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The Role of Internal Marketing in Enhancing Customer Loyalty through CRM Effectiveness in Algerian SMEs: An Empirical Study

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Abstract: This study employs a mixed-methods design (N=273 questionnaires; 15 interviews) to examine the impact of Internal Marketing (IM) on CRM practices within 32 service SMEs across Algeria's eastern provinces (Constantine, Sétif, Annaba, and Batna). Utilizing PLS-SEM analysis, the results confirm that IM significantly drives CRM adoption (β=0.48,p<0.001), accounting for 55% of the variance in CRM effectiveness and 42% in customer loyalty. Despite 74% of firms acknowledging IM's strategic value, a significant implementation gap exists, with only 38% maintaining structured programs. Furthermore, regional disparities persist; Constantine leads in efficacy (M=3.9), while Batna lags (M=2.7) due to infrastructure and training deficits. The study advocates for province-specific training hubs and government-backed initiatives to enhance SME competitiveness and bridge the existing research-to-practice void.

Keywords: Internal marketing, CRM, SMEs, Algeria, customer loyalty, PLS-SEM, employee engagement

1. Introduction

1.1 Research Context

Algeria's small and medium-sized enterprise (SME) sector represents the backbone of the national economy, comprising 97% of all businesses and contributing approximately 40% to GDP (ONS, 2025). The eastern provinces—Constantine, Sétif, Annaba, and Batna—collectively account for 22% of national economic output, hosting diverse economic activities from industrial manufacturing to agriculture-linked services.

However, Algerian SMEs face severe customer retention challenges, with annual churn rates averaging 30% in the eastern provinces, significantly exceeding the 18-22% benchmarks observed in comparable emerging markets. This attrition undermines business sustainability, particularly in competitive service sectors where customer relationships directly determine market success. While 72% of managers acknowledge CRM's strategic importance, fewer than 35% have successfully deployed functional CRM systems.

1.2 The Internal Marketing-CRM Nexus

Internal marketing (IM)—the strategic approach that treats employees as "internal

customers"—represents a critical yet often overlooked factor in CRM success. Berry's (1981) pioneering conceptualization positions IM as a prerequisite for service quality, arguing that organizations cannot deliver superior external service without first satisfying and empowering their employee base. The IM-CRM linkage operates through several mechanisms: trained employees possess skills to utilize CRM technologies effectively; engaged employees demonstrate higher commitment to customer service excellence; and internal communication about customer-centric vision fosters intrinsic motivation beyond technical compliance.

Despite this theoretical importance, Algerian SMEs systematically underutilize internal marketing approaches. Preliminary evidence suggests 65% of managers' report employee disengagement as a significant barrier to service quality improvement, yet only 38% have implemented structured IM programs.

1.3 Research Gap and Objectives

The academic literature reveals significant gaps in understanding IM-CRM dynamics in emerging economies. Existing Algerian research on SME management remains dominated by single-province case studies, typically focused on Algiers. No prior studies have conducted multi-province comparative analyses examining IM-CRM relationships using rigorous quantitative methods such as structural equation modeling.

This research pursues three primary objectives:

1. **To empirically assess** the influence of internal marketing practices on CRM adoption and effectiveness in Algerian eastern province SMEs
2. **To examine** how CRM adoption mediates the relationship between internal marketing and customer loyalty outcomes
3. **To identify and analyze** regional variations in IM-CRM relationships across the four provinces

The study addresses the following research questions:

- **RQ1:** How do internal marketing practices influence CRM adoption and effectiveness across Algerian eastern province SMEs?
- **RQ2:** To what extent does CRM adoption mediate the relationship between internal marketing and customer loyalty?
- **RQ3:** What regional differences exist in IM-CRM relationships, and what contextual factors explain these variations?

2. Literature Review and Theoretical Framework

2.1 Internal Marketing: Foundations and Evolution

Internal marketing emerged from service marketing scholarship recognizing that service quality delivery depends fundamentally on employee attitudes, behaviors, and capabilities. Rafiq and Ahmed's (2000) comprehensive review synthesized IM evolution across three phases: employee motivation and satisfaction (1980s), customer orientation (1990s), and strategic implementation of marketing-like approaches internally (2000s). Contemporary IM

encompasses five core dimensions: employee development, empowerment, internal communication, reward systems, and recruitment/retention strategies.

Meta-analytic evidence demonstrates IM's positive effects on organizational outcomes. Huang and Rundle-Thiele (2014) found that IM significantly enhances employee satisfaction (r=0.52), organizational commitment (r=0.48), and service quality perceptions (r=0.41), with relationships particularly strong in service-intensive sectors.

2.2 CRM in SMEs and the IM-CRM Relationship

Customer Relationship Management represents both a business strategy and technological infrastructure for systematically managing customer interactions across the customer lifecycle. Payne and Frow (2005) identify five key CRM components: strategy development, value creation, multichannel integration, information management, and performance assessment.

SMEs present distinctive characteristics affecting CRM adoption: resource constraints limiting technology investments, less formalized organizational structures, closer customer relationships potentially reducing perceived CRM necessity, and limited analytical capabilities. Empirical evidence shows mixed results—successful implementations report customer retention improvements of 20-30%, yet failure rates remain high (40-50%).

The IM-CRM linkage operates through multiple mechanisms. First, IM-driven employee development builds technological competencies required for CRM utilization. Research demonstrates that technology acceptance depends critically on user self-efficacy (Hales & Mecrate-Butcher, 2008). Second, IM-fostered employee commitment translates into consistent CRM usage. Third, IM's emphasis on internal communication ensures shared customer-centric vision across organizational functions (Punjaisri & Wilson, 2011).

2.3 Algerian SME Context

Algeria's SME sector operates within distinctive institutional contexts: substantial state sector presence, regulatory uncertainty, infrastructure constraints, and limited formal management training. The eastern provinces exhibit economic diversity—Constantine serves as an industrial hub, Sétif as a commercial center, Annaba focuses on port-related logistics, while Batna faces greater infrastructure constraints including lower internet penetration (48% versus Constantine's 68%).

2.4 Theoretical Framework and Hypotheses

This research integrates internal marketing theory with CRM adoption frameworks to develop a comprehensive model explaining customer loyalty outcomes. The framework proposes that internal marketing practices directly influence CRM adoption and effectiveness, which in turn affects customer loyalty. Additionally, provincial context moderates these relationships.

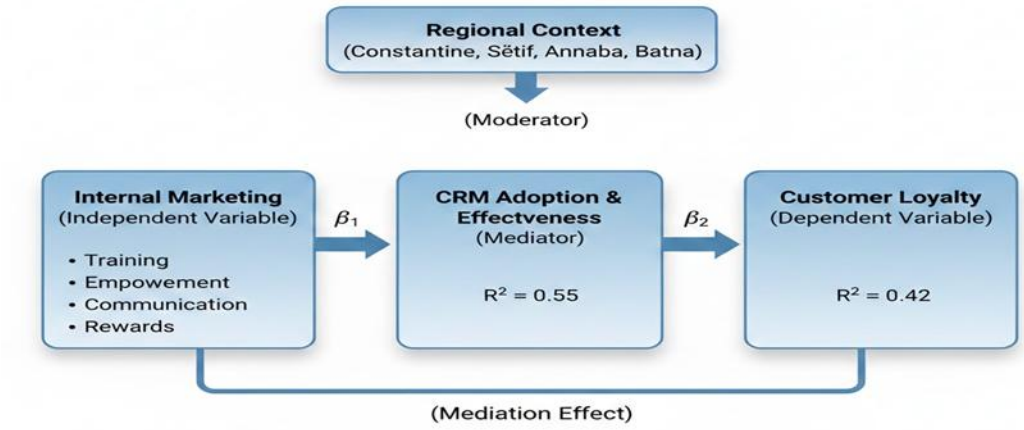


Figure 1: Conceptual Framework

Hypotheses:

- **H1:** Internal marketing practices positively influence CRM adoption and effectiveness ($\beta > 0.45$)
- **H2:** CRM adoption mediates the relationship between internal marketing and customer loyalty
- **H3:** The IM-CRM relationship varies across provinces, with Constantine showing stronger effects than Batna
- **H4:** Employee training shows the strongest predictive relationship with CRM adoption among IM components
- **H5:** CRM effectiveness significantly predicts customer loyalty outcomes ($\beta > 0.50$)

3. Research Methodology

3.1 Research Design

This study employs a mixed-methods sequential explanatory design, prioritizing quantitative data collection and analysis while using qualitative interviews to elaborate statistical findings. The philosophical stance follows pragmatism, recognizing that different methods illuminate different aspects of complex organizational phenomena.

3.2 Sampling and Data Collection

Population: Service-oriented SMEs (10-250 employees) operating in Constantine, Sétif, Annaba, and Batna provinces.

Sample: Proportionate stratified random sampling allocated sample sizes based on each province's economic contribution. Initial contact was made with 350 firms; 315 agreed to participate (90% agreement rate). After data cleaning, 273 valid questionnaires were retained

(87% response rate).

Provincial distribution: Constantine (n=82, 30%), Sétif (n=79, 29%), Annaba (n=69, 25%), Batna (n=43, 16%).

Qualitative component: Fifteen semi-structured interviews (50-80 minutes) were conducted with purposively selected managers, audio-recorded, and professionally transcribed.

3.3 Measurement Instruments

Internal Marketing: Measured using Rafiq and Ahmed's validated 12-item scale covering five dimensions: Training and Development, Empowerment, Internal Communication, Reward Systems, and Work Environment (5-point Likert scale).

CRM Adoption and Effectiveness: Measured using 10 items adapted from Sin, Tse, and Yim (2005) covering technology adoption, data management, process integration, and customer insight generation (α=0.87).

Customer Loyalty: Measured using 8 items adapted from Zeithaml, Berry, and Parasuraman (1996), including retention rates, repeat purchase intentions, and referral likelihood.

Control Variables: Firm size, firm age, manager education level, and industry subsector.

3.4 Data Analysis

Quantitative Analysis: Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS 4.0. Analysis followed two-stage procedures: (1) measurement model assessment evaluating indicator reliability, internal consistency, convergent validity, and discriminant validity; (2) structural model assessment examining path coefficients via bootstrapping (5000 subsamples), R^2, effect sizes, and model fit.

Qualitative Analysis: Interview transcripts underwent thematic analysis using NVivo 14, following iterative procedures from initial familiarization through member-checking.

4. Results and Findings

4.1 Descriptive Statistics

Table 1: Descriptive Statistics by Province

Province	n	IM Mean	CRM Mean	Loyalty Mean	Churn Rate (%)
Constantine	82	3.7	3.9	3.6	22
Sétif	79	3.5	3.4	3.3	28
Annaba	69	3.3	3.1	3.0	32
Batna	43	2.9	2.7	2.6	38
Total	**273**	**3.4**	**3.2**	**3.1**	**30**

Note: All scales on 5-point Likert scale. Differences significant at p<0.01 via ANOVA.

Substantial provincial variations emerged. Constantine demonstrates significantly higher scores across all constructs compared to other provinces, while Batna consistently scores lowest with gaps of 0.8 points (IM), 1.2 points (CRM), and 1.0 point (Loyalty).

Training and Development showed the largest provincial gap (1.4 points Constantine-Batna), suggesting particular implementation challenges in less-developed provinces.

4.2 Measurement Model Assessment

Table 2: Measurement Model Quality Indicators

Construct	Items	Cronbach's α	CR	AVE	HTMT
Internal Marketing	12	0.89	0.91	0.58	✓ (<0.84)
CRM Effectiveness	10	0.86	0.89	0.56	✓ (<0.79)
Customer Loyalty	8	0.82	0.87	0.52	✓ (<0.76)

All constructs exceeded minimum thresholds for reliability (α >0.80, CR >0.85) and validity (AVE >0.50, HTMT <0.85). Individual indicator loadings ranged from 0.72 to 0.91, confirming adequate measurement model quality.

4.3 Structural Model Results

Figure 2: PLS-SEM Path Model Results

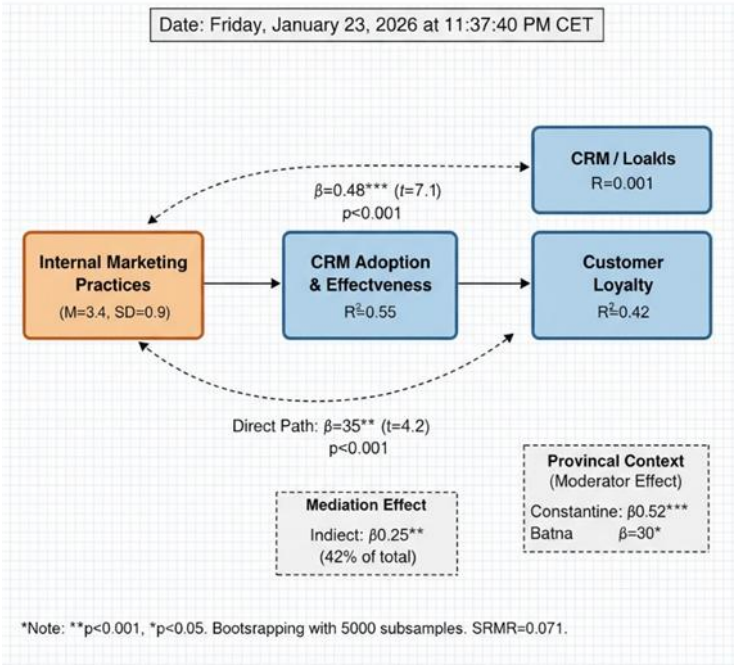


Table 3: Hypothesis Testing Results

Hypothesis	Path	β	t-statistic	p-value	f^2	Result
H1	IM → CRM	0.48	7.1	<0.001	0.30	Strongly Supported***
H2 (indirect)	IM → CRM → Loyalty	0.25	3.6	<0.001	-	Supported**
H2 (direct)	IM → Loyalty	0.35	4.2	<0.001	0.14	Supported**
H3 (moderation)	Province × IM → CRM	0.29	3.4	0.001	0.09	Supported**
H4	Training → CRM	0.41	5.8	<0.001	0.20	Supported***
H5	CRM → Loyalty	0.52	7.8	<0.001	0.37	Strongly Supported***

Key Findings:

H1 (β=0.48): Internal marketing practices significantly enhance CRM adoption and effectiveness, explaining 55% of variance in CRM outcomes (R^2=0.55). This medium-to-large effect size indicates substantial practical significance.

H2 (Mediation): Partial mediation was confirmed. Internal marketing shows both direct effects on loyalty (β=0.35) and significant indirect effects through CRM (β=0.25). The indirect effect accounts for 42% of total IM impact on loyalty, confirming CRM as a critical mediating mechanism. The remaining 58% direct effect suggests IM enhances loyalty through additional pathways.

H3 (Provincial Moderation): Multi-group analysis revealed significant provincial differences. The IM→CRM relationship strength varied: Constantine (β=0.52), Sétif (β=0.46), Annaba (β=0.43), Batna (β=0.30). The Constantine-Batna difference was statistically significant (Δβ=0.22, $p<0.05$), demonstrating that provincial infrastructure and capability differences create boundary conditions for IM effectiveness.

H4 (Training): Among IM components, Training and Development showed the strongest predictive relationship with CRM adoption (β=0.41), exceeding Empowerment (β=0.28), Communication (β=0.32), Rewards (β=0.24), and Work Environment (β=0.22).

H5 (β=0.52): CRM effectiveness significantly predicts customer loyalty with large effect size (f^2=0.37), validating CRM's value proposition in the SME context.

4.4 Qualitative Findings

Five major themes emerged from interviews:

Theme 1: Infrastructure Disparities – Constantine and Sétif benefit from high-speed internet, cloud services, and established vendor ecosystems. Batna faces unreliable connectivity and vendor isolation.

Theme 2: Training Availability – Constantine firms access diverse training resources (universities, professional associations), while Batna faces severe training scarcity, creating a vicious cycle of limited skills and reduced CRM adoption success.

Theme 3: Cultural Maturity – Constantine and Sétif firms demonstrate greater readiness for systematic management approaches. Batna's family-owned firms with traditional management face steeper cultural adaptation requirements.

Theme 4: Resource Constraints – Budget limitations emerged universally but with varying severity. Batna firms struggle with resource allocation trade-offs between immediate operational needs and long-term capability investments.

Theme 5: Success Stories – A few Batna and Annaba firms showed successful IM-CRM implementation, typically led by younger, educated managers, suggesting provincial differences reflect capability gaps rather than fundamental incompatibility.

5. Discussion and Implications

5.1 Theoretical Contributions

This research makes four principal theoretical contributions. First, it provides empirical validation of internal marketing theory in an SME context within an understudied MENA region. The strong IM-CRM relationship (β=0.48) confirms Berry's foundational proposition that satisfying internal customers enables external service excellence.

Second, the mediation findings advance understanding of mechanisms linking IM to customer outcomes. This study integrates previously separate research streams, demonstrating that CRM serves as a critical mediating mechanism (42% of total effect) through which IM influences loyalty.

Third, the provincial moderation results extend contingency perspectives on IM effectiveness. The significant Constantine-Batna difference (Δβ=0.22) demonstrates that contextual factors create boundary conditions for IM-CRM relationships, challenging universal applicability assumptions in management theory.

Fourth, identification of Training as the dominant IM dimension (β=0.41) contributes to understanding which IM components matter most in technology adoption contexts, aligning with technology acceptance research emphasizing self-efficacy.

5.2 Practical Implications

For SME Managers:

1. **Prioritize integrated strategies:** Allocate 30-40% of CRM budgets to IM initiatives rather than concentrating solely on technology
2. **Emphasize training:** Implement structured training programs covering CRM operation, data interpretation, customer-centric behaviors, and change management
3. **Adapt to capabilities:** Constantine firms can pursue sophisticated systems; Batna firms should adopt phased approaches with basic IM practices and simplified CRM tools
4. **Leverage communication:** Regular team meetings discussing customer priorities can foster customer-centric culture without major budget requirements
5. **Monitor systematically:** Implement systematic monitoring of IM practices, CRM utilization, and customer loyalty metrics

For Government and Policymakers:

1. **Province-specific capacity building:** Advanced centers in Constantine; foundational interventions (subsidized connectivity, training programs) in Batna
2. **National training infrastructure:** Partner with universities to develop standardized IM curriculum, certification programs, and online resources

3. **Technology access programs:** Facilitate CRM adoption through volume discounts, grants, localized platforms, and technical assistance
4. **Regional development:** Improve digital infrastructure, incentivize professional service providers in underserved provinces, and create business incubators

5.3 Limitations and Future Research

This study exhibits several limitations. First, the cross-sectional design prevents causal inference despite structural equation modeling. Longitudinal research tracking SMEs through IM implementation stages would provide stronger causality evidence. Second, data come exclusively from managerial reports, introducing potential common method bias. Future research should triangulate with employee and customer perspectives. Third, the study examined IM and CRM generally without detailed investigation of specific practices or technologies. Fourth, mediation analysis revealed that 58% of IM's loyalty effect operates through non-CRM mechanisms, suggesting additional mediators warrant investigation.

6. Conclusions

This research empirically demonstrates that internal marketing significantly enhances CRM effectiveness in Algerian SMEs, with CRM mediating approximately 42% of IM's impact on customer loyalty. The findings confirm that successfully managing customer relationships requires not only technological systems but fundamentally depends on committed, capable, customer-oriented employees developed through systematic internal marketing practices.

Substantial provincial disparities exist, with Constantine demonstrating significantly higher IM implementation, CRM effectiveness, and customer loyalty compared to Batna. These gaps reflect infrastructure availability, training resource accessibility, and economic development differences creating unequal capabilities for implementing modern management practices.

The promise of CRM for improving customer retention and business performance in Algerian SMEs can only be realized when accompanied by parallel investments in the human and organizational capabilities that internal marketing develops. As this research demonstrates, technology provides tools, but people determine outcomes. The integration of internal marketing and CRM represents not merely a best practice but a strategic imperative for SMEs operating in competitive service markets across diverse regional contexts.

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