Effects of Corporate Image and Service Quality on Customer Satisfaction in the Malaysian Takaful Industry: Trust as a Moderator

by

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LIST OF ABBREVIATIONS

ATM	Automated Teller Machine
BNM	Bank Negara Malaysia
CB-SEM	Covariance-based structural equation modeling
FSQ	Functional Service Quality
HOC	Higher-order construct
KPDNHEP	The Ministry of Domestic Trade and Consumer Affairs
LOCs	Lower-order components
MTA	Malaysia Takaful Associations
OCS	Overall Customer Satisfaction
FCS	Functional Customer Satisfaction
FSQ	Functional Service Quality

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TSQ	Technical Service Quality
TCS	Technical Customer Satisfaction
PLS-SEM	Partial Least Square Structural Equation Method
SET	Social Exchange Theory
ServQual	Service Quality
ServPerf	Service Performance
ServCon	Service Convenience
TSQ	Technical Service Quality
TBE	Takaful Basic Examination

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Kesan Imej Korporat dan Kualiti Perkhidmatan ke Atas Kepuasan Pelanggan dalam Industri Takaful di Malaysia: Kepercayaan sebagai Pembolehubah Penyederhana

ABSTRAK

Tujuan kajian ini adalah untuk meneroka kesan kedua-dua pembolehubah bebas (imej korporat dan kualiti servis) terhadap kepuasan pelanggan dalam industri Takaful di Malaysia. Kepuasan pelanggan adalah penting untuk mencapai kejayaan di dalam dunia perniagaan, ia adalah salah satu strategi yang telah lama diketahui dalam dunia perniagaan dan ia telah menjadi elemen penting di dalam kelangsungan hidup sesebuah perniagaan. Bagaimanapun, untuk memahami maksud kepuasan pelanggan itu lebih rumit secara realiti berbanding dengan sekadar bercakap tentangnya. Tafsiran kepuasan pelanggan juga berbeza dari satu individu ke individu yang lain dan dari satu industri ke industri lain. Inilah sebabnya mengapa tidak ada satu titik persetujuan mengenai satu definisi terbaik dan tepat dalam menggambarkan makna kepuasan pelanggan dalam setiap konteks dan pengukuran. Di samping itu, kebanyakan pasaran Takaful di dunia masih dalam peringkat awal dan ia masih dianggap sebagai industri baru. Kajian mengenai kepuasan pelanggan dalam industri ini juga masih terhad walaupun isu itu dianggap penting. Oleh itu, kajian ini memberi tumpuan kepada hubungan antara imej korporat (komunikasi syarikat, jenama dikenali, rujukan dari mulut ke mulut), kualiti perkhidmatan (fungsi kualiti servis, teknikal kualiti servis dan etika kualiti servis) dan kepuasan pelanggan. Kepercayaan adalah pemboleh ubah penyederhana (moderator) untuk menguji kesan hubungan penting antara pembolehubah tidak bersandar (imej korporat, kualiti perkhidmatan) dan pembolehubah bersandar (kepuasan pelanggan). Seramai 275 respons dikumpulkan melalui analisis kaji selidik sementara melalui SPSS 21 dan Smart PLS 3.0 yang dijalankan untuk mengkaji hubungan antara semua pemboleh ubah yang terdapat di dalam kajian ini. Hasil kajian empirikal menunjukkan terdapat hubungan yang signifikan antara imej korporat (komunikasi syarikat) dan kualiti perkhidmatan servis (fungsi kualiti servis dan etika kualiti) terhadap kepuasan pelanggan dalam industri Takaful di Malaysia. Walau bagaimanapun, kepercayaan menunjukkan hubungan yang tidak signifikan sebagai pemboleh ubah penyederhana (moderator) dengan pembolehubah tidak bersandar. Hasil rangka kajian penyelidikan ini menyumbang kepada bidang industri Takaful dan kesusasteraan yang ada terutamanya dalam kajian terhadap kepuasan pelanggan. Penemuan ini juga menawarkan implikasi teoretikal dan praktikal untuk pengamal Takaful serta pembangunan industri Takaful di negara ini. Akhirnya, beberapa batasan di dalam kajian ini memberikan ruang dan arah untuk penyelidikan masa depan.

Kata Kunci: Takaful, kualiti perkhidmatan, imej korporat, kepercayaan, teori pertukaran sosial, teori percanggahan kognitif, kepuasan pelanggan, kepuasan.

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Effects of Corporate Image and Service Quality on Customer Satisfaction in the Malaysian Takaful Industry: Trust as a Moderating Variable

ABSTRACT

The purpose of this study is to explore the effects of two independent variables (corporate image and service quality) on the customer satisfaction in Takaful industry in Malaysia. Customer satisfaction is one of the secret of success in any business, it is one of a known strategies in the business world and it has become a key element in a business survival. However, customer satisfaction is more complicated in reality than verbally define. The interpretation of customer satisfaction also varies from one person to another person and from one industry to other industry. This is why there is no agreement on one definition that can be best in describing the meaning of customer satisfaction and to accurately fit in every context and measurement. In addition, most Takaful markets in the world is still in infancy stage and it is still being consider as a new industry. Studies on the customer satisfaction in this industry are still limited. Therefore, this study focused on the relationship between corporate image (firm communication, brand familiarity and word of mouth), service quality (functional service quality, technical service quality and ethical service quality) and customer satisfaction. Trust was a moderator variable to test the effect of significant relationships between the independent variable (corporate image, service quality) and the dependent variables (customer satisfaction). A total of 275 response were collected through a survey whilst analysis through SPSS 21 and Smart PLS 3.0 was carried out to examine the relationship between all the variables in this study. The result of the empirical study showed that there was a significant relationship between corporate image (firm communication), service quality (functional service quality and ethical service quality) towards customer satisfaction in Takaful industry in Malaysia. However, trust indicated a non-significant relationship as moderator on the main independent variable. The research framework of this study contributes to the existing Takaful industry fields and literature especially in the customer satisfaction. The findings also offer theoretical and practical implications for the Takaful practitioner as well as for the development of the Takaful industry in the country. Finally, some limitations provide room and direction for future research.

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Keywords: Takaful, service quality, corporate image, trust, social exchange theory, cognitive dissonance theory, customer satisfaction, satisfaction

CHAPTER 1 : INTRODUCTION

1.1 Introduction

Since the industrial revolution, the business world has constantly been changing and growing rapidly, from mass production to intangible business and wireless technology (Choi, Lotz, & Kim, 2014; Lew & Sulaiman, 2014). The competitive business environment, the rapid development of technology and the increasing knowledge of our society have contributed to customers demanding better products or services (Osman, Ali, Zainuddin, Rashid, & Jusoff, 2009) and are becoming more concerned about where to spend their hard-earned money (Tran, Nguyen, Melewar, & Bodoh, 2015).

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According to Che Ngah, Mat Rashid and Mansor (2016) the survival of a company is closely related to how it could win new customers' heart and retain existing ones. Customer satisfaction is one of the key business strategies companies adopt to survive (Kaur & Negi, 2010) because this strategy helps them to be relevant in a highly competitive business world (Bashir, 2012b; Methaq Ahmed, 2015). Customer satisfaction is the key to ensure whether customers continue or terminate a business relationship, and, hence, it is becoming part of the marketing goals (Bashir, 2012b; Fournier & Mick, 1999). Customer satisfaction is an intangible asset, a long-term focus that lead to a business performance and a "holy grail" of a modern retail (Huang & Trusov, 2020; Hult, Sharma, Morgeson, & Zhang, 2019).

Furthermore, the process of acquiring a new customer is five times more costly than retaining existing ones and particularly demanding (Abu Hassan, Wan Jusoh, & Hamid, 2014; Santos & Mota, 2020). Today's customers do not hesitate to change

different product or service providers if they are not satisfied with their purchase (Apostolos, Athanasopoulou, & Tsoukatos, 2016). As a result, companies and marketing researchers have extensively focused on studying customer satisfaction to improve their knowledge of their customers, markets, and products (Almossawi, 2012). The significance of customer satisfaction is reflected in past studies conducted in various industries, such as banking (Bashir, 2012b; Khan & Fasih, 2014), insurance (Coviello & Di Trapani, 2012; Duodu & Amankwah, 2011), airline (Ali, Lal Dey, & Filieri, 2015) and hospitality (Kim, Vogt, & Knutson, 2015).

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Customer satisfaction is more complicated in reality than verbally define. It is something involve an evaluation by the customer, and not only on a rational factor but also on an emotional factor of the customer too (Apostolos et al., 2016). This is what has kept the researchers interest to study on customer satisfaction for the last few decades and this topic never been obsolete to be study because of the evolving of the dynamic nature of an organisation, system and also customer consumption culture which also affect the customer self and the customer satisfaction research itself (Agarwal, Ulgado, Malhotra, Shainesh, & Wu, 2005; Cronin & Taylor, 1992; Mohd Dali, 2014).

The interpretation of customer satisfaction also varies from one person to another and from one industry to another. This is why there is no agreement on one definition that can be best in describing the meaning of customer satisfaction and to accurately fit in every context and measurement (Cengiz, 2010; Duodu & Amankwah, 2011; Molina, Martín-consuegra, & Esteban, 2007).

The present study contributes further to the literature on customer satisfaction by focusing on the Takaful industry in Malaysia. The next section elaborates this industry in detail to set the context for the present study.

1.2 The Important of Customer Satisfaction In a Company

The importance of customer satisfaction in a company is very vital. If any company or entrepreneur think that customer satisfaction is insignificant for their business then it is not impossible that they will face the risk of losing their own existing customer. Sadly, but true, if this customer satisfaction is not taken care of from the beginning then a company will certainly face various problems to survive for a long time. Furthermore, when the customer's heart is captured, the company will become recognizable in the industry which it is located. This will makes it easier for the company to put their company beyond their existing competitors.

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Customer satisfaction is important as it can help a company to retain their existing customers (Khan & Fasih, 2014). Additionally, past studies also have shown that customer satisfaction helps to retain existing customers and reduces at least 5% cost to retain the existing one (Kaur & Negi, 2010). Customer today able to change the existing service they purchased and used as there are more choices for them in the increasingly fierce business environment. Most of the decisions made by the customers who switch the company service or product are due to the terrible customer service quality which lead to dissatisfaction.

That is why it is important for the company to focus on customer satisfaction as it will help to keep the profits of the company, attracting new customers through sharing experience by existing customers themselves or giving recommendation to new potential customers. By focusing in customer satisfaction it will help to retain one organisation existing customer and the cost of attracting a new customer will be less. Attracting a new one are more costlier thus retention is more vital than customer attraction (Eugene W. Anderson, Fornell, & Rust, 1997; Bowen & Chen, 2001; Kaura, Prasad, & Sharma, 2015).

Based on the existing literature, customer satisfaction is not a process that can be happen overnight, it is a continuous process and should not be take for granted by any company or industry to survive. A company needs to look after their customer all the time such as by ask a question, give constant support to their customers such as personalized message, targeted website, surveys or any ways that can help the company to take care of their customers and always look for steps in measuring their customer satisfaction.

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Most Takaful markets in the world is still in infancy stage, it is still being consider as a new industry (Augustine, 2018) and as such customer satisfaction is not being vastly research added the fact that these industries are actively implement and develop only in Muslim majority population country and Malaysia Takaful industry itself is still focusing in strengthening the penetration level in Malaysia market as compared to the conventional insurance sector (Sheriff & Shaairi, 2013).

The Government of Malaysia and also with the help of the Bank Negara Malaysia along with other private organisations are looking forward in empowering this industry. Takaful have a strong growth opportunities but the success are highly depending on the industry player ability to position itself strategically in the market (Ernst & Young & Malaysian Takaful Association, 2015; Sheriff & Shaairi, 2013). Even that this industry in Malaysia has existed since 1984 but previous literature in the Takaful or Islamic insurance are limited and this provide that this field is under-researched; especially in customer satisfaction literature in Malaysia (Mohd Dali, 2014; Sadek et al., 2010).

Refer to a past study conducted in Malaysia, customer satisfaction topic is more likely does not involve the Takaful industry. Too little study about customer satisfaction in Takaful in Malaysia and customer satisfaction was studied as other variable except dependent variable. The study in the Takaful industry also repeated by the same author. Most of the previous researchers in this industry are more interested in other target of study instead of customer satisfaction. Following this matter, researcher chooses to study about this topic as the researcher believe that for any company to achieve loyalty, profit or a good name, customer satisfaction is the key which should be given attention to and this study also attempts to identify this issue in Malaysia.

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Aside from the above reasons, this study is important for the industry to understand the market situation, the actual understanding and what that customer seek from the industry. Researcher believes that this study will help Takaful company to get the customer to involved and enroll in Takaful and stay as a Takaful customer. Thus, it will benefit the Takaful customer and at the same time benefit the industry and the company too.

Therefore, this study will provide a more complete picture towards customer satisfaction issue in Malaysia Takaful industry by focusing in the family Takaful Malaysia market. This study help to provide a framework in understanding the predictors of customer satisfaction in Malaysia Takaful industry.

1.3 The Importance of Takaful in Economic

Takaful can be regarded as one of the important things in the world today. It can no longer be regarded as a service or financial security instrument only to those who are capable, but it has become necessity to society today. Apart from helping each individuals to prepare for any future disaster by providing the individual economic security. It is also benefit the economic development of a country. Takaful industry is accepted and flourish in a country with a positive national income (Redzuan, Abdul Rahman, & S. H. Aidid, 2009).

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In view of Takaful industry in Malaysia. The Malaysian government has a positive outlook on this industry. The government's aspiration towards the Takaful industry is to create an efficient, progressive and comprehensive sector while meeting the economic needs of the nation (Md Razak, Idris, Md Yusof, Jaapar, & Ali, 2013). Refer back to the Takaful industry in Malaysia which starting with only one Takaful company that created to help Malaysia's first Islamic bank operation, now it has grown by having 11 Takaful companies registered with the Malaysian Takaful Association.

Today, the takaful industry has become diverse and it has attracts a number of Takaful operator not just from local but also from international. This tremendous increase of Takaful operators in Malaysia provides the opportunities that would lead to expansion

of the Takaful market share and increased of market penetration (Md Razak et al., 2013). This situation is contributing towards positive development of the country. Apart from this Takaful industry, Takaful also guarantee that the security of the economy of a family participant in the event of any misfortune.

In terms of the importance of the Takaful for the country's economy, referring to Takaful Ikhlas President and Chief Executive Officer (Takaful Ikhlas) statement in 2015, the Takaful industry is seen to contribute around RM 3.5 billion to RM4 billion with an average double-digit increase from one year to one year in the Malaysia economy. Furthermore, the takaful industry itself involves in investment and businesses such as equity securities and mutual funds, participation in Sukuk, and asset - backed securities, participation in profit- loss sharing accounts, unit trusts, deposits, certificates, real estate and income properties and many more (Clark Fisher, 2013a).

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This is because the Takaful industry can be non-profit oriented as well as profit oriented entity without violating syariah rules. It is depends on what type of Takaful model is used or implemented by the Takaful company. Examples of models used in the Takaful industry around the world are the models such as Mudarabah, Wakalah and Hybrid are intended for profit motive but the model like waqf can be for the non-profit oriented organisation (Salman, 2014).

In addition, the Takaful industry also helps to provide job opportunities as the industry requires distributors and sales agents to introduce the types of products for the services they offer to the public. This job is offered on a part-time basis to anyone who is

interested and there is an agent who makes it a permanent job and can earn nearly RM 10,000 per month (Metro, 2015).

1.4 Background and Issue of the Malaysia Takaful Industry

Takaful is an Islamic financial security instrument. It is divided into two types of Takaful which is known as general Takaful and Family Takaful. General Takaful is a short-term policy. In this policy participants contribute to the general Takaful fund and no savings are involved. This type of policy is normally practiced in the motor and non-motor Takaful category (Ahmed Salman, 2014). Other types of Takaful under the general Takaful are home Takaful, motor Takaful, and personal accident Takaful. On the other hand, Family Takaful is a long-term policy and similar to conventional life insurance (Salman, 2014).

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The policy is different from the General Takaful as the participants aim at saving for their long-term needs, such as children's education plan, retirement-annuity plan, and compensation for their dependents in the events of death and disability (i.e., life Takaful plan). Under the Family Takaful plan, it also cover two funds which are savings (participants accounts) and investment elements (participant special accounts). In this study, the respondent are the participant of the personal protection plan or known as Family Takaful as it covers for the health, investment and also had a sum coverage for participants.

Overall, the Takaful Industry is expected to flourish in a country with a positive national income (Redzuan et al., 2009). The Islamic Financial Services Board (2019) reported that the contributions of the Takaful industry in South-East Asia are estimated to

have reached USD3.86 billion in 2017, which was up from the USD2.82 billion in 2016, contributed primarily by three countries of Malaysia, Indonesia, and Brunei. Malaysia accounted for over 70% of this volume (USD2.77 billion), Indonesia 25% (USD972 million), and Brunei 5% (USD114 million). Together, they account for roughly 15% of the global Takaful contributions. In comparison, the general business Takaful dominates the GCC countries and MENA regions.

According to Ernst and Young (2015), Muslim comprises 20% of the world population but Takaful is 1% of total global insurance market. This is contradict with the rapid growth of the Takaful industry but the sales within the Muslim population remain a small fraction of the total insurance market (Jaffer, Ismail, Noor, & Unwin, 2010). As a result, Muslims have little protection for their dependents or possession (Jaffer et al., 2010).

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Takaful industry in Malaysia since it started had face a tremendous transformation and innovation in improving its service and product as it is part of its commercialization (Noordin, Rizal Muwazir, & Madun, 2014). Recognizing the potential growth of the Takaful industry, the Malaysian government has made tremendous efforts in creating a conducive environment to encourage the establishment and development of the industry by strengthening and improving the relevant regulations and offering tax reductions for Takaful participants. This action is one of the possible factors that lead Malaysia as the biggest Takaful industry player in Asian and second biggest market for Takaful in the World (Ernst & Young & Malaysian Takaful Association, 2015; Gustina & Abdullah, 2012; Md Husin & Ab Rahman, 2013a).