

# MARKET ORIENTATION AND TAKAFUL NONFINANCIAL PERFORMANCE: A STRATEGY?

Norizan Remli<sup>1</sup>  
Wan Norhayate Wan Daud<sup>1</sup>

<sup>1</sup>Faculty of Business Management, Universiti Sultan Zainal Abidin (UniSZA), Malaysia,  
(Email: norizanremli@unisza.edu.my; wnhayate@unisza.edu.my)

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**Abstract:** *Strategies that improve performance draw the attention of managers. The Islamic Insurance industry in Malaysia requires an emphasis on customer orientation and inter-functional coordination to improve and achieve better performance. This paper discusses the market orientation and its components, the relationship between market orientation and nonfinancial performance, and the implication of the market orientation strategy within the Takaful industry in Malaysia. Future research on a similar topic is recommended to improve a certain area such as a combination of nonfinancial and financial performance study to provide further proof of the positive impact of market orientation on the performance of Takaful business in Malaysia.*

**Keywords:** *Takaful, customer-orientation, competitor-orientation, inter-functional coordination.*

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## Introduction

Malaysia has achieved a significant milestone in the development of its Takaful industry. With the enactment of the Takaful Act 1984, the first Takaful operator was established in 1984. Since then, Malaysia's Takaful industry has gained momentum and has increasingly recognized as a significant contributor to Malaysia's overall Islamic financial system. Malaysia is known as one of the pioneers in research and development on the Islamic capital market and acknowledged its market and product innovation (Mahmood, 2011). The Takaful business, like other financial services products, is closely aligned with the expectation of the consumers. Hence, the sustainability of a Takaful operator is dependent on its ability to respond to customers' needs and demands effectively. In most Islamic countries, insurance penetration is not exceeding 1% of the gross domestic product (Macey, 2006). However, Takaful is potential with self-establish skills and resources borrowed from conventional insurance markets.

## Problem Statement

Given that the thriving economic and social challenges today, insurance sector has accounted for 1.7 percent of GDP and only 5.8 percent of Malaysian financial assets. For over the past few years, the insurance penetration has been slow in total premiums to GDP putting the

industry remained low at 4.8 percent. Notably, less than 40 percent of Malaysian citizens either own a life insurance or family Takaful policy (Bank Negara Malaysia, 2018). Geographically, Muslims take up 60 percent of Southeast Asia population. According to the Malaysia Demographics Profile 2017 statistics, about 60 percent of Malaysian are Muslims. Thus, the prohibition of conventional insurance among Muslims leads to the setting up of the Takaful to fulfill their insurance needs (Akhter & Khan, 2015). The issue of why the public does not have much interest in having Family Takaful or life insurance protection offered in the marketplace makes Takaful industry and conventional peers unable to fully gain the public's purchasing power. In response to these situations have resultant in reviewing the strategy to perform better.

### **Market Orientation and Components**

Market orientation known as the business culture that most effectively and efficiently creates superior value customers (Narver & Slater, 1990). They further defined it as a culture committed to the continuous creation of superior value for customers that manifest itself as a set of cross-functional processes and activities directed at creating and satisfying customers through continuous needs assessment (Narver, Slater & Tietje, 1998).

Market orientation is an externally focused business culture that makes creating superior value for buyers its top priority. A business is market-oriented when its culture is systematically and entirely committed to the continuous creation of superior customer values (Narver & Slater, 1990; Slater & Narver, 1994). The researchers had developed three (3) main components of market orientation, namely 1) customer orientation, 2) competitor orientation, and 3) interfunctional coordination. Also, Narver and Slater (1990) outlined eight control variables affecting the market orientation and business performance chain. They are 1) buyer power, 2) supplier power, 3) seller concentration, 4) ease of entry of new competitor, 5) rate of market growth, 6) rate of technological change, 7) size of the business, and 8) average total operating cost.

According to Kohli and Jaworski (1990), market orientation refers to the organization-wide generation of market intelligence, dissemination of the intelligence across departments, and organization-wide responsiveness. Three classes of factors affecting market orientation are senior management factors, interdepartmental dynamics, and organizational.

The heart of market orientation is its customer focus (Slater & Narver, 1994). The customer is the foundation of a business and keeps it in existence (Drucker, 2007; pg61). Narver & Slater (1990) defined customer orientation as a sufficient understanding of one's target buyers to continuously create superior value for them. To create superior value for buyers continuously requires a seller to understand a buyer's entire value chain, which is not only as it is today but also as it evolves (Slater & Narver, 1994). According to Han et al. (1998), customer orientation advocates a continuous proactive nature of service towards meeting the customers' demand.

According to Slater & Narver (1994), creating superior customer value requires more than just focusing on customers. Thus, that superior value requires the sellers to identify and understand the principal competitors' short-term strengths and weaknesses and long-term capabilities and strategies of both current and potential competitors.

Competitor orientation focuses on the following questions: (1) Who are the competitors? (2) What technologies do they offer? (3) Do they represent an attractive alternative from the perspective of the target customers (Slater & Narver, 1994)?

Adoption of a chess-game perspective by a seller towards its current and principal potential competitors will be beneficial. Later, continuously examine the competitive threats from intent and value-creation capabilities. These are the steps that the organization needs to consider adopting to develop a niche market like a chess game. 1) Know where you want to go before you start moving, 2) Predict the moves that your competition is going to make 3) Predict the moves that your customer is going to make 4) Make calculated moves with everything you do 5) Know and operate your business with the big picture in mind, not just the quick sale 6) As soon as you see an opportunity, you take it immediately and not to wait and see. This is crucial information to a seller in developing its competitive contingency strategies (Slater & Narver, 1994). The competitor-centered methods' objective is to keep pace with or even stay ahead of the rest of the field.

The third component in the series of core market orientation verified by Narver and Slater (1990) is inter-functional coordination. It refers to "the coordinated utilization of company resources in creating superior value for target customers" (Narver & Slater, 1990). This means that any individual in a seller firm's function can potentially contribute to value creation (Slater & Narver, 1994).

Several decades after the advent of the marketing concept, there are indications that practitioners were acknowledging the responsibility of market orientation as beyond the scope of the marketing department alone (Han et al., 1998). They explained that as functions are integrated across departments in an organization, the problem-solving capabilities are potentially enhanced by individuals working toward the common goal. However, if personnel in different departments do not open to each other, they are more likely conform to their routine mode of problem-solving and less likely to be creative and take risks.

Openness in communication across function is very important. According to Zaltman, Duncan, and Holbek (1973) in Han et al., (1998), openness in communication relates to the organizational capacity to innovate. In other words, more creativity or innovativeness is brought to bear on increasing effectiveness and efficiency for customers' value.

Evidence supporting how inter-functional integration and openness in communication relate to organizational innovativeness is on hand from many researches focusing on organizational characteristics and their implications (Han et al., 1998).

### **Relationship between Market Orientation and Nonfinancial Performance**

A study has been conducted by Remli (2013) to further understand the function and impact of marketing strategy among the Takaful operators in Malaysia. The study involved a total of six composite Takaful operators in Malaysia, representing both General Takaful and Family Takaful, which are providing a broader scope of products and services. The study respondents are limited to the marketing staff, including top management, middle management, junior management, and the marketing executives in the headquarters of selected Takaful operators only. This is because they are the leading decision-makers and the most influential people in the companies. They are also involved directly in the strategy set-up of the company and the

marketing exercises. Today's business environment is very competitive and challenging. Hence, organizations need to be strategically positioned to increase their market share and remain dominant in the industry. Operators must be continuously geared towards offering the best service and gaining customers' expectations and satisfaction. The results of this study assisted the Takaful operators in evaluating their strategy to perform better and increase their penetration rate in the market. Whereby it confirms a positive relationship to the performance of the Takaful operators. The results also discovered that, among the three components of market orientation, customer orientation, and inter-functional coordination were the dominant factors had been influencing the performance of Takaful business in Malaysia. Another factor, the competitor orientation not significantly related to the performance of Takaful business in Malaysia.

### **The Implication of Market Orientation Strategy**

Today's business environment is very competitive and challenging. Hence, organizations need to be strategically positioned to increase their market share and remain dominant in the industry. Continuous efforts are geared towards offering the best service and gain customers' expectations and satisfaction—the Takaful operators in evaluating their strategy to perform better and increase their penetration rate in the market.

Market-oriented organizations create a culture and generate market intelligence, disseminate intelligence across departments, and responsive to it will gain a superior performance (Narver & Slater, 1990; Kohli & Jaworski, 1990). In this regard, the Takaful industry will perform much better if the operators are considered becoming market-oriented in their business strategy and will be able to penetrate better in the market. With market orientation in place, the Takaful operators will be more focused on customers that understand their needs and requirements. They are also more concerned and alert on the competitors' activities and work together among the business unit to ensure goal achievement. Market orientation also initiates innovativeness and therefore creates a competitive advantage to the organization, and the result would be a superior performance of the industry.

It is recognized as significant for organizational success; market orientation as a foundation of marketing also increasingly important in other fields, for instance, in strategic management. For example, Intel's CEO recently announced plans to transform the company to focus on meeting the customer's needs from the outset through ideas and technical solutions (Gebhardt et al., 2006). For example, Intel believes in the high return that the research has shown to be associated with a more excellent market orientation.

The concept of market orientation adopted by practitioners over 40 years has become an essential element of research. Works of literature show that market orientation represents superior skills in understanding and satisfying customers (Day, 1990). Also, a set of beliefs that put the customer's interest first (Deshpande et al., 1993), the organization's ability to generate information and spread information, and respond to customers' and competitor's needs (Kohli & Jaworski, 1990). While Narver and Slater (1990) state three behavioural components; customer orientation, competitor orientation, and inter-functional coordination (Ruibyte et al., 2012). Further, Narver and Slater (1990) and Slater and Narver (1994) described market orientation as an externally focused business culture that makes creating superior value for buyers its top priority. A business is market-oriented when its culture is systematically and entirely committed to the continuous creation of excellent customer values. Also, Narver and

Slater (1990) summarized that buyer power, supplier power, seller concentration, ease of entry of new competitor, rate of market growth, rate of technological change, size of business and average total operating cost as the control variables affecting the market orientation and business performance chain. While in the second article by Kohli and Jaworski (1990), they defined market orientation as an organization-wide generation of market intelligence, disseminating information across departments, and organization-wide responsiveness. Three main factors contributing to affect market orientation are senior management, inter-departmental dynamics and organizational. These factors must be mutually responsible to ensure the market orientation strategy works according to enhance performance.

Market orientation is about changing the organization's culture. Every organization has a culture. To increase market orientation means to enhance a kind of learning. The choice of strategy to establish a market orientation is based on the question of what is needed for the new culture or its elements to become congruent with the group members' experiences and to be perceived as offering a superior solution? (Slater & Narver, 1998).

Further, Narver, Slater, and Tietje (1998) emphasized that the inability to focus on the core values or behaviors has resulted in a large organization failing to create and maintain market orientation. According to Narver et al. (1998), market orientation consists of one overriding value that is a commitment by all organization members, especially the top management to create superior value for customers continuously. Thus, the roles of senior management in cultural changes have been further discussed.

Top management plays a crucial leadership role in changing the culture in general and creating a market orientation. Stemming on Kotter (1995), Narver et al., (1998) offered eight fundamental leadership steps for effecting organizational transformation which has adapted to the context of creating a market orientation; 1) establish a sense of urgency in the organization for creating a market orientation, 2) form a powerful guiding coalition for creating a market orientation, 3) develop a vision of market orientation and a plan for its implementation, 4) communicate the idea of market orientation, 5) empower others to act on the idea, 6) plan for and create short-term market wins, 7) consolidate improvements based on the market performance and produce still more change, and 8) institutionalize continuous learning and development in attracting, retaining and growing targeted customers.

Theoretically and empirically, in their study, Jaworski and Kohli (1993) supported top management leadership's critical role in creating a market orientation. They found that top managers' commitment to the continuous generation and used market intelligence and senior managers' willingness to assume risks were two critical antecedents of market orientation. Narver et al., (1998) suggested the other antecedents to a market orientation that stem from leadership. Namely, reducing interdepartmental conflict, increasing interdepartmental connectedness, orienting the reward systems, and decentralizing decision-making. In conclusion, leadership is vital to achieving and maintaining a successful culture change to create a market-oriented organization. Market orientation exhibits four essential behaviors relating to the creation of superior value for customers, which must be learned and executed for organizations to be thriving market oriented. Firstly, clarity its value disciplines and its value proposition and therein, clarity on its market targeting, positioning and business definition.



Secondly, leading its customer, not merely following them, thirdly, whatever business, seeing it as a service business, and lastly, managing in terms of key customers and employees.

Grounded by an in-depth understanding of market orientation theory, characteristics, antecedents, and consequences, Gebhardt et al. (2006) proposed a four-stage model of creating a market orientation. The four-stage model comprises initiation, reconstitution, institutionalization, and maintenance. At the initiation stage, the process involves recognition of an external threat and preparation for changes. The study has suggested six process-focused change initiatives: value proposition and value delivery systems, communication systems, safety, continuous improvement, organizational alignment, and information technology. The second stage is reconstitution, which refers to the organization-wide implementation of the change plan. It comprises five steps: demarcation, value and norm development, reconnection with the market, removal of dissenters and hiring believers, and collaborative strategy. The third stage is institutionalization. At this stage, the organization has undergone fundamental informal changes. The organizational culture and resulting behaviors have changed much more dramatically than the formal organization structure, and supporting attributes and organizations institutionalize these changes. This stage involves formalization, alignment of rewards, indoctrination, and training, and power shift activities. The fourth stage is the maintenance stage. After having achieved more excellent market orientation, the organization needs to create mechanisms to sustain it. Three processes reinforce a market-oriented culture: developmental screening of new members, culture maintenance rituals, and on-going market connection activities to update market schemas and validate market-oriented process schemas. Firms also exhibit two characteristics protecting their market-oriented cultures from outside influences: Cultural "flame keepers" approve organizational changes based on cultural consistency. There is vigilance against management fads and fashions.

Analysis of four firms that have successfully engaged in a four-level culture shows that the organization creates a market orientation within the organization (Gebhardt et al., 2006). This process reflects the organization with cultural values that support market-oriented activities, organizational understanding of the market, and organizational learning capabilities. The research further ascertains that these cultural values are central to the new organization that emerges from this process. The intra-organizational though neglected, the distribution of power and organizational learning plays a crucial role in establishing and maintaining market orientation.

Further support, the implication of market orientation within the SMEs conducted by (Udriyah et al., 2019) has shown a positive effect on textile SMEs' business performance. This study supported the function of market orientation in setting up a sustainable business strategy within the organization. As one of the methods to create a firm's superior performance, market orientation improves capabilities in the business environment and makes it more responsive to customer needs and establish superb strategies (Riswanto et al., 2019). In 2020, Powers et al., in their research, found that the relationship between market orientation and performance in an industrial setting based on multiple perspectives of market orientation, managers, salespersons and customers is positively significant. Thus, market orientation is a longitudinal marketing strategy that applies across time.

## Conclusion and Future Recommendation

The Islamic Insurance industry in Malaysia requires an emphasis on customer orientation and inter-functional coordination in its strategy to improve and achieve better performance. Being right in handling customers' affairs rewards the loyalty and continuity of trust from the customers. Excellent inter-department communication and cooperation are vital to providing excellent customer service. Empirical study examined the effect of market orientation on organizational performance from Takaful Business's perspective in Malaysia has also discussed by Daud, Remli, and Muhammad, (2013) in applying the market orientation and organizational performance from the resource advantage theory of competition perspective

It has been affirmed that the Takaful business in Malaysia is moving towards a better performance level. It has been discovered that market orientation constructs are positively related to the Takaful business's performance in Malaysia. Being equally important and significantly influence performance, customer orientation, and inter-functional coordination dominated the model. These results highly indicate the importance of having a good customer focus and excellent internal communication within the organization to achieve the organizational goals.

Strategies that improve performance draw the attention of managers. This developed marketing strategy concept gives clear guidance on how to practice effective marketing strategy through a combination of market orientation and innovation for the organization to efficiently compete in the marketplace. Thus, it creates and sustains competitive advantage to achieve superior performance. A strong relationship with the nonfinancial performance measures suggested that an organization that adopts this strategy should experience improvements in customers' satisfaction, loyalty, retention, and market share. Further, to enhance this discussion, in-depth studies such as interviews, case studies, or triangulation are strongly suggested for the future research approach besides the primary method to improve results.

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