

Business Strategy, Leadership Styles And Performance Of Takaful Firms

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ABSTRACT

Insurance represents an important business segment in the Malaysian economy. In particular, the takaful firms are viewed to play a key role in Malaysian insurance industry. Despite the importance of takaful firms, the literature reveals research on takaful firms remained limited as well as neglected. More specifically, a review of the business literature in Malaysia reveals that very few studies have attempted to determine the relationships between business strategy, leadership styles and performance of takaful firms. This study attempts to address this research issue. The data for the study was collected from 196 Takaful Agency Leaders by using mail questionnaires. Results of the study indicate significant positive relationships between business strategy, leadership styles and performance of the takaful firms.

KEYWORDS: Takaful Firms; Business Strategy; Leadership Styles; Performance

INTRODUCTION

The first takaful firm in Malaysia was introduced in 1984. Presently, there are 12 takaful operators in the country. Since it was first introduced, takaful or Islamic insurance has gained much acceptance and experienced remarkable growth as an industry. In terms of growth, it has been estimated that the takaful industry has been growing at the rate of between 20 to 25 percent annually. More significantly, the world takaful industry was estimated to be valued at US\$2 billion (RM6 billion) in the year 2010. The global takaful market is projected to be worth US\$11 billion (RM34 billion) by the year 2015 (New Straits Times, October 4, 2010).

Recently, it was reported that the takaful industry in Malaysia grew by 24 percent in 2011 and the industry was valued at RM4.5 billion. Based on this significant growth, Malaysia was ranked the second largest takaful market in the world after Saudi Arabia. In addition, it has been projected that the takaful industry in Malaysia is expected to be worth RM7.64 billion in the year 2012 (Business Times, New Straits Times, July 17, 2012).

Surprisingly, despite the tremendous growth of the takaful firms in the Malaysian economy, there is not much information about these firms. More specifically, as an area of research, takaful firms have not received much research attention. As a result, not much is known about the way the takaful firms are being managed. Given their importance to the national economy and limited information concerning the takaful firms, more focused research efforts are needed in the area.

One interesting area of research would be to investigate the relationships between business strategy, leadership styles and performance of the takaful firms in Malaysia. The importance of business strategy and leadership to organizational performance has long been emphasized in the literature. Despite the increased knowledge in business strategy and leadership and their importance to the

takaful firms, not much is known about the business strategy and leadership styles adopted and their linkage to the performance of the takaful firms.

In view of the importance of takaful firms to the Malaysian economy and the lack of information concerning their business strategy, leadership styles and performance, more focused research needs to be undertaken. This study attempts to address this issue by examining the relationships between business strategy and performance of takaful firms presently operating in the Malaysian takaful industry.

LITERATURE REVIEW

Previous studies have indicated the important role of business strategy in determining the success of organizations. Business strategy has been commonly viewed as the manner in which a firm decides how to compete, pursue, achieve and maintain its competitive advantage in a particular industry (Walker and Ruekert, 1987; Rue and Holland, 1989; Mintzberg and Quinn, 1991; Varadarajan and Clark, 1994; Lynch, 1997; Harrison, 2003; Pitts and Lei, 2003; Sanchez and Heene, 2004; Hunger and Wheelen, 2007; and Hashim, 2008).

Over the years, numerous studies have also provided evidence that indicate that firms which employed a specific business strategy that align with their business environment were able to outperform their competitors (Hofer and Schendel, 1978; Wood and Laforge, 1979; Galbraith and Schendel, 1983; Lee, 1987; Green, 1988; Mosakowski, 1993; and Kotha and Nair, 1995; Mankins & Steele, 2005; McGrath & MacMillan, 2005; Greenwald & Kahan, 2005, Kaplan & Norton, 2005; and Lee, Johnson, Gahring & Lee, 2008).

Porter (1980) recommended three types of generic business strategies. These strategies are; low cost, differentiation, and focus or niche. A firm can develop the low cost strategy by increasing its sales and profits through economics of scales, scope and technology. In developing the differentiation strategy, the firm is required to emphasize on differentiating its products and services by developing different ways to make them appear unique as well as different. In the case of a niche or focus strategy, the firm needs to focus on product development and marketing efforts in a specific market segment that has cost or differentiation as an advantage.

Galbraith and Schendel (1983) examined the appropriateness of firms adopting different type of business strategies in different industrial settings. In the study, six strategies (harvest, build, cash-out, niche, climber, and continuity) were identified for firms in the consumer markets and another four strategies (low commitment, growth, maintenance, and niche) for firms in the industrial markets. Results of the study indicated that the build strategy and growth strategy were appropriate for the consumer market and industrial markets, respectively. In addition, the results of the study showed that the niche strategy to be suitable for both markets.

In the context of real estate development industry, the study by Green (1988) identified three specific business strategies. The three business strategies included; a short-term strategy in which the real estate firm adapts to the swings in the market, enters and exists at the right moment; a long-term strategy where the real estate firm focuses on quality properties and accumulating cash reserves or a strong cash flow position by diversification to ensure continuity; a strategy that would combined the two earlier strategies.

Siram and Anikeeff (1991) also investigated the business strategy being used by real estate firms. In the study, the researchers adopted the strategic group analysis framework developed by Miles and

Snow (1978). The Miles and Snow's framework classified firms into strategic groups based on intended product-market strategies. In the study, Miles and Snow's three strategy types were applied. The three strategies are; defender (sell a narrow range of products in a narrowly defined market, analyzer type A (provide a narrow range of products to a broad market, analyzer type B (offer a broad spectrum of products to a narrow market, and prospector (provide a broad range of products to a broad spectrum of markets).

Hashim (2000) investigated the relationships between business strategies adopted by small and medium-sized enterprises (SMEs) in Malaysia. The study collected data from 100 SMEs that represented more than 19 industries and used six business strategies. The results of the study demonstrated that 30 of the 100 SMEs adopted the product differentiation strategy, another 26 firms used the low cost strategy, the other 18 firms employed the niche strategy, another 17 utilized the growth strategy, six followed the harvest strategy and the remaining three firms selected the vertical integration strategy. In addition, the results of the study showed that there was a difference in the performance of the firms as measured in terms of business performance composite index (BPCI), return on investment (ROI) growth, and return on assets (ROA) among the firms that adopted niche, differentiation and low cost strategies.

More recently, Hashim and Zakaria (2010) examined the association between the business strategies and performance of small and medium manufacturing firms (SMMFs). By adopting six business strategies, the study gathered the data from 125 SMMFs. The results indicated that 28 firms used the niche strategy, another 25 employed the low cost strategy, the other 21 firms adopted the growth strategy, 19 firms applied the innovation strategy, 18 firms utilized the turnaround strategy and the remaining 14 firms selected market differentiation strategy. Findings of the study showed significant difference between the performance of the SMMFs and the six business strategies as measured in terms of sales, gross profit and return of sales (ROS).

The leadership literature indicates previous research mainly examined how leaders behave and act. The earlier studies suggested that leaders largely focused on issues related to tasks and people in organizations (Fleishman, 1953; Fielder, 1967; and Hersey and Blanchards, 1982). Fleishman (1953) considered defining and structuring work, respect for subordinates, and sensitivity to subordinate feelings as task and people-related issues. On the hand, Fielder (1967) used the contingency approach to explore the contingency factors related to leader-member relations and task structure. Based on the situational theory, the study by Hersey and Blanchards (1982) indicated the extent to which leaders engaged in relationship behaviours and task behaviours depended on the maturity of the followers.

Apart from the research that investigated the leaders' orientation towards relationships and task behaviours, other studies have attempted to investigate how leaders managed their organizations in order to achieve their performance. The study Farkas and Backer (1996) indicated that effective leaders maximized their leadership capabilities by adopting five distinctive approaches that included; the strategic approach, the human assets approach, the expertise approach, the box approach and the change agent approach.

Several studies have also attempted to examine the impact of the leadership styles on employees' job satisfaction. Findings of a number of studies have shown that that transformational and transactional leadership styles as having influence on employees' job satisfaction and production efficiency (Bass, 1985; Medley and Larochelle, 1995; and Yammarino & Bass, 1990).

Collins (2001) identified leadership as one of the key factors that contributed to greatness of successful companies. According to the study, good companies become great companies because these companies have Level 5 leaders. Findings of the study suggested that Level 5 leaders are able to make good companies great companies because these leaders build enduring greatness through a paradoxical blend of personal humility and professional will. The study further indicated that Level 5 leaders were able to not outperform their competitors but also to attain and sustain their performance as measured by cumulative stock returns.

The study by Chen (2004) examined the impact of transformational, transactional, and charismatic leaderships on organizational performance. According to the findings of the study, transactional leadership helped to increase not only organizational commitment, but also job satisfaction and performance. The same study also indicated that transformational leadership had assisted organizations to improve the commitment of employees.

More recent research on leadership has also emphasized on investigating the leadership styles adopted by effective leaders (Vugt and Ahuja, 2011; and Reardon, Reardon & Rowe, 1998). According to these recent studies, researchers have long attempted to understand the styles of effective leadership. In these studies, the researchers have emphasized on examining the characteristics of effective leaders such as; the warrior, the scout, the diplomat, the arbiter, the manager and the teacher (Vugt and Ahuja, 2011), commanding, logical, inspirational and supportive leadership styles (Reardon, Reardon & Rowe, 1998).

According to Kouzes and Posners (2012), leadership has been known to influence organizational performance in various ways. These authors claimed that leadership can help to improve performance in terms financial as well as non-financial measures. More specifically, these authors indicated that leadership has shown to enhance performance of organization in terms of net income, sales, profit, net assets, employee commitment, job satisfaction, role clarity, employee turnover, achievement of company goals and teamwork.

RESEARCH METHODOLOGY

In the study, the data was collected from the Takaful Agency Leaders that represented the takaful firms. The directory of the Takaful Agency Leaders was obtained from the 12 takaful firms presently operating in Malaysia under the Takaful Act 1984. The directory listed 1,000 agency leaders hired by the 12 takaful operators. The 1,000 Takaful Agency Leaders were selected and structured questionnaires were mailed to them. Of the 1,000 questionnaires posted, 196 Takaful Agency Leaders responded and returned the completed the questionnaires. This resulted in a response rate of 19.6%.

Questionnaire

The questionnaire adopted in the study has five sections. In the first section, nine items were used to get the data concerning the background of the Takaful Agency Leaders. Next, another eight items were included in section two to collect the following data on the takaful firms; name of agency, number of years in takaful industry, number of consultants, number of unit managers, number of supporting staff, location of agency, problems faced by firms, and problems in the takaful industry.

In the third section, 33 items measure the four business strategies adopted by the takaful firms. The four business strategies included; location differentiation strategy (5 items), product focus differentiation strategy (9 items), market focus differentiation strategy (11 items), and cost focus strategy (8 items). The strategies were measured by using a five numerical scale ranging from “not at all” (1) to “very much” (5). The respondents were requested to indicate the business strategies they adopted based on the five point numerical scales.

The 36 items in the fourth section focused on six leadership styles. The six leadership styles were; the warrior (6 items), the scout (6 items), the diplomat (6 items), the arbiter (6 items), the manager (6 items) and the teacher (6 items). The leadership styles were adopted from the study by Vugt and Ahuja (2011). The leadership styles were determined by using a seven numerical scale ranging from “extremely unimportant” (1) to “extremely important” (7).

The four items in the fifth section were used to measure the performance of the takaful firms. The performance of the firms was measured in terms of premium, commission, persistency rate and number of consultants.

THE RESULTS

Characteristics of the Respondents and Agencies

The characteristics of the respondents are presented in Table 1. Their ages ranged from 24 years old to more than 50 years old. As for their education, 58 respondents indicated that they had a bachelor degree, another 19 obtained a master degree and the remaining six had a doctorate degree. In terms of race, 188 were Malays, four Chinese, and two Indians. Of the 196 respondents, 115 were males and the remaining 81 respondents were females.

Out the 196 respondents, 77 (39.3%) respondents indicated their agencies were formed between one to three years, another 79 (40.3%) respondents reported between four to six years, 17 (8.7%) respondents stated seven to nine years, 21 (10.7%) respondents revealed 10 to 12 years and only two (1%) respondents disclosed that their agencies were created more than 12 years ago.

The information shows that 135 respondents indicated their agencies were involved in the takaful industry between one to five years. Another 41 respondents revealed that they had been in the industry between five to 10 years. The other 14 respondents disclosed that their agencies had been in the takaful business between 11 to 15 years. Four of the respondents made known that their agencies had been operating in the industry between 16 to 20 years. Only two indicated their agencies had been in the takaful industry for more than 20 years.

Table 1: Characteristics of the Respondents and the Takaful Agencies

Characteristics	Frequency	Percentage (%)
Age of Respondents:		
24-30 years old	29	14.8
31-35 years old	35	17.9
36-40 years old	56	28.6
41-45 years old	40	20.4
46-50 years old	21	10.7
>50 years old	15	7.6
Highest Education Level:		
School Certificate	57	29.1
Diploma	52	26.5
Bachelor's Degree	58	29.6
Masters' Degree	19	9.7
Doctorate	6	3.1
Other	4	2
Race:		
Malay	188	96
Chinese	4	2
Indian	2	1
Others	2	1
Gender:		
Male	115	58.7
Female	81	41.3
Number of Years Takaful Agency Established in Current Firms:		
1-3 years	77	39.3
4-6 years	79	40.3
7-9 years	17	8.7
10-12 years	21	10.1

> 12 years	2	1
Years Agency Involved in Takaful Industry:		
1-5 years	135	69
5-10 years	41	21
11-15 years	14	7
16-20 years	4	2
>20 years	2	1

Business Strategy Adopted by the Takaful Firms

The results of the study indicated that the takaful firms adopted the four types of business strategies as presented in the literature. Table 2 shows the distribution as well as ranks the four business strategies implemented by the takaful firms. As presented in Table 2, 85 respondents (43.4%) reported adopting the product focus differentiation strategy, the other 58 (29.6%) revealed selecting the location differentiation strategy, another 27 respondents (13.8%) disclosed implementing the cost focus strategy, and the remaining 26 respondents (13.2%) indicated selecting the market focus differentiation strategy.

Table 2: Business Strategies Adopted by the Takaful Firms

Business Strategy:	Frequency	Percentage (%)
Product focus differentiation strategy	85	43.4
Location differentiation strategy	58	29.6
Cost focus strategy	27	13.8
Marketing focus differentiation strategy	26	13.2
Total	196	100.0

Leadership Styles

The results of study show that the takaful firms adopted six leadership styles. The distribution of the leadership styles as identified in the study is presented in Table 3. Table 3 indicates that of the six leadership styles, scout leadership style was most dominant among the firms. Of the 196 respondents, 116 (59.2%) indicated that they adopted the scout leadership style. Following this, 25 (12.8%) respondents reported that they followed the warrior leadership style. Another 24 (12.2%) of the respondents used the manager leadership style. The results show that 15 respondents each followed the arbiter and teacher leadership styles, respectively. Only one of the 196 respondents adopted the diplomat leadership style.

Table 3: Leadership Styles among Takaful Agencies Leaders

Leadership Styles	Frequency	Percentage
Scout	116	59.2
Warrior	25	12.8
Manager	24	12.2
Arbiter	15	7.7
Teacher	15	7.7
Diplomat	1	0.5
Total	196	100

Relationships between Business Strategy and Performance

The results of the correlation analyses between the four business strategies and the performance measures of the takaful firms are displayed in Table 4. The results in Table 4 show significant positive relationships between location differentiation strategy, cost focus strategy and the performance of the takaful firms that included average premium, average commission, average number of consultants and average persistency rate.

In addition, the results of the study show only positive associations between product focus differentiation strategy, market focus differentiation strategy and performance as measured by premium and commission.

The results however indicated that the relationships between product focus differentiation strategy, marketing focus differentiation and performance as measured in terms of average number of consultants and average persistency rates were not significant.

Table 4: Correlations between Business Strategy and Average Performance

Performance	Average first year premium collected	Average first year commission	Average number of consultants	Average persistency rate
Business Strategy				
Location differentiation	.436**	.285**	.451**	.519**
Product focus differentiation	.326**	.272**	.122	.125
Marketing focus differentiation	.353**	.300**	.034	.074
Cost focus	.298**	.468**	.362**	.472**

** $p < .001$ (2-tailed)

Relationships between Leadership Styles and Performance

Table 5 presents the results of the correlation analyses between the six leadership styles and the performance of the takaful firms. The results in Table 5 indicate significant positive relationships between the six leadership styles and average performance as measured in terms of premium, commission, number of consultants and persistency rate.

Table 5: Correlations between Leadership Styles and Performance

Leadership Styles	Premium	Commission	No. of Consultants	Persistency Rate
Warrior	.206**	.257**	.679**	.354**
Scout	.660**	.369**	.412**	.431**
Diplomat	.508**	.431**	.517**	.659**
Arbiter	.270**	.646**	.453**	.377**
Manager	.451**	.461**	.464**	.676**
Teacher	.301**	.392**	.325**	.652**

DISCUSSION AND CONCLUSION

This study investigated the relationships between the business strategies, leadership styles and performance of takaful firms. The results of the study indicate positive relationships between the business strategies, leadership styles and the performance of the takaful firms. More specifically, the results suggest significant positive relationships between location differentiation strategy, cost focus

strategy and the performance of the takaful firms as measured in terms of average premium, average commission, average number of consultants and average persistency rate. The results however show only positive associations between product focus differentiation strategy, market focus differentiation strategy and performance as measured by premium and commission.

In addition, the results of the study also show statistically significant positive relationships between the six leadership styles and the performance of the takaful firms. The results show that warrior, scout, diplomat, arbiter, manager and teacher leadership styles are positively associated to the performance of takaful firms as measured in terms of premium, commission, number of consultants and persistency rate.

From the results of the study, the following can be concluded. First, the results indicate the relevance and applicability of business strategy and leadership to the takaful firms. Findings of the study show that the takaful firms adopted four types of business strategies that included product focus differentiation strategy, location differentiation strategy, cost focus strategy and marketing focus differentiation strategy as advocated in the literature. In addition, the results show the takaful firms adopted six styles of leadership that include; warrior, scout, diplomat, arbiter, manager and teacher.

Second, the findings of this study indicate significant positive relationships between the business strategies, leadership styles and the performance of the takaful firms. The positive relationships between the four business strategies, the six leadership styles and the performance of the takaful firms suggest not only the importance of business strategies and leadership to these firms but also their linkage to the performance of the takaful firms.

Although the findings of the study provide some evidence that indicate positive relationships exists between business strategy, leadership styles and performance of takaful firms, empirical studies in this area of research remained limited, particularly in the local context. The limited research suggests the need for more studies to be conducted in this field of study. For instance, apart from investigating business strategy and leadership among takaful firms, future research may attempt to examine other business environmental factors that may also be relevant and applicable to these firms. Exploring and identifying factors such as competition, uncertainty, and complexity that the takaful firms face in their business environment maybe also be useful to determine the extent to which these environmental factors influence their operations as well as performance.

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