and high levels of performance via effective interaction with customers (Brown and Moven, 2005). Therefore it can be claimed that successful role of human resources guarantees excellent performance of the organization and achieving organizational goals should begin by focusing on staffs who deal with customers. This study aims to develop and evaluate the way in which internal marketing affects organizational effectiveness in Azad University branches in region four of Isfahan city empirically, based on previous researches.

## **Literature Review:**

### **Internal marketing**

The philosophy of human resource management in service sector has introduced a new concept in this area called internal marketing. The concept of internal marketing is rooted in researches studying the quality of service sector and mechanisms of service delivering by employees in the 1990s. Cooper and Cronin (2000) have introduced internal marketing as an organizational effort to educate and typically manage human resources in order to offer better services. They believe that employees form the initial market of the organization. Parasurman (2000), also argues that jobs, especially in service sector, are internal products that provide employees' need and lead to organization's goal achieving, thus employees are considered as the primary customers of the organization. The researches conducted in the scope of internal marketing can be categorized into four classes. The first view is human resource perspective. By attention to this view, internal marketing should be integrated with theories, strategies and principles of human resource management (Joseph, 1996). In the second perspective, internal marketing is to improve and develop a customer oriented behavior (treatment) to employees. According to this attitude, organization should adapt a perspective like that of external market and establish a comprehensive and precise plan for improving and satisfying staffs in the internal market - the organization. In third perspective, theorists such as Bery (1981) and Green (1994), believe that in internal marketing jobs are products and employees are internal customers of the organization. Based on the fourth perspective called 'Internal Exchange' internal marketing is an interactive relationship between the organization and employees towards meeting organization's objectives in the business environment (Foreman, 1995)

Ahmed and Rafiq have introduced internal marketing as an introduction for implementing the organization's strategies. They have used the term "internal marketing mix". Prices or payments, promotion (education, empowerment, and communications), place or workplace, and processes (job products) are studied as the indexes of internal marketing in this study.

Galpin (1997) also has conducted a study in the field of internal marketing in Malaysia. He has applied indexes of organizational designs as adhocracy, strategic rewards, internal communication, education and development, improvement, staffing, reward systems, capability and processes to measure and evaluate internal marketing. Foreman and Maney (1995), seeing human resource management as a same concept as internal marketing, used internal communication, education, motivating, capability, directing and organizational incentives as indexes of their study. Ling (2004) has also conducted a study about the relation between internal marketing and job satisfaction in Greece. Active construct of organization, participatory decision-making, capability, job market awareness, internal relations between managers and employees, job description, education and organizational rewards are the indexes used for evaluating internal marketing in this research.

### **Conceptual model**

#### **Internal marketing, human resource capabilities, and organizational effectiveness**

Researchers like Edril (2000), have attempted to explain organizational culture and its management within human resource activities and internal marketing in order to focus on customers' needs and wants or market orientation. Pierce and Moorgan (1991), also found that there is a direct relationship between internal marketing and improving employees' skills and performance and organizational effectiveness as well. Other researches by Piercy and Morgan (1999), investigated the relationship between internal marketing and employees' performance and the findings confirmed that internal marketing activities would lead to enhanced communicative and decision –making skills. Rafiq and Noorizan examined the relation between internal marketing and human resource capabilities and its impact on organizational effectiveness in service organizations in Malaysia as a case study. These finding support the direct impact of internal marketing on human resource potential enhancement. The investigation by Kim in England has also confirmed the relation between internal marketing and communication skills and organizational performance. According to what is mentioned in previous parts, the first and second hypotheses of the study are proposed:

H1: Internal marketing affects human resource capability improvement.

H2: human resource capability improvement affects organizational effectiveness.

#### **Internal marketing and organizational effectiveness**

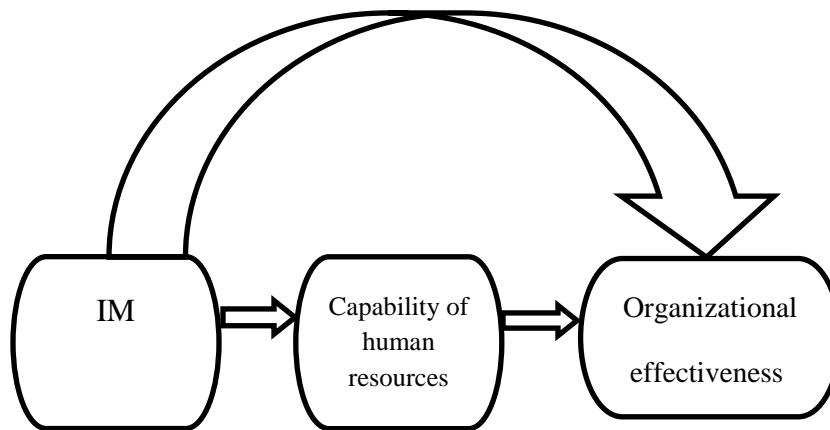
A few researches have studied the relation between internal marketing and organizational effectiveness, especially in service sector; however all of these studies showed the relation between these variables. Ahmed and Rafiq (1995), found a significant relationship between these variables. In their study, organizational effectiveness is the derived by appropriate marketing strategy implementation is the criteria to measure organizational performance. Noorizan (2002) found that about 60 percent of observed changes in organizational effectiveness is emanated from marketing activities. Albert and Nora (2008) have studied the impact of internal marketing on organizational effectiveness in several computer servicing companies in Taiwan and confirmed this relation via regression. They measured organizational performance using three variables, market share, the rate of sales growth, and return on investment (ROI). The data were collected through questionnaires with subjective questions based on Likert scale capturing employees and managers' perceptions. Brown's study in a

number of hospitals in Singapore (2006), and Lida and Nancy (2003), in England found that organizations that regarded internal marketing factors have a better performance in comparison to companies that do not pay attention to this factor. According to existing literature, the impact of internal marketing on organizational effectiveness is modified by medium variables such as job satisfaction, organizational culture, individual capabilities and job performance. Therefore, the third relation is predicted:

H3: Internal marketing affects organizational effectiveness.

The framework of this study depicted in Fig1, is Based on the above literature and proposed hypothesis:

:



Conceptual frame work of study

### Research Methodology

In order to collect the required data for the study, a self-administered survey was used to collect data on manager and experts of four district of Azad university of Esfahan of the three constructs: internal marketing, potential of human resources, and organizational effectiveness. The questionnaires include 35 items were assigned to three latent variables (internal marketing, potential of human resources, and organizational effectiveness), and 3 items to demographics variables. In this study, Likert's five-point scale has been used to assess the concepts. Measures assessing internal marketing were adopted from ahmad and rafigh (2004), assessing respondents' perception of the internal marketing offered by the universities . Items measuring capability of human resources were modified from day (2007). Finally Items measuring of organizational effectiveness, items were partly adapted from Brown (2006). The reliability of the questionnaire was calculated by means of Cronbach alpha coefficient and estimated to be 0.905 shown in table 1.

Table 1. Research Measures and constructs reliability

Construct	Cronbach's Alpha
Internal marketing	0.874
capability of human resources	0.932
Organizational effectiveness	0.930
Total	0.915

### Sample Selection and Date Collection

The research population contains of manager and employees of four district of Azad university of Esfahan. Random sampling method was used to have a sample of 120 respondents. Table 2 addresses the demographic characteristics of the respondents.

Table 2. Sample demographic characteristics

Variable	Type	Frequency	Percent
Gender	Male	93	77.5
	Female	27	22.5
Age	21-30	20	16
	31-40	35	29
	41-50	40	33
	More than 50	25	22
Educational status	High school	0	0
	Diploma	35	29.1
	Bachelors	65	54
	Masters and Ph.D.	20	16.9

### Results

The validity of the constructs was determined through Confirmatory Factor Analyses. CFA on internal marketing with 12 items (question 1 to 12), capability of human resources with 16 items (question 13 to 28), organizational effectiveness with 7 items (question 29 to 35) produced following results, representing suitability of the measures to be used for further analysis (table 3):

Table 3. Results of the Confirmatory Factor Analysis

chi-square	213.9
df	108
p-value	0.11
RMSEA	0.09

The research hypotheses were tested by Structural Equation Analyses (SEM) using LISREL software. The structural equation modeling technique enables the simultaneous estimation of multiple regression equations in a single framework. Notably; all direct and indirect relationships in the model are estimated simultaneously, and thus the method allows all the interrelationships among the variables to be assessed in the same decision context. Researchers recommend that a sample size 100 to 200 is appropriate for Structure Equation Model (SEM) analysis, (Bollen, 1989). The sample size in this study was 112, so SEM analysis could be applied. Covariance matrices were analyzed in all cases using LISREL software. The correlation matrix of data is shown in table 5. The result indicates chi-square is 213.9 calculated by LISREL. As degree of freedom is 108,  $\chi^2 / df = 1.97$ . Other results based on LISREL's output are:

Table 4. Fit indices for the path model

Goodness of Fit Index (GFI)	0.93
Root Mean Square Error of Approximation (RSMEA)	0.09
Comparative Fit Index (CFI)	0.96
Standardized Root Mean Square Residual (SRMR)	0.0045
NFI	0.94

Such results prove that the proposed model exhibits a reasonably good fit to the data. Figure 2 shows the principal model of research and figure 3 illustrates the results of the hypothesis testing. Circumstantial evidence t is used to find out if proposed relationships are significant or not. This circumstantial evidence refers to the proportion of each parameter's coefficient to the standard deviation error of that parameter which will be significant when it is higher than 2 ( $t \geq 2$ ) in t-test and higher than 1.96 ( $z \geq 1.96$ ) in z-test. According to what is mentioned, following results can be extracted:

As expected in the first hypothesis, internal marketing was found to influence potential of human resources (H1:  $\gamma^1 = 0.64$ ,  $p < 0.05$ ), in second hypothesis capability of human resources has a positive influence on organizational effectiveness (H2:  $\gamma^2 = 0.70$ ,  $p < 0.05$ ). Finally the third hypothesis predicted that internal marketing has a positive impact organizational effectiveness,

statistic results confirmed this prediction as well ( $H3: \gamma^3 = 0.57, p < 0.05$ ). Generally all of research hypotheses were confirmed statistically. The results are shown in table 5.

Figure2. Principal Model of Research

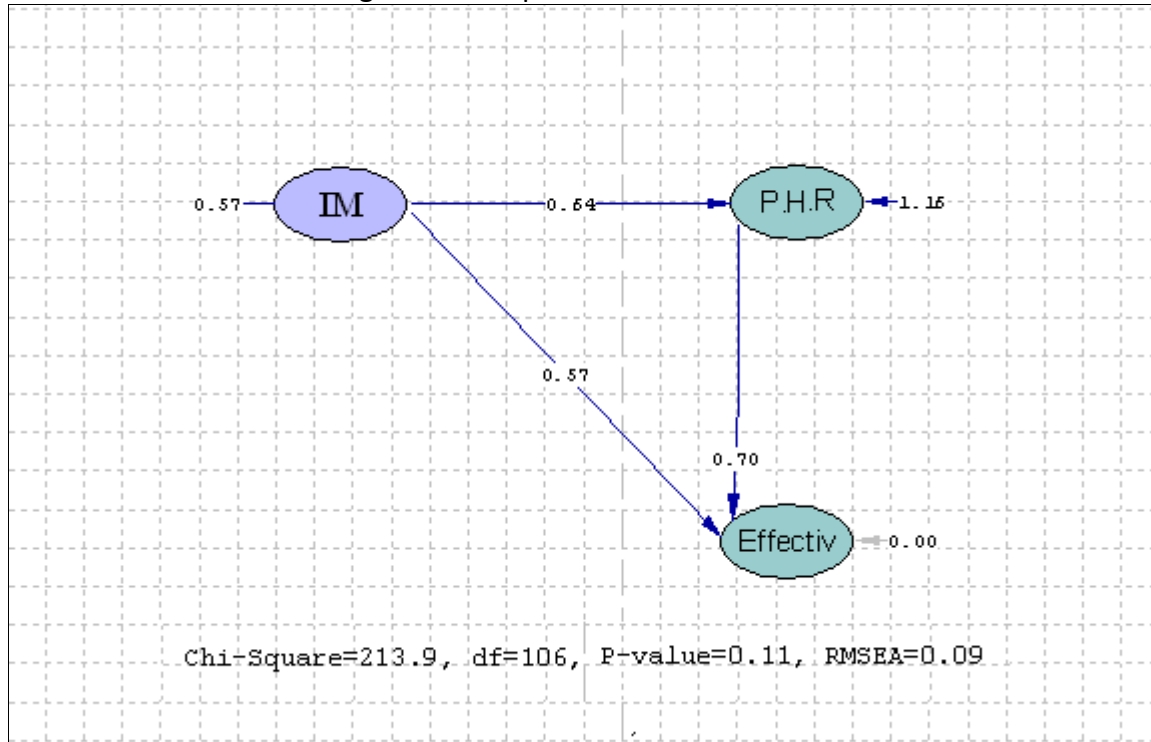


Figure 3. Model of Adjusted Index of T

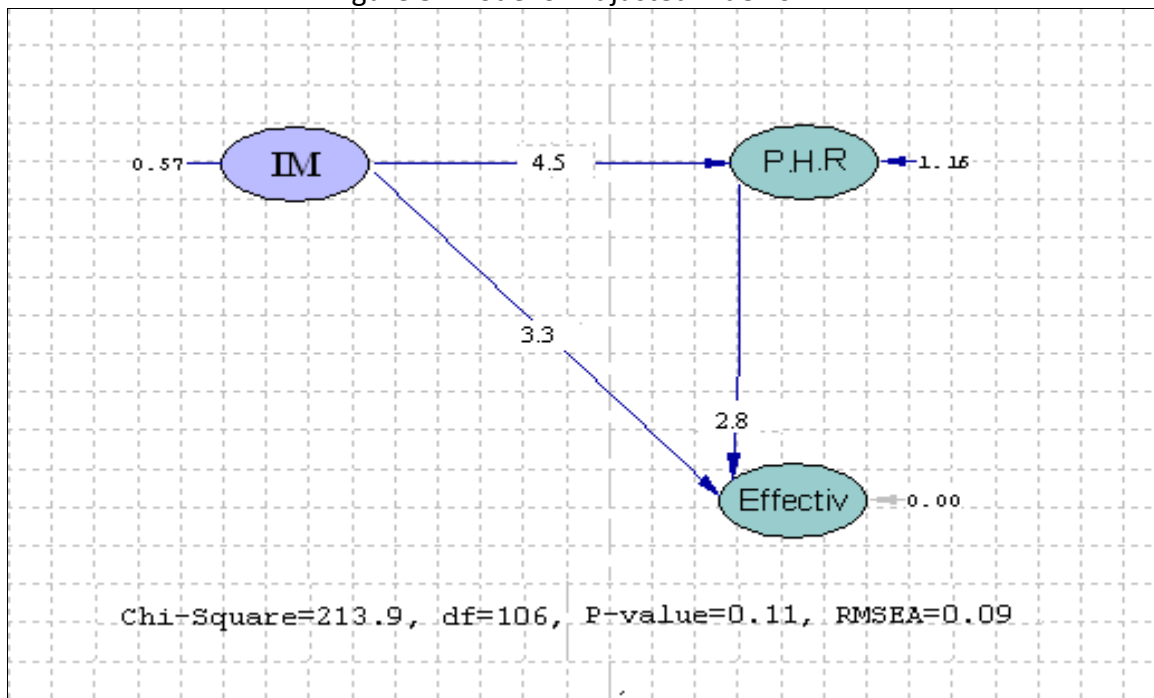


Table 5. Analysis of the results

Path	Hypotheses	Coefficient	T- value	p
internal marketing → capability of human resources	H1	0.64	4.5	<0.05
capability of human resources → Organizational effectiveness	H2	0.70	2.8	<0.05
internal marketing → Organizational effectiveness	H5	0.57	3.3	<0.05

### Conclusion:

This study was conducted to investigate the conceptual and empirical links between IM, capability of human resources and organizational effectiveness. This study adds to our standing of IM and organizational effectiveness and provides further evidence of the critical role that potential of human resources and employees play in ensuring high levels of organizational effectiveness. Based on the data of first and second hypothesis analysis, it can be said that, there are third major conclusions about this hypothesis and that can be taken as follows; Firstly, the relationship between the internal marketing and capability of human resources. The findings showed that the IM have the positive and significant influences on potential of human resources. The second conclusion is there are positive significant relationships among capability of human resources and organizational effectiveness's visual and virtual variables and it means, increasing and decreasing in the capability of human resources causes to increase or decrease organizational effectiveness, and it approves that there are relationships between all the variables of this study, and According to the results of this research there is a positive and meaningful relation between internal marketing and organizational effectiveness.

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