

## Corporate Social Responsibility and Market Orientation: An Integrated Approach Towards Organizational Performance

*(Tanggungjawab Sosial Korporat dan Orientasi Pasaran: Pendekatan Bersepadu ke Arah Prestasi Organisasi)*

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### ABSTRACT

*Takaful operators in countries dominated by Muslim are still experiencing low penetration rate. New emerging customer segments have higher expectation where Takaful operators need more innovative approaches in acquiring and retaining customers. Moreover, Takaful companies need to apply marketing, societal and entrepreneurial concept to make the industry more competitive. Although many Islamic banking and Takaful studies have been conducted, empirical Takaful research is still limited. Therefore, the primary focus of this study is to empirically investigate the influence of market orientation and corporate social responsibility (CSR) towards Takaful agencies' organizational performance in Malaysia. The first phase of the study involved refinement of CSR measurement items by performing exploratory factor analysis (EFA), where a new dimension was identified. The second phase of study was to test the hypotheses by employing all items adopted from past studies including the refined CSR measures. PLS-SEM analysis involving a two-step approach on 211 valid data shows co-adoption of CSR and market orientation influences organizational performance.*

*Keywords: CSR; market orientation; organizational performance; Takaful; Malaysia*

### ABSTRAK

*Pengendali Takaful di negara yang majoriti penduduknya beragama Islam masih mengalami kadar penembusan Takaful yang rendah. Dengan kemunculan segmen pelanggan baru, pengendali Takaful memerlukan pendekatan yang lebih inovatif dalam memperolehi dan mengekalkan pelanggan. Pengendali Takaful juga perlu menerapkan konsep pemasaran, sosial dan keusahawanan untuk menjadikan industri ini lebih kompetitif. Walaupun telah banyak kajian perbankan Islam dan Takaful dijalankan, namun penyelidikan Takaful secara empirikal masih terbatas. Oleh itu, objektif utama penyelidikan ini adalah untuk mengkaji pengaruh orientasi pemasaran dan tanggungjawab sosial korporat (CSR) terhadap prestasi agensi Takaful di Malaysia. Fasa pertama kajian telah berjaya mengenal pasti dimensi baru CSR. Fasa kedua kajian telah menguji hipotesis dengan melibatkan analisis PLS-SEM ke atas 211 data. Hasil kajian mendapati CSR dan orientasi pemasaran secara bersama mempengaruhi prestasi organisasi.*

*Kata kunci: CSR; orientasi pemasaran; prestasi organisasi; Takaful; Malaysia*

### INTRODUCTION

The global *Takaful* market is expected to continue its double-digit growth where the main contributing countries are Saudi Arabia, Malaysia and UAE (El Azem 2015). Malaysia remains as a strong *Takaful* growth contributor where 71 percent of total gross *Takaful* from ASEAN region comes from the country (Ernst & Young 2014). According to the latest report, Malaysia's net *Takaful* contributions in 2016 has increased to RM7.5 billion from RM6.8 billion in 2015, indicating a 14.6 percent market share of total industry premiums and contributions (Islamic Finance News 2017). Generally, *Takaful* companies in Malaysia adopts either *Wakalah* (Agency-based model) or *Mudarabah* (profit-sharing model) as their *Takaful* business model, but *Wakalah* model is identified as a more

efficient, sustainable and growing distribution channel (Halim 2012). Generally, *Takaful* agencies under *Wakalah* model play roles as channel for *Takaful* operators, whereby they do not involve in new product or service innovation and development (Nazri et al. 2015).

In spite of its huge potential for growth, *Takaful* operators in countries dominated by Muslim are still experiencing low penetration rate (Babalola 2017). New emerging customer segments have higher expectation where *Takaful* operators need more innovative approaches in acquiring and retaining customers by adopting more effective strategies and communication tools (Halim 2012). This is due to the fact that there is great potential for *Takaful* operators to tap into regional and international markets (El-Tahir 2014). Thus, *Takaful* companies should apply marketing, societal and entrepreneurial concept to

make the industry more competitive (Halim 2012; Sharif 2012). Moreover, there is also a need for a differentiated strategy for *Takaful* companies to convert opportunities to commercial success (Babalola 2017). Although many Islamic banking and *Takaful* studies have been done, but most studies were conducted in the context of Islamic banking (Amin et al. 2009; Dusuki 2008; Kumar, Kee & Charles 2010; Osman 2011). Generally, most *Takaful* studies are exploratory (Lim, Idris & Carissa 2010; Maysami & Williams 2006) and conceptual (Abdul Hamid & Othman 2009).

CSR still earns a considerable amount of research and interest for decades (Darrag & E-Bassiouny 2013). From the Islamic point of view, there is a similarity between *Takaful* concept and social responsibility (Yaacob & Abdul Ghani Azmi 2012). Most of CSR studies focus on companies in developed countries (Frynas 2006), and many studies were associated with large corporations (Amran, Ling & Yahya 2007). Even though small and medium enterprises (SME) make up the majority of business landscape (Fitzgerald et al. 2012), but relatively few studies were conducted in that context (Pastrana & Sriramesh 2014; Giovanna, Alfredo & Lucio 2012; Tseng et al. 2010). It was suggested by researchers that SMEs may have different reasons to introduce and implement CSR compared to large corporations (Tamajóna & Aulet 2013).

Marketing in small and medium sized enterprises (SMEs) has become an important research (Cromie 1990) and still become a debatable topic among scholars (Brodie et al. 1997; Gilmore, Carson & Grant 2001). Scholars believed that the concept becomes an effective competitive weapon for firms including insurance companies to survive in the competitive environment as insurance companies deal with products that require service quality and customer orientation (Lado & Maydeu-Olivares 2001). Although many researchers postulated the importance of market orientation-performance study, only little market orientation-performance research have been performed among small organization (Raju, Lonial & Crum 2011), specifically in the insurance sector (Lado & Maydeu-Olivares 2001). Moreover, several scholars assert that the relationship between market orientation and performance with a presence of interactions amongst a number of strategic actions is still under researched (Olavarrieta & Friedmann 2008).

Despite MO and CSR are generally recognized as important determinants of business performance, only few research have considered their joint effects on performance (Qu 2009; Kiessling, Isaksson & Yasar 2016). Issues of CSR contribution towards market-oriented organization in achieving better business performance remains unclear (Qu 2009). To be specific, it is crucial to study the interaction effects of market orientation and corporate social responsibility (CSR) on performance (Brik, Rettab & Mellahi 2011). Hence, the primary focus of this study is to empirically investigate the co-adoption of market orientation and CSR towards *Takaful* agencies' organizational performance in Malaysia.

## LITERATURE REVIEW

### TAKAFUL

Technically, *Takaful* comes from an Arabic word of “*kafala*” which means to guarantee, to look after or trust (Abdul Hamid & Othman 2009). Literally, “*Takaful*” is derived from adverbs “*takafala*” which means “looking after one another” (Abdul Hamid & Othman 2009). Bakar (2000) asserts that, *Takaful* is different from conventional insurance from *Takaful* perspective, a company is not the ‘insurer’ insuring the participants but the participants are actually mutually insuring one another which becomes the very essence of the word *Takaful*. Conceptually, *Takaful* is an arrangement by a group of people with common interests to guarantee or protect each other from certain defined misfortunes such as premature death, disability and property damages (Obaidullah 2005). Basically, insurance does not contradict the Islamic principles since it is essentially a system of mutual help (Redzuan et al. 2009). However, uncertainty (*Gharar*) and gambling (*Maysir*) in the contract of insurance as well as usury (*Riba*) in its investment activities become the elements that cause the operation of conventional insurance contradicts to the principle of *Shari’ah* (Redzuan et al. 2009). The foundation of *Takaful* concept is relationship or brotherhood where it strongly encourages community’s benefit (religion, intelligence, life, honor, dignity and property) in fulfilling the *Maqasid al Shari’ah* (Yaacob & Abdul Ghani Azmi 2012; Muji Tahir 2009).

### ORGANIZATIONAL PERFORMANCE

Performance is a multidimensional concept (Lumpkin & Dess 1996) with no mutually agreed definition (Andersen 2010). It can be categorized in terms of what is being measured and how it is being measured (Andersen 2010). Other researchers categorize performance into financial and non-financial measures (Venkatraman & Ramanujam 1986). Researchers consider performance of an organization entails its performance in finance, business and organizational effectiveness (Chu-Hua, Madu & Lin 2001; Terziovski & Samson 1999). It will also include its degree to satisfy organization’s survival needs and stakeholders’ needs as performance is influenced by various factors (Griffin 2003).

Generally, two approaches in measuring performance are normally applied in many studies; objective (actual) and perceptual (subjective) (Greenley & Foxall 1998). The objective approach implies actual performance information is obtained from secondary sources such as company’s annual report which are available from publicly held companies (Ambad 2014). However, performance information of non-publicly held company such as financial performance is sensitive and confidential to outsiders (Dess & Priem 1995). Sometimes it is due to little or unavailable published financial data of private-owned company or the owners of these companies are often reluctant to share actual performance information (Smart & Conant 1994;

Zacca, Dayan & Ahrens 2015). Thus, it is almost impossible for researchers to obtain actual financial information from small firms (Ambad 2014). However, many previous studies found that the perceptual performance of a company is positively related to actual performance (Dess & Robinson 1984; Golden 1992; Powell 1992; Murphy & Callaway 2004; Wall et al. 2004).

#### MARKET ORIENTATION (MO)

Generally, there is no mutually agreed definition of market orientation in the literature (Rapp, Schillewaert & Wei Hao 2008). However, there are two prominent approaches in conceptualizing the construct. The cultural perspective by Narver & Slater (1990: 21) defined it as the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and continuous superior performance for the business. From behavioral perspective; MO is defined as an organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to this intelligence (Kohli & Jaworski 1990: 6). Other than its conceptualization being discussed, many studies on market orientation discussed its relationship with organizational performance. Several scholars exerted the relationship between market orientation and performance depends on cultural factor (Agarwal, Erramilli & Dev 2003; Atuahene-Gima 1996; Mahmoud & Hinson 2012) and sectorial factor as evidenced by several studies for instance; service organization (Gray & Hooley 2002), industrial manufacturing organization (Bigné et al. 2004), non-for-profit organization (Macedo & Pinho 2006), political context (O'Cass 2001), charity organization (Balabanis, Stables & Phillips 1997) as well as in developing economies (Ellis 2005; Hooley et al. 2003). Furthermore, this concept is becoming very important for the companies to stay closer to their market as global competition is increasing and consumer need is changing (Greenwald 1991).

#### CORPORATE SOCIAL RESPONSIBILITY (CSR)

The accepted definition of CSR is still debatable (Green & Peloza 2011; Jamali 2008). This is because CSR is conceptualized from various perspectives and many empirical CSR studies focus on some of its aspects and dimensions only (Vaaland, Heide & Gronhaug 2008). Another reason of ambiguity of CSR concept is because it stems from societal demand that keeps on changing (Valor 2005). Even Muslim world faces issues of conceptual justification, definition, implementation and operationalization of CSR (Dusuki & Abdullah 2007).

Recently, scholars have started showing their interest to rationalise CSR concept from an Islamic point of view where Islamic moral economy (IME) becomes the underlying foundation by articulating the values of justice, fairness and equity (Mohd Nor 2012).

IME promotes justice in social and economic aspect as accentuated in Islamic economic system which is based on *Shari'ah* principles and it becomes the alternative to the neoclassical economy which promotes capitalism and profit maximisation (Ahmad 1980; Chapra 1979; Siddiqi 1980; Naqvi 1994; Tripp 2006). IME is also viewed to have the capabilities to deliver material benefits to the economic development more effectively and transparently because it stresses on ethics and morality (Siddiqi 1980; Tripp 2006). IME is inspired from the Western concept of 'moral economy' that comprises of elements of faith or cultural norms, moral and ethical values as well as economic activities. Thus, CSR from Islamic point of view is built upon faith (*Aqidah*), personal moral behavioural disposition (*Akhlaq*) and *Shari'ah*-compliance economic activities (Mohd Nor 2012). Despite many studies on CSR, research from the Islamic point of view is still limited (Darrag & E-Bassiouny 2013). Hence, Islamic *Shari'ah* could become a practical foundation for concept understanding and implementation, consequently it becomes the guideline in managing business and social responsibilities (Dusuki & Abdullah 2007). *Shari'ah* is believed to be able to guide company's strategies, directions and goals to achieve economic, legal and social objectives and fulfil its obligations (Darrag & E-Bassiouny 2013). Theoretically, this study draws from stakeholder theory for CSR and behavioral theory for marketing orientation that provide strong foundations for understanding the business performance of *Takaful* agencies that run the business according to *Shari'ah* principles.

#### HYPOTHESES DEVELOPMENT

Many empirical studies have shown a positive relationship between market orientation and organizational performance (González-Benito & González-Benito 2005; Kirca, Jayachandran & Bearden 2005; Kwon 2010; Langerak 2003; Shoham, Rose & Kropp 2006), and organization's return of investment (ROI), return of asset (ROA), sales, and customer satisfaction (Cervera, Molla & Sanchez 2001; Harris 2001; Hong & Chen 1998; Homburg & Pflesser 2000; Jaworski & Kohli 1993; Pelham 1997; Slater & Narver 1994), export performance (Akyol & Akehurst 2003; Cadogan, Cui & Li 2003; Kwon & Hu 2000), sales and net profit (Kim 2003). In other word, there is a prolific study on the relationship between market orientation and organizational performance with substantial finding (Nwokah 2008). However, researchers may have different view regarding the intensity of the relationship and the market orientation and performance (Gonzalez-Benito, Gonzalez-Benito & Munoz-Gallego 2009). Hence, it was hypothesized that:

H<sub>1</sub> Market orientation has positive influence on organizational performance of *Takaful* agencies in Malaysia.

Research works on CSR and performance relationship are rapidly growing (Wickham 2006). Several empirical

studies found a positive relationship exists between the construct and organizational business and financial performance (Mahmoud & Hinson 2012). However, other scholars found that no relationship exists between CSR and organizational performance (Aupperle, Carroll & Hatfield 1985; Margolis, Elfenbein & Walsh 2007), and even negative relationship exists (McGuire, Sundgren & Schneeweis 1988). It was argued that failure in considering the market segment or industry effect when investigating the relationship become the reason of mixed finding in CSR and performance study (Chand 2006). Another reason is organizational financial performance relies on industry characteristics that define the accepted degree of ethics and morality in evaluating whether the activities are socially responsible or not (Lee, Singal & Kang 2012). Generally, majority studies have shown a positive relationship between CSR and business performance (Luo & Bhattacharya 2006; Waddock & Graves 1997) specifically financial performance (Bird et al. 2007; Kang, Lee & Huh 2010). Hence, it was hypothesized that:

H<sub>2</sub> CSR has positive influence on organizational performance of *Takaful* agencies in Malaysia

#### RESEARCH METHODOLOGY

There were two phases in this study. Phase one involves qualitative and quantitative study to enrich the construct of CSR according to the context of this study. At the initial stage of phase one, several literatures related to *Takaful* and CSR were examined. Then, in order to enrich CSR scale, interviews were conducted with four senior managers from the *Takaful* industry.

There were 24 identified CSR items at the initial stage of research involving literature search and interview as shown in Table 1. These items were categorized into its respective dimensions namely economic, legal, ethics and philanthropy (Carroll 1991). Economic dimension comprises of activities such as to achieve operation efficiency and provide return of investment and

TABLE 1. The identification of CSR among *Takaful* agencies

Economic	<ul style="list-style-type: none"> <li>● Have a procedure to respond to every customer complaint</li> <li>● Continuous improvement on the quality of the services</li> <li>● Customer satisfaction as an indicator of the business performance</li> <li>● Strives to lower the operational cost</li> <li>● Closely monitor the productivity of staffs</li> </ul>	Carroll (1979); Maignan, Ferrell & Hult (1999); Mahmoud & Hinson (2012), <i>Interviews*</i>
Legal	<ul style="list-style-type: none"> <li>● <i>Takaful</i> products meet legal standards</li> <li>● The contractual obligations are always honoured</li> <li>● <i>Takaful</i> agencies managers try to comply with the law</li> <li>● To comply with the law regulating hiring and employee benefit</li> <li>● Have programs that encourage the diversity of the workforce in terms of age and gender</li> <li>● Have internal policies to prevent discrimination in employees compensation and promotion</li> </ul>	
Ethic	<ul style="list-style-type: none"> <li>● Have a comprehensive code of conduct</li> <li>● Members of <i>Takaful</i> agencies follow professional standards</li> <li>● <i>Takaful</i> agencies is known as a trustworthy company</li> <li>● Fairness towards agents is an integral part of company's evaluation process</li> <li>● Have a confidential procedure in place for employees to report any misconduct at work</li> </ul>	
Philanthropy	<ul style="list-style-type: none"> <li>● <i>Takaful</i> agencies support employees who acquire additional education</li> <li>● <i>Takaful</i> agencies have a policy that enable agents to better coordinate work and personal life</li> <li>● Gives adequate contributions to charities</li> <li>● Have a program to reduce the amount of energy and material wasted in the business</li> <li>● Encourage partnership with local schools</li> </ul>	
New items	<ul style="list-style-type: none"> <li>● Monitor the agents' performance*</li> <li>● <i>Takaful</i> agencies pay <i>zakat</i>*</li> <li>● <i>Takaful</i> agencies' business activities are in accordance to Islamic Law*</li> </ul>	

profitability. Legal dimension embraces responsibilities of an organization to comply with law and regulations. Ethical dimension covers activities that are not within the law or legislation but the activities are based on religion and human principles and human right. Philanthropy dimension comprises activities of promoting human welfare that are at the discretionary of organizations (Carroll 1991). During the interview, new items were also discovered (mark \* in Table 1). Then, the CSR scales were validated with two CSR experts from local universities and managers from the *Takaful* industry.

However, the result of the study is still not appropriate for hypothesis testing (Strauss & Corbin 1990). Thus, the first quantitative study was conducted to perform Exploratory Factor Analysis (EFA) for CSR construct. Out of 300 questionnaires distributed, only 170 questionnaires were returned. However, only 163 questionnaires were valid for exploratory factor analysis (EFA) testing to refine CSR measurement items. Before EFA testing was

conducted, normality and outliers testing were performed. The skewness and kurtosis were examined to check the normality of the data. All values of skewness and kurtosis were within the range of +2 and -2 indicating normality distribution of data (Garson 2012).

Table 2 shows the EFA examination result produced four factors with eigenvalue exceeding 1 that explained 73.065 percent of the total variance. Kaiser-Meyer-Olkin (KMO) of this analysis is 0.903 which exceed the recommended value of 0.6 or above (Hair, Ringle & Sarstedt 2011). Bartlett's Test of Sphericity also shows that it is significant ( $p = 0.000$ ) as suggested by Hair et al. (2011). Any items below cut-off point of 0.5 were removed where this exercise resulted to drop seven items. In addition, all retained items had a communality above 0.3 that indicates they were well defined by the factor solution and recommended to be retained (Tabachnick & Fidell 2001).

TABLE 2. Exploratory Factor Analysis (EFA) for CSR (CSR)

Item	Factor				Communalities
	1	2	3	4	
CSR7	.727				0.740
CSR8	.536				0.625
CSR9	.764				0.756
CSR10	.590				0.595
CSR11	.740				0.749
CSR12	.878				0.796
CSR15		.712			0.721
CSR16		.627			0.666
CSR23		.741			0.715
CSR24		.808			0.765
CSR1			.637		0.747
CSR2			.735		0.802
CSR3			.819		0.817
CSR14			.500		0.678
CSR20				.574	0.694
CSR21				.789	0.780
CSR22				.865	0.777
Cronbach alpha	0.901	0.847	0.867	0.785	
Cumulative % of Variance	73.065				
Kaiser-Meyer-Olkin (KMO)	0.903				
Bartlett's Test of Sphericity	significant at $p < 0.05$				

After the process of EFA, only 17 items were accepted with four remaining dimensions. Ethical dimension was combined with a new identified dimension and it was named *Shari'ah* Compliance. Other dimensions were economic, legal and philanthropy that are consistent with literature (Carroll 1979). Further inspection of the remaining items also showed that all values of Cronbach alpha satisfied the threshold value of 0.7 as suggested by Hair et al. (2011). Finally, all remaining 17 items were relabelled as CSR1 to CSR17, and were used to test the study model and hypotheses as shown in Table 3.

The second phase of data collection was conducted to test the research model and hypotheses by employing all measures including the refined CSR measures. The measures of market orientation (Kohli & Jaworski 1990; Gonzalez-Benito, Gonzalez-Benito & Munoz-Gallego 2009) and organizational performance (Ramayah, Samat & Lo 2011) appeared in previous literature. Purposive sampling was used in this study where the respondent were the owner of the *Takaful* agencies (mostly SME). About 800 self-administered questionnaire were distributed but only 211 were returned and valid for further analysis.

TABLE 3. The Dimensions of CSR, items and factor loading after EFA

Dimensions of CSR	Relabelled Item	Item in Questionnaire	Factor Loadings
Economics	CSR1	<i>Takaful</i> agencies have a procedure in place to respond to every customer complaint	.637
	CSR2	<i>Takaful</i> agencies continually improve the quality of the services	.735
	CSR3	<i>Takaful</i> agencies use customer satisfaction as an indicator of our business performance	.819
	CSR4	Members of <i>Takaful</i> agencies follow professional standards	.500
Legal	CSR5	<i>Takaful</i> agencies' products meet legal standard	.727
	CSR6	<i>Takaful</i> agencies' contractual obligations are always honoured	.536
	CSR7	<i>Takaful</i> agencies managers try to comply with the law	.764
	CSR8	<i>Takaful</i> agencies seek to comply with the law regulating hiring and employee benefit	.590
	CSR9	<i>Takaful</i> agencies have programs that encourage the diversity of the workforce	.740
	CSR10	<i>Takaful</i> agencies have internal policies which prevent discrimination upon employees' compensation and promotion	.878
Shari'ah Compliance	CSR11	<i>Takaful</i> agencies are known as a trustworthy company	.712
	CSR12	Fairness towards agents is an integral part of firm's evaluation process	.627
	CSR13	<i>Takaful</i> agencies pay <i>zakat</i>	.741
	CSR14	<i>Takaful</i> agencies' business activities are in accordance to Islamic Law	.808
Philanthropy	CSR15	<i>Takaful</i> agencies give adequate contributions to charities	.574
	CSR16	<i>Takaful</i> agencies have a program in place to reduce the amount of energy and material wasted in the business	.789
	CSR17	<i>Takaful</i> agencies encourage partnership with local schools	.865

## DATA ANALYSIS

### DESCRIPTIVE FINDINGS

Most of *Takaful* agencies involved in this study have less than five staff, which accounted for 77.3 percent, and the remaining 19.0 percent has 6 to 10 staff and only 3.8 percent has more than 10 staff. This indicates that majority of *Takaful* agencies are categorized as small business (SME Corp 2014). However, majority of *Takaful* agencies have more than 10 agents which accounted for 64.9 percent, 24.2 percent has 6 to 10 agents, and only 10.9 percent has less than 5 agents.

### EMPIRICAL FINDINGS

The PLS-SEM analysis involves a two-step approach (Chin 2010). Firstly, the measurement followed by structural model evaluation was performed. The evaluation of a measurement model involved assessing its internal consistency reliability, indicator reliability, convergent reliability, and discriminant reliability (Hair et al. 2011). Internal consistency reliability was assessed by using Cronbach's alpha and composite reliability where both assessment measure homogeneity of items (Sekaran 2003). The cut-off value for both measures is 0.7 indicating acceptable reliability value (Hair et al. 2011). Table 4 shows that the internal consistency reliability of the measurement model is acceptable with constructs' Cronbach alpha and composite reliability above the cut-off value of 0.7. Using a rule of thumb of accepting

items with loadings of 0.7 or more, it was found that several indicators were eliminated as they did not reach the level of acceptable reliability (Chin 2010). Then, the average variance extracted (AVE) was used to assess convergent validity with 0.50 as cut-off value, followed by discriminant validity assessment by using Fornell-Larcker criterion (Henseler, Ringle & Sinkovics 2009).

Table 4 and 5 show that measurement model met the acceptable level.

The next phase involves the structural model evaluation. The primary criteria for the evaluation is the coefficient of determination ( $R^2$ ) value of the endogenous latent variable and estimate of path coefficients (Hair et al. 2011). The  $R^2$  of the endogenous latent variables is important in assessing the model's capability to explain the endogenous latent variables and to uphold the theoretical underpinning (Henseler et al. 2009).  $R^2$  values of 0.67, 0.33 and 0.19 indicate substantial, moderate and weak respectively of the model's explanatory capability (Chin 1998). The  $R^2$  of the study is 0.381 indicating moderate explanatory capability. Then, the significance of the model's structural path was examined by applying bootstrapping ( $n = 211$ , sample = 500). Table 6 shows the summarized result of the structural model indicating the path coefficients standard error and t-statistics. Essentially, all hypotheses are supported.

Table 7 displays the effect size;  $f^2$  of the significant paths in determining whether a change in the independent latent variable has a substantial influence on the dependent latent variable through the change in  $R^2$ . According to Cohen (1988),  $f^2$  is assessed as 0.02 (small), 0.15

TABLE 4. Reliability and convergent validity

Construct	Indicator	Loading	AVE	Composite Reliability	Cronbach's Alpha
Organizational Performance	BP2	0.837	0.652	0.918	0.895
	BP3	0.853			
	BP4	0.804			
	BP5	0.745			
	BP6	0.769			
	BP7	0.834			
	CSR	CSR2			
CSR3		0.851			
CSR4		0.868			
CSR5		0.810			
CSR6		0.784			
CSR8		0.814			
CSR10		0.776			
Market	MO1	0.840	0.640	0.941	0.930
	MO2	0.823			
	MO3	0.818			
	MO4	0.787			
	MO5	0.777			
	MO6	0.807			
	MO7	0.864			
	MO8	0.738			
	MO9	0.739			

TABLE 5. Discriminant validity

	BP	CSR	MO
BP	<b>0.808</b>		
CSR	0.568	<b>0.818</b>	
MO	0.568	0.733	<b>0.800</b>

Note: Diagonal represents the square root of the AVE and the off-diagonal represent the correlations.

TABLE 6. Hypotheses testing result

	Path Coeff	S.E	t-stats	Sig.	Decision
CSR -> BP	0.328	0.077	4.243	**	Supported
MO -> BP	0.328	0.083	3.940	**	Supported

Note: \*\* p < 0.05, n.s. not significant.

(medium) and 0.35 (large). Table 7 shows that  $f^2$  for all constructs is small.

Predictive relevance,  $Q^2$ , was also examined to test whether the model is able to adequately predict each endogenous latent construct's indicators (Chin 2010). Using blindfolding procedure (omission distances  $d = 7$ ), cross-validated redundancy measures of  $Q^2$  were obtained. Table 8 shows the predictive relevance,  $Q^2$  and its effect size  $q^2$ .  $Q^2$  values greater than zero indicates the model has predictive relevance and if it zero or below, it indicates a lack of predictive relevance (Hair et. al 2014).

TABLE 7. Effect size  $f^2$ 

Constructs	$R^2$ excluded	Effect Size $f^2$	Rank
MO	0.352	0.03	small
CSR	0.322	0.08	small

TABLE 8. Predictive relevance,  $Q^2$  and Effect size,  $q^2$ 

Constructs	$Q^2$	$Q^2$ excluded	Effect size $q^2$	Rank
MO	0.231	0.199	0.042	Small
CSR		0.202	0.038	small

The model has predictive relevance as  $Q^2$  score is greater than zero (Chin 2010).

## DISCUSSION AND IMPLICATIONS

Theoretically, the main finding indicates that co-adoption of market orientation and CSR will bring positive implication to business performance. Another theoretical contribution is the consistency of the finding with the view of some researchers regarding the similarity between the concept of *Takaful* and social responsibility as both concepts emphasize on the community's benefits of which is built on the basis of relationship characteristics (Yaacob & Abdul Ghani Azmi 2012). Specifically, CSR from Islamic

point of view is built upon faith (*Aqidah*), personal moral behavioural disposition (*Akhlaq*) and *Shari'ah*-compliance economic activities (Mohd Nor 2012). Moreover, having a consciousness of God's presence (*Taqwa*) in daily activities including in economic activities is fundamental in Muslim's life (Iqbal & Mirakhor 2007). Thus, *Takaful* agencies managers must manage their business according to Islamic *Shari'ah* consistently as ultimately the firms will achieve their goals which are in harmony with the teaching of Islam. Empirically, the study has contributed towards the enhancement of variable, in terms of its construct validity by using refined measurement items of CSR construct. This study has discovered a new dimension of CSR and it is named *Shari'ah* Compliance. Thus, it is postulated that from Islamic perspectives, social responsibilities will also include obligations to pay *Zakat*, fairness towards business channel, and practicing business according to *Shari'ah*.

For managerial contribution, the study found a high positive direct relationship between CSR and *Takaful* agencies' organizational performance. This finding is consistent with past research showing a positive relationship exists between the construct and organizational business and financial performance (Bird et al. 2007; Kang et al. 2010; Luo & Bhattacharya 2006; Waddock & Graves 1997). This is also consistent with the study conducted by Yaacob and Abdul Ghani Azmi (2012) that shows a significant relationship exists between the achievement of Malaysian Muslim entrepreneur and social responsibility. This is contrary with the situation of many business organization that are still resistant to implement CSR due to the potential impact on firm performance (Kiessling et al. 2016).

The study also showed a high positive direct relationship between market orientation and performance which is consistent past studies (Lado & Maydeu 2001; Ramayah et al. 2011; Vega Rodri'guez & Rojas Berrio 2011). This indicates that *Takaful* agencies should be a market oriented firm in order to achieve better performance. *Takaful* agencies should continuously put effort in generating and collecting information pertaining to current and future customer needs, disseminating the information within the agencies and with *Takaful* operator, and being able to respond and take action based on the information obtained from the market. In general, the *Takaful* agency needs to develop "market orientation transformation competencies" in order to achieve superior performance as suggested by Qu (2009).

Specifically, *Takaful* companies must understand the factors that influence demand for *Takaful* products in order to get sales (Babalola 2017). It can be realized by putting more investment in customer education and awareness. In addition, convenient registration and payment processes, right pricing structure as well as customer' liquidity constraint should also be considered in the marketing strategies. *Takaful* companies must build trust among customers through honesty, transparency and sincerity. Since the *Takaful* agents are representatives of *Takaful*

operators, it is crucial for them to build and enhance a good image and foster a strong relationship with customers. This is because of company's credibility depends on the professionalism of their representatives (agents). The agents are bound by a contract of *Wakala* to promote and distribute *Takaful* products to customers. They have responsibilities to share their knowledge, skills and have ability to perform the task. Therefore, agents should be able to identify potential customers and disseminate information about *Takaful* concept, philosophy, product and practice. Furthermore, they are responsible to explain the differences and advantages of *Takaful* compared to conventional products in order to head off misconception and misunderstanding of *Takaful*.

*Takaful* companies have responsibility to maximize profit for their shareholders and surplus distribution to policyholders as well as to maintain solidarity among them as one of central pillars of CSR concept (Islamic Finance News 2011). *Takaful* agencies are strongly recommended to focus on CSR too as a competitive weapon to achieve its overall business goals which are in line with the teaching of Islam. In a nutshell, these findings recommend to business practitioners to view CSR and market orientation as synergistic strategies to achieve organizational business performance.

#### LIMITATIONS AND FUTURE RESEARCH

The study limitations include among others purposive sampling used, cross-sectional design where data was collected at a single point in time, and choosing only *Takaful* industry as a context of study. Future study recommendations include replicating the study in other research setting such as conventional insurance, and incorporating moderating variables in the study in order to view the study in a broader perspective.

CSR was identified in the study as important predictors of the performance of the *Takaful* agencies. However, this study is not interested to investigate how each CSR dimensions influence performance even though the scale captures all dimensions of CSR. Thus, it is recommended for future research to investigate the role of each dimensions of CSR that may influence the performance of *Takaful* agencies in Malaysia. This is consistent with the view of CSR scholars who exerted the concept encompasses economic, legal, ethical, and philanthropy dimensions (Carroll 1979).

Purposive sampling was adopted in the study where only *Takaful* agencies managers were selected as the respondents. The information obtained in the study come only from the perspective of management of *Takaful* agencies. In fact, the view of customer is also important as CSR concept can be viewed from many perspectives (Siwar & Hossain 2009). Thus, it is recommended for future research to involve customers as respondents in order to obtain their view that may benefit the *Takaful* market.



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