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Linking internal marketing orientation to balanced scorecard outcomes in small businesses

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Linking internal marketing orientation to balanced scorecard outcomes in small businesses: The case of travel agencies

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Linking internal marketing orientation to balanced scorecard outcomes in small businesses: The case of travel agencies

Abstract

Purpose – The purpose of this paper is to examine how internal marketing orientation affects balanced scorecard (BSC) outcomes (financial performance, customer, internal process, learning, and growth) in a small service business context.

Design/methodology/approach – Drawing on small businesses, this study hypothesizes and tests the relationship between internal marketing orientation and performance. Structural equation modeling (SEM) with maximum likelihood estimation is performed to test the relationship between the research variables.

Findings – The results obtained from SEM reveal that internal marketing orientation positively affects the levels of financial and non-financial performance. The results also indicate that non-financial performance measures (that is, customer, internal processes, learning, and growth) directly affect financial performance.

Originality/value – This study unpacks the mechanism that operates between internal marketing orientation and BSC outcomes, and contributes to the academic research on internal marketing orientation in the context of small businesses.

Keywords Internal marketing orientation, Performance, Small businesses, Balanced Scorecard (BSC), Travel agencies

Paper type Research paper

Introduction

In recent decades, businesses worldwide have experienced very extensive changes in all aspects of competitiveness. Indeed, the administrations of both the public and private sectors face serious challenges. Among the strategies effective in addressing these challenges is attending to internal marketing (Campo *et al.*, 2014; Chen and Lin, 2013; Fernández-Mesa and Alegre, 2015; Jia *et al.*, 2014; Saunila, 2014). This is a comprehensive and essential need for all organizations—public, private, and voluntary—of any size (Goodale *et al.*, 2011; Hoque, 2013; Jiménez-Jiménez and Sanz-Valle, 2011).

The orientation of internal marketing with regard to business performance concerns all different organizations. Increasing globalization and technological advancements have resulted in the need for organizations to focus on their internal marketing orientation to achieve profitability in recent years (Ahmed *et al.*, 2003). In other words, most definitions of profitability are focused on customer and internal marketing orientation in terms of the quality of services provided (for example, by small businesses) (Chen and Chang, 2012). Based on the evidence and the different characteristics of different industries, customers' behavior in judging the quality of services tends to depend on the providers' behavior in that industry. Enhancing and improving the internal marketing orientation can help businesses succeed, increase customer performance, and improve organizational performance (Tajeddini, 2011).

Nowadays, many organizations, companies, and economic and social segments have realized the importance of internal marketing orientation. This trend is mainly the result of the increasingly complex business environment in which organizations are faced with competitive and technological bottlenecks, and thus continuing to employ traditional methods is highly problematic. Moreover, for small businesses in particular, considering the internal marketing

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3 orientation is indispensable. In this regard, the promotion of internal marketing orientation in
4 services can lead to improved performance (Huang and Rundle-Thiele, 2014). Internal marketing
5 orientation has come to be considered a way of thinking that when employed in service
6 businesses will drive the growth and development of the industry and affect organizational
7 performance (Ceylan, 2013; Gunday *et al.*, 2011).
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15 On the other hand, changes in the intra-industry era and expansion in the service sector, both
16 worldwide and in Iran, have created conditions in which small businesses can play an active role
17 in key service sectors in society and the economy. These changes have emerged as opportunities
18 for small businesses.
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25 With respect to the significance of internal marketing orientation issues and their effects on the
26 performance of small businesses, there is currently a lack of comprehensive study of small
27 businesses, and thus this study is based on a practical approach to detecting and analyzing
28 relationships among the constructs.
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39 **Literature review**

40 *Internal marketing orientation*

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43 The concept of internal marketing has attracted considerable coverage in the academic literature
44 (Leo *et al.*, 2002; Lings and Greenley, 2005; Naudé *et al.*, 2003; Pitt and Foreman, 1999). The
45 term “internal marketing” has been “widely used by academics in portraying an emphasis on
46 viewing employees as partners to an organization’s effort at achieving organizational success
47 rather than as a cost” (Papasolomou-Doukakis, 2002, p. 87). In service organizations, employees
48 play a major role in attracting customers, providing the overall service experience, and ensuring
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3 customer performance (Ruizalba and Bermúdez-González, 2014). Moreover, every organization
4 has an internal market with internal customers and internal suppliers, and it is necessary—indeed
5 essential—to fulfil the needs of internal customers for the success of the organization. Marketing
6 based on internal customers (employees) is called internal marketing orientation
7 (Hassangholipour *et al.*, 2012). Internal marketing aims to train and compensate internal
8 customers, and provide overall human resource management to ensure better service provision
9 (Cooper and Cronin, 2000).

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20 Internal marketing focuses on attracting, developing, motivating, and retaining employees, thus
21 ensuring high-quality work by viewing a job as a product and attempting to satisfy its
22 requirements. In other words, internal marketing comprises a philosophy, customer relationships,
23 and mutual ties between employees (internal customers) in an organization (Nasr Esfehni *et al.*,
24 2012). Employees who are in touch with customers in service organizations play a vital role in
25 the process of providing the service (Hossainee and Rahmani, 2012), and constitute the primary
26 organizational market (Sasser and Arbeit, 1976). Achieving an organization's long-term
27 prospects largely depends on the organization's employees (Lings and Greenley, 2009; Shiu and
28 Yu, 2010; Torosta *et al.*, 2009). When employees have the opportunity to identify with the
29 organization and become familiar with the organization's prospects simultaneously, this
30 understanding will have an effect on the personnel and lead to improvements in the quality of
31 service provision to external customers (Awwad and Agti, 2011). Internal marketing is based on
32 two main parts. First, before satisfying customers' needs, satisfying employees needs serious
33 consideration. Second, the same rules applied to the business market must be applied in the
34 internal market (Nasr Esfehni *et al.*, 2013).

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3 Generally, it can be said that the implementation of internal marketing in the service sector can
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5 increase organizations' capabilities and competence, which can result in improved customer
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7 performance and organizational performance (Abzari *et al.*, 2011).
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10 *Organizational performance*

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12 Organizational performance refers to the “measurement and assessment of the actual achieved
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14 goal level of the management of a business based on projected programmes” (Shiu and Yu,
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16 2010, p. 797). An organization adopts a range of specific strategies to achieve its objectives.
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18 This process is monitored and controlled by the measurement of performance (Panigyrakis and
19
20 Theodoridis, 2009). The assessment of business performance is one of the most important
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22 aspects of an organization as the key to achieving continuous improvement is the ability to
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24 continuously assess and measure organizational performance. Furthermore, many organizations
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26 have realized the importance of continuous performance evaluation and have applied different
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28 evaluation systems.
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35 Between 1850 and 1975, organizations only evaluated financial criteria to assess performance.
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37 This was criticized for various reasons, such as encouraging a short-term perspective, a lack of
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39 strategic focus, and the inability to provide data on quality, responsiveness, flexibility, as well as
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41 the failure to encourage an optimistic viewpoint, or to provide information on customers'
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43 demands and the performance of competitors (Fernandes *et al.*, 2006). Shiu and Yu (2010, p.
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45 793) argue that “with the rapid changes in the working environment and tough business
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47 competition, the advantage derived from factor inputs is shrinking. The key success factor for
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49 businesses is no longer cash, but human capital.” The impact of internal market orientation on
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51 market orientation, and the combined impacts of these internal and external orientations on
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53 organizational performance continue to be perceived as important areas of study (Lings and
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3 Greenley, 2009, p. 42). However, despite this, the study of how internal marketing orientation
4 affects balanced scorecard (BSC) outcomes (financial performance, customer, internal process,
5 learning, and growth) in the small service business context remains relatively under-developed.
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11 In this research, drawing on a comprehensive study of BSC perspectives for evaluating
12 performance and increasing the use of strategic management, four key performance indicators
13 are employed as the basis for the evaluation of performance. Kaplan and Norton (1996)
14 introduced the BSC as a tool for evaluating the performance of an organization. The BSC
15 provides a framework for performance measurement using a set of financial and non-financial
16 measures (Craig and Moores, 2010). The general model proposed by Kaplan and Norton (1996)
17 evaluates the performance of organizations by examining four aspects: financial, customer,
18 internal processes, and learning and growth (Milis and Mercken, 2004).
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30 This study aims to assess the impact of internal marketing orientation on business performance
31 through a conceptual model (Figure 1). Awareness of the impacts of these factors may enable
32 more efficient planning to improve the performance of small businesses. The research
33 hypotheses are formulated based on Kaplan and Norton's (1996) model and are as follows:
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40 H1. Internal marketing orientation has a significant impact on customer performance.
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43 H2. Internal marketing orientation has a significant impact on internal process performance.
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46 H3. Internal marketing orientation has a significant impact on learning and growth performance.
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49 H4. Internal marketing orientation has a significant impact on financial performance.
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52 H5. Customer performance has a significant impact on financial performance.
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56 H6. Internal processes performance has a significant impact on financial performance.
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3 H7. The learning and growth dimension has a significant impact on financial performance.
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9 **Methodology**

10 *Data collection*

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14 The research instrument was translated and back-translated from English to Persian. A pre-test
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16 with experts on business management, organizational behavior, and performance management
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18 was conducted to confirm the content validity of the questionnaire. After some revisions, the
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20 final version of questionnaire was prepared for use. To collect the data, the questionnaire, a
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22 covering letter, and a stamped addressed envelope were sent to 116 travel agencies with fewer
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24 than 50 employees in Iran. The questionnaire package was addressed to the managing director.
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27 Within the cut-off period of seven weeks after distribution, 227 usable questionnaires were
28
29 received. Table 1 shows the demographic features of the statistical sample.
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33 [Insert Table 1 about here]
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36 *Measures*

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38 The research model includes three factors and each factor is measured with multiple items. All
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40 items were adopted from the extant literature to improve content validity. These items were first
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42 translated into Persian by the researchers. All items are measured on a five-point Likert scale
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44 ranging from disagree (1) to agree (5).
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49 The measurement items adopted for all the constructs in the research models were drawn from
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51 the existing literature. The study uses a scale of eight items adapted from Ahmed *et al.* (2003) to
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53 measure internal marketing orientation. Performance is measured through a 16-item scale
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55 adapted from Shahin *et al.* (2014).
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3 The statistical procedures and measures used in this paper follow the methodologies
4 recommended by Hair *et al.* (1998), and Khong and Richardson (2003). These methodologies
5 aim to find the causal relationships between internal marketing orientation and performance. The
6 procedures and measures, in chronological order, are reliability analysis, confirmatory factor
7 analysis, and structural equation modeling (SEM).
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10 11 12 13 14 15 *Reliability and validity*

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17 Reliability is the 'extent to which a variable or set of variables is consistent in what it is intended
18 to measure' (Hair *et al.*, 1998, p. 90). Reliability analysis in this paper refers to the internal
19 consistency of variables, measured by interval scale items, in a summated scale. The summated
20 scales, which are the concepts or constructs, should be measured by highly correlated
21 manifesting variables. In short, the summated scale of the manifesting variables must
22 consistently determine their respective constructs. In the context of this paper, two major scales
23 are used, that is internal marketing orientation and performance. Cronbach's alpha was used to
24 verify the internal consistency. Cronbach's alpha values greater than 0.70 are acceptable and
25 deemed to be adequate (Nunnally and Bernstein, 1994). Based on analysis in the Statistical
26 Package for the Social Sciences (SPSS), the research variables—internal marketing and
27 performance—show significant internal consistency with values of 0.91 and 0.96 respectively.
28 This indicates that the survey instrument (questionnaire) is a reliable tool for measuring the
29 concepts (constructs) consistently.
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49 The study used confirmatory factor analysis to test the construct validity. It is common that
50 variables with high factor loadings are assigned to describe the respective factors. Therefore,
51 variables that have low loadings on respective factors are constrained to zero (Hair *et al.*, 1998).
52 According to Carmines and Zeller (1979), the acceptable threshold for factor loading is 0.3 or
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3 above. Consequently, variables with loadings less than 0.3 will be constrained to zero. The
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5 results of the confirmatory factor analysis are presented in Table 2.
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8 [Insert Table 2 about here]
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11 *Data analysis*

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14 After collecting the questionnaires, data were analyzed using SEM in statistical software such as
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16 SPSS version 20 and Amos 20. Generally, SEM is used to estimate “multiple and interrelated
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18 dependence relationships and the ability to represent unobserved concepts in these relationships
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20 and account for measurement error in the estimation process” (Hair *et al.*, 1998, p. 584). SEM is
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22 particularly useful in this study because it can estimate “a series of separate, but interdependent,
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24 multiple regression equations simultaneously” in a specified structural model (Hair *et al.*, 1998).
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26 The indices for the overall fit of the model included the root mean squared error of
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28 approximation (RMSEA), normed chi-square (CMIN/DF), the comparative fit index (CFI), the
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30 goodness-of-fit index (GFI), and the adjusted goodness-of-fit index (AGFI). For a good model
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32 fit, RMSEA must be less than 0.1, CMIN/DF must be less than 3, and CFI, GFI, and AGFI must
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34 be greater than 0.90 (Allameh *et al.*, 2015).
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43 **Findings**

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45 First, the fitness of the two measurement models was separately analyzed. As shown in Table 3,
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47 the values of the fit indices all reach the acceptable levels.
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51 [Insert Table 3 about here]
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54 Next, the fitness of the structural model was tested. As the findings show, the overall fit of the
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3 structural models is acceptable ($\chi^2/df = 2.81$, RMSEA = 0.05, GFI= 0.97, CFI= 0.99, and
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5 AGFI=0.95).

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8 All tests are directional t-tests of the critical ratios of the regression weight estimates over the
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10 estimates of their standard errors provided in the AMOS output. When critical ratios are in the
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12 range of -1.96 to 1.96, the hypothesis is rejected (Hair *et al.*, 1998). As shown in Table 4, the
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14 path coefficients from the internal marketing construct to the non-financial performance and
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16 financial performance measures are positive and significant: customer performance ($\beta = 0.76$,
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18 CR= 7.07), internal process ($\beta = 0.84$, CR= 13.66), learning and growth ($\beta = 0.91$, CR= 13.05),
19
20 and financial performance ($\beta = 0.32$, CR= 2.66). These findings indicate that H1, H2, H3, and H4
21
22 are supported, showing that an increase in the internal marketing level is necessary to enhance
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24 performance.
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30 The results of the regression analysis presented in Table 4 show that non-financial performance
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32 measures have a positive effect on financial performance: customer performance ($\beta = 0.16$, CR=
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34 2.95), internal process ($\beta = 0.24$, CR= 4.12), and learning and growth ($\beta = 0.30$, CR= 3.32).
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44 **Discussion of results**

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46 Service sector employees in small businesses facilitate the implementation of organizational
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48 strategies and performance through effective interaction with customers. In addition, excellent
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50 performance should be sought through an internal marketing approach at all levels. To achieve
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52 organizational objectives in this direction, small businesses should begin to pay attention to those
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3 dealing with customers. Given the importance of this issue, this research examines the impact of
4
5 internal marketing on performance in the hospitality industry.
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9 The seven hypotheses proposed and investigated are here discussed in turn. The first hypothesis
10
11 concerned the effect of internal marketing on customer performance. The results of this study are
12
13 in line with others performed in the hospitality and tourism sectors. Kaurav *et al.* (2015) found
14
15 that internal marketing is critical in enhancing the business performance of hotels in terms of
16
17 ensuring customer performance. In paying attention to internal marketing in an organization, the
18
19 aim is to notice employees and empower them in designing a plan to prioritize customer
20
21 performance. This result suggests that organizations successfully implementing internal
22
23 marketing can provide the necessary environment to ensure creativity and excellence among
24
25 their employees, thus enhancing customer performance.
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31 Regarding the second hypothesis, the results indicate that the impact of internal marketing on the
32
33 internal process dimension of small businesses is positive and significant. Previous empirical
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35 studies have shown the influence of internal marketing practices on performance in terms of the
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37 internal process perspective (Hossainee and Rahmani, 2012; Sharifkhani *et al.*, 2016). Recent
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39 research has demonstrated that internal marketing, especially leadership—as one of the
40
41 dimensions of internal marketing—has a positive impact on internal processes in hospitality. For
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43 example, Salehzadeh *et al.* (2015) found that leadership influences hotel performance,
44
45 particularly with regard to the internal process dimension.
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51 In terms of the third research hypothesis, the results show a positive effect of internal marketing
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53 on learning and growth, thus confirming H3. Thus, the more small businesses focus on internal
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55 marketing, the more their performance improves. This finding is consistent with those of some
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3 other researchers. Akroush and Al-Mohammad (2010) concluded that internal marketing has a
4 significant impact on all aspects of organizational performance. In another study, Yu and Barnes
5 (2010) examined the effect of internal marketing on organizational performance, showing that
6 having a successful marketing plan has a positive effect on employees' attitudes and
7 behavior. In this case, internal marketing has a direct and positive effect on employees'
8 performance, which translates into better organizational performance, and thus improves overall
9 performance. Therefore, internal marketing will have a positive effect on the overall performance
10 of the organization. Our findings are consistent with the findings of these researchers.
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22 The results for the fourth hypothesis show that internal marketing has an impact on financial
23 performance, thus confirming H4. That is, the implementation of strategic rewards in the
24 organization will result in higher financial performance in terms of the indicators of
25 organizational excellence. This finding is in line with the results of Akroush and Al-Mohammad
26 (2010) and Yu and Barnes (2010). Thus, managers need regularly to generate information
27 determining what employees want from the travel agency and their real feelings about their jobs.
28 To achieve this, managers should carry out honest appraisals and should undertake a
29 considerable amount of internal marketing research. This finding provides an important insight
30 in terms of the need to collect and analyze information related to internal marketing (Panigyrakis
31 and Theodoridis, 2009; Rodrigues and Pinho, 2012).
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46 This finding indicates the importance of internal marketing and is of practical use for small
47 businesses in the service sector. Specifically, it is recommended that managers promote the
48 implementation of appropriate internal marketing principles to improve their financial
49 performance.
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Concerning the interrelationships among the four BSC perspectives, the results demonstrate that all of the hypotheses (H5, H6, and H7) are supported. This supports the findings of Kang *et al.* (2015) and Okongwu *et al.* (2015), and the significant correlations identified by Lee *et al.* (2013) and Lin (2015).

Conclusions

Theoretical contributions

By adopting an SEM approach, this study has succeeded in empirically confirming some of the relationships between internal marketing and performance based on the BSC approach, results that have been reported in the extant literature in a dispersed manner in the context of hospitality and tourism. Recently, some studies have empirically examined the effects of internal marketing on organizational performance (Kaurav *et al.*, 2015; Panigyrakis and Theodoridis, 2009), but few studies have linked internal marketing and BSC dimensions from a holistic perspective.

The BSC performance dimensions reflecting the benefits for travel agencies related to financial performance, customer satisfaction, learning and growth, and internal processes are strongly validated and supported through the framework suggested in present research. Therefore, it is logical to assume that this study can provide a theoretical model for researchers aiming to acquire an in-depth understanding of the relation between internal marketing and performance in small businesses engaged in hospitality and tourism.

Managerial implications

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3 The results of this study have implications for the tourism context in terms of internal marketing
4 practices and organizational performance. This research provides further empirical evidence
5
6 concerning the impact of internal marketing practices on performance.
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10 Organizational performance is a very important topic in travel agencies. Research has shown that
11 the travel agency industry has a long tradition of detailed and broad performance measurement
12 (Choi *et al.*, 2014), and the BSC method has been applied to various travel agency systems
13 (Huang, 2008). The results of this study show that internal marketing can increase organizational
14 performance (level of customer satisfaction, internal business processes, financial performance,
15 and learning and growth practices).
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20 Despite the achievements made in the Iranian tourism sector over the last few decades and the
21 more promising scenario resulting from the nuclear agreement reached on July 14, 2015
22 (Khodadadi, 2016), Iranian travel agencies face a number of serious challenges concerning
23 tourism outcomes, such as service quality and efficiency (Hossainee and Rahmani, 2012).
24 Therefore, it is very important to pay attention to methods for increasing organizational
25 performance. Many studies have shown that human resource practices will affect organizational
26 performance (Ceylan, 2013). In this regard, implementing internal marketing practices would be
27 very effective. As mentioned by Huang and Rundle-Thiele (2014), an internal marketing
28 program needs constant management support to be successful. On this basis, various
29 recommendations are proposed (Ahmed *et al.*, 2003).
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49 To improve performance through internal marketing, first, managers must link the rewards
50 system to organizational business goals and inform employees of how and why they will be
51 rewarded. Second, managers must build ownership among their employees, creating
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3 understanding of organizational goals and providing information to all employees. In addition,
4 managers must provide adequate resources for training and developing their employees. Finally,
5 to improve leadership practices, managers need to possess the relevant leadership competencies:
6 They must move their organizations and employees in the right direction.
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16 **Limitations and future research**

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18 As well as considering the strengths of the study, it is also necessary to address its
19 limitations. First of all, this study focuses on small businesses, and thus the results cannot be
20 generalized to medium-sized and large firms; this is particularly the case for manufacturing
21 industries due to the specific challenges they face and the various factors influencing their
22 effectiveness. Second, this study considers small businesses only in Iran. Thus, undertaking
23 research with an international scope in terms of small businesses in the field would be beneficial.
24 The second limitation concerns the existence of other variables not considered in this study, but
25 that may influence the performance of small businesses, and play a mediating role in the relation
26 between internal marketing and performance. In addition, all the data were collected using a
27 cross-sectional approach, and therefore the results may be limited to the specific period of the
28 study.
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45 Future research should also examine the effects of the variables considered here in other sectors.
46 In particular, addressing this topic with other samples will be important to generalize the
47 findings. Moreover, this is a quantitative study, but the trend for undertaking qualitative research
48 in the field of small businesses is increasing. In sum, researchers should examine small
49 businesses using more comprehensive models and employing a qualitative perspective in the
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3 future. Finally, the inclusion of one or more variables as mediating factors clearly provides
4 avenues for further research and would enable development of the implementation of the BSC
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6 for different service industries.
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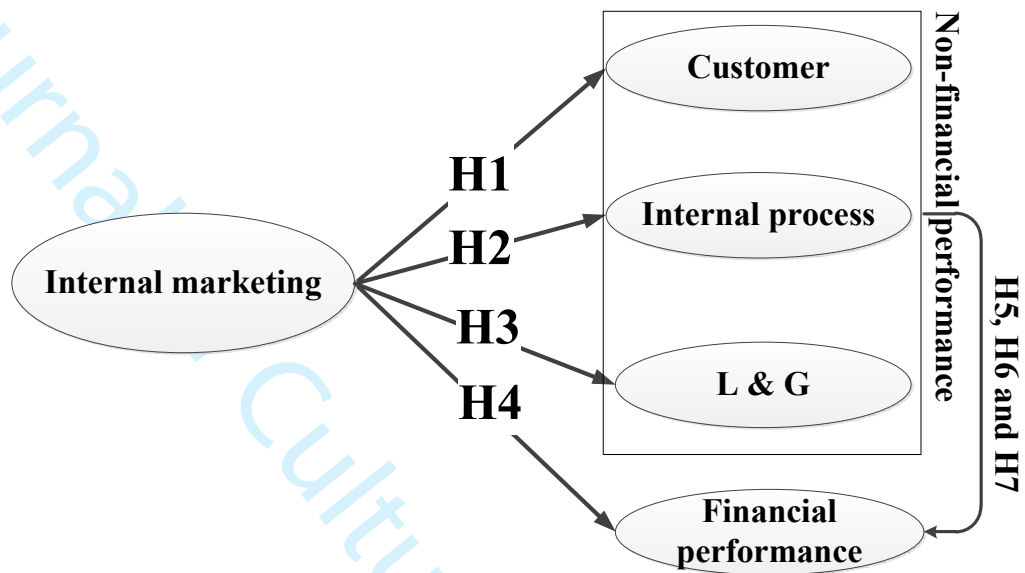


Fig. 1. The proposed model.

Table 1. Demographic features

Demographic characteristics	Frequency	Percent
Gender		
Male	102	44.9
Female	125	55.1
Age		
18-25	25	11.0
26-35	61	26.9
36-45	64	28.2
46-55	58	25.6
>55	19	8.4
Education		
Diploma	44	19.4
Bachelor	99	43.6
Master	66	29.1
PhD	18	7.9
Experience		
<5	38	16.7
5-9	62	27.3
10-14	67	29.5
15-19	39	17.2
>19	21	9.3

Table 2. Results of factor analysis and reliability tests

Variable	Items	Factor loading	α
<i>Internal marketing</i>	IM1	0.744	0.918
	IM2	0.848	
	IM3	0.828	
	IM4	0.895	
	IM5	0.864	
	IM6	0.651	
	IM7	0.497	
	IM8	0.793	
<i>performance</i>	PE1	0.629	0.962
	PE2	0.575	
	PE3	0.674	
	PE4	0.758	
	PE5	0.641	
	PE6	0.889	
	PE7	0.896	
	PE8	0.880	
	PE9	0.936	
	PE10	0.895	
	PE11	0.881	
	PE12	0.858	
	PE13	0.914	
	PE14	0.932	
	PE15	0.759	
	PE16	0.936	

Table 3. Fit indices of measurement models

Variable	Fit indices				
	χ^2/df	GFI	AGFI	CFI	RMSEA
IM	1.34	0.98	0.92	0.99	0.06
Performance	1.31	0.95	0.91	0.99	0.03
Cut-off value	3>	>0.90	>0.90	>0.90	0.10>

Table 4. Results of the structural model

Hypothesis	Path	B	C.R.	Result
H1	IM → CU	0.76***	7.07	Supported
H2	IM → IP	0.84***	13.66	Supported
H3	IM → LG	0.91***	13.05	Supported
H4	IM → FP	0.32**	2.66	Supported
H5	CU → FP	0.16**	2.95	Supported
H6	IP → FP	0.24***	4.12	Supported
H7	LG → FP	0.30***	3.32	Supported

Notes: *** P< 0.001; ** P< 0.01; * P< 0.05; **IM**: Internal Marketing; **FP**: Financial performance, **CU**: customer, **IP**: Internal process, **LG**: Learning & growth