

**THE ANTECEDENTS OF CORPORATE BRAND IMAGE
AND ITS CONSEQUENCES TO CUSTOMER LOYALTY
OF ISLAMIC BANK IN MALAYSIA**

BY

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ABSTRACT

The increasing competition and the homogeneous nature of banking products have forced banking institutions to create differentiation. One of the ways used by banks to distinguish themselves from competitors is by adopting an Islamic financial concept. However, despite the inclusion of Islamic values, customers are unable to differentiate the Islamic banking concept from its conventional counterparts, indicating a failure in projecting the intended image. In order to understand this, improvement of corporate brand image through attributes of the brand is suggested. As such, this study is conducted to identify the brand attributes influencing the corporate brand image of Islamic banking institution and its consequence. Three attributes were examined which are functional, emotional and spiritual brand attributes and one consequence was included which is loyalty. The research methodology involved several steps that started with scale development procedure through literature review and qualitative method. The scale was then validated using exploratory factor analysis and confirmatory factor analysis. In the second stage, questionnaires were then distributed to Islamic bank customers who reside or work in Kuala Lumpur and Selangor. 503 questionnaires were analysed using partial least square-structural equation modelling. A 6-point Likert scale was used to measure the constructs. Findings of the study showed that only functional and emotional brand attributes have an impact on the overall corporate brand image and loyalty. Spiritual brand attribute on the other hand is not significant in influencing both image and loyalty. However, the study found that spiritual brand attribute is the antecedent of functional and emotional brand attribute, which is in line with the Tawhidic paradigm. In general, the study has contributed to the theory by extending the brand triangle framework with the inclusion of spiritual value. In addition, the study has also developed the measurement scale for the spiritual brand attribute. Managerially, the study provides insights on the strategy that could be adapted to position the corporate brand of Islamic bank in the customers' minds.

خلاصة البحث

أدَّت المنافسة المتزايدة والخدمات المصرفية المتشابهة في المؤسسات المصرفية؛ إلى البحث عن حلول تتميز بها كل مؤسسة من غيرها، ومن هذه الطرق تبني النظام المالي الإسلامي، ولكن؛ على الرغم من إدراج القيم الإسلامية؛ ما زال العملاء غير قادرين على تمييز النظام المصرفي الإسلامي من نظيره التقليدي (الربوي)، مما يدل على فشل الهدف في تحقيق هذا التمييز، ولفهم ذلك يُقترح تحسين صورة العلامة التجارية للمؤسسات المصرفية من خلال ميزات، ومن ثم؛ يهدف هذا البحث إلى تحديد ميزات العلامة التجارية التي تؤثر في صورتها ونتائجها لدى المؤسسة المصرفية الإسلامية، وقد فُحصت ثلاث ميزات للعلامة التجارية؛ هي: الوظيفية، والعاطفية، والروحية، ثم أُضيفت إليها نتيجتها؛ أي الولاء، وتضمنت منهجية البحث عدداً من الخطوات؛ بدءاً من مقياس تطوير الإجراءات من خلال مراجعة الأدبيات والنهج النوعي، إلى التحقق من صحة المقياس باستخدام تحليل العوامل الاستكشافية والتأكدية، إلى توزيع استبانات على عملاء المصارف الإسلامية المقيمين أو العاملين في كوالالمبور وسلانجور، ثم جرى تحليل 503 استبانات باستخدام نمذجة المعادلة الهيكلية المربعة الأقل جزئية، ومقياس ليكرت من ست نقاط لقياس التركيبات، وقد أظهرت النتائج أن للوظيفية والعاطفية فقط تأثيراً على صورة العلامة التجارية والولاء للمؤسسة المصرفية بعامة، أما الروحية للعلامة فليست ذات تأثير مهم، ولكنها تسبق الوظيفية والعاطفية، وتوازي أنموذج التوحيد بالنسبة إلى العلامة التجارية، وعليه؛ أسهم البحث في نظرية توسيع الإطار المثلث للعلامة التجارية مع تضمين القيمة الروحية، كما طُوِّر أنظمة القياس للميزة الروحية للعلامة التجارية، وإدارياً؛ يمثل البحث نظرة معمّقة إلى الإستراتيجية التي يمكن اعتمادها لتعلق صورة العلامة التجارية للمؤسسة المصرفية الإسلامية في أذهان العملاء

APPROVAL PAGE

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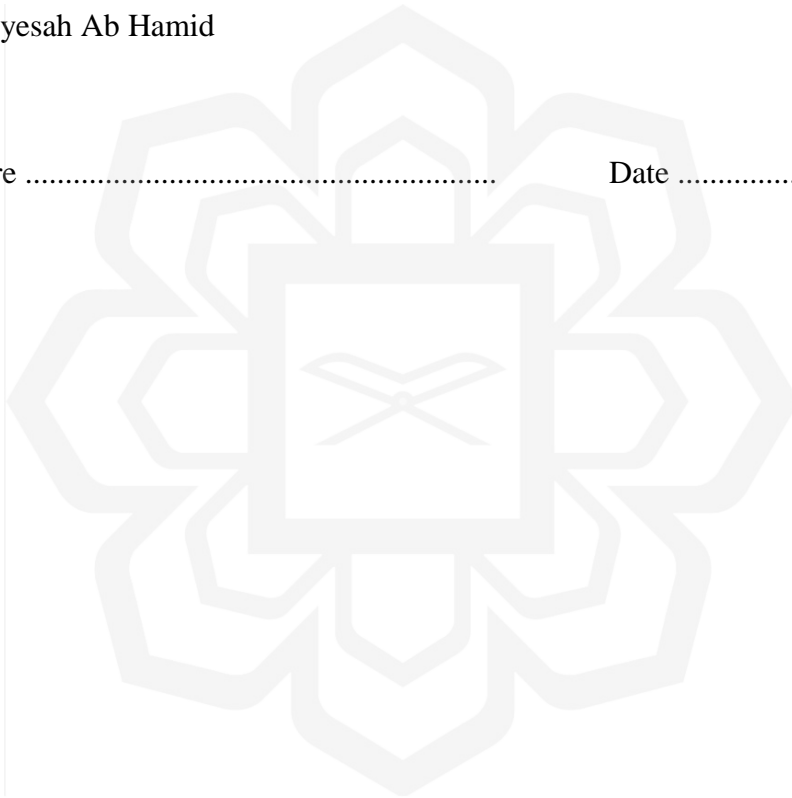
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DECLARATION

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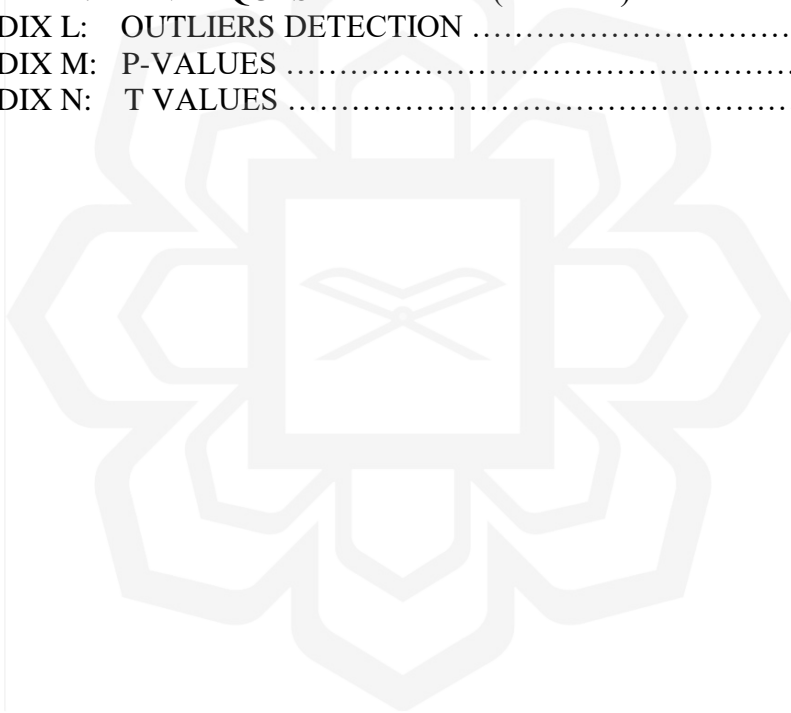
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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Increasing level of competition in today's world has led to numerous challenges to brand management. For service firms like the bank, branding is crucial mainly because of the intangible nature of the offerings. However, compared to goods which usually being approached using a single product branding strategy, consumers tend to perceive various services offered by a service firm such as the bank to be part of a company rather than a single brand (Kang, 2016). As such, corporate brand is used by banking institutions as a strategy of creating a unique and different identity (Dawes-Farquhar & Robson, 2015).

Among a unique growing model in the banking industry is the Islamic financial concept (Ahmad, Rustam, & Dent, 2011). Started from a small bank in a remote area of Egypt, the Islamic financial system grows tremendously into an industry and spread throughout the world attracting the interest of mega-international financial institutions to offer the same product concept (Islam & Rahman, 2017). In Malaysia, the Islamic banking concept was introduced through the enactment of Islamic Banking Act (IBA) 1983 followed by the establishment of Bank Islam Malaysia Berhad in July 1983. As a consequence, a dual banking system exists, in which Islamic bank and conventional bank operated side by side. Despite this situation, the Islamic banking system still rises progressively and able to capture a 21.3% market share as of 2014 (Ernst & Young, 2016). Not only that, between the second quarter of 2015 to 2016, the aggregate deposit base of Islamic banks and windows increase by 8.2% as compared to only 1.6% in the conventional banks (IFSB, 2017). This figure, however, shows a lower level of growth

as compared to the previous years which has achieved up to 16% (IFSB, 2017). Despite this encouraging data, the fact shows that the Islamic banking industry is still too small in comparison to the size of the whole financial markets. The industry also has only been able to capture a small amount of Muslim wealth worldwide, and a small number of customers from a total of 1.6 billion Muslims throughout the world (Salleh, 2012). Thus, in order to capture the potential market and to survive in the competition, branding strategy needs to be adopted so that differentiation could be portrayed.

Basically, there is a huge difference in the value adopted by the Islamic and conventional banking brand (Awan, Hayat, & Faiz, 2018). Theoretically, apart from the emphasis on *halal*¹ and *haram*², and the incorporation of *Shari'ah*³ compliance, the soul of the Islamic brand itself is to achieve good deed, which not only reached through commercial and material gain but should be motivated by spiritual and ethical dimension (Alserhan, 2010). For Muslims, consuming an Islamic brand is more than just a mean of possession, but could lead to encouragement of worshipped towards Allah (Md Husin & Ab Rahman, 2013) and a way of expecting rewards from God (Alserhan, 2010). However, in reality, especially in the context of the Islamic bank, studies showed that consumers are unable to see the difference between Islamic and conventional bank (Al-Tamimi, Lafi, & Uddin, 2009; Gait & Worthington, 2008), indicating a failure in portraying the right Islamic corporate brand image.

As a developing concept in the banking industry, various studies have been conducted on the branding aspect of the Islamic bank. Among areas studied include the brand preference (Ahmad et al., 2011), brand personality (Ahmed & Jan, 2015b, 2015a), brand associations (Maulan, Omar, & Ahmad, 2016), and visual branding (Ishtiaq &

¹ Permissible or lawful

² Forbidden

³ Islamic law

Siddiqui, 2016). Several studies also could be found addressing the behavioural consequences of Islamic bank corporate brand image (Al-Tamimi et al., 2009; Arshad, Zahra, & Draz, 2016; Ayuni, Hussein, & Handrito, 2015; Fatema, Azad, & Masum, 2013; Fitria, Troena, & Hussein, 2016; Osman, Ali, Mokhtar, Setapa, & Abd Malek, 2016; Rahman, 2016), but most of them are only viewing image from the surface without trying to understand its formation holistically and the factors affecting it. Knowing the consequences without its antecedents however raised the question of how would image affect behaviour if factors influencing it is not recognised. Considering that the understanding of the right factors influencing image would lead to effective management of a company's limited resources (Garay, 2019), this study, therefore, will focus on the antecedents of corporate brand image in the context of the Islamic bank, from the perspective of Malaysian consumers.

Image is defined by Aaker and Myers (1982) 'as the set of meanings by which an object is known and through which people describe, remember and relate to it. That is, it is the net result of the interaction of a person's beliefs, ideas, feelings and impressions about an object' in which the object according to Dowling (1986) could be replaced with a brand, company, product, etc. Corporate image, on the other hand, is defined by Johnson and Zinkhan (1990) as an overall impression of a company held by various stakeholders. Corporate brand image, which is similar to corporate image (Blombäck & Axelsson, 2007), therefore could simply be understood as the interaction of stakeholders beliefs, feelings, ideas, and impressions that resulted in a mental picture of an organization.

In facing the high competition in the industry, and in ensuring the Islamic identity portrayed by the bank would be viewed positively, understanding consumers' view towards its corporate brand image as such is important for an Islamic bank. Image

is said to be the main factors influencing sales and selection since it resides in the same resident of a consumer purchase decision, which is the mind (Hee Youn & Ji-Hwan, 2013; Hemsley-brown, Melewar, Nguyen, & Wilson, 2016). Not only that, image also drives brand equity (Salehzadeh, Pool, & Najafabadi, 2018; Sasmita & Mohd Suki, 2015), influence company's position against competitors (Hemsley-brown et al., 2016; Manhas & Tukamushaba, 2015), and is said to be the only asset that cannot be copied by competitors (Sondoh Jr, Wan Omar, Abdul Wahid, Ismail, & Harun, 2007). In addition, image also plays a role in influencing individual response towards company or product promotion, in which, the better image an individual has about the product or organization, the easier they would accept related information (Michaelidou, Micevski, & Cadogan, 2015). Over time, a favourable image would have an effect positively on the performance and growth, thus influencing market share (Al-Tamimi et al., 2009).

Despite these benefits and enormous studies that have been done on corporate brand image, confusion still exists on understanding the subject, primarily because of the inconsistent use of measurement and terminology (Syed Alwi & Kitchen, 2014). Not only that, the formation of an image also has been viewed differently by different scholars resulting in the unavailability of standard (Cho & Fiore, 2015; Dobni & Zinkhan, 1990). Although various studies have been conducted from the conventional angle (Bravo, Montaner, & Pina, 2012), limited studies, however available, are trying to understand the image of an organisation incorporating Islamic values (Fatema, Bhuiyan, & Bhuiyan, 2013). As corporate brand image is viewed differently between different types of institutions (Dobni & Zinkhan, 1990; Low & Lamb, 2000), and as Islamic bank and conventional bank are dissimilar in many ways (Sayani & Miniaoui, 2013), factors influencing the corporate brand image of Islamic bank is expected to be different.

Therefore, it is the intention of this study to examine the antecedents and consequence of a corporate brand image in the context of the Islamic bank. Previously, various factors have been determined by other studies to influence image among others including corporate identity, personal factors (Beerli & Martin, 2004), and environmental factors (Al-Kwafi, 2015). However, as image is built by a combination of brand attributes (Krystallis & Chrysochou, 2014), this study therefore will focus on the influence of functional and emotional attributes towards corporate brand image, and propose the existence of spiritual attributes specifically related to an Islamic brand, which is hypothesised to play a role in building an image. This is considered relevant as a brand is not a static entity but would respond and adapt to its environment and context (Tran, Nguyen, Melewar, & Bodoh, 2015), thus justifying the possibility of differences between Islamic and conventional brand. In addition, the study also will look into the consequence of a corporate brand image towards a customer's behavioural response, which is loyalty. As a result, the findings of this study are expected to provide a detailed picture on the factors influencing a corporate brand image and its consequence thus providing an institution such as the Islamic bank with the knowledge to strategize its branding effort.

1.2 PROBLEM STATEMENT

Image has been found as not only crucial in developing the company's position (D. A. Aaker, 1991; Hsieh, Pan, & Setiono, 2004; Martins, 2015) but also able to influence service selection and purchase decision (Hee Youn & Ji-Hwan, 2013; Michel & Rieunier, 2012; Nguyen, Yu, Melewar, & Hemsley-brown, 2016; Ulusu, 2011). This is especially important in the banking sector since consumers, in general, have lack of

understanding on the banking concept and depends on a brand to make a bank selection (Ahmad et al., 2011; Ashraf, Robson, & Sekhon, 2015). In the context of an Islamic bank, the intense inter- and intra-industry competition, and the homogeneous service offering which could easily be imitated (Maulan et al., 2016; Metawa & Almosawi, 2009) lead to the importance of having a strong differentiation asset. In order to do so, developing a favourable corporate brand image is crucial as it would be able to differentiate one company over another thus increasing chances of success (Bravo, Montaner, & Pina, 2009).

However, despite the various efforts that have been done, studies found that consumers are not aware of the differences between the two banking concepts (Al-Tamimi et al., 2009; Islam & Rahman, 2017). This unsuccessful differentiation attempt leads to various misconceptions not only among consumers but also between the employees of the bank itself (Ahmad, 2007). Among others, Islamic bank has been accused of being interest-based rather than interest-free, proving its depiction of the conventional rivals (Chong & Liu, 2009). In addition, many also believed that the element distinguishing Islamic bank from its conventional counterparts is only on the use of Islamic terminology while the *Shari'ah* compliance aspect remains in question (Khan, 2010). These misleading beliefs and accusations which signal an ineffective image differentiation effort, if remains unchanged, may provide no reasons for customers to choose an Islamic brand over another (Ahmad et al., 2011), thus forcing the Islamic bank to face a stiffer competition.

Therefore, in order to face these challenges, Islamic bank is proposed to focus on branding effort by developing a strong corporate brand image (Ahmad et al., 2011). However, despite various studies that have been conducted to understand corporate brand image, it is admitted that confusion on the concept of image remains unresolved

(Koltringer & Dickinger, 2015). Definition ambiguity, inconsistent measurement technique and interchangeable usage of the terms have been acknowledged as among factors contributing to the confusions (Hsieh et al., 2004; Stern, Zinkhan, & Jaju, 2001). As a result, corporate brand image has been defined and measured from various perspective including attitude, personality, and perception (Cho & Fiore, 2015; Da Silva & Syed Alwi, 2008c; Gardner & Levy, 1955; Hosany, Ekinici, & Uysal, 2006). The application of various theories leads to inconsistency and unavailability of standard technique that could be used across the sector. Not only that, factors influencing image also varies, depending on the context and environment (Tran et al., 2015).

Thus, in order to understand image, Dowling (1993) suggested that it is essential to know the factors influencing the image formation. In the banking context, studies in the past have focused on the corporate brand image of conventional banking institutions (eg: Bravo, Montaner, & Pina, 2010; Flavián, Guinalú, & Torres, 2005; Leblanc & Nguyen, 1996; Van Heerden & Puth, 1995; Yeo & Youssef, 2010) by focusing on the influence of either functional or emotional attributes. However, as corporate brand image is said to be different between institutions of different nature (Dobni & Zinkhan, 1990; Low & Lamb, 2000) and varies through time (Langrehr, 1985; Sääksjärvi & Samiee, 2011), further empirical research is needed in the context of Islamic bank. While previous corporate brand image studies in the context of Islamic bank focused on the emotional aspect only (eg: Osman et al., 2016; Osman et al., 2015), this study, guided by the brand triangle model, which originated from the means-end theory, proposed to examine the functional, emotional and spiritual attributes influencing the Islamic bank corporate brand image. The inclusion of spiritual attribute is considered relevant as the identity of Islamic brand is different than its conventional counterparts, and the motivation of the brand, which is religious-based, is also different (Alserhan,

2010; Temporal, 2011); thus, leads to a portrayal of a different image. In addition, the study will also investigate the nature of the interaction between the three brand attributes since the hierarchical structure between functional and emotional attribute is still debatable (Syed Alwi & da Silva, 2007; Syed Alwi & Kitchen, 2014), and the position of spiritual attribute among the other attributes is rarely evaluated.

Hence, triggered by the above issues, in general, this study intends to investigate the antecedents of the corporate brand image of an Islamic bank and its consequence in shaping customer loyalty. In order to do so, Stimulus-Organism-Response theory, brand triangle model, and *Tawhidic* paradigm will be applied to guide the relationship. Through this, hopefully, a better understanding of the corporate brand image determinants and consequence could be achieved thus would enable Islamic bank management to develop positioning strategy in line with the image perceived by the consumers.

1.3 RESEARCH QUESTIONS

Based on the problem statement, the following research questions are proposed:

1. What is/are the brand attribute(s) determining the overall corporate brand image of an Islamic bank?
2. Do the spiritual, functional and emotional brand attributes relate to each other?
3. Do the three brand attributes have influence on customer loyalty?
4. Does the overall corporate brand image of an Islamic bank influences customer loyalty?

1.4 RESEARCH OBJECTIVES

Generally, the main objective of the study is to investigate the determinants and consequence of a corporate brand image in the context of Islamic bank. The specific research objectives are as follows:

1. To identify the brand attribute(s) determining the overall corporate brand image of Islamic bank. Specifically, this leads to:
 - a. Identification of attributes underlying spiritual brand and the development and validation of its scale.
 - b. The examination of the relationship between spiritual brand attribute, functional brand attribute, and emotional brand attribute on a corporate brand image.
2. To determine the relationships among spiritual, functional, and emotional brand attributes.
3. To examine the influence of the three brand attributes towards customer loyalty.
4. To examine the relationship between the overall corporate brand image of an Islamic bank and customer loyalty.

1.5 SIGNIFICANCE OF THE STUDY

Building a strong corporate brand image is important as it is one of the intangible assets that cannot be copied by competitors (Khan & Jalees, 2017; Sondoh Jr et al., 2007; Yeo & Youssef, 2010). Although various studies have been conducted related to corporate brand image, confusion still exists on the concept of an image especially because of its inconsistent nature, depending on the context and environment (Tran et al., 2015). This study is developed based on this basis and, therefore, is significant from several views.

From a theoretical perspective, the study contributes towards the body of knowledge through the expansion of brand triangle model, by incorporating a new brand value which is the spiritual value, measured by several attributes related to the faith and beliefs. In addition, a new scale measuring the spiritual attribute is also identified and developed specifically to suit the Islamic nature of the business. Furthermore, in contrast to other studies that examine the spiritual element of an Islamic brand individually, this study investigates the spiritual element together with functional and emotional elements, thus contributing to a better understanding on its significance as compared to the others.

From a managerial perspective, this study provides an understanding of the Islamic banking customers perception towards the various attributes related to the corporate brand of the bank. By understanding this, it would provide insights into Islamic banking managers to develop and execute its branding strategy so that a favourable overall corporate brand image could be developed. Not only that, the findings of the study also offer a justification for the areas of priorities that Islamic banking managers should focus on in order to compete in the dual-banking market. These priority areas could be used as a guideline to develop positioning strategy in line with customers' expectation which is based on the understanding of the salient role of functional, emotional or spiritual brand attributes in shaping target customers image towards the bank. Not only that, result of the study also may broaden Islamic banking managers' view on the role of branding strategy and corporate brand image towards customers' loyalty.

Therefore, based on these contributions, the study is indeed significant as it delivers new insights not only theoretically, but also from the managerial perspective.