

**INVESTIGATING THE USE OF ISLAMIC BASED  
RELATIONSHIP MARKETING APPROACH IN  
SELECTED MALAYSIA TAKAFUL COMPANIES**

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SELECTED MALAYSIA TAKAFUL COMPANIES**

by

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## LIST OF ABBREVIATIONS

C-TT	Commitment-Trust Theory
IBRM	Islamic-Based Relationship Marketing
IfRMT	Inter-firm Relationship Marketing Theory
MTC	Malaysia <i>Takāful</i> Companies
R-AT	Resource-Advantage Theory
RM	Relationship Marketing
RMT	Relationship Marketing Theory
SAW	Salallahu Alaihi Wasallam
SET	Social Exchange Theory
STMB	Syarikat Takaful Malaysia Berhad
SWT	Subhana Wa Taala
TIB	Takaful Ikhlas Berhad

## TRANSLITERATION GUIDE

Alphabet Letter	Arabic letter	Alphabet Letter	Arabic letter
ḍ	ض	-	ا
ṭ	ط	b	ب
ẓ	ظ	t	ت
‘	ع	ṭ	ة
gh	غ	th	ث
f	ف	j	ج
q	ق	ḥ	ح
k	ك	kh	خ
l	ل	d	د
m	م	dh	ذ
n	ن	r	ر
w	و	z	ز
h	ه	s	س
’	ء	sy	ش
y	ي	ṣ	ص

SHORT		LONG		DIPHTHONGS	
a	َ	ā	آ	ay aw	أَيَّ أَوَّ
i	ِ	ī	إِي		
u	ُ	ū	أُو		

**Source:** *Pedoman Transliterasi Huruf Arab Ke Rumi*, Dewan Bahasa dan Pustaka (DBP), 1992.

**PENELITIAN PENGGUNAAN PENDEKATAN PEMASARAN HUBUNGAN  
BERTERASKAN ISLAM DALAM SYARIKAT TAKAFUL TERPILIH DI  
MALAYSIA**

**ABSTRAK**

Kemunculan pemasaran hubungan (RM) seringkali dihubungkan dengan industri perkhidmatan kewangan. Dalam industri perkhidmatan kewangan Islam, khususnya *Takāful* melaksanakan RM dalam pelbagai pendekatan yang kreatif. Malangnya, isu amalan pemasaran yang tidak beretika menjadi penyumbang utama kepada berlakunya penyerahan polisi dalam kalangan peserta *Takāful* di Malaysia. Oleh itu, kajian ini bertujuan untuk meneroka isu ini daripada punca utama yang lahirnya dari pandangan alam dan epistemologi dengan meneliti pendekatan RM yang dilaksanakan oleh syarikat *Takāful* di Malaysia. Secara khususnya, terdapat tiga objektif utama dalam kajian ini. Objektif pertama adalah mengenalpasti pendekatan RM berteraskan Islam (IBRM) untuk diaplikasikan dalam syarikat *Takāful* di Malaysia. Objektif kedua adalah meneliti pendekatan RM yang dilaksanakan dalam syarikat *Takāful* di Malaysia manakala objektif ketiga ialah merumuskan pendekatan RM dalam syarikat *Takāful* di Malaysia berdasarkan IBRM yang telah dikenalpasti. Kaedah yang digunakan dalam kajian ini adalah berbentuk kualitatif dengan melibatkan dua fasa utama, iaitu fasa teoretikal dan fasa empirikal. Fasa teoretikal menggunakan kajian dokumen dan pengesahan kumpulan pakar, manakala fasa empirikal menggunakan kajian lapangan. Kumpulan pakar terdiri daripada enam responden dengan menggunakan triangulasi daripada tiga kategori, iaitu tokoh agama, tokoh akademik dan pengamal *Takāful*. Sebelum kajian lapangan dilakukan, kajian rintis dilakukan ke atas salah seorang pakar yang telah dilantik. Seterusnya,



temuduga dijalankan ke atas kumpulan pakar tersebut bagi memperoleh kesahan dan kebolehpercayaan bagi pendekatan IBRM yang dikenalpasti. Dalam fasa empirikal, kajian lapangan dijalankan ke atas dua syarikat *Takāful* di Malaysia yang dipilih, iaitu Syarikat Takaful Malaysia Berhad dan Takaful Ikhlas Berhad melalui temuduga mendalam dan pengamatan. Data yang dikumpulkan dianalisis menggunakan analisis kandungan kualitatif. Dapatan kajian menunjukkan bahawa terdapat perbezaan dan persamaan dari segi pelaksanaan RM bagi kedua-dua responden berdasarkan pendekatan IBRM. Perbezaan timbul dari segi pelaksanaan elemen *Qanā'at*. Persamaan pula dilihat dalam melaksanakan konsep *Tawhīd* dalam pendekatan pemasaran mereka dan beberapa elemen yang dilaksanakan seperti kepatuhan beragama, amanah, akauntabiliti, ketelusan, komunikasi, komitmen, berurusan secara adil, dan bersederhana. Walau bagaimanapun, pengamatan yang dilakukan dalam tempoh tertentu menunjukkan bahawa terdapat beberapa elemen dalam pendekatan RM yang dilaksanakan kurang diberi penekanan seperti kepatuhan beragama, komitmen, komunikasi, dan akauntabiliti dan telah dicadangkan bagi diutamakan dalam amalan.

**INVESTIGATING THE USE OF ISLAMIC BASED RELATIONSHIP  
MARKETING APPROACH IN SELECTED MALAYSIA TAKAFUL  
COMPANIES**

**ABSTRACT**

The emergence of relationship marketing (RM) has commonly been connected to the financial services industry. In Islamic financial services industry, particularly *Takāful* is implementing the RM in various creative ways. Regrettably, the issue of unethical marketing practices seems to be the main contributors to the surrender of policy among *Takāful* participants in Malaysia. Therefore, this research intends to explore the issue from the root which derives from the worldview and epistemology embedded in RM by investigating the RM approach implemented in *Takāful* companies. The differences in worldview and epistemology have lead to different practices in reality of business. Specifically, there are three objectives to be achieved in the research. The first objective is to identify the Islamic-based RM (IBRM) approach to be applied in the Malaysian *Takāful* Companies (MTC). The second objective is to investigate the RM approach currently implemented in selected MTC while the third objective is to conclude the RM approach implemented in selected MTC based on the IBRM approach identified. The method applied in the research is qualitative research with involving two phases of collecting data such as theoretical and empirical phases. The theoretical phase uses the document research and feedback from a group of experts, while the empirical phase applied fieldwork. In empirical phase, the fieldwork is conducted in two selected MTC, namely Syarikat Takaful Malaysia Berhad and Takaful Ikhlas Berhad through in-depth interviews and observations. The data collected is analyzed using qualitative content

analysis. The findings show that there are differences from each other in terms of implementation of RM by both informants based on IBRM approach identified though the concept is *Tawhīd*. There are differences and similarities of the RM approach implemented base *Tawhīd* on the IBRM approach in terms of elements applied. The differences appear in the element of *Qanā'at*. The similarities appear in implementing the concept of *Tawhīd* embedded in their marketing approach and the eight elements practiced such as religious obedience, trustworthy, accountability, transparency, communication, commitment, fair dealing, and moderate. However, the observations conducted in specified period show that there are several elements in the RM approach implemented are given less emphasis such as religious obedience, commitment, communication, and accountability and are suggested to be prioritized in practice.

# CHAPTER 1

## INTRODUCTION

### 1.1 INTRODUCTION

In general, this research aims to investigate the Relationship Marketing<sup>1</sup> (RM) approach implemented in Malaysia *Takāful* companies (MTC)<sup>2</sup>. Specifically, the first objective of this thesis is to identify the Islamic-Based RM (IBRM) approach. After the identification, the current RM approach implemented in selected MTC will be investigated in the second objective. Based on the identification of the IBRM approach and the investigation of the current RM approach implemented in the selected MTC, the final objective is to conclude the RM approach implemented by the selected MTC based on the IBRM approach identified.

As a beginning of the chapter, eight sections are presented such as the background of the research, research problem statements, research objectives, research questions, operational definitions, scope and limitations of the research, significance of the research, and the last section is an organization of the thesis.

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<sup>1</sup> RM is one of the approaches in marketing discipline that differs from others as RM focuses more on customer orientation. RM is known as a process of four steps including identifying, developing, maintaining, and also terminating relational exchanges for the purpose of enhancing company performance (Palmatier, 2008).

<sup>2</sup> *Takāful* is one of the Islamic companies. Baker Ahmad Alserhan (2011) has specialized the Islamic company in four such as product, location, ownership, and customer. First, the Islamic company by product specializes in the production and distribution of products that comply with the teachings of Islam. Second, the Islamic company by location is the companies whose main business operations are located in Muslim countries are considered as Islamic companies regardless of their type of ownership or customer base that can be mixture of Muslim and non-Muslim customers. Third, the Islamic company by ownership is the companies owned by the Muslim shareholders. Fourth, the Islamic company by customer is the company that produce to capitalize on and meet the needs of Muslim consumers, regardless of the location of these consumers, or the location of the company themselves and their types of ownership are also classified as Islamic. The *Takāful* companies fulfill all four above.

## 1.2 BACKGROUND OF THE RESEARCH

This section provides the background of the research divided into of three sub-sections. Those sub-sections are the emergence of the relationship concept in marketing, the evolution of RM, and significance of RM in *Takāful* industry. Prior to the discussion of three sub-sections, marketing and its importance in business organizations are presented.

Marketing is gaining growth of recognitions as an important function<sup>3</sup> in all organizations that are seeking to serve, sense, and satisfy specific markets and publics (Kotler, 1972). The basic thinking of marketing is to sell products and services with acquiring new customers. However, the attraction of new customer is not merely the first step in the marketing process, yet, it is beyond the attraction when it involves in cementing the relationship, transforming indifferent customers into a loyal customer, and serving customers as clients also are part of marketing (Berry, 2002).

The revolution in marketing gains momentum that entails in changes of the marketing concept<sup>4</sup>. Thus, the concept of the customer at the center will remain valid, yet, the business must be adjusted to the shifting tastes, likes, desires, and needs which have always characterized the consumer (Keith, 1960). The marketing

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<sup>3</sup> According to Kotler (2002), there are five functions of marketing that need to be integrated and coordinated in serving customer such as sales force, advertising, customer service, product management and marketing research. However, the five functions have to be supported with teamwork from other departments that involves internal and external marketing. Both internal and external marketing will be explained in the following sub-section.

<sup>4</sup> Marketing concept is a business philosophy that emphasizes an organization-wide customer orientation with the objective of achieving long-run profits (Marshall & Johnston, 2010).

concepts derived from the practical response of businessmen who felt that economic conditions changed from a seller's to a buyer's market (Arndt, 2005).

### **1.2.1 Emergence of Relationship Concept in Marketing**

The dominant marketing concept used in business since the 1950s is Transaction Marketing (TM)<sup>5</sup>. However, TM (also known as Traditional Transactional Marketing) has obtained several critiques from number of scholars in terms of its concept and practices (Turnbull & Wilson, 1989; Gronroos, 1991; Payne, 1994; Buttle, 1996; Brodie, Coviello, Brookes, & Little, 1997; Alexander & Colgate, 2000; Hennig-Thurau & Hansen, 2000; Walsh, Gilmore, & Carson, 2004). Several critiques have been highlighted to TM due to its differences with RM in terms of five criteria such as primary focus, timescale, the intensity of contact, customer commitment, and the quality concern. In terms of primary focus, TM is more to acquire new customer while RM is more focus on retaining the customer. For timescale, TM is short term or single transaction while RM is more on the long term. In terms of intensity of contact, RM has high customer contact more than TM. RM also has high customer commitment compared to TM. The last criteria are the quality concern which shows TM concerns more on production or output while RM concerns on all aspects (Gronroos, 1991; Christopher, Payne & Ballantyne, 1991; Payne, 1994; Walsh, Gilmore, & Carson, 2004).

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<sup>5</sup> The origins of TM are in microeconomics, North America and the 1950s. In turn, Borden (1954) is inspired to introduce the concept of marketing mix, a list of 12 variables (product, price, branding, distribution, personal selling, advertising, promotions, packaging, display, servicing, physical handling, fact finding, and analysis). Then, McCarthy (1960) has reconstructed the Borden's 12 variables into 4Ps model (Price, Product, Promotion, and Place), which have been known in present, as cited by Harker and Egan (2005).

Since late 1980's, a new marketing concept has been raised and widely discussed as an alternative to TM, namely Relationship Marketing<sup>6</sup> (RM) (Berry, 2005; Christopher, Payne, & Ballantyne, 2005; Berry & Parasuman, 1991; Webster, 1992; Storbacka, Strandvik & Gronroos, 1994; Gummesson, 1987; Dwyer, Schurr, & Oh, 1987; Hunt & Morgan, 1994; Sheth & Parvatiyar, 1995a; Moller & Halinen, 2000; Fuan Li & Nicholls, 2000).

Relationships play important roles in the present marketing era. The marketing plan for the company is still affected by relationships in three ways. First, it affects internal relationship when it influences how marketing personnel works with each other and with other departments. Second, it affects external relationships when it influences how the company works with suppliers, distributors, and partners to achieve the objectives as planned. Third, it affects also external relationships when it influences the company's dealings with other stakeholders, including government regulators, the media, and the community as a whole (Kotler & Keller, 2012).

RM appears to benefits not merely to business organizations, yet also to customers. For the business organizations, RM increases customer loyalty and profitability through retaining the customer and reduces costs through less targeting on acquiring a new customer (Reichheld & Sasser, 1990; Berry, 1995; Oliver, 1999). In ensuring RM to become a successful approach in the business organizations, there are five pre-requisites to be followed, as addressed by Buttle (1996). First, a supportive culture is needed in the organizations as mutual cooperation, and interdependence

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<sup>6</sup> The term of relationship marketing is alluded by Thomas (1976), was first explicitly used by Leonard L Berry in 1983. Berry (1983) used the term within the context of services marketing literatures and advocated a switch from a transactionary approach to relational approach (Egan & Harker, 2005).

between customer and supplier take place in the business environment<sup>7</sup>. Second, internal marketing (IM) is important to convert employees to the new vision of RM, which are to promote the development of the new culture, to persuade the employees that it is sensible to buy into the new vision and to motivate them to develop and implement RM approach<sup>8</sup>. The third prerequisite is customer expectations must be understood by the organizations, and the continuous information must be flowed to the business to cater those expectations. Fourth, a sophisticated customer database is needed to provide information in an actionable format for the development and monitoring of strategy and tactics. Finally, RM requires new organizational structures and reward schemes in building the long-term relationships<sup>9</sup> (Buttle, 1996).

RM to the field of marketing is recognized by academicians as well as marketing practitioners. As to academic researchers, there are two ways of RM contributes to the field. First, RM provides the high potential of research with multidisciplinary nature of issues, and it addresses a broad range of studies on services, distribution channels, brand management, quality, and customer loyalty. Second, the research also involves other areas that are not the specific field of marketing because of the growing importance of information and communication technologies. For marketing

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<sup>7</sup> Under RM, salespeople are likely to be replaced by relationship managers; customer retention is likely to be rewarded more highly than customer acquisition; customer satisfaction data will receive billing equal to that of financial data in management meetings; and the CEO will spend as much time as with customers as with department heads (Buttle, 1996).

<sup>8</sup> IM is an aspect in the business organizations need to be looked at, as if the organization is unable to meet its employee's needs, it is likely that they will defect to other jobs before being able to build long-lasting relationships with customers (Buttle, 1996).

<sup>9</sup> The new organizational structures requires customer, or account managers are better placed to build long-term relationships with clients, more deeply understanding their expectations and constructing financial, social, and structural links to the organization (Buttle, 1996).



practitioners, there are three ways of RM can contribute to the development of the company. First, the process of benchmarking can be used in their business practice since there is a number of RM research is based on case studies. Second, the multiple channels of interaction with the customer have contributed to remarkable RM. Third, there are fields in RM that have become relevant for those who manage the relationship with the customer and other stakeholders such as one-to-one marketing, viral marketing, social networks marketing, tribal marketing, sense marketing, and experiential marketing (Brito, 2011).

### **1.2.2 Evolution of RM Practices**

The relationship concept is believed to emerge since the preindustrial era when producers and consumers deal directly with each other, whereby marketers concern on retaining the customer, influencing repeat purchases, fostering trust, and facilitating future. In postindustrial era, the re-emergence of the relational perspective in marketing or known as RM has been caused primarily by the return of direct producer-to-consumer marketing <sup>10</sup>(Sheth & Parvatiyar, 1995a).

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<sup>10</sup> There are three eras identified such as preindustrial era, industrial era, and postindustrial era. Preindustrial era is based on largely on agricultural economy and the trade of artifacts. Consumers and producers gathered together face-to-face to trade products. The producers play roles as manufacturer and retailers of their own products. Industrial era involves mass production and mass consumption that leads marketers to adopt the transaction approach in marketing. Marketer become concerns with sales and promotions of goods and less on building ongoing relationships. In postindustrial era, the environmental factors and organizational development actors are responsible for the rebirth of RM in the era such as rapid technological advancements, the adoption of total quality programs by companies, the growth of the service economy, organizational development processes leading to empowerment of individuals and teams, and the increase in competitive intensity leading to concern for customer retention (Sheth & Parvatiyar, 1995).

The basis of RM philosophy involves two main steps such as customer acquisition and customer retention<sup>11</sup>. However, the main concerns in RM are about retaining the customers, as marketing should not begin and end with clinching the deal, but also to concern on keeping and improving the relationship with the customers (Payne, 1994). The efficiency and effectiveness of RM practices also can be achieved through customer retention (Rosenberg & Czepiel, 1984; Sheth & Parvatiyar, 1995a). Customer retention refers to the capability of the business organization's offer to its customers to purchase on patronage its product or service over a specified time period (Shajahan, 2004). In other words, customer retention shows the longevity of the customer's relationship with marketer (Menon & O'Connor, 2007).

Customer retention involves external marketing (EM) that can be implemented after IM in the business organizations are fulfilled. The successful of EM is depending on the IM (Liljander, 2000; Lings & Greenley, 2005). IM is apart from RM that represents internal RM approach implemented in the organizations<sup>12</sup>. IM involves the tasks that hiring, training, and motivating capable employees who want to serve customers well and IM must precede the EM while EM involves marketing that directed to the people outside the company (Kotler, 2002). A successful IM considers

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<sup>11</sup> Under customer acquisition, the organization should have the ability to balance the number of customers being acquired with the number defecting and this requires the determination of the number of customers in each stage of the customer life-cycle and an anticipation of their migration paths. For customer retention, there are two concerns depend on types of product, first, for products with short purchase cycles, the customer continues to purchase the product/service over a specified time period. Second, for products with long purchase cycles, the customer indicates the intention to purchase the product or service at the next purchase occasion (Shajahan, 2004).

<sup>12</sup> Gronroos (1983) has defined IM as a strategy for creating a “state of mind” in personnel that will allow customer service effectiveness under a broader RM paradigm (Huang & Rundle-Thiele, 2015). Specifically, IM is a planned effort using a marketing-like approach to overcome organizational resistance to change and to align, motivate and inter-functionally coordinate and integrate employees towards the effective implementation of corporate and functional strategies in order to deliver customer satisfaction through a process of creating motivated and customer orientated employees (Mohammed Rafiq & Pervaiz K Ahmed, 2000).

three dimensions in practice such as internal communication, training, and internal market research<sup>13</sup> (Huang & Rundle-Thiele, 2015).

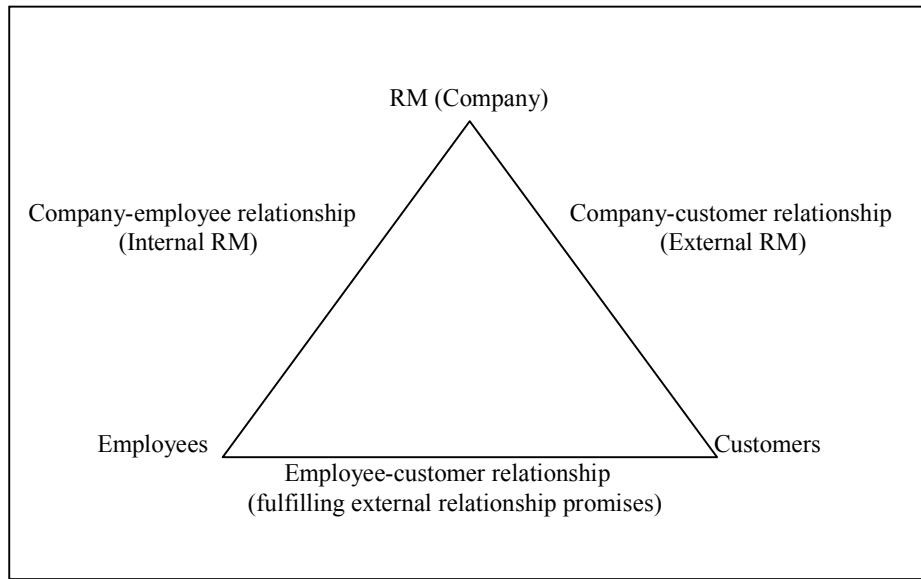
In representing RM in the two functions of relationships aforementioned, both EM and IM can be expressed in RM triangle, illustrated in Figure 1.1. IM involves training and motivating employees, and keeping them informed about the company's internal and external strategies, external communication, and market information. Meanwhile, the relationships promises that are made in EM had to be facilitated internally and realized in interaction with customers (Liljander, 2000).

Figure 1.1 shows that the pyramid comprises of three relationships connected to RM in a company. The three relationships are a company-employee relationship, company-customer relationship, and employee-customer relationship that represent internal RM, external RM and fulfillment of external relationship promises respectively. The relationships are connected to each other in a way that the company deals with employees and customers. RM approach is implemented in preserving both relationships with employees and customers.

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<sup>13</sup> Internal communication consists of traditional tools of promotion, such as advertising and personal selling are frequently used to communicate with customers. Training represents the scope of IM that has been perceived as human resource management functions. Internal market research is an effective tools in any industry to analyze the types of employees and understand employees needs (Huang & Rundle-Thiele, 2015).

Figure 1.1: Functions of RM



Sources: Adapted from Liljander (2000)

### 1.2.3 The Significance of RM Approach in *Takāful* Industry

The practice of RM is said to be most applicable to service firms when RM fulfills three conditions, such as ongoing or periodic desire for the service, customer controls the selection of a service supplier, and the customer has alternatives to choose the service supplier (Berry, 2005). Services sector serves as an important component of the present country's economy as it contributes directly and significantly to Gross Domestic Product (GDP) and provides crucial inputs for the rest of the economy (Cali, Ellis & Willem te Velde, 2008).

Since its emergence, RM has been connected to financial services industry in various studies (Crosby & Stephens, 1987; Storbacka, Strandvik, & Gronroos, 1994; Perrien & Ricard, 1995; Pepperd, 2000; Durkin & Howcroft, 2003; Kamsol Mohamed Kassim, Anuar Bahari, Norizah Kassim, Nik Ramli Nik Abdul Rashid,

Kamaruzaman Jusoff, 2009; and Harrison & Estelami, 2014). Several literatures in RM show that RM has contributed to the positive growth of financial services industry (Dibb & Meadows, 2001; Liang & Wang, 2004; O'Loughlin, Szmigin, & Turnbull, 2004; Eisengerich & Bell, 2006; Gordon & Pires, 2008; Rajaobelina & Bergeron, 2009; Desbordes, 2011; Chirica, 2013).

The most financial services sectors that have been discussed by many academic scholars in implementing RM are banking and insurance (Ashton & Pressey, 2004; Chimote & Srivastava, 2011). *Takāful* as one of the players in the insurance industry as a whole has the same practice of implementing RM approach. RM is applicable in the industry as building and maintaining relationships are playing pivotal roles in the *Takāful* business. In *Takāful* industry, there are three relationships exist such as the relationship between *Takāful* company (principal) and *Takāful* agent, the relationship between principal and a third party, and the relationship between *Takāful* agent and a third party (Nasser Yassin & Jamil Ramly, 2011). The relationship between *Takāful* agent and customer is the example of the relationship between agent and third party. The relationships built and maintained are reflected through the customer acquisition and retention in *Takāful* business report at the end of every year.

Further, RM approach is necessary for *Takāful* industry as the main philosophy of *Takāful* is about preserving relationship among people derived from the six benefits offered by *Takāful*. Those six benefits that also known as niche of *Takāful* are fulfilling the social obligation towards community and family; enabling financial assistance for the unfortunate; avoiding of interest, gambling, uncertainty, and similarly prohibited elements; promoting moral values, ethical dealing and full

disclosure in all its business activities and operations; allowing participants to achieve self-purification and peace of mind; and promoting the spirit of solidarity, mutual help, and brotherhood (Ahmad Mazlan Zulkifli, Badrul Hisham Abd Rahman, Nasser Yassin, & Jamil Ramly, 2012).

*Takāful* industry has grown continuously throughout many parts of the world such as Asia, Africa, Middle East including Gulf Country Council (GCC), Saudi Arabia, Europe, and America. The global<sup>14</sup> gross *Takāful* contribution reached USD10.8 billion (RM48.04 billion) in 2012. Saudi Arabia and ASEAN region have dominated the gross *Takāful* contribution by reaching USD5.4 billion (RM24.02 billion) and USD2.8 billion (RM12.45 billion) respectively<sup>15</sup>. In 2014, the global gross *Takāful* contribution was estimated to reach USD14 billion (RM62.27 billion) from an estimated USD12.3 billion (RM54.71 billion) in 2013<sup>16</sup>. Year-on-year growth has moderated from a high Compounded Annual Growth Rate<sup>17</sup> (CAGR) of 22 percent (from 2007 to 2011) to a still healthy growth rate of 14 percent over 2012 to 2014. Within ASEAN region, the gross *Takāful* contribution is estimated to reach around USD4.2 billion (RM18.68 billion) in 2014 from an estimated USD3.5 billion (RM15.57 billion) in 2013<sup>18</sup>. Malaysia has an almost three-quarters share of 71

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<sup>14</sup>World excluding Iran.

<sup>15</sup> The currency rates converted from USD to RM were referred to the rate provided by Bloomberg dated 07 March 2017.

<sup>16</sup> The currency rates converted from USD to RM were referred to the rate provided by Bloomberg dated 07 March 2017.

<sup>17</sup> Compounded Annual Growth Rate (CAGR) is a business and investing specific term for the smooth annual gain of an investment over a given time period. CAGR is not an accounting term, however, it remains widely used particularly in growth industries or to compare the growth rate of two investments (Weaver, 2014). CAGR is the level, the annual rate of increase that results in a stated beginning value rising to a stated terminal value (Fridson & Alvarez, 2002).

<sup>18</sup> The currency rates converted from USD to RM were referred to the rate provided by Bloomberg dated 07 March 2017.

percent of total gross *Takāful* contributions while Indonesia is stable at 23 percent share and the remaining six percent of gross *Takāful* contributions goes to other ASEAN countries including Brunei, Singapore, and Thailand (Global Takaful Insights, 2014). The above statistics have shown that Malaysia has dominated the *Takāful* market in ASEAN regions followed by Indonesia.

As one of the industries practicing RM approach, the positive growth of *Takāful* has shown that the *Takāful* market has received a positive response from the societies. *Takāful* has become one of the Islamic insurance providers in Malaysia through its business in General *Takāful* and Family *Takāful* products. Nevertheless, people are more interested in insuring only certain risks as protection (Aly Khorshid, 2004). For General *Takāful*, it is an obligation to have coverage on every motor vehicles used on the road in Malaysia. Hence, the owner of the vehicles is required by law to have motor *Takāful* coverage for any motor vehicles purchased (insuranceinfo, 2009)<sup>19</sup>. However, for family *Takāful* products, the response from societies are still low due to it is voluntary rather than an obligation for people to participate in the family *Takāful* for the protection of any calamities. The family *Takāful* has only been participated by people who has self-awareness and capability in joining *Takāful* as participants.

In family *Takāful* business, the distributions in South East Asia are mostly utilized by three types of marketing channels via an agency<sup>20</sup>, banca*Takāful*<sup>21</sup>, and direct

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<sup>19</sup> According to insuranceinfo (2009), any person who own a motor vehicle, the law requires to have an insurance or *Takāful* to cover liability caused by the person to others. (insuranceinfo is one of the consumer education programme on insurance and *Takāful* and is a joint effort between BNM with the insurance and *Takāful* industry).

<sup>20</sup> Agency refers to the relationship which arises when one person, called the agent, is engaged by another person, called the principal. The agent is given power to effect the principal's relationship

marketing<sup>22</sup>. In Malaysia, agency channel has brought success to newer players, while *bancaTakāful* gains its prominence due to *Takāful* companies establish a partnership with Islamic banks and direct marketing gains higher penetration of *Takāful* than conventional insurance. Comparatively, *Takāful* companies in the Middle East only rely on *bancaTakāful* as their marketing channel to provide *Takāful* products (Global Family Takaful Report, 2013). For family *Takāful* to achieve global success, there will be a need for innovative thinking, not only with regard to product design but also in the development of new sales techniques, which stretch the distribution channels beyond the conventional mindset (Global Family Takaful Report, 2013).

Although *Takāful* industry has established for three decades in Malaysia, the issue of low market penetration is still persisting at a lower level. As stated from the year 2005 to 2010, the market penetration for *Takāful* only increased from 5.7 percent to 11.2 percent (Syed Moheeb Syed Kamarulzaman, 2012), which means growth of 5.5 percent in five years period. As recorded by MTA Annual Report (2014), the growth of Family *Takāful* penetration rate from 2010 to 2014 only increased by a small percentage of 4.4 percent, which derived from 11.1 percent in 2010 and 14.5 percent in 2014.

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with third parties. The principal is responsible for all contracts entered into by his agent as if he had himself entered into the contract (Nasser Yassin & Jamil Ramly, 2011).

<sup>21</sup> *BancaTakāful* refers to an arrangement for the marketing or distribution of life insurance or family *Takāful* product at the premise of banking institution's distribution channels, which include the banking institution's call centers, internet, branches, marketing booths and also third parties providing such sales support devices (Bank Negara Malaysia, 2013).

<sup>22</sup> Direct channel refers to the channel used in selling life insurance or family *Takaful* products directly to the end consumers without the involvement of intermediaries, such as walk-in, telemarketing, internet marketing, or direct mailing (Bank Negara Malaysia, 2013).



The issue of low market penetration for *Takāful* business is not new and has been discussed in years by many scholars, while the other issue seems to emerge and to increase in recent years, which is a surrender of *Takāful* certificates. Higher surrender rates in Family *Takāful* are growing in the domestic market. Table 1.1 shows the number of certificates surrendered and new certificates for new business from the year 2004 to 2013.

Table 1.1: Surrender of Certificates Vs Penetration of New Business in *Takāful*

Year	Certificates Surrendered (Unit)	Penetration of New Business (Unit)
2004	39,472	290,538
2005	38,598	356,623
2006	40,989	332,247
2007	41,514	490,709
2008	53,802	480,235
2009	76,600	673,160
2010	139,021	906,063
2011	250,483	884,360
2012	370,478	884,269
2013	314,036	836,836

*Sources: Bank Negara Malaysia (2008) and (2013)*

Table 1.1 indicates that the surrender rate has increased from year to year from 2004 until 2012 showed by 39, 472 in 2004 increase to 314, 036 units. The surrender rate in 2012 stated the highest among the years with 370,478 units. Although in 2013 showed a decline in number of surrender certificates with 314,036 units, still the figure was among the highest within the ten years period. Meanwhile, the penetration in new business indicates that inconsistent growth within ten years. The new business in a number of certificates has continued to fluctuate year by year in ten years period. The highest number of new business was in 2010 with 906,063 units (Bank Negara Malaysia, 2013). The above scenario of surrender and new business penetrated

figures shows the reflection of low customer retention and low customer acquisition in *Takāful* industry.

### 1.3 PROBLEM STATEMENTS

The issues of low market penetration and certificates surrendered rates mentioned in the background of the research are connected to each other whereby both indicate that the company's performance and effectiveness of RM in terms of customer retention and customer acquisition practiced. Specifically, both low penetration rates and high certificates surrender rates in *Takāful* seems to have the similar root of the problem, which is mainly influenced by the marketing and sales practices in the industry (Marhanum Che Mohd Salleh, 2014c; Omaina Eltahir Babikir Mohamed, Syed Othman Alhabshi & Kamaruddin Sharif, 2013).

The issues related to marketing and sales practices are familiar with the conventional insurance industry, as there are number of studies focus on the related practices empirically across countries (Inderst & Ottavani, 2009; Lin, 2012; Razieh Pezhman, Mohammad Hossein Moshref Javadi, & Arash Shahin, 2013; Anagol, Cole, & Sarkar, 2013; Halan, Sane, & Thomas, 2013; Mazviona, 2014). One of the issues related to marketing practices is unethical marketing practices. The unethical marketing practices seem to be the common issue among conventional insurance agents, but peculiar to happen among *Takāful* agents as *Takāful* itself carries the spirit of mutual helping according to *Syarī'at* guidelines. Further, RM concept is said to be practiced by *Takāful* industry as it promotes quality relationships among

industry players, which consist of both buyers and sellers/ marketers (Marhanum Che Mohd Salleh, 2014b).

Surprisingly, in Malaysia, several studies and reports have indicated that the issues related to *Takāful* agents are also related to marketing and sales practices (Syed Moheeb Syed Kamarulzaman, 2012; Omaima Eltahir Babikir Mohamed, Syed Othman Alhabshi and Kamaruddin Sharif, 2013; Marhanum Che Mohd Salleh, 2014a; Abdullah Ali Abdullah Mohammed, 2015). Particularly, it is reported to Bank Negara Malaysia by *Takāful* consumers that the common complaints related to marketing and sales practices are mis-selling<sup>23</sup> by exaggerating of benefits without explaining about product exclusion, and the usage of scare tactics and intimidation by merely using *Halāl Harām* argument as a selling point (Syed Moheeb Syed Kamarulzaman, 2012).

In addressing the issue of low market penetration, the distribution channels (90 percent) and marketing strategies (85 percent) are found to be the most influential factors in a survey conducted by *Takāful* managers from different *Takaful* companies (Omaima Eltahir Babikir Mohamed, Syed Othman Alhabshi and Kamaruddin Sharif, 2013). Meanwhile, in investigating the higher certificates surrendered rates issue, the marketing practices and attitudes of *Takāful* agents are found to be the two most important factors that have influenced on the customer to surrender their *Takāful* certificates (Marhanum Che Mohd Salleh, 2014a).

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<sup>23</sup> Mis-selling is a questionable practice of a salesperson selling a product that may not match with a customer's specific needs (Inderst & Ottaviani, 2008).

Further, a study on ethical issues conducted by Abdullah Ali Abdullah Mohammed (2015) addressed that there are seven issues related to marketing and sales practice in *Takāful*, such as inadequate knowledge and skill to perform duty; failure to identify the customer's need and recommended products and services; misrepresenting or concealing in one's ability to provide services; failure to be objective with others in one's business dealings; failure to provide prompt and quick response to customer's complaints and request; misleading representation of product and services marketing and advertising or sales efforts; and conflict between opportunity for personal financial gain or benefit and proper performance of one's responsibilities.

Besides, the marketing practices in *Takāful* industry are found to follow and reflect the most part of the practices and strategy in conventional insurance companies (Bassel Hanbali, 2007; Marhanum Che Mohd Salleh, 2014b). However, marketing Islamic financial products represents a fundamentally different challenge from marketing conventional ones (Bassel Hanbali, 2007). As both of *Takāful* and conventional insurance products are different from its concept and features, the marketing approach of *Takāful* has to be different from the ground as well due to different worldview and epistemology. This has brought the marketing professionals within *Takāful* companies must consider the ways of marketing communication models may be adapted and reconstructed (Bassel Hanbali, 2007).

Based on the findings on the issues above, it is important to investigate the current marketing and sales practices by *Takāful* agents. Although there are studies show the empirical evidence from customers or consumers on the *Takāful* agents' practices, there is a possibility to explore the marketing and sales approach from another

dimension. The marketing and sales practices can be examined from the *Takāful* company's position that provides knowledge and skills to the *Takāful* agents. The dimension from *Takāful* company to *Takāful* agent is apart from IM while the dimension from *Takāful* agent to the customer is representing EM. Questions may be raised related to IM. Are the issue of unethical marketing and sales practices by *Takāful* agents derived by the issue in IM? Did MTC play their roles in providing the knowledge and skills related to develop a successful *Takāful* agent? Moreover, the marketing practices implemented and marketing approaches provided are different among the *Takāful* companies<sup>24</sup>.

There are several implications arise if the issues of unethical marketing practices discussed above persist in the *Takāful* industry. The implications are divided into three points of view. First, the reputation and good image of Islam are affected as *Takāful* companies represent Islamic business organizations. Second, *Takāful* agents are the representatives of the *Takāful* companies, and they are mostly Muslim. Hence, any unethical practices lead to bad perception to the whole Muslim community<sup>25</sup>, especially from the non-Muslims. Third, the philosophical underpinnings in the worldview and epistemology of Islam are different from others. Thus, the application of existing RM approach in the *Takāful* marketing practice has brought other issues such as eagerness in selling rather than promoting the objectives

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<sup>24</sup> The information obtained through a telephone conversation with an informant in *Takāful* company on July 10, 2014.

<sup>25</sup> Malay Muslim is the majority of *Takāful* agents in Malaysia. According to the statistic, the number of individual *Takāful* agents registered in Malaysia as at December 2014 are 78,979 agents. Malay was the highest with 48,103 (60 percent), followed by 27,368 (36 percent) for Chinese, 2,694 (3.0 percent) for Indian, and others are only 814 (1 percent) (MTA Annual Report, 2014).

of *Takāful* (Marhanum Che Mohd Salleh, 2014b), fraud (Mudzamir Mohamed, 2013), and other related issues that happened in conventional insurance.

The underlying reasons to study from the *Takāful* company's perspective are grouped into three. First, the approach of marketing and selling Islamic financial products or services should be distinguished from conventional marketing that sells conventional products and services, particularly, RM approach due to different concept and roots. From the root to the implementation of RM approach, it should be different as the worldview and epistemology of Islam are different from conventional. Second, the present reference and reading materials provided in the market which is accessible to the public is still insufficient to describe and guide the *Takāful* companies about the holistic marketing approach in Islamic way that acts as a standard need to be applied. The marketing approach applied in the *Takāful* companies are disclosed only to the staffs and *Takāful* agents registered to the particular company<sup>26</sup>.

Third, Islam emphasizes on the spirit of brotherhood in all aspects of life including business activities, and RM is one of the appropriate approaches to be implemented as it concerns more on building and maintaining relationships among people. Further, the existence of *Takāful* itself is to promote the spirit of brotherhood among Muslim and also to non-Muslims through mutual assistance in *Takāful*. Thus, the synergy between the *Takāful* companies and the spirit of brotherhood must be well integrated for actualizing the emphasis.

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<sup>26</sup>The interview was conducted on 08 September 2014, from 09.39 am until 10.14 pm, at the informant's office.

Therefore, based on the above explanation of the issues, implications, and reasons to be studied, it is necessary to investigate the RM approach in *Takāful* companies from an Islamic perspective, specifically from the IBRM approach.

#### **1.4 RESEARCH OBJECTIVES**

In general, this research attempts to investigate the RM approach implemented in *Takāful* companies. Specifically, the objectives are divided into three:

- 1) To identify the Islamic-Based RM (IBRM) approach to be applied in Malaysia *Takāful* Companies (MTC).
- 2) To investigate the RM approach currently implemented by selected MTC.
- 3) To conclude the existing RM approach implemented by the selected MTC based on the IBRM approach identified.

#### **1.5 RESEARCH QUESTIONS**

- 1) What are the principles to develop IBRM approach?
- 2) What are the elements in IBRM approach appropriate to be applied in MTC?
- 3) What is the conceptual framework of the IBRM approach to represent IBRM approach in MTC?

- 4) What is the basis of RM approach currently implemented in selected MTC?
- 5) How the selected RM approach being implemented by the selected MTC?
- 6) How the current RM approach implemented in selected MTC differ with the IBRM approach identified?
- 7) How the current RM approach implemented in selected MTC similar with the IBRM approach identified?
- 8) What are the suggestions on the existing RM approach implemented in the selected MTC based on the IBRM approach identified?

The summary of above three research objectives and eight research questions are portrayed in Table 1.2.

Table 1.2 Summary of Research Objectives and Research Questions

Research Objectives	Research Questions
1. To identify the Islamic-based RM approach to be applied in MTC.	1) What are the principles to develop IBRM approach? 2) What are the elements in IBRM approach appropriate to be applied in MTC? 3) What is the conceptual framework to represent IBRM approach in MTC?
2. To investigate the current RM approach implemented in selected MTC.	4) What is the basis of RM approach currently implemented by selected MTC? 5) How the selected RM approach being implemented by selected MTC? 6) How the current RM approach implemented in selected MTC differ with the IBRM approach identified?



Table 1.2 Continued

Research Objectives	Research Questions
2. To investigate the current RM approach implemented in selected MTC.	7) How the current RM approach implemented in selected MTC similar with the IBRM approach identified?
3. To conclude the current RM approach implemented by the selected MTC based on the IBRM approach identified.	8) What are the suggestions on the existing RM approach implemented in MTC based on IBRM approach identified?

## 1.6 OPERATIONAL DEFINITIONS

In this research, there are four terms selected as keywords. The keywords are investigation, relationship marketing approach, Islamic-based RM approach, and Malaysian *Takāful* Companies (MTC).

### 1.6.1 Investigation

The word investigation means a scientific or academic examination of the facts of a subject or problem (Oxford Dictionary, 2005). The word of investigation is used in the academic research when it requires empirical evidence to support the findings. The investigation in the context of empirical investigation in marketing and financial services studies have been widely used in the form quantitative research (Singh, 1990; John, 1984; Cavusgil & Nevin, 1981; Sathye, 1999; Culnan & Armstrong, 1999; Spekman, Jr, & Myhr, 1998; Cavusgil & Zou, 1994; Naidu, Parvatiyar, Sheth, & Westgate, 1999; Kalwani & Narayandas, 1995), and also qualitative research (Black, Lockett, Winklhofer, & Ennew, 2001; Gerrard, 2006; Lindgreen, 2001; Mallat, 2007; Rotchanakitumnuai & Speece, 2003; Beckett, Hower, & Howcroft,

2000; Carson, Gilmore, & Walsh, 2004). For the purpose of this study, the word investigation is used to represent the empirical study conducted in the selected MTC to support the findings.

### **1.6.2 Relationship Marketing (RM) Approach**

There are two components in the keywords such as RM and approach. For a better explanation, the second component in the keywords is firstly defined. The keyword is the approach. Approach can be defined as a way of dealing with something or a way of doing or thinking about something such as a problem or a task (Oxford Advanced Learner's Dictionary, 2006). Approach also is a means of attaining a goal (Webster's New Dictionary & Thesaurus, 2002). In the context of sales and marketing, the approach is the initial stage in a sales interaction. The objective of the approach is securing approval for the sales call, getting the prospect's attention and interest, and building rapport with the prospect (American Marketing Association, n. d.). For the purpose of this research, the term approach is used to represent RM in a holistic approach, not only by specific action or plan.

RM is one of the notable customer-centric approaches, aims to increase firm's sales and revenues by prioritizing customers. In implementing a successful RM, it takes time, lots of effort on both sides and an excellent product or services to entice customers (Cohn, 2010). In defining RM, most definitions emphasize "long-term" or "lasting" relationships, but sometimes they appear to be the aim of establishing a relationship while in other cases they are portrayed to be the result of the relationship (Blois, 2005). RM definitions have been reviewed by several authors according to

categories and constructs. Harker (1999) has analyzed 26 RM definitions that attempted to define RM according to different context and conceptualizations<sup>27</sup>.

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<sup>27</sup> List of 26 definitions analyzed by Harker (1999):

1) RM is an emergent disciplinary framework for creating, developing, and sustaining exchanges of value exchange relationships involve, whereby exchange relationships evolve to provide continuous and stable links in the supply chain (Ballantyne, 1997). 2) RM is attracting, maintaining and in multi-service organizations and enhancing customer relationships (Berry, 1983). 3) RM concerns attracting, developing, and retaining customer relations (Berry & Parasuman, 1991). 4) Consumer RM seeks to establish long-term committed, trusting and co-operative relationships with customers, characterized by openness, genuine concern for the delivery of high-quality goods and services, responsiveness to customer suggestions, fair dealing and crucially the willingness to sacrifice short-term advantage for long-term gain (Bennett, 1996a). 5) RM is the organizational development and maintenance of mutually rewarding relationships with customers achieved via the total integration of information and quality management systems, service support, business strategy, and organizational mission in order to delight the customer and secure profitable lasting business (Bennett, 1996b). 6) RM involves the total fulfillment of all the promises given by the supplying organization, the development of commitment and trust and the establishment (where possible) of personal contacts and bonds between customer and the firm's representatives; the eventual emergence of feelings within each party of mutual obligation, of having common goals, and of involvement with and empathy for the other side (Bennett, 1996c). 7) RM has as its concern the dual focus of getting and keeping customers (Christopher et. al., 1991). 8) RM relates marketing to the development of long-term relationships with customers and other parties (Gronroos, 1990). 9) RM is establishing a relationship involves giving promises, maintaining a relationship is based on fulfillment of promises; and finally enhancing relationship means that a new set of promises is given with the fulfillment of earlier promises as a prerequisite (Gronroos, 1990). 10) RM is to nurture and enhance relationships with customers and other partners, at a profit, so that the objective of the partners involved are met. This is achieved by mutual exchange and fulfillment of promises (Gronroos, 1990). 11) Marketing is to establish, maintain, and enhance relationships with customers and other parties at a profit so that the objectives of the parties involved are met. This is done by mutual exchanges and fulfillment of promises (Bennett, 1996; Brodie et.al, 1997; Gronroos, 1989; 1990; 1994; 1997). 12) RM is to identify and establish, maintain, enhance and when necessary also to terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, and that this is done by a mutual exchange and fulfillment of promises (Gronroos, 1995). 13) Marketing can be viewed as the building, maintenance, liquidation of networks, and interactive relationships between the supplier and customer, often with long-term implications. As a consequence marketing become first and foremost relationship marketing (Gummesson, 1990). 14) RM emphasizes a long-term interactive relationship between the provider and the customer, and long-term profitability (Gummesson, 1994). 15) RM is marketing seen as relationships, network, and interaction (Gummesson, 1994). 16) RM is all activities by the firm to build, maintain, and develop customer relations (Hammarkvist et al., 1982). 17) RM is the firms want to build and maintain lasting and profitable relationships with their customers (Jackson, 1985). 18) RM is not directly aimed at immediate transactions but is based on building, supporting, and extending customer relationships (Matthyssens & Van den Bulte, 1994). 19) RM refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges (Bennett, 1996). 20) RM involves the identification, specification, initiation, maintenance and (where appropriate) dissolution of long-term relationships with key customers and other parties, through mutual exchange fulfillment of promises and adherence to relationship norms in order to satisfy the objectives and enhance the experience of the parties concerned (O'Malley et al., 1997). 21) RM is the process of co-operating with customers to improve marketing productivity through efficiency and effectiveness (Parvatiyar, 1996). 22) RM is the process whereby the seller and the buyer join a strong personal, professional, and mutually profitable relationship over time Pathmarajah, 1993). 23) The core of RM is relations, a maintenance of relations between the company and the actor in its micro-environment. The idea is first and foremost to create customer loyalty so that a stable, mutually profitable and long-term relationship is enhanced (Ravald & Gronroos, 1996). 24) RM is the understanding, explanation, and management of the ongoing collaborative business relationship between suppliers and customers (Cravens & Piercy, 1994; Sheth, 1994). 25) RM is establishing, strengthening and developing customer relations was stressed. The focus was on the profitable