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Islamic Relationship Marketing Practice, Customer Satisfaction, and Retention: A Mediation Analysis

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ABSTRACT

The aim of this study is to develop an indirect effect of customer satisfaction towards the structural relationship of the Takaful agents' Islamic relationship marketing (IRM) practice and future customer retention. The model was designed and later examined by utilizing the Structural Equation Modelling (SEM) procedure on data collected from a survey of Malaysian Takaful customers that yielded 755 usable questionnaires. The results confirmed that customer satisfaction has significantly mediated the four measures of IRM which were Islamic ethical behaviour, social, structural, and financial bonds on future customer retention. It is vital to do the empirical study utilizing primary data on the perspective of customers as to observe the real practice of marketing in the Takaful industry in Malaysia. The findings imply that the practice of Islamic relationship marketing is very crucial to ensure the sustainable of future Takaful industry which at the end would affect the bright future of the industry. Therefore, the industry needs to ensure their marketing channel practicing the IRM towards achieving customer satisfaction and retention. This research is one of the first known attempts to use SEM to test a mediation effect particularly on the IRM practice in the industry.

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INTRODUCTION

The achievement of Malaysian Takaful industry since the inception year until current decade can be proud of. It is proven via the increase number of Takaful operators recently which has attracted the provider of conventional insurance. Due to this successful, a healthy competition among the operators has occurred and this phenomenon has innovated the Takaful products offered in the market. Despite this positive achievement, the Takaful industry still left behind in capturing the Malaysian market compared to the conventional counterpart. Between 2005 and 2010, the Takaful penetration rate has increased by only a small percentage, from 5.7 percent in 2005 to 13 percent in 2012 (Mohd Irwan, 2013). In a recent study by Mohamed, Syed Othman, and Kamaruddin (2013), where twenty Takaful managers were interviewed, it was verified that the most influential factors that influenced the low rate of Takaful penetration are distribution channels (90 percent of the interviewees agreed), and marketing practices (85 percent of the interviewees agreed).

Currently, the main distribution channels for the Takaful industry are the agency force and Banca Takaful (Mohd Irwan, 2013; The World Family Takaful Report, 2013). Agents are required to increase the number of customer propositions through the use of proper marketing approaches. This is crucial in order to maintain present customers and to increase the penetration rate of Takaful in the insurance industry (The World Takaful Report, 2013). Unfortunately, despite the increase in the number of Takaful agents from 44,222 in 2008 to 68,009 in 2012; which is an increase of slightly more than fifty percent (54%), there is still a lot of the Malaysian market that can be penetrated (Mohd Irwan, 2013). This indicates that there are factors that must be tackled by the agency force, as well as by other marketing channels, in order to maintain and increase the number of customers.

Literature Review:

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Marketing researchers share the opinion that customer satisfaction has become a fundamental element in contemporary marketing research (Luo & Homburg, 2007); whereas among marketing practitioners, they agree that it is the main outcome of marketing practices (Jamal & Naser, 2002). A large degree of research on customer satisfaction is based on the work of Oliver (1980, 1981). He initially defines customer satisfaction as 'an evaluation of the surprise inherent in a product acquisition and/or consumption experience' (Oliver, 1981: p. 27). The other definition is;

In brief, customer satisfaction is a summary of cognitive and affective reaction to a service incident (or sometimes to a long term service relationship). Satisfaction or dissatisfaction results from experiencing a service quality encounter and comparing that encounter with what was expected (Rust & Oliver, 1994: p. 2).

There are various opinions on how to describe customer satisfaction. Some scholars believe that it reflects an emotional response towards products and services (Swan & Oliver, 1989; Crosby *et al.*, 1990; Olsen, 2002; Jamal & Naser, 2003; Bejou *et al.*, 1998). On the other hand, other scholars suggest it represents not only the emotional aspect, but indicates a customer's evaluation of the sales person, which in the end will produce either positive or negative feedback (Oliver, 1981; Cronin *et al.*, 2000). Similarly, Gandhi and Kang (2011) have posited that some comparisons will be made by customers in terms of expected services and experiences received from sellers or service providers.

In addition, as argued by Gronroos (2004), modern customers require more than products or services offered by suppliers. They expect a set of benefits to be delivered effectively through various instruments like relationship marketing (Chopra, 2009). They demand all information about a product, which must be delivered within a pleasant, responsible, and timely manner. Reasons for dissatisfaction tend to come more from external factors of the product or service offered such as time constraint and the sales persons' attitude (Gronroos, 2004).

Bejou *et al.* (1998) suggests that there is a critical need for financial services company to ensure customer satisfaction on their relationship-based marketing because of the nature of the industry; an industry that involves intangible services, complex products, long duration of services, and certainly, high degree of risk. According to Gustafsson *et al.* (2005), overall customer satisfaction may be perceived as overall customer evaluation on service quality, which at the end may influence their behaviour towards the company.

However, in today's environment, customer satisfaction cannot merely rely on the quality of services, but is also reflected by the quality of relationship that exists between the customer and service provider (Roberts *et al.*, 2003). Therefore, corresponding with the context of this research and parallel with the findings of previous researchers, customer satisfaction in this research is referred to as customer evaluation on the quality of relationship that a customer experiences with the service provider (Crosby & Stephens, 1987; Rust & Oliver, 1994; Garbarino & Johnson, 1999; Cronin *et al.*, 2000; Roberts *et al.*, 2003). Specifically, service providers in this research are the Takaful agents.

Methodology:

This present research is designed quantitatively where the data for the study is collected through a survey based on self-administered questionnaires. Three series of focus group discussions were conducted with academicians and industry players before the final questionnaires were finalized and distributed. It was done to ensure the right and proper questionnaire is constructed in the context of the Takaful industry. Based on the feedback and suggestion from focus group members, the final set of questionnaires was distributed to a small sample of Takaful customers as a pilot study. The pilot study was conducted to test the questionnaires and measurement items for clarity and understanding. It is a necessary step in the data collection process to identify any problems with the research instrument, and to determine the content and face validity of the measures used in the questionnaires. In this process, a few marketing and *Shariah* scholars were involved, as well as 189 Family Takaful customers. Upon the successful completion the pilot test, the final survey was conducted. The respondents are Family Takaful customers of eleven Takaful operators in various locations in the Klang Valley. Data collected were analyzed using two statistical analyses software (Statistical Package for Social Sciences (SPSS) version 19 and Analysis of Moment Structures (AMOS) version 16). Accordingly, the measure of Islamic ethical behaviour are newly built in this research and basically relied on the Qur'anic verses and reviewed by the industry experts during the focus group discussion. On the other hand, the measure of relationship bonds are basically adopted from the past researchers including Crosby *et al.* (1990), Berry (1995), Lin *et al.* (2003), and others. Five-point Likert scales is used to measure all the answers given in the survey. Out of 1100, 865 questionnaires were returned; which gives it a response rate of 79 percent. However, due to incomplete answers, 65 questionnaires were rejected at the first screening stage. The remaining 800 questionnaires were brought forward for normality check. In total, after going through all the screening process, 755 questionnaires were selected for final data analysis, which means the actual response rate was 69 percent. For a social science research, this response rate is considered high, and the number in fact exceeded the response rate of 56.7 percent recorded in a previous study on the same domain by Kamsol *et al.* (2009).

Data Analysis:

As explained before, a total of 755 cases (Family Takaful customers) successfully passed the entire data screening process (section 6.3.2). Out of the number of customers who participated in this research, the highest response was recorded from Prudential-BSN Takaful Bhd. with 92 responses, which equals to 12 percent of total respondents. This is followed by Great Eastern Takaful Bhd. (83 responses), Etiqa Takaful Bhd. (76 responses), and others. Meanwhile, the lowest response recorded was from AmFamily Takaful Bhd. where the response rate was less than 50 percent of questionnaires distributed (43 responses).

It is observed that respondents in this research are quite balanced between males (47 percent) and females (53 percent). This balance would eliminate any suspicion of response bias in terms of gender. In terms of age, most of the respondents were from the middle group age, which is the age group between 26 and 30 years-old (30 percent), and between 31 and 35 years-old (25 percent). The rest belong to the age groups 36-40 years (18 percent), 21-25 years (14 percent), 41-45 years (7 percent), and 46-50 years (4 percent). Only a few of the respondents were from the youngest group (below 20 years = 0.3 percent), and the oldest group (above 50 years = 2 percent).

Nevertheless, consistent with an earlier prediction for the context of this research (Takaful industry), the majority of the respondents are Muslims (86 percent) and Malays (85 percent). Only a small number of non-Muslims participated in this research. For example, 6 percent of the customers are Buddhists (48 respondents), 4 percent are Christians (30 respondents), 3 percent are Hindus (21 respondents), and the remaining five customers are from other religions (0.7 percent). In addition, more than half of the respondents were married (60 percent), and worked in the private sector (66 percent).

As detailed in the previous section, four hypotheses were developed to test the mediation effect of customer satisfaction, which are H5a, H5b, H5c, and H5d. In this context, it was done separately from the other two mediators (customer trust and commitment) to eliminate any confusion with the results. Overall, the bootstrapping method; with 1000 bootstrap re-sampling and 95 percent of bias-corrected confidence intervals, was performed in this research (Cheung & Lau 2008; Preacher & Hayes 2008). Convention suggests the effect is significant if the 95% confidence interval (CI) denoted by lower and upper bounds exclude the value of 0.

The mediation effect is observed via its total effect, indirect effect and direct effect. The total effect represents the extent to which a change in the independent construct is related to dependent construct, whereas indirect effect is the extent to which a change in the independent construct would change in the dependent construct via the mediator. On the other hand, the direct effect is the extent to which a change in the independent construct is directly associated with the dependent construct in the absence of intervening construct or mediator. Figure 6.19 illustrates the results of structural model of customer satisfaction as mediator while Table 6.27 presents the overall results of mediation analysis.

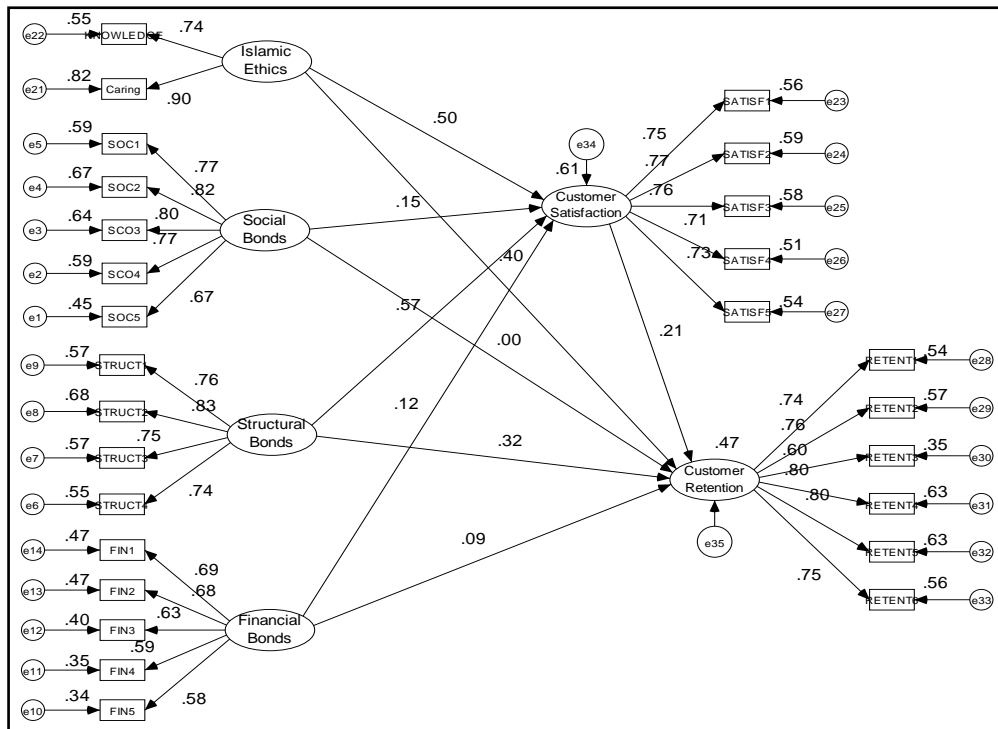


Fig. 6.1: Customer Satisfaction as a Mediator.

Table 6.1: Results of Mediation Analysis for Customer Satisfaction as a Mediator.

Hypotheses	Direct Effect	Indirect Effect	Total Effect	Degree of Mediation
IEB → CS → CR	0.397**	0.102**	0.499**	Partial
SoB → CS → CR	0.004	0.031**	0.035	Full
StB → CS → CR	0.318**	0.117**	0.435**	Partial
FiB → CS → CR	0.089*	0.025**	0.113*	Partial

Note: ** p < 0.01; * p < 0.05, N=755; IEB= Islamic ethical behaviour, SoB= Social bonds, StB=Structural bonds, FiB=Financial bonds, CS=Customer satisfaction, CR=Customer retention

Results of bootstrapping indicate that customer satisfaction has mediated all the relationship between the four independent constructs (Islamic ethical behaviour, social, structural, and financial bonds) and dependent construct (customer retention) given the significant value of the indirect effect for all hypothesized paths. However, the degree of mediation of each construct is different. Based on Mathieu and Taylor (2006)'s advice, customer satisfaction has fully mediated the relationship between social bonds towards customer retention as the direct effect of the constructs are not significant. It also given the significant effect of customer satisfaction on this path (standardized indirect effect or beta= 0.031, with 95 percent lower bootstrap Confident Interval (CI) = 0.009, and upper bootstrap CI = 0.069, and p < 0.01). Please refer to Appendix 8 for details on the results.

In addition, the rest of the hypothesized paths were partially mediated by customer satisfaction. They are H5a (customer satisfaction will significantly mediate the affect of Takaful agents' Islamic ethical behaviour on future customer retention), H5c (customer satisfaction will significantly mediate the effect of structural bonds on future customer retention), and Hd (customer satisfaction will significantly mediate the effect of financial bonds on future customer retention). All the results are disclosed in Table 6.28. In this case, the indirect effect of H5a = 0.102, 95 percent lower bootstrap Confident Interval (CI) = 0.034, and upper bootstrap CI= 0.189, p < 0.01. While for H5c, the indirect effect is 0.117, 95 percent lower bootstrap CI= 0.110, and upper bootstrap CI = 0.313, p < 0.01. Finally, the indirect effect of customer satisfaction towards the relationship of financial bonds and customer retention is 0.025 (p < 0.01), lower bootstrap CI=0.005, and upper bootstrap CI=0.062. Although the level of mediation is different for each of the hypothesized path, all hypothesizes are supported. Table 6.28 discloses the results of hypotheses H5a, H5b, H5c, and H5d.

Table 6.2: Results of Hypotheses Testing for Customer Satisfaction as a Mediator.

Hypotheses	Standardized Indirect Estimates	Standard Error	Bias Corrected 95% Confidence Interval		Supported
			Lower Bound	Upper Bound	
IEB → CS → CR	0.102**	0.038	0.034	0.189	Yes
SoB → CS → CR	0.031	0.015	0.009	0.069	Yes
StB → CS → CR	0.117**	0.046	0.035	0.217	Yes
FiB → CS → CR	0.025**	0.014	0.005	0.062	Yes

Note: ** p < 0.01; * p < 0.05, N=755; IEB= Islamic ethical behaviour, SoB= Social bonds, StB=Structural bonds, FiB=Financial bonds, CS=Customer satisfaction, CR=Customer retention

Conclusion:

The main objective of this study is to test the mediation effect of customer satisfaction in the link between Islamic relationship marketing practice and future customer retention. Structural equation modelling is conducted to achieve this objective. Results indicate that customer satisfaction has significantly mediated the Islamic ethical behaviour, social, structural, and financial bonds on future customer retention (H1a, b, c, and d is supported). Yet, the level of mediation is different for each of the constructs. For example, customer satisfaction has fully mediated the relationship between social bonds and customer retention, and partially mediated the relationship between Islamic ethical behaviour, structural, financial bonds and customer retention.

The above results are parallel with results from previous studies including those obtained by Hennig-Thurau, *et al.* (2002), He and Song (2009), and Mosahab *et al.* (2010). However, in terms of level of mediation, the result in this research is slightly different from those obtained by Henning-Thurau *et al.* (2002), in which customer satisfaction was found to have fully mediated the relationship between social bonds and customer retention instead of it being only a partial mediator. On the other hand, the result of this research is similar to those obtained by He and Song (2009) and Mosahab *et al.* (2010) where customer satisfaction was found to have fully mediated the link between service quality perceptions and customer future retention. Basically, some of the element of service quality adopted in their studies which are responsiveness, assurance, and empathy is quiet similar with the measure of social bonds adopted in this research. For example, 'He/she would call or meet me whenever I encounter any problem' which represent the element of responsibility. In conclusion, customer

satisfaction is very important to the Takaful industry as it has significant effects on the practice of Islamic relationship marketing to achieve future customer retention.

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