INTERNAL MARKETING AND CUSTOMER LOYALTY AMONG MICROFINANCE BANKS IN AKWA IBOM STATE, NIGERIA

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ABSTRACT

The competitive landscape in the Microfinance Banking Industry has accentuated the need for effective internal marketing sub strategies to increase customer loyalty. The objective of the study is to explore the relationship between internal marketing sub strategies and customer loyalty in microfinance banks in Nigeria. In order to achieve the objective of the study, data were collected using questionnaire from 143 respondents who were the banks’ staff. 139 copies of the questionnaire were retrieved in useable form and analysed using the pearson product moment correlation. It was revealed that internal marketing sub strategies had a significant relationship with customer loyalty. We recommend that managers and staff of microfinance banks should enhance effective use of internal marketing sub strategies in order to increase customers’ loyalty and satisfaction which lead to increase in marketing related goals such as revenue, growth and share.

Keyword: Internal Marketing, Customer Loyalty, Microfinance Banks, Nigeria

INTRODUCTION

Service Marketing has evolved into a highly competitive discipline with many factors influencing service quality and the ultimate success of microfinance banks. Due to the nature of services, often the main determinant of a customer’s perception of service quality is their interaction with the bank staff (Zeithalm and Bitner, 2009). This leads banks to acknowledge the importance of employee in service delivery and quality (Zeithalm and Bitner, 2009). Internal marketing is an internal process of initiating, maintaining and developing relationships between employees, their management and the organization for the purpose of creating superior value for customers (Gapp and Merrilees, 2006). This view is upheld in
literature by Robert and Steyn (2007) and Ahmed and Rafiq (2002) who agree that internal marketing (IM) is a process whereby internal relationships are built with the aim of creating value. Gapp and Merrilees (2006) view IM as being an appropriate method for communicating organization’s brand internally. They describe IM as a concept based on the belief that with a service value chain, a firm’s internal customers (employees) can be motivated to strive toward customer consciousness, market orientation and sales mindedness through the application of accepted external marketing approaches. Garcia, Varela and Del Rio (2010) posit that employee satisfaction and customer loyalty are similar in that both require the provision of rewards to satisfy wants and needs, inorder to do so banks need to treat employees in much the same way as they would to customers.

Banks need to adopt a relationship-base approach in marketing its services inorder to increase customer loyalty and retention. Adapt to changing trends of customer demand and advancement in Information Technology (Gronrous, 2008, Ghas and Ropovich, 2003). The basis philosophy underlying this move is that it costs more to attract new customers than to nurture and develop existing ones. Numerous studies have confirmed this assertion. For example, (Ndubisi, 2003; Rosenberg and Czepul, 1983) have shown that the cost of serving one loyal customer is five to six times less than the cost of attracting and serving one new customer. Also, (Reichheld and Sasser, 1990) found that when a company retains just five (5) percent more of its customers, profit could increase by 25 percent to 125 percent. Furthermore, Kim and Cha (2002) assert that by reducing customer defections by 15 percent firms can improve their profitability by 25 to 85 percent. It is in the light of the above that this study seeks to examine the relationship between internal marketing and customer loyalty in microfinance banks.

Statement of the Problem

Research has shown that some difficulties encountered by Microfinance banks in Nigeria are increase customer expectations and high rate of customer defections. Bank need to realize the need to foster closer relationships with their customer in order to ensure customer loyalty and retention (Ndubisi, 2003; Rosenberg and Czepiel, 1998).

Competition has assumed such intensity that the very survival of individual microfinance banks has come under serious threat (Ndubisi, 2003; Rosenberg and Czepiel,
Staying ahead of the competition and achieving competitive advantage appear to be one of the critical challenges facing many microfinance banks (Ndubisi, 2003; Dominici and Guzzo, 2010). The general problem is that many microfinance bank customers have defected as a result of increase customer expectations and intense competition which has assume such intensity that the very survival of individual microfinance bank has come under serious threat. The specific business problem is that some microfinance managers do not understand the relationship between internal marketing and customer loyalty.

**Research Objectives**

The main objective of the study is to examine the relationship between internal marketing and customer loyalty.

The specific objectives are to:

1. Determining the relationship between employee motivation, reward and customer loyalty.
2. Ascertain the relationship that exists between effective communication and customer loyalty.

**Research Questions**

This study attempts to seek answers to the following research questions:

1. What is the relationship between employee motivation, reward and customer loyalty?
2. What relationship exists between effective communication and customer loyalty?

**Hypotheses**

The following null (H₀) hypotheses were formulated to guide the conduct of the study:

- **H₀₁**: There is no significant relationship between employee motivation, reward and customer loyalty.
- **H₀₂**: Effective communication does not have any significant relationship with customer loyalty.

**Significance of the study**

This study is of immense value to government, bank regulators, investors, academics and other stakeholders. It will go a long way in contributing to the growth of business in
many aspects like increase in the volume of sales, return on investment and maintenance of goodwill. By identifying the strength of some microfinance banks, it will aid some microfinance banks stay ahead of competition and gain competitive advantage leading to a positive social change in our society. This study will enable the government get to know the problems affecting microfinance banks and realize how difficult the porches are, and device a means to solve the problems. It will aid the government to know how to uplift the image of microfinance banks in Nigeria.

CONCEPTUAL FRAMEWORK

Concept of Customer Loyalty

Customer loyalty is defined as a deep commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive in same brand or same brand set purchasing despite situational influence and marketing efforts having the potential to cause switching behaviour (Oliver, 1999). Lovelock, Lewis and Vandermerve (1999) argue that in business context, loyalty is used to describe the willingness of a customer to continue patronizing a firm’s goods and services over a long period of time and voluntarily recommending the firm’s product to friends and associates. In their view, customers will continue to be loyal to a particular firm if they feel and realize that better value is being offered. Kotler and Armstrong (2010) assert that the most important consideration to attain high customer loyalty is for firms to deliver high customer value. He further states that it has been the practice by firm’s to denote much attention and efforts to attracting new customers rather than maintaining existing one. Pullman and Gross (2004) argue that loyal customers are key to success for many service organizations. Bowen and Shoemaker (1998) indicate that a small increase in loyal customer can result in a considerable increase in profitability.

Loyalty has both attitudinal and behavioural dimension (Dick and Basu, 2004). Customers who are behaviorally loyal to a firm display more favorably disposition towards the firm relative to competitors (Leverin and Liljander, 2006). However, numerous studies such as (Aldlaigan and Buttle, 2005; Liljander and Roos, 2002; Reinartz and Kumar, 2000) have shown that in some case behavioural loyalty such as repeat purchase does not necessarily represent attitudinal loyalty, since other underlying limiting factors, such as distance and monopoly power, might serve as barriers to customer defection.
The link between customer relationships, customer loyalty has been established (Reichheld and Sasser, 2011). The increase profit from loyalty comes from reduced marketing costs, increased sales and reduced operational costs (Reichheld and Sasser, 2011). Loyal customers provide strong word-of-mouth, create business referrals, provide references and serve on advisory boards (Raman, 1999). Raman (1999) posits that loyal customer serves as a “fantastic marketing force” by providing recommendations and spreading positive word-of-mouth, increase sales by purchasing a wider variety of the bank’s products, make more frequent purchases and cost less to serve, in part, because they know the product and require less attention.

**Concept of Internal Marketing**

Internal marketing (IM) has, in recent years, embodied this philosophy and is defined by Papasolomou and Vrontis (2006) as any form of marketing within an organization which focuses on staff and the internal activities used in order to enhance external marketplace performance. Gounaris (2006) agree with leading IM authors. Ahmed and Rafig (2002), in that IM can be used to improve service quality and external marketing campaigns, but that its effect on both concepts is mediated by IM’s influence on employee satisfaction.

Previous research into IM has aimed at understanding the abstract concept of IM in terms of its definition, synthesis and extension (Rafig and Ahmed, 2000), its linkage to relationship marketing and service quality (Bames, Fox and Morris, 2004), the impact of IM on various service industries (Keller, Lynch, Ellenger, Ozment and Calatone, 2006; Hwang and Chi, 2005; Papasolomou and Vrontis, 2006), internal marketing orientation (Lings and Greenby, 2005), the link between internal marketing. Organizational culture and job satisfaction (Shiu and Yu, 2010) and how to use IM to improve service quality (Tsai and Tang, 2008). Although authors agree that there are links between job satisfaction and service quality (Shiu and Yu, 2010) and that IM has relationship with job satisfaction (Yang and Coates, 2009 ; Gounaris, 2006; Chang and Chang, 2007) there are often overlapping IM constructs and authors cannot agrees as to what constitutes IM. Elements such as jobs as products (Gounaris, 2006), place (Papasolomou and Vrontis, 2006; Barnes, 2004), promotion or internal communication (Burmann and Zeplin, 2005; Rafig and Ahmed, 2000), People (Papasolomou and Vrontis, 2006; Roberts-Lombard and Steyn, 2007; Gounaris, 2006), Price
(Keller et al., 2006; Ahmed, Rafig and Saad, 2003), reward (Bames, Fox and Morris, 2004; Ahmed and Rafig, 2002; Gounaris, 2006; Burmann and Zeplin, 2005) and leadership (Burmann and Zeplin, 2005; Ahmed, Rafig and Saad, 2003; Gounaris, 2006) have all been studied by various authors. These elements are seemingly indiscriminately changed and adapted to suit individual studies and often broad IM elements are broken into numerous more specific constructs until one is faced with a veritable minefield of possible IM elements.

Elsamen and Alshurideh (2012) assert that training employees for specific purposes like how to communicate with others will help in improving the internal service quality among the co-workers. This assertion is in support of Kotler (1991) who proposes that the organization must carry out internal marketing before external marketing. Further as the task of successfully hiring, training and motivating able employees to serve the consumer well. He emphasizes that it makes no sense for a business to promise excellent products or service before the company staff is ready to provide it. Lings and Greeleg (2005), advocate that the goal of internal marketing lies in motivating the employees and encouraging them to offer superior services to customers which will improve the customers’ satisfaction of the company services. Elisamen and Alshurideh 2012 list the dimensions of internal marketing as employee motivation and reward, effective communication, employee development, employee selection, employee recruitment, support system and healthy work environment.

From review of numerous literature, many constructs have been identified by researchers on the dimension or constructs of internal marketing, the first two factors (employee motivation, reward and effective communication) advocated by Elsamen and Alshurideh (2012) seem consistent, hence they were adopted in this current study.

Effective Communication

Internal System Communication includes relationships between and within departments. Good internal communication acts as a binding ingredient in organizations for the implementation of successful strategies (Ahmad, Iqbal and Sheerah, 2012). In most companies, communication provides an information channel. It links managers and employees in different departments within the same organization (Ali, 2016) Carrier and Bourque (2009) claim that managers spend 75% or more of their work time engaged in some form of communication. Lovelock and Wright (1999) affirm that an effective internal
communication is a very important tool for internal marketing. It helps the management to ensure effective service delivery at a high satisfactory level and helps build employee trust, respect and loyalty. Organizations must give a serious consideration to improve the level of communication with employees to communicate its vision and missions as well as provide effective strategies to transfer knowledge and information, by using different methods such as team work discussion sessions and internal newsletter (Elsamen and Alshurideh, 2012).

**Employee Motivation and Reward**

Motivation is defined as the process that accounts for an individual’s intensity, direction and persistence of effort towards attaining a goal (Page, 2008). According to Carraher, Gibson and Buckley (2006), among the factors that affect customer loyalty, motivation that comes with rewards is of utmost importance. Theorist such as Maslow (1943), Herzberg, Mausner and Snyderman (1959) and Alderfer (1972) have sought to explain employee motivation by holding unto the assumption that all individuals posses the same set of needs and therefore prescribe the characteristics that ought to be present in the jobs. Maslow (1943) arranged human needs into a pyramid and combined them with motivation as a factor that encourages people, to satisfy their needs through working (Ali, 2016). Herzberg, Mausner and Snyderman (1959), divided motivation into extrinsic and intrinsic factors, which influence employees’ motives and job satisfaction. In the early development phrase, the majority of the work on internal marketing focused upon the issue of employee motivation and satisfaction. The major reason behind this was the fact that the roots of the internal marketing concept lie on efforts to improve service quality in organizations (Pranowo, 2012). Motivation therefore is about what a person wants and his emotional state which derives him in the direction of achieving what he wants (Mullin, 2010). According to Elsamen and Alshurideh (2012) companies that seek competitive advantage through employees must be able to manage the behaviour and result of all employees. Papasolomou (2006) have indicated that there is no doubt that motivation is an important factor that improves the performance of the employees. Thus, many companies set a systematic reward to motivate its employees in order to improve their service quality and delivery (Papasolomou, 2006). There are methods of developing personnel capacities according to Vinokur, Jayaratine and Chess (1994), some ways that personnel could be motivated are through salary, fringe, benefits, job security, physical surroundings and safety.
Colvin (1998) asserts that financial incentives will get people to do more of what they are doing. Thus Igbaekemen (2014) adds that there is no doubt that motivation is the key to increase loyalty, but there is no clear cut answer to the question of how to motivate.

**Relationship between Internal Marketing and Customer Loyalty**

In the 1980s, the concept of IM was first introduced as a solution for service organizations facing the problem of continuously delivering high service quality. Since the inception of the concept, the nature of business has evolved to such an extent that both manufacturing and service organizations are now realizing the importance of efficient customer service through motivated employees (Simberova, 2007). When internal marketing is perceived in terms of relationships, it becomes important to understand the different aspects presents in a relationship (Gronrous and Voima, 2013). The relationship between management and employees should be customized so that the employees feel their needs and expectations are taken into consideration. In the same way as the needs and expectations of the external customers are perceived to be important and the organization seeks to fulfill them, so the needs and expectations of employees should be perceived as important too (Gronroos and Voima, 2013). It is obvious that it is impossible to fulfill all the demands of the employees but the company and its management should try to nurture the relationships with employees so that both parties find the relationship rewarding (Gronroos and Voima, 2013). Satisfied customers are the sources of all profits and shareholders’ value. Customers can choose from whom they buy and unless the firm satisfies them at least as well as competitors, sales and profits will quickly erode. More banks are putting at the top of their agenda winning and retaining customers’ satisfaction. Banks for example, now places increasing customer satisfaction ahead of return on investment and market share as key corporate objectives. The aim is to forge strong, enduring relationships with customers (Doyle, 2010).

The link between customer relationships, customer loyalty has been established (Reichheld and Sasser, 2011). The increase profit from loyalty comes from reduced marketing costs, increased sales and reduced operational costs (Reichheld and Sasser, 2011). Loyal customers provide strong word-of-mouth, create business referrals, provide references and serve on advisory boards (Raman, 1999). Raman (1999) posits that loyal customer serves
as a fantastic marketing force by providing recommendations and spreading positive word-of-mouth, increase sales by purchasing a wider variety of the bank’s products, make more frequent purchases and cost less to serve, in part, because they know the product and require less attention.

**Relationship between Employee Motivation, Reward, Effective Communication and Customer Loyalty**

Service organizations focus on consistently delivering high service quality, but these services are offered by employees and employees are not always consistent. This brought to the fore the problem of how to ensure that service quality delivered by employees is of a consistently high quality. The solution to this was proposed as being employee motivation and satisfaction (Ahmed and Rafig, 2002). Berry, Wall and Carbone (2006) support this by putting forward the concept of employees as internal customers whose job products satisfy their needs. The premise for this in the development of Internal Marketing (IM) was that in the marketing of services, much of what the customer buys is human acts of performance. Therefore, in order for an organization to have satisfied clients who receive consistently high service quality, an organization must have satisfied employees (Ahmed and Rafig, 2002). This then leads to the people aspect of IM, namely the recruiting, training, retention and motivation of the high quality employees (Burmann and Zeplin, 2005; Papasolomou and Vrontis, 2006).

The importance of motivation among the workforce cannot be overstated. Happy workers lead to happy customers and happy customers lead to successful businesses. On the opposite side, unhappy workers are likely to leave the company, and when this happens, the company usually loses out. (Nickels, McHugh and McHugh, 2010). Motivating the right people to join and remain with the organization is a key function of managers because people are willing to work and work hard if they feel that their work makes a difference and is appreciated. People are motivated by a variety of things such as recognition, accomplishment and status (Nichels, McHugh and McHugh, 2010). Employees are a service organization’s most important asset, as the interaction between employees and customers is the focal point of the consumer’s evaluation of the entire service process (Gracia, Cifre and Grou, 2010). Employees represent the organization to customers and are crucial to the success of the organizations’ service
offering as they interact directly with the organization’s clients (Mishra, 2010). Zeithaml and Bitner (2009) refer to the role of employees as being that of a boundary spanner, meaning that they provide a link between the consumer and the internal operations of organization and are not only vital in terms of providing the service, but in understanding and filtering information between the two.

Berry, Wall and Carbone (2006) state that while the technical quality of the delivery process can meet customer expectations, it is usually the human interactions between employees and customers that exceed expectations and lead to customer satisfaction and loyalty. The authors emphasize the importance of the interaction between staff and consumers by stating that although these interactions are the likely cause of delight, they also have the capability of undermining great service processes. If interaction with employees is unpleasant, regardless of the actual service delivery, a consumer will be dissatisfied with the service performance irrespective of the technical quality of the delivery. To exceed customer expectations the element of pleasant surprise is required and that the best opportunity available to service organizations to surprise consumers is during the interaction between clients and employees, referred to as “moments of truth” or critical incidents (Berry, Wall and Carbone, 2006).

Moments of truth are instances of contact between consumers and the employees of a service organization that provide consumers with the opportunity to form opinions about the service and service organizations. Each interaction between staff and consumers presents the organization with an opportunity to prove its service quality and increase customer satisfaction and loyalty (Zeithmal and Bitner, 2009). Each encounter adds to the overall perception of service quality and if a mixture of positive and negative encounters is experienced by a consumer, they will be left uncertain of service quality.

The interaction between employee and consumers during service delivery (or moments of truth) are the single greatest opportunity service organizations have to customize their service offering in terms of customer requirements in order to delight (Gracia, Varela and Del Rio, 2010). The customization of service by employees operates in two dimensions, interpersonal adaptive behaviour and service offering adaption. Interpersonal adaptive behaviour refers to actions that go beyond the mental or physical skill of the employee needed in service delivery by encompassing the interpersonal communication elements required during a client...
interaction (Zeithaml and Bittner, 2009). This refers, for example, to the employee mirroring the client’s gestures and facial expressions as well as adapting tone and voice and language to the customer’s needs. The dimension of service-offer adaption refers to the employee’s ability to "tailor-make" or create a unique service offering per client (Gracia, Varela and Del Rio, 2010). This can, for example, be as simple as a hair dresser offering an assortment of refreshments to a client, or as complex as a bank staff tailor-making a financial service to a client’s specific needs all translate to customers’ loyalty.

Theoretical Framework

In this section, one major theory was considered relevant for this study and this is:

The Internal Marketing theory propounded by Leonard Berry (1981), in his work “the employee as customer”. He advocated treating employees as internal customers. Berry (1981) state that internal customers must be sold on the service and be happy in their jobs before they can effectively serve the final customer. His model explained that treating employees as internal customer and the job presented to the employees as the products in conjunction with the application of marketing techniques within the company to reach employees satisfaction. His model is presented in figure 1.

Source: Berry’s Model of Internal Marketing (Berry, L. 1981)
Berry’s (1981) theory of internal marketing has been adopted in different studies over the years. Gronroos (1994) was the first to build upon this theory. In his work in 2007, he highlighted that internal marketing focus is on good internal relationships between people at all levels in the organization. He emphasized on adequate skills, supportive systems and leadership. From the relationship perspective, he stated that the main focus of marketing is the value creation or value formation, and the value creating process.

Another study who has over the years adopted this theory is: Ahmed and Rafig (2000), who developed what was regarded as a hybrid approach in internal marketing, taking the best from Bery and Gronroos. Ahmed and Rafig (2000) identified the main elements of internal marketing as:

- Employee motivation and satisfaction
- Customer orientation and customer satisfaction
- Inter-functional coordination and integration
- Marketing-like approach to the above
- Implementation of specific corporations or functional strategies.

Other studies that have adopted this theory are: Ballantyne (2003), Lambert (2002); Nanide, Pesai and Murphy (2003); Bansal (2001). The internal marketing theory applies to the present study on customer loyalty as it adopts indices from related studies. The indices (effective communication and employee motivation and reward) are used to enhance customer loyalty by employees who are seen as the banks’ internal customer. Thus, the success of the service product when driven to the external customers depends largely on how well the internal customers are treated.

**RESEARCH METHODOLOGY**

The survey research design was adopted to get information from respondents. The study was carried out among the staff of selected microfinance banks in Akwa Ibom State. The population for this study consists of all the staff of selected microfinance banks totaling 224. To determine the sample size since the population was known, the Taro Yamane’s formula at 5% level of tolerable error was adopted. Based on the formula, 143 staff formed the sample size for the study.
The sampling technique adopted for this study was the proportional sampling. This was carried out by dividing the total number of target respondents (143) by the total number of registered microfinance banks (31). According to CBN, (2014) there are 31 microfinance institutions which are providing microfinance service to the poor society in Akwa Ibom State. This resulted in approximately 4 respondents per microfinance bank. Hence, approximately 6 copies of questionnaire were administered on respondents of the microfinance banks in Uyo metropolis believed to have more staff while 4 copies of the questionnaire were administered on the respondents across the 22 microfinance banks totaling 31 microfinance banks in all. Out of the total of 143 copies of questionnaire administered, 139 were returned useable. The researcher thus considered the 139 as adequate representation of the sample size for the study and thus proceeded with the analysis. The instrument for data collection for this study was a structured questionnaire. The 5-point likert scale was used in measuring the dependent and independent variables. The research instrument had both face and content validity. The questionnaire was pre-tested on 25 respondents and the Cronbach’s Alpha was used to measure consistency and the obtain coefficient was 0.874 which shows that the instrument was reliable. Data were presented and analysed using descriptive and inferential statistical tool as adopted for the study. The statistical tool adopted for this study was the pearson product moment correlation.

The Decision Rule: The rule guiding the study thus states that reject the null hypothesis if the probability value (p-value) is less than 0.01 (P<0.01), alternatively accept the alternative hypothesis if the probability value is greater than 0.05 (P>0.01).
Table 1: Pearson Product Moment Correlation table on the relationship between Internal Marketing and Employee Performance

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| *** Correlation is significant at 0.01 level (2-tailed) | Source: SPSS Analysis, 2018

DATA ANALYSIS AND RESULTS

Test of Hypothesis One (H01): There is no significant relationship between employee motivation, reward and customer loyalty. The result of the correlation analysis between employee motivation and reward and customer loyalty yielded a correlation coefficient of 0.631, which indicates a strong relationship. The coefficient of determination of 0.631
suggests 63% of the variability in customer loyalty explained by employee motivation and reward. Since the significant value, p=0.000 is greater than (0.0000 < 0.001), we reject the null hypothesis and accept the alternative, that there is significant relationship between employee motivation, reward and customer loyalty.

**Test of Hypothesis Two (H₀₂):** Effective Communication does not have any significant relationship with customer loyalty. The result of the correlation analysis between effective communication and customer loyalty yielded a correlation coefficient of 0.581, which indicate a moderate relationship. The coefficient of determination of 0.581 suggests 58% of the variability in customer loyalty explained by effective communication. Since the significant value, p =0.000 is greater than (0.000 < 0.001), we reject the null hypothesis and accept the alternative, that there is significant relationship between effective communication and customer loyalty.

**CONCLUSION**

Based on the findings made, we conclude that there is significant relationship between internal marketing and customer loyalty.

**RECOMMENDATIONS**

The study recommends that the marketing managers and staff of microfinance bank should enhance effective use of internal marketing to gain competitive advantage and stay ahead of competitions. By pleasing and exceeding customers’ expectations, this will aid the bank to defeat customers’ defections resulting in customers loyalty and satisfaction as well as effectiveness and efficiency of the banks marketing activities, which leads to increase in market related goals (such as revenue, growth and share).

2. Future research on the topic could go beyond the banking industry and look at the financial services industry as a whole.

3. Future research on the topic should be carried out in other states of the federation.
REFERENCES


