



THE IMPACT OF CORPORATE IMAGE ON
CUSTOMER LOYALTY OF ISLAMIC BANKS
IN MALAYSIA: INTEGRATING RESOURCE-
BASED AND INSTITUTIONAL THEORY

BY

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ABSTRACT

The development of Islamic banks in Malaysia is increasingly challenging with more banks offering products and services based on Islamic principles. Hence, this study explores customers' perception pertaining to corporate image and their adoption of Islamic banking, besides their attitudinal and behavioural loyalty towards their most preferred Islamic bank in Malaysia. Resource based theory, as well as institutional theory was exploited as the theoretical foundation for developing the conceptual model. Accordingly, data was collected firstly, through an exploratory study, by interviewing customers, Shari'ah supervisors, practitioners and lecturers of Islamic banking. Next, 'self-administered questionnaires were distributed among 600 customers of Islamic banks in Kuala Lumpur through convenience sampling, specifically in selected Islamic banks, shopping malls and stations of public transportation. Analysis of data was then conducted using descriptive, exploratory and confirmatory factor analysis. Subsequently, structural equation modelling with 308 respondents was then conducted to test the hypothesized relationships among the constructs, as postulated in the model. Ten hypothesis links are supported, while eleven are rejected. Results indicate that firstly, corporate image of Islamic banks are determined by institutional image and performative image. Performative image constitutes items including friendliness, reliability, honesty, security, achievement-orientation, leading-orientation, up-to-date and excitement. In consequence, institutional image is represented by god-consciousness, which encompasses being Islamic, humbleness, fairness and trustworthiness. Surprisingly, corporate social responsibility is verified insignificant. Nevertheless, performative image is found to be more important than institutional image by the customers of Islamic banks. Secondly, corporate image has an impact on organizational legitimacy, as well as customers' adoption of Islamic banking. Thirdly, and most importantly, organizational legitimacy mediates the relationship between corporate image, attitudinal and behavioural loyalty, while it signifies as a partial mediator between corporate image and customers' adoption of Islamic banking. Fourth, attitudinal loyalty is found to have no effect on behavioural loyalty. Finally, only gender serves as a moderator in this study. It is hoped that this study would facilitate the development of corporate image in Islamic banks, especially in facing strong competition from the foreign banks.

خلاصة البحث

تواجه المصارف أو البنوك الإسلامية في ماليزيا تحديات متزايدة، في ظل وجود العديد من المصارف التي أخذت تُقدّم منتجات وخدمات قائمة على المبادئ الإسلامية، وفي الواقع أصبحت الصورة المؤسسية عنصراً أساسياً في تحقيق النتائج المرجوة بما في ذلك رعاية العملاء، وضمان دعمهم، وتُعدّ الدراسات المتعلقة بالصورة المؤسسية في الصناعة المصرفية الإسلامية نادرة جداً، وبالتالي، فإنّ الأمر يتطلب ضرورة إجراء دراسة لاستكشاف تصور العملاء تجاه سمعة الشركات وصورتها المؤسسية ودعمهم للمصرف الإسلامي، فضلاً عن ولائهم لمصرفهم الإسلامي المفضّل في ماليزيا. وقد استغلت النظرية المؤسسية باعتبارها النظرية الأساسية لتطوير النموذج التفاهمي، وكذلك دمج نظرية الفعل المبرر والفئة القائمة على نظرية التجهيز. وعليه، كان جمع البيانات أولاً، على أساس دراسة استطلاعية من خلال مقابلات مع الزبائن، والمشرفين الشرعيين، والعاملين والمحاضرين في مجال الخدمات المصرفية الإسلامية، وذلك للوقوف على أفكار متعلقة بصورة الشركات في المصارف الإسلامية، بعد ذلك أُجري استطلاع على 600 من عملاء المصارف الإسلامية في منطقة كلانج فالي، حيث تمّ تحليل 308 فقط من هذه البيانات، وتمّ تحليل البيانات المستخدمة في هذه الدراسة بواسطة طريقتي تحليل العوامل الاستكشافية، و تحليل العوامل المؤكدة، وتمّ أيضاً استخدام المعادلة الهيكلية النموذجية لاختبار العلاقات المفترضة بين المتغيرات، وكما تمت الإشارة إلى ذلك في النموذج، وقد دُعِمَ سبعة عشر من الروابط الفرضية مع رفض ست منها، وقد أشارت النتائج أولاً إلى أن الصورة التجارية للمصارف الإسلامية تحتوي على الوعي الديني، وجودة الأداء، وثانياً كان للوعي الديني وجودة الأداء أثرٌ في شرعية المؤسسة، ثالثاً شرعية المؤسسة كان لها دور في رعاية العملاء، ودعمهم للخدمات المصرفية الإسلامية. وأخيراً فإنّ نوع الجنس ونوع المصارف يُعدّان بمثابة وسيط بين بعض المسارات، ومن المؤمل أن تسهل هذه الدراسة وضع استراتيجيات للتسويق فيما يختصّ بالمصارف الإسلاميّة، بسبب المنافسة الشديدة بين المتنافسين في هذا المضمار.

APPROVAL PAGE

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DECLARATION

I hereby declare that this thesis is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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**IN THE NAME OF ALLAH, THE MOST BENEFICENT,
THE MOST MERCIFUL**

*To My Beloved Husband,
Syed Ahmad Munir bin Syed Ahmad Abdul Rahman*

*My Beloved Mother,
Hajjah Mahani Binti Mahmud*

*My Beloved Father,
Haji Osman Bin Asmawi*

*My Respected Father In-Law
Syed Ahmad Abdul Rahman*

And

*My Precious,
Syed Husnil Hariz Bin Syed Ahmad Munir
Sharifah Nabihah Binti Syed Ahmad Munir
Syed Husnil Hafidz Bin Syed Ahmad Munir
Syed Husnil Hazmi Bin Syed Ahmad Munir, who was born on the 3rd year during this
challenging years*

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CHAPTER 1

INTRODUCTION

1.1 OVERVIEW OF THE STUDY

During the last five decades, the Muslim world has called for an alternative banking system based on Islamic principles of economics and finance, apart from having the conventional banking system. Undoubtedly, this requires a transformation in the financial and economic activities in accordance to those values and beliefs, which, among others, is to ensure that prohibition of giving and taking interest is upheld. Malaysia, being one of the Muslim countries, at that time, was also very enthusiastic in initiating an Islamic financial system. Consequently, Tabung Haji, the Pilgrimage Fund was established as the first Islamic savings institution (Laldin, 2008).

At present, we are witnessing the growing of Islamic banking all over the globe. Eventually, it has spread globally to encompass seventy-five countries and is administering assets in excess of US\$400 billion (El-Qorchi, 2005). In fact, the most important Islamic financial institutions (IFIs) are now high street names in many Muslim countries, as well as becoming attractive to the mainstream of the Western countries (Islamic banking – White Paper, January 2009). According to a study by Tower Group (Iyer, 2009), more than two hundred and fifty (250) Islamic Financial Institutions across the globe are managing assets worth more than US\$750 billion, where US\$350 billion is held by the full-fledged Islamic institutions, while the remaining is held by conventional banks offering Islamic banking services, growing at 15% annually between 2008 and 2010. In view of this, the ethical values of equity and social justice are becoming appealing also to the non-Muslims. This was

evidently illustrated when HSBC, at the start of its Islamic banking operations in Malaysia found that more than half of its customers were non-Muslims (Business Week, 8th August 2005).

Indeed, the emergence of Islamic banking in Malaysia is very robust due to the support from the government towards promoting the country as an international Islamic financial hub. Starting with only two banks, Bank Islam, the pioneer of Islamic banking, followed by the establishment of Bank Muamalat, Malaysia can now boast a number of Islamic financial institutions, through its conventional banking counterparts having their own Islamic subsidiaries. This was after more than a decade of transforming themselves as Islamic windows. In addition, more licences have been issued to international players to participate and establish their own Islamic banks in this country as a way to liberalize the financial sector (Menon & Lee, 2010). Inevitably, banks that offer Islamic banking products and services need to prepare and equip themselves to deal with the challenges ahead in order to be at the forefront of the Islamic banking industry. One of the ways by which we could achieve this is through a reputable and diversified range of products and services, specifically, a desirable corporate image that would boost confidence and enhance customers retention of their service provider.

As a result of the intense competition both in the local and international market, Islamic banks need to direct their attention to the marketing strategies, specifically, in differentiating their products and services with their competitors through distinctive corporate image. It is denoted that commercial banks have not been successful in differentiating its corporate image due to its products' intangibility (O' Loughlin & Szmigin, 2005), homogeneity of its products (Avkiran, 1994) and its ease of duplicating other banking products and services (Wilkinson &

Balmer, 1996). It is stated that most retail banks are successful only in creating awareness and visual characteristics of its organization (Devlin & Azhar, 2004)

Indeed, it is very important to create a unique positioning in the minds of existing and potential customers considering the fact that consumers are offered such a wide variety and choice of products and services (Keller, 1999). Certainly, corporate image may indicate the overall impression made in the minds of the public about an organization (Ditcher, 1985; Hatch & Schultz, 2003). Therefore, Islamic banks need to develop their corporate branding strategies, since it is quite difficult to differentiate their products, premises and services from those of their competitors, who are also offering similar products and services (Blackett, 2003). Davis, a brand asset manager stated that, “brands help consumers cut through the proliferation of choices available in every product and service category” (cited from Wheeler, 2006: 14).

Consequently, it is not surprising that there has been a proliferation of knowledge relating to corporate image over the last two decades. Journals dedicated to corporate brand and brand image have been established, including Corporate Reputation Review and Journal of Product and Brand Management. It appears that corporate image has become one of the most debated topics particularly in terms of its terminology (Batra et al., 1993). Likewise, a series of discussions between academicians and practitioners has taken place, primarily through theoretical rather than empirical development (Balmer & Gray, 2003). Nevertheless, measuring corporate image effectively has always been vigorously debated by the marketers and practitioners (Dobni & Zinkhan, 1990) Therefore, the primary focus of this study is on corporate image in Islamic banks, which has been carried out through relevant surveys and interviews. Specifically, research questions and objectives are devised

pertaining to corporate image in Islamic banking from the perspectives of the consumers.

1.2 STATEMENT OF THE PROBLEM

Inevitably, the greatest challenge to Islamic banking particularly the full-fledged Islamic banks would be to compete with the well-developed and mature conventional banking industry that have evolved over the previous decades (Hassan & Lewis, 2007). Malaysia, being one of pioneers in Islamic banking, would also have to face a similar confrontation, in particular, when they are operating under a dual-banking system, where conventional banks have also been actively establishing their Islamic banking subsidiaries. To a great extent, the Islamic banking industry is currently faced with intense rivalry from the long-recognized and well-accepted conventional banking system that has dominated the industry ever since its establishment (Ahmad & Haron, 2002). Nevertheless, having to deal with so many competitors in this industry, Islamic banks would inevitably have to strive towards competitive advantage, and one of the ways is to create a strong corporate image.

More importantly, studies on corporate image in Islamic banks are very limited. Hence, it is very crucial to investigate the elements of corporate image in Islamic banks compared to the conventional banks. This is due to the fact that Islamic banks are embedded within Islamic Law or Shari'ah, and consequently, there are bounded by the principles of Islam, guided by the Holy Qur'an and the Sunnah of the Prophet Muhammad (p.b.u.h.).

A distinctive corporate image is generally the most powerful tool for differentiation of financial services (van Heerden & Puth, 1995), lowering perceived risk-taking (de Chernatony & Cottam, 2006; O' Loughlin & Szmigin, 2005), and