The Effect of Internal Marketing on Employee retention in Pakistani Banks

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Abstract

This research investigates the effects of internal marketing on employee retention in banking sector of district D. G. Khan, Pakistan. Marketing is the process by which the external customers are satisfied through exact identification of their needs and wants. When we do the same thing-satisfaction- with our employees then this is named as internal marketing. This approach is used to motivate, align and integrate the employees towards the achievement of organizational goals. The motto of internal marketing is Employees first. Internal marketing is very important in service sector where the only way to promote business is through staff. Especially in banking sector they are “Internal Guests”. The study is mainly derived from literature that provides backbone for study. A questionnaire was designed to collect the data from different banks of district D. G. Khan. The findings of research showed that internal communication, training and motivation have positive effects on employee retention. Therefore if banks of Pakistan want to retain employees for longer period of time, it is recommended that sufficient attention should be given to internal marketing. The findings of research would help managers of Banks to adopt proper policies for employee retention.

Keyword: Internal Marketing, Bank, Employee Retention, Internal Communication.

Introduction

With the emergence of industrial age, corporations changed their opinion about employees. Gone are the days when employees were treated as servants whose primary concern was to provide goods and services. But now this concept is totally changed as organizations realized that human capital is critical for the success of any organization. Especially in service sector the quality of service mainly depends on employees because service providing companies do not have physical goods. Internal marketing is an equal handling of both employees and customers with the aid of proactive polices to reach organizational objectives (Woodruffe, H., 1995). In
service sector, the significance of staff is obvious; if staff provides better services the customer will be more and more satisfied. But customer satisfaction only results when staff of an organization is satisfied.

Internal marketing may be defined as “The premeditated attempt using a marketing-like approach to surmount organizational resistance to change and to align, motivate and inter-functionally co-ordinate and put together employees towards the effective implementation of corporate and functional strategies (Rafique, M. and P.K, Ahmed, 2000). This is done by creating positive impact about the organization in the minds of staff members” The motto of internal marketing is employees first. In banking sector they are called “Internal Guests” Payne argues that the main aims of internal marketing are the development of internal and external customer awareness and the removal of functional barriers to achieve organizational effectiveness (Payne, A., 1993). Lack of dedication from employees can be destructive to an organization, resulting in poorer performance arising from mediocre service offerings and higher costs. Hogg has concluded that internal marketing could be the reply to gaining employee (Hogg, C., 1996). Schultz also mentioned that Internal marketing (IM) is a prerequisite for employee satisfaction (Schultz, D.E, 2004).

For a long period of time, Marketing activities were only limited to external customers for sales inducements. And the central piece of all those activities was to retain customer more and more. The justification for customer retention was very much obvious i.e. customer retention leads a customer to customer loyalty and loyal customer are less sensitive to price; giving a firm an option for better profitability. But the boom in service sector of developed countries brought a swing in traditional marketing approach and this swing was to treat employees as it were the customers of a firm. And central theme of this new concept was to apply marketing tools to employees so that it results in employee retention. The justification for employee retention was the same as in the case of customer retention-better profitability- because if employee will retain in a firm for longer period of time then they can serve the customers excellently as they have better job knowledge; proving real asset for a service firm. The state of affairs is worse with those firms where employee turnover is high because firm has to employ new employees and will have to provide them necessary training that is costly and time killing. Lambert suggested that committed employees demonstrate higher job performance (Lambert, S. D., 2002)

This study principally aims at to find the effects of internal marketing practices on employee retention.

**Literature review**

**Internal Marketing Practices**

Hult, Hurley, Giunipero, and Nichols (2000) pointed out that internal marketing means considering the internal employee as the internal customer and to contemplate on making the internal customer’s (employee) satisfaction. Cooper and Cronin (2000) pointed out that
internal marketing was consistent with the organization’s effort; the organization trained and aggravated its employees to present better service. Internal marketing in the service industry helps all employees comprehend the company’s mission and aims, and refers to schooling, motivation, and appropriate appraisal to accomplish the organization’s anticipated aims and keep excellent employees (Johnson, Scheuing, & Gaida, 1986).

Huang (2003) measured that internal marketing is intended to employ, educate, and motivate the internal employee, and encourage them to recognize and acknowledge the concepts and importance of customer orientation satisfaction, as well as support and assist with the marketing department to provide excellent customer service. Conduit and Mavondo (2001); Johnson and Seymour (1985) suggested that internal marketing means creating an internal environment with customer orientation and service realization in the organization. The movement of internal marketing practice is composed of four terms such as product, price, promotion and place (Davis, 2001). Kang (2001) classified internal marketing promotion into four perspectives, such as incessantly collecting and analyzing information concerning internal market and the competitive environment, find out the segmentation of the internal market, segment the internal promotion mix, and manage internal marketing.

Bansal, Mendelson, and Sharma (2001) promoted practice with the suggestion that internal marketing includes six points as follows: (1) employment assurance; (2) broad training; (3) abundant salary determined according to organizational performance; (4) information sharing; (5) employee empowerment, and (6) reducing differences in rank. Referring to the seven items classified by Grönroo (1990), the Australian scholars Conduit and Mavondo (2001) categorized the internal marketing activity into five perspectives, which performed association between each other according to the result of spot check. The five perspectives include education and training, management support, internal communication, external communication and human resource management and so on.

**Employee Retention**

Employee retention is major vital issue facing corporate leaders as a consequence of the lack of skilled labor, economic growth and employee turnover. Retention is defined as “the ability to hold onto those employees you want to keep, for longer than your competitors” (Johnson, 2000). The analysis of retention ought to be considered at more than just a single level because the “influences” of retention can arise at several levels (Klein et al., 1994; Klein and Kozlowski, 2000; Raudenbush and Bryk, 2002; Yammarino and Dansereau, 2004). A number of studies have found that managing turnover is a challenge for organizations, as different organizations using dissimilar approaches to retain employees (American Management Association, 2001). Retention is considered as all-around module of an organization’s human resource strategies. It begins with the hiring of right people and continues with practicing programs to keep them engaged and committed to the organization (Freyermuth, 2004).

Today the demands of workers have been amplified very much as ever before. It is in terms of every aspect, not only salaries and perks but also work experience and cultural context in which
it occurs. Providing a productive, flexible and lively work environment can be a critical asset in attracting and retaining valuable employees. In order to build up an effective retention plan for today’s employment market, it is crucial to apprehend the varying needs and prospect. If the retention strategies are not accurately entrenched in the business processes, the all effort since recruitment will eventually proves useless (Earle, 2003).

Method

To study the effects of internal marketing on employee retention the following research question is proposed:

“What is the effect of internal marketing on employee retention?”

In relation to above research question the following set of hypothesis have been formulated:

H1: Internal communication has a positive effect on employee retention
H2: Training has a positive effect on employee retention
H3: Motivation has a positive effect on employee retention
H4: Future growth has a positive effect on employee retention

The data is collected among different branches of banks in District D. G. Khan, Pakistan. There are 32 branches of different banks including both, state owned and private banks. A questionnaire was designed with precise questions. Several experts from banking sector, with a solid knowledge of banking and marketing fine tuned the questionnaire. From each bank in the district, 4 employees were selected as sample, including managers and non managers. So a total of 128 sample size was selected.

To amplify the response rate and understanding of questionnaire, a letter was attached with it to explain the rationale of research. The respondent was asked to complete a self completion questionnaire based on their perception and knowledge.

Research methodology includes following tests;

1. To be familiar with the validity and reliability of data, principal component factor analysis was performed and Cronbach’s coefficient alpha for each criterion is calculated.
2. Multiple Regressions was run to verify the effects of many different factors on result at same time. All the variables like internal communication, future growth, training, motivation, self recognition were summed up and a regression line was run, treating all these variables as independent and employee retention as dependent variable.
3. ANOVA test was performed to test the fitness of model to data.

Results and Discussion

With a fine-looking response rate, a total of 118 fully completed questionnaires were returned by respondents. The response rate of this survey is %92 which was desirable and higher. The initial analysis using SPSS consisted of descriptive statistics in terms of means and standard
deviation for each item. To check the reliability of questionnaire, Cronbach’s Coefficient alpha was calculated.

The outcome of alphas that exceeded the threshold of 0.7 has been shown in Table 1. According to Sekaran 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. SPSS was used to guess the factor analysis on 75 questionnaire items to make sure factor loading. Factor Analysis was tested with 8 iterations. Principal component factor analysis was run with 8 iterations. The Varimax rotation (with Kaiser Normalization) was applied. Rotated factor loadings were evaluated and those variables which have values superior than 0.30 were recognized valid for the final analysis. The consequences are shown in Table 2. For Regression Analysis, SPSS was used to observe the effect of internal marketing on employee retention. Table 3 describes the results of ANOVA.

**Table 1: Cronbach’s Coefficient Alpha Of Internal Marketing**

<table>
<thead>
<tr>
<th>Internal Marketing Variables (independent)</th>
<th>Cronbach’s Coefficient Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Communication</td>
<td>0.8343</td>
</tr>
<tr>
<td>Training</td>
<td>0.8643</td>
</tr>
<tr>
<td>Motivation</td>
<td>0.8557</td>
</tr>
<tr>
<td>Future growth</td>
<td>0.8451</td>
</tr>
</tbody>
</table>

**Table 2: Rotated component matrix for internal marketing**

<table>
<thead>
<tr>
<th>Questions</th>
<th>Component 1</th>
<th>Component 2</th>
<th>Component 3</th>
<th>Component 4</th>
<th>Component 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Communication</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fast Flow of information</td>
<td>0.872</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adoption between structure and strategy</td>
<td></td>
<td>-0.429</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to date services</td>
<td></td>
<td></td>
<td>0.911</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperation of bank in social welfare</td>
<td></td>
<td></td>
<td></td>
<td>-0.451</td>
<td></td>
</tr>
<tr>
<td>Security and variation of services</td>
<td></td>
<td></td>
<td></td>
<td>0.423</td>
<td></td>
</tr>
<tr>
<td>Lower bureaucracy in offering the operations</td>
<td></td>
<td></td>
<td></td>
<td>-0.351</td>
<td></td>
</tr>
<tr>
<td>Stability in service delivery methods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.831</td>
</tr>
<tr>
<td><strong>Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive employee training</td>
<td>0.811</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capable and experienced instructor</td>
<td></td>
<td></td>
<td></td>
<td>0.421</td>
<td></td>
</tr>
<tr>
<td><strong>Future growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rapid and synchronized flow of information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.911</td>
</tr>
</tbody>
</table>
Motivation

Job security 0.824
Sense of job importance 0.827
Task variation 0.387
Freedom in job 0.382
Clarity of tasks 0.422
Inform employees their performance results 0.342
Suitable insurance facilities 0.831
On time salaries and benefits payment 0.451
Equity of salaries and fringe benefits 0.912
Involving of employees in decision making -0.318
Friendly contacts with personnel 0.328
Gratitude of the personnel’s attempts 0.667
Coordination between personal life and job 0.348 0.387
Considering employees as the main asset 0.421
Clear advancement path 0.651
Responsibility of a similar purpose activities 0.361
Challenging work 0.385
Arranging junket 0.389
Sport facilities 0.625

Table 3: Model Summery And ANOVA

<table>
<thead>
<tr>
<th>Sig</th>
<th>F</th>
<th>Mean Squares</th>
<th>DF</th>
<th>Sum of Squares</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>215.479</td>
<td>73.20</td>
<td>0.340</td>
<td>1 117 118</td>
<td>730.20 105.31 178.51 Regression 1/</td>
</tr>
<tr>
<td>Residual Total</td>
<td>130.882</td>
<td>40.434</td>
<td>0.313</td>
<td>2 116 118</td>
<td>81.86 96.64 51/178 Regression 2/ Residual Total</td>
</tr>
</tbody>
</table>

Note: 1/: Predictors (constant): Motivation, Future Growth, Dependent variable: Employee retention
2/: Predictors (Constant): Training, Internal Communication, Dependent variable: Employee retention

specially the F ratio represents the ratio of enhancement in prediction that results from fitting the model (labeled Regression in the table) relative to the incorrectness 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 capability 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 cause, the Sig. column has been checked for values lower approximately 0.05 levels in table. Three out of four constructs including internal communication, training and motivation fulfill this standard and they are significant predictors.

**Table 4: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>4.893</td>
<td>3.084</td>
<td>1.587</td>
<td>0.012</td>
</tr>
<tr>
<td>Internal communication</td>
<td>-0.335</td>
<td>0.360</td>
<td>-0.098</td>
<td>-1.935</td>
</tr>
<tr>
<td>Training</td>
<td>-0.547</td>
<td>0.638</td>
<td>-0.093</td>
<td>-1.852</td>
</tr>
<tr>
<td>Motivation</td>
<td>0.233</td>
<td>0.336</td>
<td>0.065</td>
<td>1.691</td>
</tr>
<tr>
<td>Future growth</td>
<td>-0.123</td>
<td>0.379</td>
<td>-0.031</td>
<td>-1.325</td>
</tr>
</tbody>
</table>

**Note:** a: Dependent variable: Employee Retention

Also the standardized coefficients in the B column have been used to evaluate the effect of each predictor. According to table 4 the outcomes provide support for the 3 hypothesis. In significance level less than 5% we can state with 95% confidence that training, “internal communication, training and motivation have positive effects on employee retention. The effects of these criteria on employee retention proposed by the hypotheses are observed in our data. Also the findings fail to support the one hypothesis of Future growth. We fail to observe the effect proposed by the hypothesis in significance level less than 0.05.

The superior the absolute value of Beta, the more important is the variable in predicting the Employee retention. In this case the most important predictors are internal communication (Beta = 0.098) training (Beta = 0.093) and motivation (Beta = 0.065) among all other criteria. The results exposed that internal communication has the first priority and then respectively training and motivation, therefore they are more important. Future growth has the lowest rank; therefore this is less important for the improvement of employee retention among banks in district D. G. Khan. It is important to note that internal communication is the most important
criterion. Respondents believe that high levels of internal communication were associated with employee retention.

Frank and Brownell (1989 cited in Ruck 2010) defined internal communication as “The communications transactions between individuals and/or groups at various levels and in different areas of specialization that are intended to design and redesign organizations, to implement designs and to coordinate day-to-day activities.” Good internal communication acts as a binding ingredient in organizations for the implementation of successful retention strategy. In order to achieve internal communication, the banks need coherent and consistent management of internal systems. Internal systems include relationships between and within departments.

The banks should carry out 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 consideration of others, and produce excitement about the service. Indeed increasing employee training and awareness of their role and appropriate behaviors among banks of D. G. Khan is beneficial. Another important criterion is motivation. In fact when motivation rises, productivity also rises, 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 incorporated with motivating management methods, personnel policy, and planning and control procedures.

According to Table 5 and 6 the result of one-way ANOVA test indicated that there were no significant differences between banker’s attitudes and their educational level; instead there are significant differences between their attitudes and their experience, regarding the effect of internal marketing on employee’s retention. In order to figure out where the differences lay, Tukey test has been performed.

Table 5: One-Way ANOVA Results For Differences Based On Educational Level

<table>
<thead>
<tr>
<th>F</th>
<th>P</th>
<th>Internal marketing variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.248</td>
<td>0.296</td>
<td>Motivation</td>
</tr>
<tr>
<td>0.484</td>
<td>0.694</td>
<td>Future growth</td>
</tr>
<tr>
<td>0.164</td>
<td>0.92</td>
<td>Training</td>
</tr>
<tr>
<td>0.4 11</td>
<td>0.745</td>
<td>Internal communication</td>
</tr>
</tbody>
</table>
Table 6: One-Way ANOVA Results for Differences Based On Their Experience

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>P</th>
<th>Internal marketing variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivation</td>
<td>2.22</td>
<td>0.071</td>
<td></td>
</tr>
<tr>
<td>Future growth</td>
<td>1.486</td>
<td>0.211</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>0.868</td>
<td>0.486</td>
<td></td>
</tr>
<tr>
<td>Inter functional coordination and integration</td>
<td>0.616</td>
<td>0.652</td>
<td></td>
</tr>
</tbody>
</table>

The Tukey test revealed that concerning future growth, mean of banker’s attitude whose experience is less than 10 years has significant difference at the level of p<0.05 compared to banker whose experience is more than 10 years. In this manner banker whose experience is superior than 10 years emphasized to service offerings according to preferences, experience, age and skill of employees but banker 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 bankers whose experience is 16 to 20 years emphasized to creating and retaining close relationships with employees as well as estimating their needs. Finally managers whose experiences is more than 20 years emphasized to dividing employees in team works in order to enhance employees retention.

**Conclusion**

This study investigates the importance of internal marketing and its influence on employee retention in D. G. Khan financial service arena. The research highlighted the effect of internal communication, training and motivation on employee retention. Through acknowledgment of effective criteria of internal marketing on employee retention managers in banks of D. G. Khan can adopt proper policies, allocate their resources more efficiently and perform their strategies as well as plans .This research has focused on all banks of district D. G. Khan, Pakistan and generalization of the research findings to other banks in Pakistan, requires further research.

It is useful to replicate this study in other contexts. It is also suggested that future researchers investigate other factors that might have effect on enhancing employee’s retention in banks and comparing banks with other cities of Pakistan and overseas banks on the basis of internal marketing criteria and also establishing an internal marketing program for banks.

**References**


Kang, Y.C. (2001). A study of internal marketing, behavior-based evaluation, job satisfaction, and customer oriented behaviors-- an


