



**DETERMINANTS OF THE CORPORATE IMAGE OF
ISLAMIC BANKS IN KOTA KINABALU, SABAH**

BY

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**A thesis submitted in fulfilment of the requirement for the
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ABSTRACT

The Islamic banking system is growing and gaining customers' acceptance from all over the world. Many international conventional banks have started to open branches which operate in accordance with the Islamic Shari'ah principles mostly in Islamic countries. The Islamic banking system is expected to face strong competition not only among the Islamic banks but also from well-established conventional banks offering Islamic products and services. This research aims to determine customers' perception towards the corporate image of Islamic banks in a dual banking environment like Malaysia. Focus in this research was to identify the determinants that influence the corporate image of Islamic banks in Kota Kinabalu, Sabah. In this study, seven determinants were hypothesized to influence the corporate image of Islamic banks which are corporate identity, reputation, services offered, physical environment, contact personal and Shari'ah compliance. Self-administrated questionnaires were distributed to 300 customers of Islamic banks around Kota Kinabalu, Sabah by way of judgmental sampling. Data was then analysed using Statistical Package for Social Sciences (SPSS) software version 19.0. The finding indicated that there is a positive overall perception towards corporate image of the Islamic banks. However, the study found that only three determinants have significant and positive relationship with corporate image which are corporate identity, reputation and contact personal. Reputation was found to be the most influential determinant that can affect the corporate image of Islamic banks. Therefore, it is suggested that the Islamic banks in Malaysia has to improve their corporate identity by portraying a good image to the public. Other than that, to enhance Islamic bank's corporate image, Islamic banks also need to build and maintain their reputation by keeping their promises to their customers. Lastly, Islamic bank should train and build positive behavior, competencies and appearance of its employees as they are the front line people that deal with customers and represent the Islamic banks.

خلاصة البحث

ينمو النظام المصرفي الإسلامي الحالي ويحظى بقبول العملاء في جميع أنحاء العالم؛ ولهذا بدأ العديد من البنوك التقليدية العالمية بفتح فروع لها تعمل وفقاً لمبادئ الشريعة الإسلامية في البلدان الإسلامية. ومن المتوقع أن يواجه هذا النظام المصرفي منافسة قوية ليس فقط بين المصارف الإسلامية فحسب، بل أيضاً من البنوك التقليدية الراسخة التي تقدم المنتجات والخدمات الإسلامية للنظام المصرفي الإسلامي. يهدف هذا البحث إلى تحديد مفهوم العملاء تجاه الصورة المؤسسية للبنوك الإسلامية في بيئة مصرفية مزدوجة مثل ماليزيا، ويركز في التعرف على العوامل التي تؤثر في الصورة المؤسسية للبنوك الإسلامية في كوتا كينابالو، بولاية صباح. في هذه الدراسة، تم افتراض سبعة محددات للتأثير في الصورة المؤسسية للبنوك الإسلامية، وهي: هوية الشراكة، والسمعة، والخدمة المقدمة، والبيئة المادية، والتواصل الشخصي، وأحكام الشريعة الإسلامية. تم توزيع استبانات تدار ذاتياً إلى 300 عميل من البنوك الإسلامية في كوتا كينابالو، بولاية صباح عن طريق أخذ رأي العينات، ثم تحليل البيانات باستخدام الحزم الإحصائية للعلوم الاجتماعية (SPSS) النسخة 19.0. أشارت النتائج إلى أن التصور العام كان إيجابياً في تعزيز الصورة المؤسسية للبنوك الإسلامية، ووجدت الدراسة أن ثمة محددات ثلاثة فقط لها علاقة كبيرة وإيجابية بالصورة المؤسسية؛ كالهوية المؤسسية والسمعة والتواصل الشخصي. وتعدّ السمعة من أهم المحددات التي يمكن أن تؤثر في الصورة المؤسسية للبنوك الإسلامية؛ لذلك، ترى هذه الدراسة أن البنوك الإسلامية بماليزيا لديها فرصة لتحسين الهوية المؤسسية عبر تقديم صورة جيدة للجمهور، فضلاً عن ذلك تحسين الصورة المؤسسية البنك الإسلامي التي تحتاجها البنوك الإسلامية لبناء وصيانة سمعتها عن طريق الحفاظ على وعودها لعملائها. وأخيراً، يجب أن يقوم البنك الإسلامي بتدريب موظفيه وبناء السلوك الإيجابي لديهم، ورفع وكفاياتهم؛ لأنهم في الواجهة التي يتعاملون عبرها مع العملاء مباشرة، ويمثلون بسلوكهم الإيجابي البنوك الإسلامية ونظامها المصرفي.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Sciences (Marketing)

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I hereby declare that this dissertation is the result of my own investigations, 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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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter will provide an overview of the study, which includes a brief explanation on the background of the study, problem statement, research objectives, research questions and the significance of the study.

1.2 BACKGROUND OF THE STUDY

Nowadays, the banking industry is highly competitive where the financial institutions are entering new markets and offering a various range of strategical products and services in order to strengthen their presence and increase their profitability. The competition has become more intense as Islamic banking was introduced to the market especially in Far East and the Arabian Gulf in the early 1970s. What makes Islamic banking different from conventional banking is that Islamic banking complies with Shari'ah where riba is totally unacceptable. Islamic banking has grown and spread throughout the world from the Arab and Muslim countries towards Europe and the Americas (Iqbal & Molyneux, 2005). The fast growing and acceptance of Islamic banking has made many conventional banks as well as some major multinational western banks start to practice Islamic banking which is also known as Islamic window. According to the World Islamic Banking Competitiveness Report for 2013–14, Islamic banking assets growing with commercial banks globally have reached US\$1.54 trillion in 2012 which consists of both pure-play Islamic banks and windows.

Malaysia has also contributed to the growth of Islamic banking where it started to be implemented locally in 1962 when Muslims in Malaysia needed a fund

mechanism enabling deposits to perform their haj. As we know, Malaysia is a multiracial country that consists of three major races which are Malays, Chinese and Indians. There is a total population of 30.6 million in Malaysia with 61.3 percent of them being Muslims (Department of Statistics Malaysia, 2015). Thus, Islam is the official religion of the country but other religions are free to be practiced. As a majority Muslim country, Malaysia has established a Haj fund management organisation for Muslims when they see the need to deposit money for haj. Tabung Haji was the very first institution that practiced Islamic technique where riba is prohibited and it has been successful. From then on, the government has finally established Islamic banking and open Islamic window to conventional banks.

In Malaysia, positive perception towards Islamic banking is very important because of the competition among Islamic banks with the long established conventional banks in a dual-banking system. The Islamic banking and finance play a role to the growth and development of the Malaysian economy. Therefore, strategic positioning of the Islamic banking to retain in the competition and offer of services and products that can fulfil the need of customer is really important for Islamic banking industry to assure a significant market share in the rapid growth and challenging financial environment especially in a dual-banking system such as in Malaysia.

Islamic banking differs from conventional banking especially in terms of operation where it follows Shari'ah and outlawed riba. Both offer services which are intangible and cannot be measured unless it has been tried out. To differentiate Islamic banking from conventional banking, the company has to create a good corporate image to the public. The corporate image is very crucial as it is the consumer's impression in the mind of the company. Therefore, companies must create powerful

brands that can lessen the perceived risk of consumers and include alternatives for differentiation (O'Loughlin & Szmigin, 2005; de Chernatony & Cottam, 2006). In this context, the corporate image is considered as an important strategic tool that could facilitate long-term success.

A study by Bravo, Montaner and Pina (2009) shows that corporate image has become more important to the prospect customers as they have no previous experience using the banking services. Therefore, global impression becomes the image feature that influences intention to use. Individuals tend to value features such as reputation or confidence than the services offered by the organisation. Apart from that, satisfaction towards the organisation also influences intention to use new services as they would have been satisfied with the previous experience with the organisation. Nonetheless, both current and new customers' intention to use services depends on corporate associations. Thus, global image affects intention to use services will be both direct and indirect via satisfaction.

1.3 PROBLEM STATEMENT

Islamic banking is fast growing as it gradually gains acceptance particularly in high-growth emerging markets as an effective means to develop an inclusive financial system and change the outline economy. Meanwhile in Malaysia, dual banking systems have been established where Islamic banking is offered as an alternative to the current conventional banking. For services which are intangible like banking, the difference is not much in terms of services offering but more on the operation where Islamic banking follows the Shari'ah aspects.

Corporate image is defined as overall impression in an individual's mind towards the organisation. It includes stakeholders, the product or services offered and

the organisation as a whole. Corporate image is important as the organisation needs to know how consumers think about them and how to present a better image. A positive corporate image results in the customer's trust towards the organisation and influences customers' intention and retention decision (Bravo, Montaner & Pina, 2012). Therefore, the benefit of positive corporate image is mainly in retaining long term relationship (Kong & Farrell, 2010). The determinants in selecting Islamic banking can be related to the corporate image of the organisation. However, impression or corporate image can be made even before trying the product as customers gain information or feedback from current customers. Thus, satisfaction of the current customers influences the impression and affects decision on selecting the services. The same principle can be applied to Islamic banking that offers services which are intangible and cannot be measured before purchase.

A study by Dusuki and Dar (2007), shows that the selection of Islamic banks is mainly due to the combination of Islamic and financial reputation and quality service offered by the bank. In fact, customer satisfaction usually depends on the quality of services provided by Islamic banks and finally results in the selection of Islamic banking. The quality of services depends largely on the front line employees as they are the ones who deal with customers. Thus, determinants like communication between employees with customers, effectiveness in handling any task, and knowledge and well-preparedness in providing resolutions and responses regarding Islamic bank's products and services is essential. Other determinants that are apparently important to the selection are good social responsibility practices, product price and convenience.

Meanwhile the World Islamic Banking Competitiveness report for 2013-2014 reported that primary limitation today for the effectiveness of Islamic banking is lack

of coherent knowledge and an inclusive viewpoint on the financial aspect of Islamic economic system. Therefore, the company has to be knowledgeable in operating and communicating the Islamic aspect to the organisation and to the customers. The main concern for the consumer is their knowledge on the Islamic banking operation. They may not understand the difference between conventional and Islamic banking but perceive it according to the reputation of the bank.

Islamic banking is growing in Malaysia and few researches have been done such as studies on the factors in selecting Islamic banking. However, studies in corporate image of Islamic banking are rarely done in Malaysia. Thus this study will identify the determinants that determine the corporate image of Islamic banking in Kota Kinabalu, Sabah. The result of the study can be used to strengthen their image as the cues that are important for creating a good image are identified.

1.4 OBJECTIVES AND RESEACH QUESTIONS

Based on the problem statement of study, the objectives are as follows:

1. To determine customers' overall perception on corporate image of Islamic banks.
2. To identify the determinants that determine the corporate image of Islamic banks.
3. To identify the most influential determinant that influences the corporate image of Islamic banks.

Hence, based on the objectives the research questions of this study are as follows:

1. What are the overall customers' perceptions towards the corporate image of Islamic banking?
2. What are the determinants that determine the corporate image of Islamic banking?
3. What is the most influential determinant that influences the corporate image of Islamic banking?

1.5 SIGNIFICANCE OF STUDY

This study is conducted to identify determinants that determine the corporate image of Islamic banking. Although there are various past studies on Islamic banking in Malaysia, the understanding of its corporate image is still quite vague. Thus, this study is significant from several viewpoints.

In the theoretical viewpoint, even though there are many available literatures on corporate image in the financial industry that can be referred to but studies on corporate image in Malaysia is still scarce. Therefore, findings from this study would be able to fill the gap in the literature especially on the corporate image aspects of Islamic banking in the Malaysian context. Furthermore, this study would provide new knowledge on determinants that influence the creation of corporate image in Islamic banking by applying theory on corporate image components.

In the managerial viewpoint, this study is expected to be able to provide a clear picture on consumers' perception towards several aspects of Islamic banking operation and its relationship with the overall corporate image. Other than that, it also can assist Islamic banking institution in Malaysia creating and showing a favourable

corporate image which is useful for building competitive advantage over conventional banking. It is important for Islamic banking to create a good image to compete in this banking competitive environment. Thus, based on the significance of the study as stated above, it is indeed important for this study to be conducted to gain more understanding in corporate image and finally unveil the determinants that determine Islamic banking corporate image. Apart from that, the current level of image as perceived by public can also be identified.

1.6 DEFINITION OF TERMS

1.6.1 Corporate Image

Overall impression in mind about an organisation (Barich & Kotler, 1991), which formed due to individual's own experience with the organisation or through information they receive from others (Worcester, 2009).

1.6.2 Shari'ah

Islamic canonical law according to the Koran and the traditions of the Prophet (Hadith and Sunna), imposing both religious and secular duties and pointing punishment for crime (Elasrag, 2011).

1.6.3 Contact Personnel

Employees who deal directly with the customers (Nguyen & Leblanc, 2002).

1.6.4 Corporate Identity

Traits and unique characteristics of a company (Bernstein, 1984).

1.6.5 Reputation

Reputation is the steadiness of an organization's actions over time (Herbig, Milewicz & Golden, 1994)

1.7 STRUCTURE OF THE THESIS

This study consists of five chapters which are introduction, literature review, methodology, data analysis and conclusion and discussion. Chapter one (introduction) presents an overview of the research which includes explanation on background of the study, problem statement, objectives and research questions, significance of the study, definitions of key terms and outline throughout this study. Chapter two (literature review) briefly provides a history of Islamic banking and theory concept of corporate image. It also presents a review of the determinants to measure corporate image obtained from previous research in order to make conceptual framework. Apart from that, the conceptual framework and research hypotheses will be outlined. Chapter three (methodology) discusses on research design along with sampling method and research instrument used in collecting data. Finally, the data analysis method in the study will be explained. Chapter four (data analysis) provides data analysis. The description of the data will be presented followed by the reliability and validity tests. Apart from that, hypothesis will be tested to evaluate research objectives and research questions. Chapter five (conclusion and discussion) is the final chapter where it concludes and highlights the main findings of the research. Then the implications and contribution generated from the study will be outlined. The limitation and recommendation also will be discussed at the end of the chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter presents a review on the Islamic finance system, establishment of Islamic banking and discussion on corporate image. The determinants that influence corporate image will be explained in more detail. Independent variables of this study will be outlined and elaborated along with the findings of relevant previous studies.

2.2 FUNDAMENTALS OF ISLAMIC FINANCE

An Islamic economy is defined as a market economy regulated by good values whereby economic activities depend on standards of cooperation and responsibility. Cooperation implies that financial trade should be valuable to both parties. Exchanges in which one party wins to the loss of the other are not admissible in Islam such as monopolistic dealings, usury, and exploitation (Elasrag, 2011).

On the other hand, Islamic economics is referred to as a structure for studying economic activities that permit mutual benefit of trade to be figured out (Elasrag, 2011). It serves appropriate tools and methods to assess economic decisions, demonstrating to when it can be used and generally accepted methods to accomplish win/win results and maintain a strategic distance from win/lose or lose/lose ones. Islamic economics matters depend on the rule that Allah the Almighty made this world with a lot of resources that fulfill the needs of everybody. Hence one individual's achievement is not certainly accomplished to the loss or avoidance of the achievement of others. This "win/win" system prompts better economic behaviour and accomplishment, and along these lines guarantees better future for humankind. As a

result, Islamic Banks were established as a financial institution based on principles of Islamic Economics where they accommodate finance and financial services in a way prompting to mutual benefit.

2.2.1 The Islamic Finance System

Fiqh al-mu'amalat is also known as commerce law is the base for the Islamic financial system (Ariss, 2010). There are few considerations in this law such as issues of social equity, value, and decency in all business exchanges, and lays on the advancement of enterprise, the security of property rights, and the transparency and sacredness of contractual commitments. Therefore, under the statutes of the Islamic legitimate code known as Shari'ah were established to promote justice in human society. One of the key imperatives for guaranteeing justice is an arrangement of principles or moral values, which everybody acknowledges and agrees to stay loyal to. The financial system may be able to promote justice with two conditions. Firstly, Islam demands both the financier and the entrepreneur to fairly share both the profit and also the loss. Therefore, financier shares the risk as not to weigh the losses to the entrepreneur or borrower only. On the other hand, all the risk is endured by the entrepreneur himself under the conventional banking (Iqbal, Ahmad & Khan, 1998). Secondly, a fair share of the general public's financial resources becomes accessible to even the poor within reasonable terms in regard to their capacity to repay their financing.

The basic philosophy of an Islamic financial system goes over the interaction of aspects of production and economic behaviour which is in contrast to the conventional financial system that mainly focuses on the economic and financial transactions. The Islamic system framework stresses on the moral, ethic, social and religious measurements, to improve equality and justice for the benefit of society. The

Islamic financial system framework is established on the outright forbiddance of the payment or receipt of any predetermined, ensured rate of return. In short, in Islam, one does not lend to make money and one does not borrow to finance business (El Gamal, 2000). This is mainly to avoid the idea of interest and blocks the utilization of debt-based instruments. Therefore, the system not only empowers risk-sharing, but also encourages business enterprise, debilitates speculative conduct and stresses the sacredness of agreements (Elasrag, 2011).

In short, El Hawary, Grais and Iqbal (2004) characterize Islamic finance system as a system that complies with the following four principles:

1. Risk-sharing: the risk and return is distributed equally among the financier and the entrepreneur or borrower,
2. Materiality: all financial transaction must have final product or real product,
3. Free from exploitation: both parties to the transaction should not be abused,
4. Free from financing of non-halal activities: business cannot be made for the use of producing non-halal product that is prohibited by the Quran such as alcohol, pork and gambling.

2.3 SHARI'AH LAW IN ISLAMIC FINANCE SYSTEM

Elasrag (2011, p.3) states that “Shari'ah is an Islamic law that gives guidance to parts of Muslim life, including religion, economics, politics, business, financial aspects, and law”. In terms of financing, there are guidelines that have been practiced mostly in the Muslim world even before the introduction of Islamic financial system in mid-1980s.

Defining the Islamic financial system merely as “interest-free” does not give a genuine description of the system as a whole. Forbidding the receipt and payment of interest is the core of the system, but there are other Islamic principles such as concept of risk sharing, individuals’ rights and obligations, property rights and the righteousness of agreement (Elasrag, 2011). Additionally, the Islamic financial system is not constrained to banking but rather covers capital development, capital markets and wide range of financial intermediation. Therefore, describing the system as interest free is not valid.

Shari’ah is divided into two sets of principles which are the obligation of worship towards God or ibadah and the other relates to human beings’ daily life in terms of man to man relationship which is muamalat (Ismail, 2005; Kamali, 2006). Shari’ah is derived from the Qur’an (the Muslim holy book), the traditions of the Prophet Mohammed, may the mercy and blessing of God be upon him, (sunnah) and sayings (hadith) which impose both religious and secular duties and pointing punishment for crime. While all scholars agree on the fundamental Shari’ah principles embodied in the Qur’an, sunnah and hadith, they sometimes hold differing perspectives on their clarification and application. Therefore, the expansion of regulative rules of Shari’ah and their extensions to new situations in later times was accomplished with the aid of consensus from scholars.

2.3.1 Principles of Shari’ah Law in Islamic Finance System

According to Ariss (2010), there are four principles of Shari’ah law for financial transaction which are free from interest (riba), uncertainty (gharar), gambling (maisir) and non-halal or prohibited activities.