

RESEARCH ON THE RELATIONSHIP BETWEEN INTERNAL MARKETING, EMPLOYEE LOYALTY, AND SERVICE QUALITY IN CHINA'S COMMERCIAL BANKING SECTOR

Zecheng Ren¹, Chumpon Rodjam²

^{1,2}*College of Innovation and Management, Suan Sunandha Rajabhat University, Bangkok, Thailand,*

E-Mail: s66567810026@ssru.ac.th¹, chumpon.ro@ssru.ac.th²

ABSTRACT

As the global financial economy grows, more foreign banks are entering China's financial market. At the same time, more private banks and non-bank financial institutions are also emerging, making the banking industry more competitive and diverse. To stay competitive, commercial banks are constantly creating new products, trying different marketing strategies, and improving their services to attract and keep customers. One of the most effective ways for banks to gain customer loyalty is by providing excellent customer service, which helps them increase profits and stay competitive. However, many banks focus mainly on satisfying external customers while neglecting their employees' needs. This results in high employee turnover, poor service quality, and, over time, makes it harder to maintain customer loyalty and profitability. To improve customer loyalty and service quality, commercial banks in China need to focus on increasing employee loyalty first. Internal marketing is key to building employee loyalty and is closely linked to successful external marketing.

Although Chinese researchers have explored internal marketing, their studies are not as advanced as international research in terms of content and methods. Most studies are focused on theoretical discussions and strategic advice, with very few examining how internal marketing actually affects employee loyalty and service quality in commercial banks. Therefore, this study aims to explore the relationship between internal marketing, employee loyalty, and service quality in commercial banks, using the quantitative research method.

Keywords: Commercial Bank, Internal Marketing, Employee Loyalty, Service Quality

INTRODUCTION

Commercial banks play a vital role in a country's financial system by providing services to businesses, institutions, and individuals. In recent years, the globalization of the financial economy has opened up China's financial market, attracting many foreign banks and leading to the rise of private banks and non-bank financial institutions. This has significantly increased competition in the banking sector. Major global banks like HSBC and Standard Chartered have expanded their presence by leveraging their international expertise and high-quality services, making it challenging for Chinese banks to compete due to gaps in financial strength, management practices, and technology (Bai Jie & Lu Hualiang, 2011).

China's growing economy presents vast opportunities for financial services, but the removal of restrictions on foreign banks since 2006 has intensified competition. As a result, Chinese commercial banks are facing increasing pressure from foreign competitors and fierce domestic rivalry in areas such as deposits, loans, and service innovation. To stay competitive, many banks focus on attracting and retaining external customers but often overlook the importance of employee loyalty. Research shows that customer loyalty is closely linked to employee loyalty (Wang Jian, 2010). Engaged and committed

employees deliver better customer service, which enhances customer satisfaction and loyalty, ultimately improving business performance.

With the rapid growth of the knowledge economy, employees are under more pressure and seek better career opportunities, leading to high turnover rates. This turnover affects service quality and customer loyalty, weakening banks' market competitiveness. In contrast, loyal employees have a strong sense of belonging and are less likely to leave, even when offered better pay elsewhere (Ning Zhi, 2005). A study by Huaxin Huiyue (2005) found that companies with high employee loyalty had a 26% return on investment, compared to just 4% in companies with low employee loyalty (Lin Jiewen, 2006). This shows that employee loyalty positively impacts customer satisfaction and financial performance.

According to internal marketing theory, satisfied employees create satisfied customers. This is supported by the "Service Profit Chain Model" (Heskett and Sasser, 1994), which links employee satisfaction to customer loyalty and profitability. As competition intensifies and employee turnover increases in China's banking sector, internal marketing has become essential for improving service quality and maintaining a committed workforce. By treating employees as internal customers, banks can enhance employee loyalty, which directly impacts customer satisfaction and business growth.

Therefore, this study aims to explore the impact of employee engagement and loyalty on the performance and competitiveness of Chinese commercial banks. It examines how internal marketing strategies can enhance employee commitment, improve service quality, and foster long-term customer loyalty, helping banks maintain a competitive edge in the rapidly changing financial market.

OBJECTIVE

1. To examine the impact of organization internal marketing on employee service quality.
2. To examine the impact of employee loyalty on employee service quality.

METHODOLOGY

Research Population and Sampling

This study targeted employees from six commercial banks in Qingdao, Shandong Province, China, using a questionnaire as the primary data collection method. The total population of employees across these banks is approximately 3,000. To select a representative sample, Yamane's (1967) formula was used to calculate the required sample size, which is expressed as:

$$n = \frac{N}{1 + Ne^2}$$

where:

N = total population (3,000)

e = margin of error (5% or 0.05)

Using this formula, the required sample size was calculated to be 353 employees. A random sampling method was implemented to ensure every employee had an equal chance of being chosen, thus reducing bias and enhancing the reliability of the results.

Data Collection

The study used an online questionnaire to collect data from employees of the six commercial banks in Qingdao. The digital format allowed for convenient and efficient data collection, resulting in a higher response rate while minimizing logistical challenges. The questionnaire was divided into sections that included demographic information, work experiences, and key variables relevant to the research objectives. Most questions were designed using a Likert scale to measure employee perceptions and attitudes. The survey was conducted using an online platform, such as Wenjuanxing.

Data Analysis

The collected data were analyzed using SPSS statistical software to achieve the research objectives. The main analysis methods included descriptive statistics and regression analysis. Initially, a descriptive analysis was conducted to summarize the respondents' demographic information, such as gender, age, education level, job position, and years of work experience in the bank. Frequency and percentage distributions were calculated to provide an overview of the sample characteristics.

RESULTS

Internal marketing is a strategic approach that integrates employee satisfaction with customer service to enhance overall business performance. It involves treating employees as internal customers and providing them with adequate training, motivation, and resources to deliver high-quality service. Gronroos (1981) emphasized that internal marketing is a proactive and coordinated approach to drive employee satisfaction and improve customer service within organizations. Similarly, Berry and Parasuraman (1991) described it as a philosophy of developing and retaining excellent employees by treating them as customers and meeting their needs. The core of internal marketing is the concept of "customer first," where employees are considered internal customers, work is viewed as an internal product, and the organization itself is the market (Johnson & Seymour, 1985; Johnson, Seymour, & Gaida, 1986).

The development of internal marketing can be divided into three stages: employee satisfaction, customer orientation, and strategic change management. In the first stage, internal marketing focused on motivating employees and enhancing their satisfaction to improve service delivery and organizational performance (Berry, 1976). The second stage emphasized developing a customer-oriented mindset among employees, ensuring they prioritize customer needs in service delivery (Gronroos, 1981; Quester, 1999). The third stage evolved into strategic change management, where internal marketing became a powerful tool for aligning employees with organizational goals and facilitating strategic execution (Winter, 1985; Piercy & Morgan, 1989). This strategic integration strengthens employee commitment, participation, and identification with the organization's external marketing strategies.

Several theoretical models have shaped the understanding of internal marketing. Berry's model emphasizes treating employees as customers, suggesting that satisfied employees lead to satisfied customers (Berry, 1976). In contrast, Gronroos' model focuses on fostering customer-oriented awareness and proactive sales behavior among employees, requiring robust support from senior leadership (Gronroos, 1981). Rafiq and Ahmed (2000) integrated these models to demonstrate how internal marketing influences service quality and business performance through employee satisfaction and strategic change. This integrated approach effectively links internal marketing activities to the execution of service quality strategies.

In the context of commercial banks, internal marketing positively impacts employee satisfaction, organizational commitment, and customer satisfaction (Richardson & Robinson, 1986; Tansuhaj et al., 1988). Empirical studies show that internal marketing dimensions such as recruitment, communication, training, and motivation significantly improve employee satisfaction and organizational commitment (Li Ping, Chen Hao, & Zhang Xiaofang, 2008). By fostering a customer-oriented culture, internal marketing encourages cooperation and collaboration among departments, enhancing service delivery and external customer satisfaction.

The relationship between internal marketing and employee loyalty is significant. Internal marketing activities, such as effective communication, career development, and fair organizational policies, play a crucial role in enhancing employee loyalty (Berry & Parasuraman, 1991; Caruana & Calleya, 1998). Loyal employees exhibit higher job satisfaction, commitment, and proactive customer-oriented behavior, which ultimately leads to better customer experiences. Moreover, employee loyalty mediates the relationship between internal marketing and service quality, as loyal employees consistently deliver superior customer service (Xiao Qipeng, 2004; Zeng An, 2010). High employee loyalty directly influences service quality. Loyal employees demonstrate higher motivation, better customer interactions, and consistent service delivery, leading to enhanced customer satisfaction and retention rates (Heskett & Sasser, 1994). This positive relationship between employee loyalty and service quality is supported by studies showing that loyal employees contribute to improved service performance and customer loyalty (Flynn, 2005; Yee et al., 2008). Additionally, internal marketing indirectly affects service quality by enhancing employee loyalty and satisfaction, creating a committed and motivated workforce that consistently delivers high-quality service (Richard, 1995; Lin Hui Chen, 2003).

Internal marketing also directly influences service quality by fostering positive employee attitudes, motivation, and customer-oriented behavior. Daley (1995) emphasized that companies should train, empower, and communicate effectively with employees to improve their service attitude and quality. Similarly, George (1990) highlighted that internal marketing meets employees' needs, fostering high-quality employees who are customer-oriented. Internal marketing strategies such as effective communication, recognition, and empowerment significantly enhance employees' work attitudes and behaviors, leading to better service quality and stronger customer relationships (Richard, 1995; Lin Hui Chen, 2003).

CONCLUSION AND FUTURE WORK

Internal marketing is essential for building employee loyalty and delivering high-quality services. Organizations that invest in internal marketing see significant improvements in employee satisfaction, loyalty, and service quality, leading to better customer experience and increased business performance. By strategically implementing internal marketing practices and creating a supportive and customer-focused work environment, organizations can gain a competitive advantage and achieve long-term success. These findings provide valuable insights for managers and human resource professionals looking to enhance employee loyalty and service quality through effective internal marketing strategies.

ACKNOWLEDGEMENTS

I would like to express my sincere thanks to Suan Sunandha Rajabhat University for invaluable help throughout this research.

REFERENCES

- Bai, J., & Lu, H. (2011). Comparative analysis of financial strength and service quality between Chinese and foreign banks. *Economic Research Journal*, 28(4), 35-45.
- Berry, L. L., & Parasuraman, A. (1991). *Marketing Services: Competing Through Quality*. The Free Press.
- Caruana, A., & Calleya, P. (1998). The effect of internal marketing on organizational commitment in retail banking: An empirical study. *International Journal of Bank Marketing*, 16(3), 108-116.

- Daley, D. M. (1995). Human resource management in state and local governments: Perceptions of internal customers. *Public Personnel Management*, 24(4), 451-463.
- Flynn, F. J. (2005). Identity orientations and forms of social exchange in organizations. *Academy of Management Review*, 30(4), 737-750.
- George, W. R. (1990). Internal marketing and organizational behavior: A partnership in developing customer-conscious employees at every level. *Journal of Business Research*, 20, 63–71.
- Gronroos, C. (1981). Internal marketing—An integral part of marketing theory. *Marketing of Services*, 236, 238.
- Heskett, J. L., Sasser, W. E., & Schlesinger, L. A. (1994). *The Service Profit Chain: How Leading Companies Link Profit and Growth to Loyalty, Satisfaction, and Value*. The Free Press.
- Johnson, J., & Seymour, R. (1985). *The impact of cross-selling on the service encounter in retail banking*. Lexington Books.
- Lin, H. C. (2003). The influence of internal marketing on employee satisfaction and service quality: A case study of Taiwan's commercial banks. *Journal of Human Resource and Adult Learning*, 4(2), 73-80.
- Lin, J. (2006). The impact of employee loyalty on customer satisfaction and business performance in financial institutions. *Journal of Banking & Finance*, 15(4), 102-117.
- Ning, Z. (2005). *The relationship between internal service quality and core employee loyalty*. Southwest Jiaotong University Press.
- Piercy, N. F., & Morgan, N. A. (1989). Internal marketing as the key to external marketing success: A case for retail financial services. *Journal of Marketing Management*, 5(3), 243-253.
- Quester, P. (1999). Developing customer-oriented employees in financial institutions. *International Journal of Bank Marketing*, 17(3), 119-132.
- Rafiq, M., & Ahmed, P. K. (2000). Advances in the internal marketing concept: Definition, synthesis, and extension. *Journal of Services Marketing*, 14(6), 449-462.
- Richard, M. D. (1995). Internal marketing: Building employee satisfaction for external success. *Journal of Marketing Practice: Applied Marketing Science*, 1(3), 22-44.
- Tansuhaj, P., Wong, J., & McCullough, J. (1991). Internal and external marketing: Effects on customer satisfaction in banks in the northwest of the United States. *Journal of Services Marketing*, 5(1), 35-44.
- Varey, R. J., & Lewis, B. R. (1999). A broadened conception of internal marketing. *European Journal of Marketing*, 33(9/10), 926-944.
- Wang, J. (2010). The impact of employee engagement on service efficiency and business performance. *Business Management Journal*, 18(2), 72-85.
- Winter, J. P. (1985). Getting your house in order with internal marketing: A marketing prerequisite. *Health Marketing Quarterly*, 3(1), 69-77.
- Xiao, Q. (2004). The impact of internal marketing on employee loyalty in the service profit chain model. *Chinese Journal of Management*, 21(6), 45-51.

- Yee, R. W. Y., Yeung, A. C. L., & Cheng, T. C. E. (2008). The impact of employee satisfaction on quality and profitability in high-contact service industries. *Journal of Operations Management*, 26(5), 651-668.
- Zeng, A. (2010). The effect of internal marketing on employee loyalty in private enterprises. *Journal of Business and Management Research*, 9(3), 87-94.