

MEASURING THE RELATIONSHIP BETWEEN INTERNAL MARKETING AND JOB SATISFACTION, MOTIVATION AND CUSTOMER ORIENTATION IN UTILITY (MUNICIPAL) SERVICES

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Abstract

Despite the theoretically proven positive effects of the internal marketing philosophy, it has not been widely accepted by marketing practitioners. In addition, there are not enough scientific papers on this topic, especially in the non-profit or the public services sector. The purpose of this paper is to measure the effects of internal marketing activities on the employee job satisfaction and motivation as well as their effects on the employees' customer orientation in utility (municipal) services. Furthermore, the relationships between all internal marketing elements and the major internal marketing outcomes were explored as well as the links

between them. The research revealed the extent of internal marketing implementation in utility (municipal) companies. It was conducted among the utility (municipal) firms' employees in the Region of Istria. The research findings enhance knowledge of internal marketing and its effects in the public services sector. Furthermore, the indicated relationships provide useful information for managers in the public sector in their attempts to provide higher service quality through successful internal marketing practices.

Key words: Internal marketing, Utility (municipal) services, Job satisfaction, Motivation, Customer orientation

1. INTRODUCTION

The internal marketing concept emerged from services marketing, as a tool for achieving high service quality and customer satisfaction and orientation (Rafiq and Ahmed, 2002).

Moreover, Ewing and Caruana (Ewing and Caruana, 2000) pointed out that internal marketing focuses on acquiring and retaining customer-oriented employees.

The term internal marketing appeared in 1976 (Tortosa Edo, Moliner Tena and Sánchez García, 2010) and, despite decades of presence, the concept is not fully accepted by practitioners (Gounaris, 2008). This fact indicates the need for further efforts of theorists and practitioners in order to provide understanding and allow for the application of the concept.

Since the 70's, the number of researches on IM in different fields has increased (Anosike and Ahmed, 2006; Chaston, 1994). However, the papers on internal marketing have mostly been focused on the private i.e. the profit sector (Ewing and Caruana, 2000). The relationships between internal marketing and job satisfaction, motivation and customer orientation were poorly researched within the public sector which has its own specificities, especially in today's society.

In addition, the need for service and customer focus and orientation from a public services employee as well as the needs of achieving high quality standards (Ramseook-Munhurrin, Lukea-Bhiwajee and Naidoo, 2010; Williams and Saunders, 2005) and citizen/customer satisfaction (Di Pietro, Guglielmetti Mugion and Renzi, 2013) were emphasized.

Moreover, according to ILO (2004), the wages in the public sector have been cut and the working hours have been increased in the nowadays society due to the crisis, and this has a strong negative impact on the public services quality.

According to Jurisch et al. (2013), due to contemporary challenges, the public sector must reinvent the service processes, as well as the approach of the public employee to the customer (Pegnato, 1997). On the other hand, public managers and policy makers are facing a lots of challenges (accelerated by the crisis) that forces them to embrace and implement the best practices and contemporary tools at their disposition. Furthermore, due to a number of similarities between the private and public sector (Wagenheim nad Reurink, 1991), public managers are advised to use private sector solutions (Jurisch et al., 2013).

Following the above, the public sector seems to represent fertile ground for implementation of the internal marketing concept. The importance of the potential power of a well applied internal marketing is even more highlighted, if the number of employees in the public sector is taken into account.

Ewing and Caruana (2000) pointed out the potential disregard of public employees, but they also highlighted the potential role IM could have in the public sector. Namely, according to Rafiq and Ahmed's (2002) theoretical framework, internal marketing could have the potential to influence directly and indirectly, through the job satisfaction and motivation, the employee customer orientation with the goal to achieve higher service quality and at least customer satisfaction.

Public managers interested in achieving customer/citizen satisfaction need to be aware of the antecedents of job satisfaction, motivation and customer orientation, such as internal marketing, as well as the possible effects of their application, in order to be able to effectively manage the service delivery process and, consequently, achieve customer satisfaction.

In addition, the necessity was emphasized for further investment in human resources in the modern public sector (Klun and Stare, 2008).

The findings will point out a part of the efforts have to be made by policy makers and public managers in order to develop customer oriented, satisfied and motivated public administration.

The main aim of this paper is to explore the influence of internal marketing on job satisfaction, motivation and customer orientation of employees in the public services sector.

The indirect linkages between internal marketing and customer orientation are investigated and the level of use of internal marketing in utility (municipal) firms is established.

The authors' research will be added to the body of knowledge as it indicates the effects of the conducted internal marketing activities within the public services sector. Furthermore, it provides deep knowledge on the indirect effects of internal marketing activities on customer orientation.

The paper consists of seven chapters. After the introduction, the second chapter presents the literature review and the hypotheses development. The third chapter outlines the methodology i.e. the sample and the data collected, and the measurement scales. In the fourth chapter, the most important results are highlighted, as well as the measurement model evaluations and the structural model analysis. The fifth chapter presents the discussion and the managerial implications. The sixth chapter outlines the research limitations and the directions for future researches. In the conclusion section, the most important implications are presented in a concise way.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Like in the profit sector, public service employees are expected to be customer oriented and prone to deliver high service quality. Moreover, a prerequisite for achieving customer/citizen satisfaction is that public sector employees are satisfied with their jobs and highly motivated. Taking into account the proven effects of internal marketing in the profit sector, as well as the multitude of public services and the number of public employees, the potential importance and applicability of internal marketing in the public sector are highlighted.

Based on the above and the evidence from the profit sector (Rafiq and Ahmed, 2002), if applied, IM could have the potential to influence the level of motivation, job satisfaction and customer orientation of public employees.

Furthermore, some authors highlighted the need for applying marketing principles in the public sector (Butler and Collins, 1995). Rao (1989) suggested that the marketing concept is highly applicable in public enterprises, regardless of their specific nature. Certain authors (Dann, Davidson and McMullan, n.d.) argued that there is substantial resistance in the public sector to the implementation of the total marketing concept

It was suggested (Chu and Yeh, n.d.) that the application of internal marketing in the public sector leads to higher internal service quality and higher internal customer satisfaction. However, customer service management is primarily applied in the private sector (Wagenheimand Reurink, 1991). Chaston (1994, p. 299) showed that the public health sector outdid the private sector in different areas of internal service quality management. In their research on internal marketing in the public sector, Ewing and Caruana (2000) highlighted the needs for practicing internal marketing in the whole internal market (e.g. not only within the marketing department).

Although Quester and Kelly (1999) highlighted the importance of the internal marketing philosophy in the services field, other authors (Pegnato, 1997, p. 402) pointed out the specificity of the public sector, which includes minor importance of achieving customer satisfaction and loyalty and the multitude of goals (unlike profit organizations whose main objective is profits).

It was suggested (Križman – Pavlović and Bušelić, 2001) that, despite the fact that internal marketing is a crucial element in achieving high service quality, it is not used in public services.

Taking into account the above and the fact IM is not widely accepted in the profit sector (Gounaris, 2008; Ahmed and Rafiq, 2002; Farzad, Nahavandi and Caruana, 2008), we hypothesize:

H1: Internal marketing (IM) is not widely accepted in utility (municipal) services.

Previous researches (Iliopoulos and Priporas, 2011) among public hospital employees showed that internal marketing positively affects the employee job satisfaction. This was confirmed in a research conducted among primary school teachers (Hung, 2012).

A study in non-profit organizations (Bennet, 2005) pointed out the positive correlation between the use of internal marketing and job satisfaction which subsequently leads to high quality service delivery. To the best of our knowledge, linkages between IM and motivation have not been investigated among public employees¹.

¹ According to Runko Luttenberger (2010, p. 82), public utility services of water treatment and waste management (environmental services) fall within the category of public sector or service of general interest.

Based on the above, the authors state:

H2: IM positively influences the job satisfaction of public employees.

H3: IM positively influences the motivation of public employees.

Despite their own framework for internal marketing of services, Rafiq and Ahmed (2002) highlighted there were mixed evidences of the correlations between, respectively, job satisfaction and motivation and customer orientation in the researches conducted in the profit sector.

In their research among sports centers owned by the respective municipal governments, Huang and Chen (2013) demonstrated that IM assists in creating customer oriented employees in public services. In addition, internal marketing is tightly connected with customer orientation (Huang and Chen, 2013).

Based on the above mentioned limited evidences, and with the aim to enlarge the knowledge in the field, we posit the following hypotheses:

H4: IM positively influences customer orientation of public employees.

H5: IM positively influences customer orientation of public employees through job satisfaction and motivation.

3. METHODOLOGY

3.1. Sample and data collection

The sample of the research was selected from the respondent population comprising employees of utility (municipal) companies in the Region of Istria. There are 9 companies providing utility services in the Region of Istria and they employ 1225 people in total. The utility (municipal) companies were delivered questionnaires in written form. The companies were asked to distribute them to all employees and then send the completed questionnaires back to the researchers. At the beginning of the questionnaire, the objective of the research was indicated, as well as the instructions to fill in the questionnaire. The research was conducted in May 2015. A total of 136 questionnaires was collected, out of which 4 were

filled in incompletely, so that 132 questionnaires were included in the analysis i.e. 10,8% of the total number of employees of utility (municipal) companies in the Region of Istria.

Out of the total number of respondents, 1,5% of them were aged between 18 and 25 years, 19,7% between 26 and 36, 40,9% between 36 and 45, and 28,8% between 46 and 55 years old, while 9,1% of respondents were older than 56. With regard to gender, 54,5% of respondents were male and females accounted for 45,5%, whereas, with regard to educational qualification, 39,4% of respondents had a high school degree, 57,6% had a college or university degree, and 3% of respondents had a master's or doctoral degree. With regard to the position in the organization, 3% of respondents were employed as the company's manager, 45,5% as head of the department, 48,5% as employee i.e. officer, and 3% of respondents were employed as the manager's assistant i.e. adviser. 25,8% of respondents had been working in the company from 1 to 5 years, 25,8% from 6 to 10 years, 18,2% between 11 and 15 years, whereas 30,2% of respondents had been employed at the company for over 15 years.

3.2. Measurement scales

The scale developed by Money and Foreman (1995) was used for measuring the internal marketing concept. Job satisfaction was measured using the Netemeyer et al.'s (1997) scale consisting of three items. In measuring the level of employee motivation, the Herpen, Praag and Cools' six-item scale (Mawoli and Babandako, 2011) was applied. The scale developed by Korschun, Bhattacharya and Swain (2014)² was used to identify the level of customer satisfaction. Questions about the age, gender, educational qualification, job position, and years of work in the company were included in the questionnaire.

All the scales used were Likert-type scales with 7 levels of intensity (1 - strongly disagree, 7 - strongly agree).

4. RESEARCH RESULTS

² The scale was based on the items proposed by Saxe and Weitz and Brown et al. (Korschun, Bhattacharya and Swain, 2014)

To test the Hypothesis 1, a summary scale was computed for the theoretical construct of internal marketing and the t-test was applied. The summary scale was computed after applying the factor analysis and verifying that the factor loading on the internal marketing construct was over 0,7, whereas the factor loadings on the other constructs were lower. The mean value of the summary scale is 4,66 (st. dev. 1,45) and it is statistically significantly different ($t=5,26$; $p<0,05$) from the mean value of the used measurement scale (4). Hence, the hypothesis that internal marketing is not widely used i.e. is moderately used in utility (municipal) services can be accepted.

The posited hypotheses H2-H5 were tested by means of the Partial Least Square (PLS) method of structural equation modeling (SEM). The PLS method was used instead of the covariance-based SEM (CB-SEM) analysis, because it allows for an analysis of relations between several latent variables simultaneously i.e. an analysis of complex models with many manifest variables and theoretical constructs. Besides that, PLS SEM does not experience problems with the identification of relations between individual theoretical constructs in smaller samples (<250)¹ and does not have any special requirements with regard to the distribution of manifest variables, because it is a non-parameter method. Finally, PLS SEM is more appropriate in situations when the objective and the focus of the analysis are more on prediction than explanation (Hair et al., 2010).

The software SmartPLS 3 (Ringle, Wende and Becker, 2015) was used for the data analysis. The data were analyzed in two steps. First, the measurement models of individual theoretical constructs were analyzed in order to establish the psychometric adequacy of individual measurement scales. In the second stage, a structural model was developed to test the posited hypotheses and the linkages between individual theoretical constructs. Before carrying out the analysis, all manifest variables were checked as to the presence of outliers. No outliers i.e. values above ± 3 of the standard deviation of the arithmetic mean of individual variables were identified and all the data collected were used in the analysis. This procedure assures that the measurement scales are valid and reliable before testing the hypotheses.

4.1. Measurement model evaluations

A total of 8 latent variables with reflective measurement models (Mode A measurement) were included in the analyzed model. The reflective measurement models for individual constructs

were used because reflective indicators can be considered a representative sample of all possible indicators of the conceptual domain of individual constructs (Hair et al., 2013). In addition, changes of the indicators are caused by individual theoretical constructs (Diamnatopoulos and Winklohofer, 2001) and they can be considered mutually replaceable² without jeopardizing the content validity of individual constructs. Lastly, the assumption that some indicators do not have an associated error term (Diamantopoulos, 2011) cannot be accepted. Two theoretical constructs were conceived as higher component models (HCM), namely reflective-reflective type HCM (Ringle, et al., 2012). The first HCM referred to the construct Internal Marketing (second order construct) and it included the subdimensions Vision, Development and Rewarding (first order constructs). The second HCM was named Personal Employee's Factors and it included the subdimensions Motivation and Job Satisfaction that had originally been envisaged as separate first order constructs. Such concept was necessary as the constructs Motivation and Job Satisfaction did not meet the discriminant validity criterion and there was a collinearity problem (Variance inflation index -VIF > 5). To establish both HOC constructs, the authors used the repeated indicator approach, i.e. all indicators of lower order constructs were allocated to HOCs (Wetzels, Odekerken-Schröder and Van Oppen, 2009).

Internal consistency reliability, convergent and discriminant validity of the reflective measurement models of individual theoretical constructs will be assessed in the section below. For the assessment of internal consistency reliability and convergent validity, outer loadings, the Composite Reliability indicator (C.R.), the Cronbach's alpha coefficient and the Average Variance Extracted indicator (AVE) were computed. The results of the analysis of the measurement models are given in Table 1.

Table 1: Analysis of the measurement models

Construct	Item	Outer loadings - Original Sample (O)	Outer loadings- Sample Mean (M)	Standard Error (STERR)	t-value	Cronbach alpha	C.R.	AVE
Vision	VIS1	0,962*	0,962	0,008	122,18	0,92	0,96	0,93
	VIS2	0,966*	0,966	0,007	135,01			
Development	DEV1	0,781*	0,780	0,042	18,60	0,95	0,96	0,75
	DEV2	0,899*	0,899	0,016	56,65			

	DEV3	0,925*	0,925	0,012	76,58			
	DEV4	0,887*	0,887	0,017	51,27			
	DEV5	0,911*	0,910	0,015	60,52			
	DEV6	0,904*	0,904	0,016	56,44			
	DEV7	0,817*	0,817	0,038	21,27			
	DEV8	0,804*	0,805	0,041	19,44			
Rewarding	NAG1	0,905*	0,904	0,024	38,21	0,95	0,96	0,83
	NAG2	0,938*	0,938	0,011	82,16			
	NAG3	0,907*	0,907	0,017	52,14			
	NAG4	0,874*	0,873	0,029	30,37			
	NAG5	0,928*	0,927	0,012	77,91			
Internal marketing	VIS1	0,834*	0,834	0,025	33,26	0,97	0,97	0,69
	VIS2	0,874*	0,874	0,021	41,76			
	DEV1	0,748*	0,747	0,045	16,66			
	DEV2	0,899*	0,899	0,016	25,94			
	DEV3	0,862*	0,861	0,023	37,02			
	DEV4	0,855*	0,855	0,024	35,47			
	DEV5	0,848*	0,847	0,026	32,78			
	DEV6	0,833*	0,833	0,027	30,50			
	DEV7	0,788*	0,789	0,039	19,96			
	DEV8	0,844*	0,844	0,029	28,63			
	NAG1	0,804*	0,803	0,044	18,20			
	NAG2	0,826*	0,825	0,029	28,38			
	NAG3	0,844*	0,843	0,029	29,03			
	NAG4	0,841*	0,841	0,033	25,86			
	NAG5	0,928*	0,927	0,032	25,45			
Motivation	MOT1	0,824*	0,825	0,034	24,55	0,90	0,92	0,71
	MOT2	0,840*	0,840	0,033	25,79			
	MOT3	0,792*	0,791	0,039	20,48			
	MOT4	0,894*	0,894	0,023	38,67			
	MOT5	0,847*	0,846	0,029	29,45			
Job Satisfaction	JS1	0,958*	0,958	0,011	88,63	0,94	0,96	0,90
	JS2	0,955*	0,955	0,011	88,27			
	JS3	0,927*	0,928	0,013	71,86			
Personal Employee's	MOT1	0,796*	0,797	0,040	19,89	0,95	0,95	0,74
	MOT2	0,848*	0,848	0,028	29,98			

Factors	MOT3	0,767*	0,766	0,042	18,35			
	MOT4	0,877*	0,876	0,025	34,91			
	MOT5	0,821*	0,820	0,034	24,31			
	JS1	0,917*	0,917	0,022	41,35			
	JS2	0,929*	0,929	0,013	73,96			
	JS3	0,894*	0,895	0,018	49,39			
Customer orientation	COR1	0,841*	0,836	0,054	15,47	0,86	0,90	0,70
	COR2	0,855*	0,848	0,049	17,39			
	COR3	0,839*	0,840	0,071	11,76			
	COR4	0,811*	0,797	0,086	9,48			

*p<0,05

Source: Authors' calculations

Based on the results of the analysis of the measurement model, it can be concluded that all 8 reflectively measured constructs had a satisfactory level of internal consistency reliability and convergent validity. Outer loadings of all variables of the indicators of individual constructs are statistically significant at the level of 5% and above 0,7. The statistical significance of outer loadings was established by bootstrapping procedure on the basis of 5000 subsamples. Finally, the C.R. and AVE indicators for all constructs were above 0,7 i.e. 0,5, indicating a satisfactory level of convergent validity of the measurement scales.

Discriminant validity was established based on the Fornell-Larcker criterion, by comparing cross loadings and calculating the heterotrait-monotrait ratio (HTMT) of correlations. It should be emphasized that the discriminant validity criterion had to be met only by HOC constructs and the construct Customer Orientation (according to Hair et al., 2013).

Table 2 outlines the assessment of the Fornell Larcker criterion. Square roots of the AVE indicators are shown on the diagonal and correlations between individual constructs are shown below the diagonal. The total amount of the roots of the AVE indicators for the two HOC constructs and the construct Customer Orientation was higher than the correlations of these constructs with the other constructs in the model, thus meeting the Fornell-Larcker criterion (Fornell and Larcker, 1981).

Table 2: Fornell Larcker criterion

	Vision	Develo pment	Rewarding	Internal marketing	Motiva- tion	Job Satisfaction	Empl. Pers. Fact.	Cust. orient.
Vision	0,964							
Development	0,798	0,868						
Rewarding	0,773	0,755	0,911					
Internal marketing	0,886	0,886	0,908	0,830				
Motivation	0,772	0,732	0,732	0,797	0,840			
Job satisfaction	0,752	0,692	0,712	0,765	0,892	0,947		
Personal Employee's Factors	0,785	0,735	0,745	0,806	0,980	0,965	0,858	
Customer orientation	0,342	0,328	0,302	0,347	0,350	0,375	0,370	0,837

Source: Authors' calculations

Discriminant validity of the single HOC constructs and the construct Personal Employee's Factors was further confirmed by comparing cross loadings with indicator outer loadings. All indicator outer loadings on the respective construct were higher than all their cross loadings on the other constructs.

HTMT ratio of correlations is shown in Table 3. It is a relatively new indicator for the assessment of discriminant validity of constructs in PLS models which, according to researches, is superior to the Fornell Larcker criterion and the verification of cross loadings. The above indicator represents the average of the heterotrait-heteromethod correlations (the correlations of indicators across constructs measuring different phenomena), relative to the average of the monotrait-heteromethod correlations (correlations of indicators within the same constructs) (Hensler, Ringle and Sarstedt, 2015, p. 121). HTMT ratio for each set of two analyzed constructs (indicated in bold) was lower than the recommended value of 0,9 and the upper limit of the bias corrected confidence interval for HTMT ratio below 1, thus providing sufficient evidence of the presence of discriminant validity of the measurement models.

Table 3: HTMT ratio of correlations

	Original	Confidence	Confidence
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	Sample (O)	Interval Low*	Interval Up*
Motivation -> Internal marketing	0.852	0.787	0.917
Rewarding -> Internal marketing	0.945	0.917	0.972
Rewarding -> Motivation	0.790	0.701	0.876
Customer Orientation -> Internal marketing	0.361	0.202	0.541
Customer Orientation -> Motivation	0.375	0.205	0.570
Customer Orientation -> Rewarding	0.322	0.159	0.493
Personal Employee's Factors -> Internal marketing	0.838	0.774	0.898
Personal Employee's Factors -> Motivation	1.066	1.044	1.094
Personal Employee's Factors -> Rewarding	0.782	0.694	0.863
Personal Employee's Factors -> Customer Orientation	0.383	0.212	0.568
Development -> Internal marketing	0.996	0.985	1.008
Development -> Motivation	0.793	0.710	0.874
Development -> Rewarding	0.794	0.715	0.870
Development -> Customer Orientation	0.345	0.175	0.545
Development -> Personal Employee's Factors	0.774	0.691	0.856
Vision -> Internal marketing	0.932	0.897	0.970
Vision -> Motivation	0.848	0.769	0.932
Vision -> Rewarding	0.825	0.760	0.888
Vision -> Customer Orientation	0.356	0.196	0.555
Vision -> Personal Employee's Factors	0.838	0.763	0.916
Vision -> Development	0.850	0.787	0.916
Job Satisfaction -> Internal marketing	0.799	0.729	0.870
Job Satisfaction -> Motivation	0.970	0.934	1.007
Job Satisfaction -> Rewarding	0.754	0.662	0.843
Job Satisfaction -> Customer Orientation	0.387	0.208	0.570
Job Satisfaction -> Personal Employee's Factors	1.016	1.002	1.033
Job Satisfaction -> Development	0.731	0.643	0.828
Job Satisfaction -> Vision	0.806	0.725	0.887

*bias corrected

Source: Authors' calculations

4.2. Structural model analysis

After verifying the internal consistency reliability and the convergent and discriminant validity, the structural model was analyzed and the posited hypotheses were tested. The statistical significance of individual parameters of the structural model was established by bootstrapping procedure on the basis of 5000 subsamples (“no sign changes” option included). The results of the analysis of the structural model are shown in Table 4.

Table 4: Analysis of the structural model

	Hypothesis	Original sample standardized coefficient (β)	t values	95% Confidence Intervals**	R ²	f ² effect size	Q ²	Accepted hypothesis
	IM -> Vis	0,886*	49,54	[0,853 – 0,922]	0,76	3,65	0,73	
	IM -> Dev	0,954*	104,71	[0,936 - 0,971]	0,91	10,06	0,68	
	IM -> Nag	0,908*	56,79	[0,877 - 0,937]	0,82	4,68	0,68	
	PEF->MOT	0,980*	226,26	[0,977 - 0,987]	0,96	23,76	0,47	
	PEF->JS	0,965*	156,54	[0,954 - 0,977]	0,93	13,41	0,68	
H2 and H3	IM -> PEF	0,806*	24,84	[0,745 - 0,869]	0,65	1,85	0,83	accepted
	PEF->CUSOR	0,257	1,256	[-0,134 - 0,641]		0,03		
H4	IM ->CUSOR	0,141	0,71	[-0,231 - 0,530]	0,14		0,09	not accepted
H5	IM ->PEF->CUSOR	0,347*	4,149	[0,260 – 0,522]		0,01		not accepted

**p<0,05, ** bias corrected

Source: Authors' calculations, p<0.05.

Based on the results of the analysis of the structural model, the hypotheses H₂ and H₃ are accepted and the hypotheses H₄ and H₅ are rejected. Based on the value of the determination coefficient R², HOC constructs Internal Marketing and Personal Employee's Factors explain to a great extent the variance of the pertaining lower order constructs. The values of the R² indicator for individual LOC constructs range between 0,76 and 0,93. Likewise, all relations between HOCs and the pertaining LOC constructs are statistically significant at the level of

5%. Internal marketing has a statistically significant impact on the construct PEF, and consequently on the employees' motivation and job satisfaction (H2,H3: $\beta=0,806; [0,745 - 0,869]$, $p<0,05$), and explains the 83% of its variance, whereas the effect size of the construct IM was 1,85 which, according to Cohen (1988), can be considered large effect size. The research established that IM has no direct statistically significant impact on the construct Customer Orientation (H4: $\beta=0,141; [-0,231 - 0,530]$, $p>0,05$). Besides that, the hypothesis of the indirect impact of IM on customer orientation through the construct of personal employee's factors, which includes motivation and job satisfaction, is not accepted. Although the total effect is statistically significant ($\beta=0,347; [-0,260 - 0,522]$, $p<0,05$), the hypothesis is not accepted because no statistically significant direct impact or statistically significant indirect impact of IM on customer orientation was established (PEF->CUSOR, $\beta=0,257$, $t=1,256$, $p>0,05$; indirect effect $\beta=0,207$, $t=1,254$, $p>0,05$). The research results are in line with the previously mentioned (Rafiq and Ahmed, 2002) mixed evidence regarding these relationships.

Predictive relevance of the structural model was established with the Blindfolding procedure by using the cross-validate redundancy approach, and the Stone-Geisser's Q^2 value was calculated (Geisser, 1974; Stone, 1974). For all endogenous constructs (PEF, Customer Orientation), Q^2 values were above 0, indicating a satisfactory level of the predictive relevance model.

For the purpose of assessment of the quality of the structural model, the standardized root mean square residual (SRMR) value was calculated. It allows assessing the average magnitude of the discrepancies between observed and expected correlations as an absolute measure of (model) fit criterion, which for the Composite factor model amounted to 0,093 and was below the recommended value of 0,1 (Hu and Bentler, 1998; Hensler and Sarstedt, 2013). This indicates a satisfactory level of the adjustment of the structural model to the empirical data. The study results are elaborated in more detail within the discussion and recommendations for future researches.

5. DISCUSSION AND MANAGERIAL IMPLICATIONS

The study provides practitioners with a better understanding of the effects of internal marketing in the public sector environment and it could be of interest to public service

managers and policy makers. Namely, our research suggests that IM is not widely accepted in public service companies, but it highlights the strong effect of the application of internal marketing on the motivation of employees and their job satisfaction. Accordingly, public managers should take into account all components of the internal marketing concept – vision, development and rewarding employees. This is especially important, since it was established with additional analyses that there is a statistically significant difference ($t=2,38$, $p<0,05$) in the attitudes towards the application of internal marketing between managers ($\bar{X}_{\text{Im-managers}} = 4,95$, $\delta=1,44$) and employees ($\bar{X}_{\text{Im-employees}} = 4,36$, $\delta=1,40$) in utility (municipal) companies. The mission of the company, which has to be realistic, must be clearly communicated to employees. In addition, the role of employees in the performance of the job should be completely defined and they should be provided with appropriate training programs related to the provision of services. Lastly, the employees' results in respect of the goals achieved should be properly remunerated through planned reward systems. This requires a variety of education programs, trainings, workshops to be carried out with managers, where the importance and the role of internal marketing in the context of the company's performance and the achievement of customer satisfaction would be highlighted, as well as the way of using the internal marketing tools in order to achieve better effects on the internal market.

Based on the data demonstrated in this study, policy makers, whose attitudes and decisions directly influence the direction of development of the public administration, can incorporate into their strategic documents the need of implementing internal marketing as one of the measures in their attempts to achieve citizens' satisfaction with public services.

6. RESEARCH LIMITATIONS AND FUTURE RESEARCH

The conducted research has several limitations which, however, provide a fertile ground for future researches. The sample used in the research included only utility (municipal) companies operating in the Region of Istria, and its extension to include other public services as well as the expansion of the sample size and the structure to other geographical areas would contribute to greater generalization of the results. Moreover, the cross section approach used in the research does not provide a full conclusion with regard to the possible cause-and-effect relationships between the constructs; hence an experimental approach would certainly be more appropriate in order to obtain a more rounded picture of the internal marketing effects. Furthermore, due to the small size of the sample ($n=132$), the authors did not verify

the possible unobserved heterogeneity problem (Hair et al., 2013), which could partly explain the non-existence of a direct i.e. indirect relationship between the internal marketing concept and customer orientation. For these purposes, the analysis should also include the possible moderator variables such as the employee's personality, perception towards the job and the assigned tasks, role clarity/ambiguity, and the demographic variables, e.g. work experience and position in the organization (manager vs. employee).

Lastly, customer orientation was surveyed from the employee's standpoint. In future researches, it would be useful to identify the relationship between the use of internal marketing and the perception of service quality in the field of public services, thus allowing for the identification of the attitudes of both public service providers and users.

7. CONCLUSION

The public sector is increasingly under pressure to deliver higher service quality. Because of the economic crisis and the changing environment and society, today it is even more complex to achieve this objective. These facts force the public sector to implement profit sector solutions. Namely, the internal marketing philosophy is of equal importance for the non-profit/public sector and the profit sector because of the common goal to achieve a satisfied customer or citizen through customer orientation and high service quality. The research results showed that IM is an important concept in a holistic marketing approach in the service management. The conducted research highlighted that IM is not widely implemented in the public sector even though it has shown significant effects of the performed internal marketing activities on the achievement of motivated and satisfied employees. Based on the above, more effort is needed from both policy makers and public managers in embracing the IM philosophy. The potential effects of successfully implemented IM could affect a large number of people (i.e. public employees and public service users).

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