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THESE

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**The effects of ethnicity and religiosity on loyalty of micro-
enterprise owners' toward banks.
An application in Malaysia**

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STATEMENT OF ORIGINAL AUTHORSHIP

I hereby declare that this thesis entitled THE EFFECT OF ETHNICITY AND RELIGISOITY ON LOYALTY OF MICRO-ENTERPRISE OWNERS' TOWARDS BANKS. AN APPLICATION IN MALAYSIA is my original work. This thesis has not been previously submitted to meet requirement for any other education institution. Any assistance or help I have received in my research work has been acknowledge. I have acknowledged each contribution from various parties and quotation in this research work through citations and references.

Jati Kasuma Ali

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Kotler (2002) describes marketing as the delivery of customer satisfaction at a profit. Marketing has a cost associated with acquiring and retaining a customer. Customer acquisition is costly for an organization and hence there is a lot of emphasis on retaining the customer who has already been acquired. Customer retention happens when the customer feels a sense of loyalty to the company due to the benefits he derives from associating with the former. Existing literature have identified the major driving forces of why customers maintain their existing choices. Among them are satisfaction (Bloemer and Lemmink 1992; Anderson and Srinivasan 2003; Yoon and Uysal 2005), switching costs and investments (Backman and Crompton 1991a; Beerli, Martin, and Quintana 2004; Morais et.al 2004), perceived quality (Baker and Crompton 2000; Caruana 2002; Olsen 2002; Yu et.al 2005), and perceived value (Chiou 2004; Lam et.al 2004; Yang and Peterson 2004; Agustin and Singh 2005) which can be accepted and found to be practically relevant. Customer loyalty is the ultimate goal of any marketer as a loyal customer is a marketer of the company.

Even a slight drop in the satisfaction of customers can affect their loyalty in a very big way. The advantages of earning the loyalty of customers are an indirect way of building a good brand perception in the market and also attaining more profit. A loyal customer costs less to retain than acquiring a new customer (Barsky, 1994). Loyal customers stick to the same organization or service provider for a longer time period. The ultimate aim of the management of any organisation must be to create an emotional bonding with the customer, in terms of building the relationship (Alreck and Settle, 1999) to a level of much more than business considerations and be able to sustain the loyalty for a long period of time.

A number of service providers are available to provide anything the customer requires, as in the banking services for example. The choice for the clients is influenced by a various factors. Apart from the most evident factors, which are service quality, reputation and relationship with a brand or an organization, there are a number of other factors which can influence the choices for a service provider. Such factors could be affinities or relationships outside the rational realm of consumer choices, and are based on emotional considerations which are culturally influenced. Buildings on the banking service, customers' selection of the banks of their choices are very much influenced on how satisfied they are with the banks and this will in turn influence satisfaction (Caruana, 2002).

Banking is a service that lies in a very competitive industry in most developed and developing countries, with different brands competing in a scenario of increasing banking and credit penetration. Considering this background, it is very important to understand the moderating influences which can affect client choices in choosing a bank. In a business-to-business setting particularly in a small business scenario, a client is very difficult to acquire in an established industry and it is also important or even critical that a service provider is able to keep its clients for the long term. In a business-to-professional setting for banking, the range of services that a client uses with a bank is very high compared to retail banking. Thus, the level of interaction is bound to be large and highly impersonal due to two or more brands or their representatives interacting with pure business and sometimes, personal influences. A business buying decision or a consumption decision is dependent on a number of factors, like environmental, organisational, interpersonal and individual factors (Kotler, 2002). Apart from the cost of switching banks for a business customer, the bank needs to develop a significant stake for the customer to stay with it. The challenge for the bank lies in being able to engage the customer in a much deeper manner than just business considerations. The general question which this study will attempt to answer is:

What are the underlying factors which affect loyalty to banks and banking services of micro-enterprise owners in Malaysia?

Primary and secondary research will be used to try to answer the above question conclusively and to emphasise the need of banks to be sensitive to the personal and business choices of customers and organizations. Thus, banks should be more effective in retaining customers. With this general question the background of the study is therefore built upon.

1.2 Background of the study

Malaysia is a country comprising of diverse cultures. Malaysia is situated in a region of ancient trade and is thus a melting pot of Asian cultures. The multilingual and multiethnic culture of Malaysia can be at best termed as a truly Asian culture. It has a large Islamic population, with the Chinese, Indian, indigenous origins, and Malays forming the majority. Malaysia is the third biggest economy in Southeast Asia and the 29th largest in the world, making financial services one of the core services in the economy. In such a scenario, it is vital for service providers to be aware of the preferences of customers, corporate and retail, which move them to make their choices of banks.

For example, Islamic banking is a concept which has found wide support in Malaysia. Islamic banking is a system of financial management which complies with the Shari'ah in which the concept of interest is not acceptable, as stipulated in the Holy Quran. The understanding of the influence of religion in a country where there are conventional banks also becomes important.

Malaysia has a total of 41 banks, with 19 banks being Islamic banks and with the Islamic banks' assets growing at the rate of 20% per year (MIDA, 2009) it is a serious concern for banks and for scholars to look into religion and ethnicity as a factor in the loyalty of customers of banks. Islamic banks have been viewed by the competition with a lot of doubt and scepticism with respect to their orientation towards profits. While Islamic banks have been viewed by competitors as a means for the Islamic population to discharge their religious duties, Islamic banks themselves have become more and more oriented towards hard core banking services, by offering to business clients almost all the products and services which a commercial bank can

offer, with an Islamic orientation (Wilson, 1997). The role of religion in choosing banks may also have been over-emphasised, with returns being the primary yardstick and religious obligations or sentiments being met being factor for delighting the customer (Dusuki & Abdullah, 2006).

In 2000, there were 31 commercial banks in Malaysia, including 14 foreign owned banks, 19 finance companies, 7 discount houses and 12 merchant banks. To counter the strong position of the foreign banks, Bank Negara Malaysia (BNM) on the Central Bank of Malaysia decided to merge the banks in 2000, to create 10 large banking institutions. The rationale behind the large merger process was the fact that in a small country like Malaysia, there were a large number of banks competing with each other bringing down profitability. This is also to effectively compete with foreign banks and take away some of the businesses from large multinational corporations and Malaysian Corporate Enterprises (Ahmad et al. 2007). In such a situation, with mergers having taken place, it is important for banks to not lose their loyal customers who may or may not identify with the new brand image of the banks after the merger. If such loyalty exists among micro-enterprise owner in this scenario, then a further study is needed on why such loyalty is preserved. This needs to be investigated in the context of the micro-enterprise in Malaysia.

The greatest problem faced by organizations in modern times is competition (Ettore, 1994). As customer demands increase, coupled with competition, organizations are moving away from the traditional paradigm of customer rationality premise to proactive strategise to lead the market, which is full of eager and tough competitors (Kandampully 1998). Service business success has been traditionally associated with superior service quality (Parasuraman et al, 1998).

While service organizations try to create loyalty among their customers, customers yearn for loyalty from the organizations to make their transactions smoother and also to create more value for themselves (Berry, 1987). This is a paradigm shift in understanding consumer behaviour in services, by reversing the scale to understand how an organization can remain sensitive to its customers in the long run. Such a paradigm shift will look beyond the rational boundaries which govern customer choices and will account for more emotional bonding which the customer may expect from a service brand. This is truer, with customers having a

wide range of choices from which to choose from, especially in banking, in an attractive emerging market like Malaysia which attracts competition from around the world. For SMEs particularly or micro-enterprises loyalty toward corporate funding and banking services are crucial as they select those that will ensure the continuity if their banking needs.

Generally, small and medium enterprises are used to denote small and medium firms engaged in manufacturing and non-manufacturing businesses. In Malaysia, SME is used to segregate businesses or firms which are engaged in manufacturing and non-manufacturing businesses on the basis of their turnover and their workforce strength (NSDC, 2005). The definitions for micro-enterprise in Malaysia are indicated in Table 1.

Table 1.0

Definition of Micro-enterprises

Sectors	Annual Sales Turnover or	No. of Full time Employees
Manufacturing, Manufacturing-Related Services, & Agro-based Industries	Less than RM250,000 OR	Less than 5
Services, Primary Agriculture, Information & Communication Technology (ICT)	Less than RM200,000 OR	Less than 5

Note: SMEinfo: One Stop SME Resources. Website Retrieved on 3 Feb 2011 from <http://www.smeinfo.com.my>

Generally, SMEs are a very important part of the Malaysian economy and contribute 32% of the GDP as of 2007 (MPC, 2008). They serve multiple purposes in the economy and industry:

- a. As a complementary ground for training skilled workforce for larger corporations, due to their labour intensity.
- b. As a source of innovation for developing technology.
- c. As a source of potential large industrial and business corporations of the future.

Since the contribution of such enterprises is large in the economy of Malaysia, financing them and servicing their banking needs is of critical importance for the

banking sector. One of the major hurdles faced by SMEs which also include micro-enterprises in their quest for success and growth is availability of finance as well as quality and variety of banking services. This also presents a significant opportunity for banks to develop linkages with them for the long term and to ensure that when these SMEs as well as micro-enterprises become large and successful, the banks will have a large pool of corporations as their customers.

To be precise, micro-enterprises in Malaysia have traditionally depended on funding from families, promoters and relatives to start operations and work. This situation has changed to credit based business and relevant risk analysis and scientific funding from banks and other financial institutions. Hence, the role of banks in enabling all levels of SME success is very critical, considering the importance of SMEs on the overall economy.

1.2.1 Micro-enterprises in Malaysia

The landscape of the micro-enterprises in Malaysia was transformed through the efforts of two professors from Universiti Sains Malaysia (USM). They created the Ikhtiar Programs, which is a new and innovative approach to eradicating poverty among the rural poor. The Ikhtiar Programs worked well in complementing the Malaysian government's poverty alleviation programs. It was effective in reducing rural poverty. The Ikhtiar Programs contributed to improving the Malaysian economy by increasing the activities in the micro-enterprise sector and expanding rural entrepreneurship.

For micro-enterprises to be successful, access to capital is very important. This is very true in the Malaysian context. Without access to adequate capital funds, micro-entrepreneurs cannot develop new products or services. As a result, they will not be able to meet the demands of their customers. Micro-enterprises cannot be set up without capital investment. The access to capital is more difficult for micro-enterprises compared to other types of businesses. The reason for this being that micro-enterprises do not have access to traditional capital markets like other enterprises. Micro-enterprises cannot access the capital markets for their funding needs, and they

cannot provide the required collateral for obtaining loans or trade credit (Munoz, 2010).

According to the Census of Establishments & Enterprises 2005 by the Department of Statistics Malaysia, of the total 548,267 SMEs established in Malaysia, 435,324 (78.7 percent) business establishments were micro-enterprises. Micro-enterprises have a presence in all the major sectors of the economy in Malaysia, including services, agriculture, and manufacturing. Service industries account for 87.7 percent of the micro-enterprises with 381,585 businesses. Agriculture represents 7.3 percent of the micro-enterprises with 31,838 enterprises. Manufacturing accounts for 4.9 percent of the micro-enterprises in Malaysia with 21,516 businesses (SME Annual Report, 2010).

As micro-enterprises find it very difficult to obtain capital funds, the Malaysian government provides micro-financing to these businesses. The Malaysian government provides micro-enterprises and self-employed individuals with working capital and capital expenditure loans without any collateral. These loans are provided for a period of one month to 10 years. They are processed by submitting certain documents such as identity proof, proof of business, and proof of income.

In Malaysia, the agencies providing micro-financing include Amanah Ikhtiar Malaysia (AIM), TEKUN Nasional (TEKUN), and Skim Pembiayaan Mikro (SPM) by Bank Negara Malaysia. SPM is offered through approximately 2,600 branches and affiliates /agents. Bank Negara Malaysia's SPM provides financing to micro-enterprises through 10 partner financial institutions, including Agrobank, Bank Rakyat, Bank Simpanan Nasional, Alliance Bank, AmBank, CIMB Bank, EONCAP Islamic Bank, Public Bank, United Overseas Bank, and Maybank. These 10 participating financial institutions determine the interest or profit rate to be charged. They also review the loan applications according to their credit approval process (SME Annual Report, 2010).

A micro-enterprise in services is an enterprise with full-time employees of less than five or with annual sales turnover of less than RM

200,000. According to the classification of economic activities across sectors based on the Malaysian Standard Industrial Classification (MSIC) 2000, service enterprises include electricity, gas and water supply; wholesale and retail trade; repair of motor vehicles, motorcycles; personal and household goods; hotels and restaurants; transport, storage, and communications; financial intermediation; real estate, renting, and business activities; education; health and social work; and other community, social, and personal service activities (Secretariat to National SME Development Council, 2005).

SMEs particularly micro-enterprises in Malaysia are an integral and critical part of the business system. A number of initiatives have been undertaken throughout Malaysia to strengthen and hasten their development. These initiatives are being driven jointly and simultaneously by the central government, state and local governments, business houses, associations and agencies, educational institutions, universities, and various international companies. This effort focus on the micro-enterprise sector in Malaysia has resulted in a number of programs and policies for fostering growth and development. These include financial assistance, partnerships and collaborations with larger companies, business matching, and technology incubation.

1.2.2 Funding needs of micro-enterprises

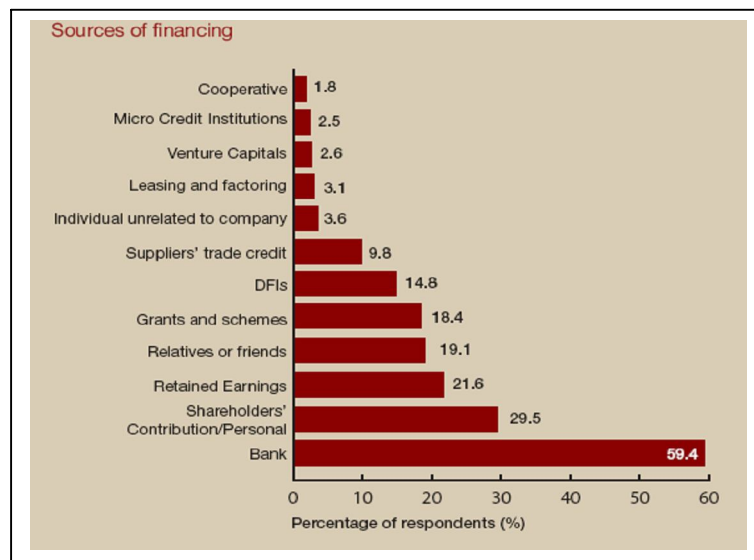
The Malaysian government has focused on the development of SMEs, micro-enterprises and local businesses through providing adequate funds for their growth. In the Malaysian economy, there are nearly 79 SME funds and RM 8.8 billion worth of grants provided by numerous agencies. The Malaysian government has taken steps to streamline the process of funding to micro-enterprises by taking considerable steps to consolidate the various funds. It plans to converge these 79 SME funds into 33 funds. The government also plans to bring all these funds under one roof and to be coordinated by SME Corp. Additionally, the Malaysian government has allocated RM 538 million for implementing SME development initiatives

(<http://www.smibusinessdirectory.com.my/smisme-editorial/about-smismeall-about-smisme/603-overview-of-smissmes.html?start=1>)

The micro-enterprise sector in Malaysia accounts for nearly 80 percent of the business establishments and hence the government's emphasis is on strengthening the infrastructural facilities, developing capabilities, and enhancing access to financing to this sector (Bank Negara, 2006).

The financial institutions form the primary source of external financing for these enterprises. Besides the financial institutions composing of commercial banks and development financial institutions, other sources of funding include cooperatives, micro-credit institutions, venture capitalists, leasing and factoring, and various grants and schemes. The figure 1.0 below illustrates the percentage of financing used from various sources of funding available to the micro-enterprise sector in the country.

Figure 1.0 Source of Financing



(Note: SME annual report, 2010)

In its efforts to meet micro-enterprise funding needs, the National SME Development Council introduced microfinance schemes, soft loans from the SME Corp, SME Scheme, and PROSPER Schemes (SME annual report, 2010).

1.2.3 Choice of banks - reasons behind such decisions – Conventional banks or Islamic banks

There exist separate rules and regulations for Islamic banks in Malaysia which are similar to the legislation and regulations for conventional banks. All the Islamic banks function as per the rules laid down in the Islamic Banking Act that was enforced in April 1983. The main point of distinction between conventional banks and Islamic banks is that there is prohibition on the payment and receipt of interest in Islamic financial services. There is profit and loss sharing arrangements (PLS), purchase and sale of goods and services, and the provision of fees for services rendered. Another distinctive feature of Islamic banks is that there is a prohibition on trading in financial risk and from financing business activities that involve alcohol and pork production, non-Islamic media and gambling (Cihak and Hesse 2008).

In July 1983, the first Islamic bank in Malaysia was established under the name of Bank Islam Malaysia Berhad (BIMB). BIMB's activities were based on the Shari'a principles. BIMB has proved to be a profitable venture with a network of nearly 80 branches and 1200 employees throughout Malaysia. There is also a number of conventional banks offering Islamic banking through the window of the Islamic Banking Scheme in Malaysia.

Over the years, Islamic banking and financial institutions have become an important component of the economic model in Malaysia. Islamic banks are gaining more and more market share in the financial sector. This is powered by the introduction of new products and service offerings, and also the entry of foreign players in the market. Islamic securities have outnumbered the conventional corporate bonds signalling the importance of Islamic financial instruments in the Malaysian economy.

Malaysia has sound legislation and regulations in place for both the conventional banking and Islamic banking sector. Since 2000, the Islamic banking assets have nearly doubled. As of May 2009, they accounted for approximately 17 percent of the entire assets of the banking sector. Shari' a

compliant stock represent nearly 88 percent of the stocks listed in the Malaysian stock market and account for 64 percent of the total market capitalization. Islamic financing has also made huge strides in the insurance sector. Takaful (Islamic insurance) companies account for 7 percent of the total assets in the insurance industry. The country has made good progress since the inception of Islamic banking in 1983 to become the hub of the global Islamic banking activities (International Monetary Fund, 2009).

Malaysia has been successful in establishing Islamic banks and ensuring their success. It has been successful as it has adopted a balanced approach to Islamic banking and conventional banking. The government of Malaysia has set up the Islamic financial system in such a way that it complements the conventional banking system. Both systems co-exist and contribute effectively to the Malaysian economy. There are a number of significant factors that ensure the success of Islamic banking in Malaysia. The Malaysian government puts in a lot of efforts to publicize the Islamic banks when it was launched. Malaysian universities and research centres made a lot of efforts in explaining this new financial model to the public. This ensured that there was a lot of promotion and awareness created about Islamic banking and its nuances (El Tiby Ahmed & El Tiby, 2011).

There was also a lot of support from the Ministry of Finance, the Central Bank and other leading monetary authorities in Malaysia. Another important contributing factor was the setting up of the Islamic inter-bank money market. The Islamic banks in Malaysia also introduced new and innovative products and services. The Malaysian government has also provided the right economic and fiscal environments for the Islamic banks to function in. There are many factors propelling the growth of Islamic banks in Malaysia.

Earlier Islamic banks were prevalent only in the Middle East and other predominantly Muslim countries. Over the years, there has been a greater acceptance of Islamic banks throughout the world. It now presents a viable alternative to the conventional banking model. There is growing awareness of Islamic banks in the United States, Europe and Japan. During the global financial crisis and recession, Islamic banks have risen in importance as they

have managed to survive and prosper in tough economic conditions. The global financial crisis was a challenge and a real test of the strength of the Islamic banking model. Islamic banks have not only survived the global economic crisis but have come out of it with flying colours. This proves that the fundamentals of the Islamic banking system are strong and reliable. The fact that it was able to survive and prosper during the most difficult times when other traditional banks failed, is a testimony to the effectiveness of the Islamic financial model.

Countries wanting to adopt Islamic banking will do well by studying the Malaysian model. The Islamic financial model in Malaysia has managed to co-exist with the conventional financial system. The government has helped a great deal in harmonizing the Islamic banking model with Western banking practices and regulations. It has made efforts for the Islamic banking system to be recognized as an effective and profitable financial enterprise (El Tiby Ahmed & El Tiby, 2011).

1.2.4 Conventional and Islamic banking supporting micro-enterprises in Malaysia

The Malaysian government has facilitated a number of schemes, programs, grants, and incentives to establish and sustain the micro-enterprise sector. This has enabled micro-enterprises to improve their capability in providing products and services in the supply chain (Mahadevan, 2007).

Loans given to micro-enterprises have increased over the years and it was increased from RM 71 billion in 2000 to RM 108 billion in 2007. Loans provided to micro-enterprises by banks have also risen significantly over a period of time. Even though micro-enterprise loans have increased over the years, there is still a lot that can be done to improve the accessibility of loans from banks and financial institutions to micro-enterprises. There is a general feeling that micro-enterprises are under-banked in Malaysia. This can be seen from the hindrance in the growth of micro-enterprises and their contribution to

the economy. Micro-enterprises account for nearly 90 percent of the total business enterprises in Malaysia. Despite being such an important sector, this sector has only been able to contribute approximately 32 percent of the GDP and 19 percent of the total exports in Malaysia. The Malaysian government has envisioned increasing the micro-enterprise contribution to the GDP and the country's exports. They have implemented various programs to bring this into effect.

In September 2007, Bank Negara Malaysia introduced a microfinance scheme that involved six commercial banks providing SME loans. In addition to the participating commercial banks, credit cooperatives also act as providers of microfinance. In SME loans, collateral is not required. The loan amount varies from RM 500 to RM 50,000. Apart from this, the government of Malaysia has introduced other measures to support and enhance the growth of micro-enterprises. This includes the introduction of two trade financing products that are collateral-free and bear low costs (Oxford Business Group, 2008).

In the last five years, the Islamic banking sector in Malaysia has experienced double-digit growth rate of nearly 20 percent. In addition, SME loans provided by Islamic banks and financial institutions have also experienced a significant increase. Between 2001 and 2006, loans provided to SMEs by Islamic banks and financial institutions have grown by an average annual rate of 34.2 percent. Islamic banks' support to micro-enterprises has improved significantly over the last five years. In 2000, SME loans provided by Islamic banks and financial institutions were RM 1.7 billion. At the end of 2006, Islamic financing to micro-enterprises reached RM 10 billion. This accounts for 9.6 percent of total SME loans outstanding balance in the banking system.

Credit Guarantee Corporation Malaysia Berhad (CGCMB) offers both conventional and Islamic guarantee facilities for SMEs and micro-enterprises from the various sectors of the economy, and the guarantee coverage ranges from 30 to 100 percent. Islamic guarantee schemes include Islamic Banking Guarantee Scheme and Islamic Direct Access Guarantee Scheme. There was a

gap in the financing of the micro-enterprise sector as many of them preferred using Islamic banking products for all their loans and advances. CGCMB has developed strategic partnerships with the Islamic financial institutions in Malaysia to reach out to SMEs that prefer Islamic products for their financing needs (Credit Guarantee Corporation Malaysia Berhad, 2010).

1.3 Research Problem

Traditionally Islamic banks were believed to be vehicles for Muslims to discharge their religious financial obligations. However, the scenario today has changed to Islamic banking becoming a vehicle for industrial growth and they keen are to attract business from other banks and also in retaining their customers (Wilson, 1997), while maintaining the basic functions of traditional banks. In fact, Malaysia has a dual banking system, with Islamic banking growing at the rate of 18% per year since 2000 (Aziz, 2006). Despite competitions from long entrenched traditional multinational banks. Islamic banks are viewed as ethical investment channels by consumers, in line with the best of CSR practicing traditional multinational and domestic banks. Islamic banks have been strong in their social orientation in the market and thus have created a widespread appeal in Malaysia resulting in the growth of the second banking channel. The challenge for these banks lies in giving out the priorities of social orientation and profit making and financial health (Wilson, 1997).

There is the argument that customers prefer Islamic banking over traditional banking only when the hygiene factors expected from any service organisation is fulfilled, like quality of service, reputation of the brand and their willingness to retain their customers (Dusuki & Abdullah, 2006). Above all these considerations is the factor of cost and benefits to the customer.

In the scenario when there have been large scales mergers between domestic banks, the reactions of customers to such industry changes need to be noted. These include the changes they perceive in the way they interact with the bank and how they view the industry in such a situation as well as the hygiene and delight factors for customer satisfaction and the influence these factors have on customer loyalty. In this

scenario, it is also important that banks understand the dynamics of retaining their old customers with a new identity or under a new management whose views and philosophies could be different from the original entity.

Understanding the business practices of the micro-enterprises which are run by a diverse mix of promoters and founders is critical to forming long-lasting ties with these enterprises. In developing countries, ethnic groups form strong ties among themselves and thus try to create a congenial atmosphere within the macrocosm of the industry they are present in. The Chinese *guanxi*, a system whereby Chinese entrepreneurs share resources and rely on each other for information and support, where most of the ties thus formed for strategic and tactical reasons are due to the personal relationships which exist between individuals (Fulop & Richards, 2002). Personal relationships are a vital part of the micro-enterprises' networking even in any level of SME industry groups in Asia. This happens because of the cultural characteristics of the Malaysian society, which is a collectivist and relationship oriented society (Ahmed & Seet, 2009).

Micro-enterprise owners' willingness to cooperate with their peers and to form ethnic bonding with competing enterprises is a unique phenomenon in Asia, especially in Malaysia. Thus, there is a strong influence of peer opinion on the consumption and exploration decisions of micro-enterprise owners. This creates a need for studying the implications of such behaviour among entrepreneurs and enterprise owners towards customer loyalty in the banking services they choose. A Chinese micro-enterprise prefers forming long-term ties with Chinese firms and other ethnic groups form similar ties. However, it can also be argued that such ties restrict the advantages which micro-enterprises can gain from a competitive view of the market and why and what threshold level they prefer thinking outside the ethnic boundary needs to be studied.

The impact of ethnic networks in domestic and international business in micro-enterprises is high because of the fact that the ethnic groups which own micro-enterprises are a part of a global Diasporas which can sustain their networks for a long time and tend to support each other and are based on trust and personal relationships. Thus, the firm-owner plays a key role in ensuring that the necessary ties and resources sharing happen with other ethnic partners domestically and internationally.

Understanding the ethnic ties within a business setting becomes important to the understanding of consumer behaviour within such networks. Explanation to the research problem leads to the framing of the research questions.

1.4 Research Questions

In sequence with research background, the research rationale as well as the research problem is discussed in the following section. **TWO** main research questions stand out and would like to be investigated in this present study.

1.4.1 Research Question 1:

What are the key influencers of micro-enterprise owners' loyalty towards banks and banking services in Malaysia?

1.4.2 Research Question 2:

What are the personal factors which affect the loyalty of micro-enterprise owners towards conventional and Islamic banking services in Malaysia?

1.5 Research Objectives

The present study aims to understand the needs, experiences and reasons that will lead to loyalty among micro-enterprise owners towards their main financial service providers. Later a conceptual framework will be developed and research hypotheses will be tested. In order to have a clear purpose of this study, quantitative objectives are as follows:

1.5.1 Research Objective 1:

The research will try **to understand the impact of personal factors like ethnicity and religion on the choice of banks by micro-enterprises and their loyalty to their choices.** In the process, the research will understand the various empirical researches which have happened in this area, considering that there is a significant body of knowledge on Islamic banking in Malaysia. From the perspective of a dual banking system in Malaysia, the research will try to be useful for both Islamic and traditional banks in understanding consumer behaviour among micro-enterprise owners in Malaysia.

1.5.2 Research Objective 2:

Previous studies on the social culture of Malaysia show that Malaysia is a collectivistic society, where groups are seen to be more important than any one individual. Empirical works discussed above state that micro-enterprise owners and entrepreneurs develop strong ethnic and religious ties among themselves based on personal relationships and trust. The research will try to bridge the gap in understanding in theory how this affinity to ethnic group formation of business owners can affect business decision making involving financial stakes, especially in a relationship which is long term and impact-full as in banking. **The study will investigate the extent that ethnicity and religiosity of the micro-enterprise owners influences their selection of banks and hence relates such influence to the aspect of loyalty among the micro-enterprise owners to the banks of their choices.**

1.6 Research Design

The researcher integrates both qualitative and quantitative methods in this present study in order to resolve the research problem. Qualitative study helps the researcher to understand the needs, experiences and reasons for loyal micro-enterprise owners towards their service provider and this will lead in developing new service loyalty model. Quantitative study later will help in confirming and testing the hypotheses and variables that contribute to the service loyalty. Combination of both qualitative and quantitative, the data will yield and more complete analysis and complement each other. This design actually could strengthen the reliability and validity of the research through collaboration and mutual assurance (Green 1994).

1.6.1 Phase 1: Qualitative Study

One of the major parts in this study is to construct a conceptual framework of service loyalty for micro-enterprises. In order to develop a model of service loyalty, a review of extant literature is combined with qualitative research findings. The in-depth interviews are used to provide additional support for the theory that exists relating to various constructs to service loyalty. Another reason is to identify other possible factors that might intervene or moderate influencing micro-enterprise owners' loyalty to the banks that might not be included in the past studies. The goal of phase 1 study is to develop a model of micro-enterprises' service loyalty that is consistent with the existing theory and supported by salient and new emerging themes identified through in-depth interviews. An empirical test of this model is conducted in the second phase of the study.

1.6.2 Phase 2: Quantitative Study – Survey

Another part of this study is to empirically test the model of micro-enterprises' conceptual framework developed in the first phase of the study. A cross-sectional survey will be employed to collect quantitative data about micro-enterprise owners' loyalty towards their banks. For this study, specific respondents, who are the bank's micro-enterprise owners involved in services based industries, were selected. For the reasons of accessibility the convenience sampling from the bank's customer database, SMECORP (Small and Medium Enterprises Corporation Malaysia) and MATRADE (Malaysian External Trade Development Corporation) is employed. Factor Analysis was used in scale development process while multiple regression analysis was used to establish the significant relationship between the constructs.

In summary, this study used data collected from two main major studies – in-depth interviews and survey. Hence, the overall design features cross section survey and the conclusions are based on information from double sources and methods. Mixed methods with sequential nature of the two stand-alone studies are chosen as this is deemed appropriate to the research problem investigated.

1.6.3 Research Context

Research investigation in this study is based on experiences of individual micro-enterprise owners' who have been with their favorite banks for more than 5 years. This reason is supported by Zeithaml et. al (1996) which mentioned that *“customers who remain with a firm for a period of years because they are pleased with the service, are more likely than short-term customers to buy additional services and more importantly spread favorable word-of-mouth”* p.32. Micro-enterprises owners should have only one most favorable bank, and this qualifies them to be the respondent for this study.

Banks involved in this study were local and foreign conventional and Islamic banks operating in Malaysia, especially within the Klang Valley. For the purposes of this study, target respondent are the micro-enterprise owners' based on the Malaysian micro-enterprises definition selected from insurance, health and tourism, logistics, professional management, medical, education, , IT related service and advertising sectors, which fall under service based industries.

1.6.4 Sampling

Data for qualitative study 1 were mainly collected in cooperation with a few local and foreign conventional and Islamic banks in Malaysia. These banks wish to remain anonymous as their requirement in giving cooperation in this study. In this study, convenience and snowball sampling (Patton 2002, p.243) was used as a sampling strategy in order to attain the number of informants for face-to-face interviews. This is because customers are contacted conveniently with the help of the banks. In terms of respondent selection in phase 1 of the study, the following criteria were used to define bank customers who could be considered in this study:

- Bank corporate clients.
- Being the bank's customer for more than 5 years.
- The customer has used several services of the service provider e.g. loans, credits, deposits or any bank products or services for the purposes of running their businesses.
- The customer has savings or current accounts with the banks.

The sampling frame for quantitative study 2 is based on micro-enterprise companies listed in the directory of SMECORP and MATRADE, Malaysia. Even though the proportion of sample size is very small in relation

to the actual population, the sample size proposed in this study is deemed sufficient for the study. Roscoe (1975) suggested that the rule of thumb for determining sample size that if the sample size is more than 30 and less than 500, is actually appropriate for most research. Due to time constraint, cost and also very slow response from the respondent within 6 weeks of questionnaires distribution, 356 self-administered completed questionnaires can be considered appropriate. The questionnaires were emailed and also sent directly to their offices (drop-off and collect) for self-administration.

1.7 Research Contribution

This study will contribute to both theory and practice. To theory, it will try to bridge the gap between understanding the influence of personal factors in customer loyalty in banks in an Asian scenario. For practices, or to the bankers, the study aims to provide a hands-on understanding on dealing with diversity and emotional factors associated with owners of micro-enterprises and decision makers and thus to rationalize strategy, form or guide future strategies and ensure that they are able to gain advantage by understanding the behaviour of their consumers better, considering the importance of the SME sector in the Malaysian economy specifically micro-enterprises. The key contribution will be to understand the impact of personal factors which can influence business decisions and hence form a barometer for profitability. The link between customer loyalty and profitability in a micro-enterprise setting in Malaysia will be the extension to theory which will add value to the knowledge of SMEs in Malaysia, and also the factors which affect customer loyalty.

On a personal level, it will guide the researcher to become well-versed with various marketing theories, cross-cultural management, consumer behaviour theories, research methodology and strategic management, besides the gain of innate knowledge on communicating with entrepreneurs and owners of micro-enterprises. The researcher will gain insights into the difficulties and the limitations of SMEs specifically micro-enterprises in Malaysia and will help in his future entrepreneurship endeavours.

1.8 Research Significance

The study will throw light on the decision-making heuristics and perceptions of decision makers (Micro-enterprise owners) on their views of business, banking and culture. By linking the social angle to a financial decision, the study aims to bridge the gap between the rational financial calculation and how this can be influenced by emotional personal considerations like religion and ethnicity in a small business setting. Is there a trade-off on profits by micro-enterprises by accounting for these personal factors? Are these factors given precedence over business considerations? Is there social pressure on a decision maker to adhere to ethnic groups and networks? The study will throw light on a number of scenarios in financial decision making by micro-enterprise owners in Malaysia, by understanding the influence of personal factors on their loyalty to banks. This will be a practical guide for marketers and strategists in banks in Malaysia to base their decisions when dealing with the micro-enterprise segment in the country. It will give them the insight and the sensitivity they need to deal with micro-enterprises from varying industries and cultural backgrounds for maximising customer loyalty.

The understanding of ethnic and religious bonding in making a business decision is an important point for consideration for multinational banks which have traditionally relied on their global muscle power and reach to market them in Malaysia. This could explain the presence of the Islamic banking division of conventional banks like Standard Chartered, OCBC, HSBC and Citibank in Malaysia. The understanding of the link between the moderating factors of customer loyalty and profitability of banks is a vital gap which will be filled through this study.

Through globalisation, there has been a convergence of ideas, and a divergence of values, with ethnicity and religious factors becoming more and more important. The extension to theory from this study will be the understanding of the impact of ethnicity and religiosity as moderating factors in decision-making by micro-enterprise owners in the customer loyalty towards banks and the impact of such a phenomenon on profitability of banks, considering that Malaysia is a blend of diverse cultures.

1.9 Research Limitations

The boundary for the study is limited to local and foreign conventional and Islamic banking. Any of the government's bank and financial institution is excluded. This is because the researcher would like to investigate and understand customer behaviour in mass market where the customers actually have their own choices of banks based on their preferences.

In terms of the survey population, the study has been limited to Klang Valley. **Klang Valley** (*Lembah Klang*) which is an area comprising Kuala Lumpur city centre and its suburbs, and neighboring cities and towns in the state of Selangor.

Figure 2.0 Map of Klang Valley, Malaysia



Note: www.dromuz.com.

The conurbation has a total population of over 4 million as of 2004, and is the heartland of Malaysia's industry and commerce. In the most recent census 2010, the population in the Klang Valley has expanded to 6.6 million. It is also a home to a large number of migrants from other states within Malaysia. It is noted that

respondents from Klang Valley definitely may not have the same background or display similar interpersonal behaviour as individuals residing in other parts of Malaysia. Since Klang Valley is the centre for commerce, most SMEs particularly micro-enterprises which are based on services are within this area. This is primarily a function of the research design involving accessibility for convenience samples for both interviews and cross-section surveys.

The investigations have been restricted to face-to-face contact between micro-enterprise owners and service providers. This is based on the notion from Price, Arnould and Deibler (1995) which highlights that the domain where one would be expected to find hypothesis relationship is important. Hence, there should be at least some evidence of relationship that exists between micro-enterprise owners and their service providers that contribute to loyalty elements such as being a customer of their favorite banks for more than 5 years and have a favorable attitude towards the banks. It has been assumed that micro-enterprise owners are interacting with their service providers in a dyadic situation. All of the micro-enterprise owners involved in this study must have experience dealing with their favorite bank in all sorts of banking services particularly related to their business purposes.

1.10 Overview of Study Report

This section will discuss further the organization of the study specifically. Overall this dissertation is arranged into two main parts: (1) Theoretical framework and (2) Empirical research. Refer to figure 3.0 for an overall picture of the study flow of the presentation.

Chapter **TWO** is the basic foundation of this study. The aim of this chapter is to provide a general understanding of micro-enterprise owners' loyalty in business to business perspectives (Small business) and linked to banking and SMEs in Malaysia in order to have a clear picture of the subject being investigated. Factors that influence micro-enterprise owners in selecting their favorite banks are also discussed in general. This is actually giving the researcher a concrete idea before going for the interview

for the qualitative study discussed in Chapter 3 (methodology) and a clearer and thorough literature will be discussed in Chapter 5 supporting the qualitative interview findings.

Chapter **THREE** discusses the research methodology for both qualitative and quantitative methods in this study. For the empirical part of this study, this chapter also documents the research design and methodology utilized, which includes explanatory research and a detailed description of quantitative data collection techniques in the second phase of the study. This covers sampling, questionnaire construction and the measurement used.

Chapter **FOUR** provides a conceptualization of the constructs investigated in the study. A conceptual model which illustrates the proposed association of constructs is presented. The development of the research framework is based on the previous literature supported by qualitative findings linked in Chapter 5. A series of hypotheses development and statements for the research is presented.

Chapter **FIVE** provides the analysis of the results and findings for both methods. For study 1, the findings give another direction and upgrade the literature based on the qualitative findings. The researcher will critically discuss the literature supported by the qualitative findings. In the second part of the study, the discussion covers the descriptive statistics, reliability, validity, regression, factor analysis and the results for hypotheses testing.

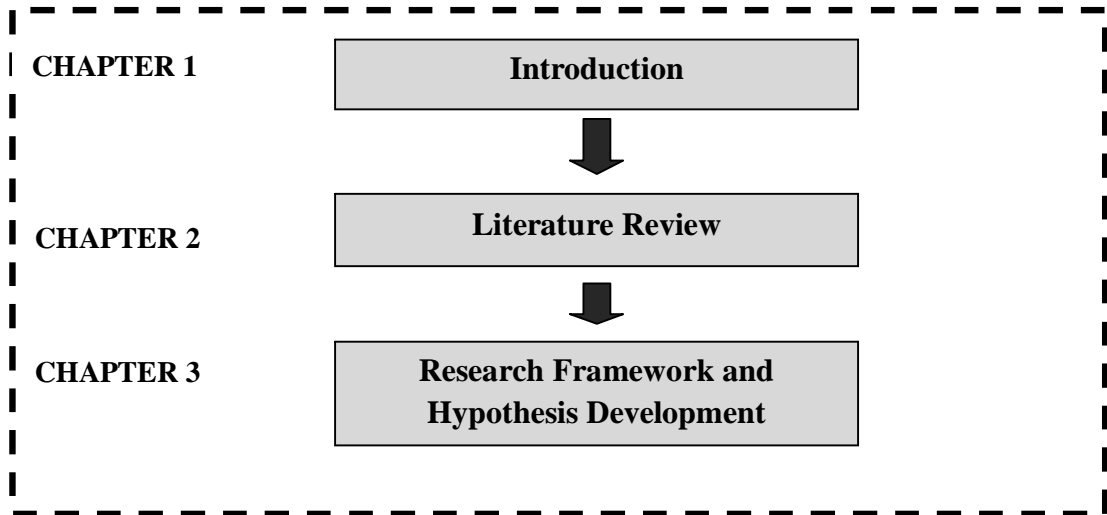
Chapter **SIX** concludes the study by delineating the study's contributions and implications to the marketing theory, industry as well as to the practitioners, and subsequently offering suggestions for future research directions.

1.11 Summary

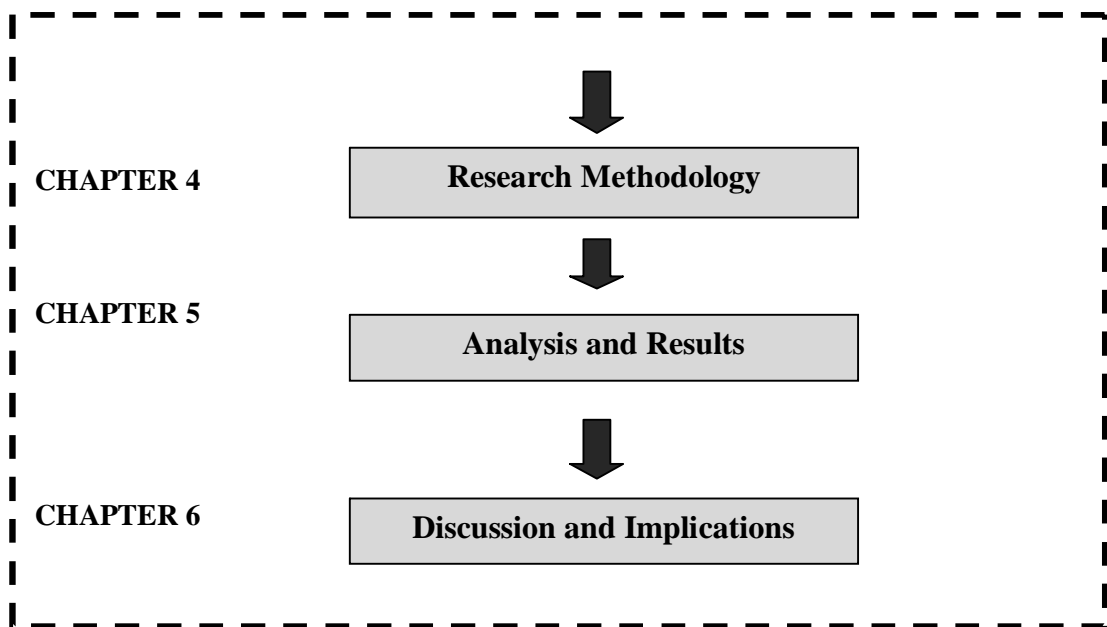
In this introductory chapter, the foundation for the study has been outlined which includes background of the research problem, stated research objectives and research questions to assist in resolving the problem. This study has been justified and clarified by theoretical background and practical usefulness to the bankers as well as marketers. Important aspects of methodology, structure of the whole dissertation, terms and delimitation have been listed. A thorough investigation in this study follows in Chapters 2 to 6. The sequence of organization of the thesis is illustrated in Figure 3.0.

Figure 3.0 Organization of the Study

PART 1: STUDY FRAMEWORK



PART 2: EMPIRICAL RESEARCH



CHAPTER 2

LITERATURE REVIEW

2.1 Customer loyalty and B2B - (Small business) perspectives.

B2B in this study context refers to the small businesses (Perreault, 1997; Dexter & Behan; 1999 and Colgate & Lang, 2005) or B-to-Professional (Soulez, 2007) which focuses on small entities of the business operation. The competitive business environment today has created the need for organizations and service providers to re-engineer their business strategies to achieve maximum gains and competitive advantage. Products and services offered in the B2B (small business) and B2C sectors have shorter life cycles owing to the huge influx of new products and services in the market. The multitude of choices and alternatives available to customers make it difficult for businesses to retain long-term relationships with customers. The primary reason attributed to the reducing customer loyalty is the failure of companies to tap customer needs and deliver products or services in line with customer expectations. Companies who are fail to deliver their promises – its give rise to ever increasing consumer scepticism – and as result watching their brand loyalty suffering (Watkins, 2008).

The increasing competitive market makes it difficult to retain customers over a longer period of time owing to the constant influx of new and substitute alternatives. Revenues are driven by sales and developing customer loyalty is a key step in achieving this goal. Customer loyalty and satisfaction are some of the crucial aspects influencing the performance of products and services in the markets. Customer loyalty is driven by customer experience that is responsible for delivering customer needs and expectations from the given product or service. Customer experience has been explained by Watkins (2008) mentioned that the embodiment of the brand, it covers

all interaction between an organization and a customer. The extent to which the brand is successful in meeting the desires and expectations of the customer is essential in determining his satisfaction levels with the product or services offered. Strategies focusing on enhancing customer experiences help companies in generating revenue, reducing costs, retaining customers, and achieving competitive advantage (Watkins, 2008).

Retention strategies often employ measures such as consumer behaviour research and product surveys that enable the organizations to assess the needs and expectations of the consumers and enable them to serve customers better. Customers always appreciate the personal touch that results in building strong relationships. Relationship management is an important aspect of organizational marketing strategies since it provides long term benefits and customer loyalty that is critical for retention strategies. B2B business focuses on applying customer relationship management strategies to increase market share, build customer loyalty and ensure efficient marketing operations (Parvatiyar & Sheth, 2001).

One of the critical factors that drive marketing strategies is an in-depth understanding of the consumer behaviour and market trends that are significant to the analysis of markets and help the organization to define appropriate strategies to gain competitive advantage. Positioning the brand and creating brand awareness of the intended product involves a great deal of planning and execution of advertising campaigns that will assist customers in recognizing the brand and creating brand loyalty. Effective brand loyalty strategies include identification of target client groups, market acquisition, and understanding client needs and alternatives available in the market.

Customer behaviour in the existing business environment is driven by their quest for information relating to any companies or services before making the final purchase decision. The educated consumer base today has several options to find out more about any companies, products or services through online searches and published sources. Hence, a key factor influencing customer behaviour and loyalty is corporate reputation. *“Good corporate reputation benefits the company by attracting potential customers, saving the time for establishing business relationship with customers, reducing transaction cost and creating premium revenue”* (Zhang, 2009,

p.28). It also helps in promoting the sales of new products and developing new markets. The purchase decision of customers is influenced by the extent to which the companies differentiate their products in terms of pricing, quality of services, and after sales services.

2.2 Loyalty and B2B (Small Business) in the Asian perspective.

In difficult and turbulent economic scenarios, such as the recent global recession, there is immense pressure on companies to reduce costs and increase profitability. On the other hand, the customer base is shrinking, and there are fewer profitable customers. As a result, it has become important more than ever to ensure that customer satisfaction and loyalty are built and maintained at higher levels. This is critical for customer retention and for avoiding losing customers to competitors. With the impressive growth of the economies in countries such as China and India, more and more multinational companies are entering Asian markets to gain a foothold in the prospering economies. (Fulop & Richard, 2002).

In a global marketplace, the concept of customer loyalty and commitment acquire a wider meaning and is more complicated to understand and interpret. It is affected by a number of factors such as political and legal environment; social and cultural scenario; economic and business environment; culture, geography, and religion.

Asian countries have the greatest potential of growth in the e-commerce markets, including B2B and B2C markets in the world in the next few years. The revenues from e-commerce in Asia are expected to rise dramatically in the coming years. Japan is the leader in Asia in e-commerce, with more than half of the total e-commerce revenues in the continent. Coming second to Japan are South Korea and Taiwan, with substantial e-commerce revenues with good prospects for significant growth in the coming years. Closely behind them are Hong Kong and Singapore. The next group with significant presence in the e-commerce market is the one that comprises India, China, Malaysia, Philippines, Indonesia, and Vietnam. (Hew, Loi and ISAS, 2004)

In Malaysia, the B2C sector has been the leader in driving e-commerce growth. The B2B sector has been a little slow to take off as compared to the B2C market. Internet incubators that have facilitated Internet companies in return for equity have played an important role in the e-commerce market. The government of Malaysia has also taken some steps to develop the e-commerce sector (Chakrabarti, 2002).

Asian markets vary to a great degree from Western countries in terms of the business culture and leadership. Strategies that were successful in Western countries cannot be directly applied to the Asian countries with the expectations of the same results. Business culture is a lot different in Asia when compared to the United States and Europe. For example, family-run businesses are more common in Asia compared to the Western countries. The leadership styles of the top management are also very different. The business and legal environment is affected by this difference. The way businesses are run and what is important to the company have an overall effect on customer loyalty and satisfaction.

The government in Malaysia has taken a number of measures in promoting the adoption of e-commerce in businesses, particularly among SMEs specifically in micro-enterprises. An important factor influencing the adoption of e-commerce in SMEs is the involvement and commitment of the top management. This is important as it is the CEO and the senior management that hold the decision-making power in the company. This is particularly true for micro-enterprises in Malaysia where the owner or CEO has the most power when making key decisions affecting the company.

Malaysia has a multi-ethnic and multi-religious population. As a result, Malaysian micro-enterprises can easily adapt to the global environment. As a culturally and ethnically diversified country, Malaysia has the exposure and knowledge of various cultures. This can be seen from the fact that a lot of Malaysian SMEs are in business relationships and partnerships with companies in China as they can easily understand the Chinese language, culture, and business practices (Senik, 2010).

It can be seen that culture, ethnicity, and religion do play an important role in the business environment of Malaysia. This is particularly true for micro-enterprises which are more commonly family-owned businesses with the head of the family

having the overall power in terms of decision making in the company. It is but natural and understandable that micro-enterprises tend to favour working and building relationships with people from similar cultural and religious background. The familiarity in culture, customs, and practices helps them build and sustain long-term relationships with their customers. The key to customer loyalty is not only obtaining new customers but also building a sustainable relationship with the customers over a long period of time. This type of relationship can be built and sustained only with an element of personal touch that ensures that customer needs are fulfilled. As a result, the factors of culture, religion, language, and ethnicity acquire some degree of importance in building and maintaining customer loyalty and satisfaction.

2.3 Organizational demands of micro-enterprises.

SME particularly micro-enterprises institutions and financial experts observe that sustaining the development of SMES requires concentrated efforts from financial institutions, training and consulting firms, as well as existing local business associations. The internal capacity of the micro-enterprises needs to be honed to meet the challenging business environment and lead the way towards profitability. This requires increased an efforts from the government towards creating conducive business environment through facilitate SMEs access to the markets, enhance flow of information, promote entrepreneurial culture, facilitate the development of services for new enterprises creation, technology development and education (Khawaja, 2005).

A World Bank journal aptly observes that SMEs play a pivotal role in social and economic growth in developing countries, yet they have a difficulties and struggling against the local business environments and are rarely able to obtain financing and other forms of support they need. Quite a lot of ventures fail to reach their potential and quite a few are rendered losses. This sector suffers from a number of weaknesses that have constrained its development to its full potential. The lack of adequate finance from the formal sector like private banking and financing institutes have forced these enterprises to rely mainly on the credit available from the informal sector. Growth and development in the SME specifically micro-enterprises sector can

be realized only through the increased flow of finance coupled with increased credit exposure.

The small and medium scale enterprises are vulnerable to the regulatory environment and economic constraints and the need for capital, information, and knowledge is greater than larger companies. Improving access to these key resources and strengthening the business environment for these SMEs can help them build a niche in the economy that can reap extensive benefits in the long run. As the World Bank Group (2001) report states that there is no other way to help them access needed resources on a sustainable basis than by building up efficient local service providers: consulting companies, financial intermediaries, e-businesses outlets, and others.

The large-scale industries and manufacturing concerns have no trouble in getting financial aids for expansion and diversification. It is the small and medium enterprises that face restrictions on borrowing from financial institutions and banks. Access to finance is one of the prominent limiting factors for the SME sector in most developing countries. High rate of entrepreneurial failures owing to economic slumps, labour union activities, lack of management skills and institutional malpractices is responsible for the lack of easy credit to this sector. Banks and financial institutions refuse credit to enterprises due to the risks associated.

In general, banking industry also not venturing into the areas where new processes and procedures with a view to improve SMEs access to credit are needed. Even, that it will take some time before the market-led mechanisms improve the access of smaller firms to formal credit. (Wattanaputtipaisan, 2003).

Another key issue facing SMEs in developing countries is the growing rate of attrition that makes it difficult for small companies specifically micro-enterprises to retain their employees over a longer period of time. The increasing job opportunities and lucrative offers from multi-national companies pose distinctive challenges to local companies in retaining their manpower. Hence, job satisfaction and employee motivation are the key factors that can help these enterprises in retaining their employees. To small-sized firms, entrepreneurs should change their traditional management styles and adjust their acts in their management by the request of the development of the enterprises so as to speed the development of the enterprises (Tian & Qi, 2006).

The success of the SME sector rests on four pillars of good business environment: technical support and capacity building, access to capital and information technology. The SMEs operate in a business setting determined by government policies, private sector institutions and public, physical infrastructure, and other factors. Any weakness in this environment tends to impose serious limitations to the development of this sector. The World Bank Group (2001) report on SMEs realizes the critical need to improve the skills and capabilities of entrepreneurs, financial intermediaries, and SME support agencies in the developing world. The World Bank and the International Finance Corporation are placing great emphasis on helping local banks, equity investors, leasing companies, credit rating agencies and others making them realize the benefits that can come from providing the SMEs with properly structured finance packages. The World Bank Group (2001) also observes that once these financial institutions start to receive reliable financial statements from SMEs and new lending techniques that bring down the costs of reaching them, they can build up a potentially strong new line of business (Ayyagari et. al, 2003)

2.4 Personality of organizations.

Organization behaviour is the study of the impact of behaviour in organizations on organizational (e.g., effectiveness), individual (e.g., self esteem), and social (e.g., racial discrimination) outcomes (Bratton et al., 2007). Organization behaviour provides an insight into employee attitudes, management practices and its strategies to deal with situations that encompass human resource management, leadership practices and change management. Organizations contribute to the social and economic development of the country and hence it needs to be regulated by a framework of principles and ideals that support organizational goals and objectives. The organizational behaviour framework is significant in identifying the core values and practices of the company.

Organizational culture adopts a distinctive approach in each firm and this is significant in determining the organization's ability to adapt itself to changing business conditions and implementing new strategies. Organization culture is

perceived as the study of human behaviour in organizational settings, of the interface between human behaviour and the organization, and the organization itself (Griffin & Moorhead, 2010). The existing culture and environment within the organization is crucial in determining the strategic moves and measures adopted by entrepreneurs for business growth and development. The organizational culture that defines the workplace environment and flow of information within the firm is shaped by the entrepreneurial ability to promote leadership practices and delegate duties to subordinates. It defines the organizational beliefs and practices in achieving its goals and objectives. An organization is shaped by the culture that predominates in the work environment, employee behaviour and managerial attitude.

The effective management of a business venture requires a successful management of its people and processes. Organizational culture in micro-enterprises is influenced by the evolving business environment that is impacted by the technology changes, globalization of economies and opening of markets for free trade. The size of the micro-enterprises presents various complexities in promoting SMEs capabilities to meet the changing demands of the evolving business environment. Capital limitations, human resource shortage and limited access to vital resources are some of the key issues facing such enterprises. However, the global economy presents new and expanded potential for such firms to grow and leverage its resources through knowledge based work culture and innovative practices (Dave & Praveer, 2009).

Leadership is one of the vital factors that influences the organization culture (Henschel, 2008). Organizational practices and strategies are defined by corporate goals and objectives that focus on maximizing profits and leveraging resources for optimum planning. Micro-enterprises cultures are driven by the competitive industry forces that have created the need for co-existence of large and small firms catering to the emerging market needs (Dave & Praveer, 2009). Micro-enterprises in developing countries such as Malaysia are less capital intensive and have limited manpower employment capacities. Hence, these firms depend on manpower knowledge and skills for leveraging their competitive advantages. Operating in such constraints necessitates able leadership and managerial initiatives that can help the companies in building their competitive strengths. One of the key aspects of such entrepreneurial ventures hence involves the adoption of suitable leadership practices.

Research studies have concluded that SMEs are rapidly adopting an enabling work culture that is based on increasing employee empowerment practices and adopting innovative work processes to improve operational efficiency and productivity (Ussahawanitchakit, 2008). Medium and small scale enterprises can facilitate enhanced performance through learning culture and suitable human resource development strategies that foster creative and innovative practices at work. The size and structure of such organizations can facilitate positive growth through a flexible organizational culture which can help the entrepreneurs convert into learning organizations (Dave & Praveer, 2009).

The decision making framework and work environment within micro-enterprises are to a large extent influenced by the owner of the enterprise who runs the whole show. Micro and small enterprises are impacted by the owner's perception of business management and his capabilities to mobilize the existing resources in the desired direction. However, once the size and complexity of such enterprises increase the decision making authority is delegated by the owner to senior managers within the organization for effective performance and results (Henschel, 2008).

2.5 Factors affecting loyalty to banking among micro-enterprise owners'.

Customer loyalty is developed over a period of time by consistently meeting and exceeding the expectations of customers on a regular basis. Customer loyalty is the extent to which customers demonstrate repeat purchasing behaviour from the same provider; possesses a positive disposition toward the provider, and thinks of using this provider only at all times when the need arises (Gremler & Brown, 1996).

Providing excellent service is the main driver to achieve customer loyalty and sustain it for a long period of time. Today, customers are more aware that their rights and needs keep changing frequently. These factors coupled with increased competition mean that banks have to make regular improvements in their service quality to customers in order to ensure that their customers remain loyal (Kheng et.al.,2010).

Micro-enterprises are more loyal to banks when they are assured that their needs are met completely. They need to feel that the whole breadth of their needs are understood and met by the bank that is serving them. As a result, wallet share and customer loyalty depend on raising the number of products used by each SME customer (International Finance Corporation, 2008).

There has been an advent of new forms of banking such as Internet banking, Automated Teller Machines (ATM), and phone banking. There are also vast improvements in the financial markets. These factors coupled with competition from foreign players have forced bankers to delve into the significance of customer loyalty. Service quality plays an important role in obtaining and sustaining the loyalty of customers. The qualities that influence service quality and customer loyalty include reliability, empathy, and assurance (Kheng et al., 2010).

In today's times of global competition, it becomes very critical for banks to deliver good service and meet the expectations of customers. This helps them in building a strong relationship with their customers, thus building loyalty. Customer retention is important for ensuring the bank's growth and development. Studies have shown that it is more expensive to acquire new customers than retain old customers. (Beerli et.al, 2004; Bloemer, and Lemmink, 1992). Customer retention helps in reducing the selling and marketing costs. This decreases the cost of operations and improves the profitability of the enterprise. Strong and loyal customer relationship has a positive impact on the long-term profitability of banks. As a result, it becomes important to understand the factors that affect customer loyalty. If the drivers for customer loyalty to banks are understood, then it helps banks to devise customer retention initiatives accordingly (Lam et.al, 2005).

2.5.1 Perceived service quality

The quality of service offered by firms is a vital aspect of business management since it drives market growth and performance ratings. Marketing of goods and services within a global market assumes increased significance in the highly competitive industry environment that exposes the firms to increased pressure to deliver high quality products to its consumers

(Crew & Kleindorfer, 2009). Global markets offer the customers a host of choices, substitutes and alternatives that enable the customers to meet their needs. Therefore, the quality standards underlining the services offered assume increased significance in helping the organizations meet their marketing goals. For many years now the service encounter has been seen as central to service quality and has been termed the “*moment of truth*” by Carlzon (1987). Jobber and Fahy (2009) in their book *Foundations of Marketing* has stated that companies that have displayed higher ratings on service quality have performed better in terms of growth in market shares and profitability.

Service quality can ensure multiple benefits from the marketing and organizational perspectives. Benefits in the marketing perspectives include improved client satisfaction, client retention, enhanced market image, and increased competitive advantage. Organizational benefits include increased efficiency in operations, leveraged cost benefit advantage, and improved awareness of quality standards resulting in greater work efficiency (Deloitte, 2010).

The quality of goods and services rendered to customers is a critical component used in the assessment of consumer satisfaction. Customer experience and satisfaction is the key element driving sales and revenues of products and services offered in the market (Grigoroudis & Siskos, 2009). The customer experience and satisfaction in the SME financing market sector is determined by the range of products and customized services offered by banks and financial institutions to meet the needs of the entrepreneurs.

The Malaysian government has promoted micro financing institutions for sustained growth and development of the micro-enterprises. The economy presents increased potentials and scope for expansion in the Islamic finance sector that follows the principles of Shari’ a. However, access to financing through Islamic financial institutions faces distinctive limitations since consumers are not well educated or informed on the options available in this segment. The Islamic finance segment in Malaysia offers various schemes suited to meet the needs of the micro-enterprises funding. A research study by

Ahmadi et.al (2009) concluded that a significant section of the entrepreneurs were not aware of the Islamic financing schemes. In fact, they had very limited knowledge of the Shari' principles guiding their Islamic financing plans. One of the key aspects of conventional banking lay in its focus on creating consumer awareness and promoting its range of products to the targeted consumer segment.

The past few years have witnessed significant improvements in the way Islamic finance institutions have gained recognition and acceptance among the consumers. The sector has emerged as a key player in the growth and development of micro-enterprises in Malaysia. Banks such as Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat have introduced new schemes and launched a wide variety of product ranges for the SME sector to meet its funding needs (Ahmadi et al., 2009). However, the market for Islamic finance in the SME financing sector remains largely under-utilized that suggests that there is a enormous challenge and business opportunity for Islamic banks in Malaysia in respect of financing SMEs (Ahmadi et al., 2009). The major challenges facing the Islamic finance sector is the poor access to relevant financing information and lack of consumer awareness. The key requirement for this financing segment is improving customer access to information and details related to SME products (Ahmadi et al., 2009).

The halal industry refers to the goods and services that are compliant to Shari' a principles and the growth statistics of this industry has been quite impressive in the past few decades. However, only 5 to 10 percent of this industry makes use of Shari' a compliant financial services. According to industry report less than 10 percent of the halal industry in Malaysia has opted to choose Islamic financing. The primary reason behind the low preference has been observed as the lack of knowledge and exposure to halal financing structures” (Islamic Finance. (2009), *‘Double the halal: double the taste?’* (http://www.islamicfinanceasia.com/5_halal.php))

2.5.2 Relationship quality

Relationship marketing and service approach focus on developing long term relationship with customers through high priority customer service, frequent customer interaction, improved customer commitment and trust, and promoting high quality practices among workforce. Relationship quality is highlighted to gauge a bank's performance from a small business perspective. Relationship quality has been conceptualized as a higher order construct made up of various dimensions (Dwyer et al., 1987; Dorsch et al., 1998 and Crosby et al., 1990) that is found in the psychology literature (Duck 1992). Dwyer et al. (1987) state that relationship quality can be differentiated by high levels of trust, satisfaction and minimal opportunism. While Crosby et al. (1990) and Ramsey & Sohi (1997) use only trust and satisfaction to portray relationship quality. The whole concept of establishing long term relationship with customers is based on the “promises of low prices, promise of high quality, the promise of prompt delivery, the promise of superior service” (Kurtz, Mackenzie, & Snow, 2009). The consumer needs good assessment and expectations drive the market share for any product. At the end of the day it is consumer satisfaction that dictates the success story of any product launch in the market. The rapid changes in the consumer behaviour drive the sales and revenues of businesses. Customer relationship strategies focus on meeting these expectations that enhance customer satisfaction since an understanding of the consumer expectation as well as their needs is a principally important for planning and implementing a winning business strategy.

2.5.3 Bank's reputation

Andreassen and Lindestad (1998) had argued that corporate image is essentially part of reputation and is an antecedent to customer loyalty and it was concluded that reputation may be among the strongest loyalty's driver. Andreassen (1994) had modelled a relationship between reputation and loyalty and concluded that reputation may be the strongest driver of loyalty particularly in the public sector.

Countries across the globe have placed great emphasis on the SMEs and also particularly micro-enterprises finance largely due to its positive impacts on the economic growth and stability and its growing contribution to the country's rising GDP rate. It has been observed that a growing and strong SME sector has assisted in the national economic growth and played a crucial role in the strengthening of the economy. International financial organizations like the World Bank and the International Finance Corporation have been actively involved in supporting the SME in the developing and emerging economies. This sector has the potential to reap huge benefits provided the necessary guidance and resources are made available in an easy manner. There are many countries across the globe that have greatly benefited from the rise of this sector. The banking industry in such countries has designed innovative products specifically for the SME sector, risk mitigation strategies, SME financial reporting standards, and special lending techniques that have encouraged SME growth. The public sector too has played a significant role in creating a hassle-free business environment in the form of effective policies, conducive regulatory framework, and institutional support for the SMEs in dealing with macroeconomic environmental factors.

Some of the practices that have been successfully implemented by the banks and financial institutions across the world in the context of credit lending policies to the SME sector are credit scoring tools for SMEs, innovative financial products that are based on market and need analysis, cash flow lending and effective risk assessment techniques. Banks and financial institutions use highly effective credit decision assessing tools to evaluate the

credit viability of the business enterprise. This is extensively used in developed and underdeveloped countries across the globe. This allows the banks and financial institutions to rank the applicants on the risk assessment and based on this ranking the credit decision is taken.

The financial products offered by the banks generally cater to the needs of corporate, commercial and consumer sectors. These are the same products that are offered to the SME sector as well. But due to the diversity in operations, management, and scale of operations these financial products are not ideally suited for the SMEs specifically to micro-enterprises. A number of banks and financial institutions across the world have designed innovative financial products specifically for the micro-enterprises catering to their special needs and requirements. One such practice is the programs based lending approach. In this approach the banks conduct a thorough market research analysing the business needs, identifying specific finance requirements along with risk assessment in credit, market, and operation that can impact the enterprise. Once a detailed study is conducted the banks decide on the extent of credit that can be extended to the customers. This method is very effective since it provides the bank with the scope to analyse and examine the particular business from all angles before deciding to extend credit. The financial product delivered to the customer meets the specific requirements.

The financing policies of SMEs broadly focus on two distinct groups – investment focused group and loan focused group. The investment focused groups do not rely much on government funding institutions or banking and financial institutions for their funding needs. Venture capital is the most preferred means of financing their start-up enterprises. However, this group forms a small section of the number of entrepreneurs seeking funding for their small and medium scale enterprises. The loan focused group form the primary segment of SME loan consumers and the needs of this segment is supported by conventional banking institutions, Islamic financing agencies and other micro finance enterprises. The choice between these financing options is largely guided by the easy availability and accessibility to finance procedures adopted by these institutions. The Islamic finance segment in the SME sector

has witnessed strong growth globally over the past few decades. The Dubai International Finance Centre (DIFC) report on a guide to Islamic finance, 2007 observes that the Islamic financial services industry is rising at extraordinary rate. What emerged as a niche industry has now pervaded almost every major financial market worldwide. The strength of all these foundation actually could enhance banks reputation for both Islamic and conventional banking in Malaysia.

2.5.4 Religiosity and Ethnicity

Culture is inherent to the surrounding of a person or a group of persons. Hofstede (1991) in his book has defined culture as the software of the mind that guides us in our daily interactions. The impact of religion, culture and ethnicity in driving consumer behaviour and purchase decisions have been the subject of numerous research studies and findings claim that religiosity and ethnicity play a critical role in influencing purchase decisions. The existing norms, beliefs, values, and symbolic meanings are important determiners in shaping individual behaviour, response patterns, pre-conceived notions, habits and preferences that in turn influences purchase decisions (Mokhlis, 2009). Religion has been well-known as one of the crucial forces influencing consumer behaviour. Religion and its associated practices often play an essential role in influencing many of the important life transitions that people experience such as marriages and birth, even funeral rites in values that come to be important to them (e.g., moral values of right and wrong). It also could shaping the public opinion on any social matters such as cohabitation, pre-marital sex, family planning and organ donation. Even, what is allowed and forbidden for consumption (e.g., restriction on eating and drinking) and in many other aspects that pertain to everyday life (Mokhlis, 2009).

The values and beliefs promoted by religion have a distinctive impact on the consumer perception and attitudes towards different products and services. Research on the impact of religion on consumer behaviour by

McDaniel and Burnett (1990) revealed that consumers who have a greater degree of religious commitment preferred to visit retail stores that have friendly sales personnel and perceived product quality to be significant aspects driving purchase decisions (Mokhlis, 2009). While religion and nationality do play an important role in defining consumer behaviour, research have also indicated that the impact of such factors is unpredictable and beyond measurement (Hofstede, 1991). Such behaviour cannot be generalized or categorized to form definitive assumptions about consumer actions or purchase decision framing process. Consumer decision making process is often based on emotions and feelings. As a general rule, consumers do not acquire a clear set of preferences to make a purchase decision when approaching different options. These are about to be constructed when individuals start processing the information on individual options (Ahmad, Uddin, & Ahshanullah, 2009).

The Islamic Banking Sector is a significant part of the banking sector in Malaysia. Various banks have separate divisions that look after Islamic finance and demands for financing through Islamic Shari' a. These banks offer Shari' a compliant products and deal with specific issues related to Islamic finance. The choice of Shari' a financing among the Muslims and non-Muslim entrepreneurs in Malaysia is governed to some extent by the religiosity and ethnicity of the population that influences consumer decision (Islamic Finance, 2009).

Financing choices of entrepreneurs in the SME sector is believed to be widely influenced by religiosity and ethnicity of the entrepreneur seeking funding (Ahmad et.al,2009). However, the extent to which such beliefs guide the choice between Islamic finance and conventional banks has not been clearly established owing to lack of vital information (Abdullah, 2010). Individual consumer decisions in normal circumstances are widely impacted by population demographic features and personal factors such as religious beliefs and nationalities. However, in the B2B consumer market segment the focus is more on price, quality, service efficiency and partnership prospects that can provide the business with enhanced benefits (Tanner & Raymond, 2010). Entrepreneurs are guided by profit making objectives and hence factors

such as religiosity and ethnicity take a backstage when compared to other relevant factors such as price and quality of service.

2.6 Social Exchange Theory

In order to understand more on the relationship between micro-enterprise owners with their favorite banks, the researcher uses the Social Exchange theory (SET) as the underlying theory in understanding this mutual relationship. Generally, Social Exchange theory is the commonly used model of interpersonal interaction in the social psychology domain. The theory basically deals with the inter-personal interaction which involves human behaviour, affection, products and communication (Blau, 1964; Homans, 1958; Thibaut & Kelley, 1959) without explicit barter of an economic exchange (Blau, 1964).

This theory views interpersonal interactions from the angle of cost-benefit viewpoint, which is almost similar to an economic exchange. Except that a social exchange deals with the exchange of intangible social costs and benefits (such as respect, honour, friendship, and caring). It is not governed by explicit rules and agreements. Related to economic exchange, social exchange assumes that individuals take part in an exchange only when they expect their reward from the exchange justifies the cost of taking part in it.

The major differences between a social and an economic exchange is that a social exchange gives no assurance that there will be reciprocal rewards in return for costs, because unlike in economic exchange there are no rules or agreements that govern the interaction. The only 'guarantee' in a social exchange is the assumed cooperative intentions of the other party, i.e., the belief that the other party will reciprocate as they are expected to (Blau, 1964; Kelley & Thibaut, 1978; Thibaut & Kelly, 1959). The Social Exchange theory model composes of five essential elements:

1. Behaviour is confirmed by the notion of rationality. That is, the more behaviour results in a reward, the more individuals will behave that

way. However, the more an individual receives a reward, the less valued it becomes, and the individual seeks substitute rewards through other behaviour or other sources.

2. The relationship is based on reciprocation. Each individual in the relationship will provide benefits to the other so long as the exchange is unprejudiced and the units of exchange are important to the respective parties. An exchange between two individuals must be seen as fair by both for the relation to continue, or at least to continue as strongly. At this point, it is not only important to respond fairly, but also with an item (not necessarily material) deemed to be important by the other person.
3. Social exchange is based on a justice principle. In each exchange, there should be a norm of fairness governing behaviour. That is, the exchange must be viewed as fair when compared in the context of a wider network or to third and fourth parties. This concept of distributive justice goes beyond the equity between the two principals' contribution. It involves each person comparing his or her reward to that of others who have dealt with this individual and what they received for the similar contribution.
4. Individuals will seek to maximize their gains and at the same time minimize their costs in the exchange relation. They have to understand that the notion of costs does not relate totally to financial issues. But costs can be incurred through the time and energy that invested in a relationship.
5. Individuals take part in a relationship out of a sense of mutual benefit rather than coercion. That is why coercion should be minimized.

The basic doctrine of SET highlights on relationships evolves over time into trust, loyal, and mutual commitments. In other words, parties must abide by certain “rules” of exchange. This exchange rules will form a *“normative definition of the*

situation that forms among or is adopted by the participants in an exchange relation” (Emerson, 1976, p. 351).

In the perspectives of social exchange, the essential aspect is use of value. The exchange also involves certain obligations which are not clarified. Moreover, in social exchange, personal feelings of gratitude and a degree of trust between the interacting persons are existed. Social exchange therefore rests on the norm of reciprocity where one individual obligates another. In the process of social exchange, a return is expected but it involves diffused future obligations and not precisely specified ones. The nature of the reciprocal behaviour cannot be bargained about but must be left to the judgment or discretion of the one who makes it. This essentially forms the basis of trust in a social exchange situation. According to Blau (1964), people do honour these social obligations even though there are no formal contracts entered into.

Thus, the use of SET in models of micro-enterprise owners’ loyalty is framed on the basis of the exchange rule or principle which the researcher relies on in understanding this study. Further explanation on this theory and research model will be discussed in Chapter 3.

2.7 Summary

The role of micro-enterprises in economic growth and development has been widely emphasized by governments of all economies across the globe, and increased efforts have been made to strengthen this sector. Yet, the most critical aspect behind the success of micro-enterprises in any country is access to capital. Major financial institutions are reluctant to lend to small businesses that are left dependent on their own sources of finance or less reliable and informal sources of capital. The consequence of such attitude is reflected in the stagnation of the SME sector and weakening economic environment. The government should help access to financing and equity markets for firms which implement corporate governance. To do so, entrepreneurial culture, venture capital firms should also be encouraged through enabling regulatory environment (Mahmood, 2008). Major banks and financial institutions have launched a wide range of products to cater to the needs of the micro-

enterprise sector. The consumers now have improved choices of products and services offered by both conventional and Islamic financial institutions. However, the decision between these two financing sources is impacted by a number of factors that drive customer decision at the end of the day. No single factor can be identified as the sole decision-making influencer, but the choice is guided more by instincts and personal experiences than any other.

CHAPTER 3

RESEARCH FRAMEWORK AND HYPOTHESES

DEVELOPMENT

The previous chapters provide the basics for linking Bank's Reputation, Perceived Service Quality and Relationship Quality with moderating variables of Ethnicity and Religiosity. The aim of this chapter is to present the proposed research framework that will be tested in the following chapters. The proposed research framework which was developed based on the previous literature and also supported by the qualitative findings will be discussed in Chapter 5: Result and Analysis. As far as the researcher's literature analysis, it shows that no other study has examined full set of inter-relationship among the variables proposed in this study's framework. The next part of this chapter discussed the development of the research hypotheses.

3.1 Underlying theory: Social Exchange Theory and research framework

Social exchange theory is a psychological and sociological perspective which considers that human relationships are founded on costs and benefits. It proposes that people evaluate the benefits that would accrue to them before they make any decision. This applies to all interactions, even romantic relationships. If a person feels that the costs of a relationship far outweigh the benefits, then the individual terminates the relationship. This aspect of social exchange theory is also found in Rational Choice Theory, Social Psychology, Structuralism and Economics. The theory was developed by Peter Blau in the 1960s as a response to functionalist theory.

The basic concepts in social exchange theory are cost, benefit, outcome, comparison level, satisfaction, and dependence. The benefits vary; some are material while others are social status, emotional comforts and financial gains. The outcome is

determined by the difference between benefits and costs. This also relates to the new model developed from qualitative findings and literature review.

The new model proposed in this study also relates to the social exchange theory by looking at social behaviour as a product of an exchange process. The major principle of the theory is to minimize costs and maximize profits. This study will review existing literature on the relationship between the micro-enterprise owners', and his loyalty towards the service providers.

Religion and ethnicity are the new emerging themes which influence of micro-enterprise owner's loyalty to his existing bank (Holliday, 2002). The various works of recognized scholars are reviewed and scrutinized. This has helped provide a comprehensive understanding of the existing literature that has revealed the influence micro-enterprise owner's loyalty to his existing banks.

Social exchange theory has argued that behaviour is a manifest of an exchange process. This exchange process is known for maximizing the benefits and at the same time minimizing the costs to be incurred while generating the benefits. This also applies to the proposed new model which is reviewed by the existing literature regarding the relationship between the micro-enterprise owners', and his loyalty towards the service providers.

A micro-enterprise is a firm that has a large representative of rapidly growing economic components. A micro-enterprise can be defined as a small business with less than 500 employees. Regardless of the size of the enterprise it inculcates loyalty to its service providers through either creating loyalty programmes so as to serve its customers well. This will lead to customer satisfaction, as well as economic growth contribution (Holliday, 2002).

Whether the micro-enterprise is government owned or privately owned, being loyal to the service providers will ultimately improve the quality of the life as well as the loyalty of the enterprises in future undertakings. According to research done by Hill and Jones (2008) on behaviour loyalty it is he stated that behaviourally loyal customers do not have an emotional bond with the brand. He continued to add that

emotional loyalty is much stronger and longer lasting than behavioural loyalty. It is an enduring desire to maintain a valued relationship.

3.2 The research model: Structure model and relationships in micro-enterprise owner loyalty model.

Micro-enterprise owner's loyalty is the key dependent variable of interest to this study. Three independent variables: banks reputation (BP), perceived service quality (PSQ), relationship quality (RQ); and moderated variables; ethnicity and religiosity are being discussed in this study and in the earlier chapters as influencing micro-enterprise owners' loyalty.

Based on the previous research, the variables in the research are related, with a change in one variable leading to change in the other variables. A positive change of a variable leads to a positive change of the other variables. The variables studied are bank's reputation, perceived service quality, relationship quality, religiosity and ethnicity. Reputation is directly related to the quality of service offered by the business which in turn influences the loyalty of the company. Good reputation is built up by the company through quality service which then build loyalty among the customers.

The research conducted by Othman and Owen (2001), showed that most people are influenced by their religious affiliation in choosing a bank, especially Islamic banks. It also showed that most customers would prefer to invest in banks which value their beliefs and principles. Muslims in Malaysia do observe some features of the banks before they invest money in the bank namely customer relation, efficient services, and quality services.

Customer behaviour is more influenced by the quality of service they get from the bank. In Islamic banking the moral of the business is a major factor observed by the customer and this is important for the survival of the bank in the market. The

factors influencing customers in choosing the kind of banks to invest in are convenience, accessibility, and religious influence (Haron et., al 1994).

According to the research carried out by Kaynak and Whitely (1999), customers are more influenced by the convenience of the bank before making a decision on where to invest. Convenience could include the location of the bank or other considerations such as service quality. In a research conducted by Haron et al (1994), they established the main difference between the conventional and Muslim bank in Malaysia in terms of service delivery. It was also noted that religious aspect was not the only factor which leads Muslims to deal with Islamic banks. Service quality and efficient service appear to be the factors that influence both Muslims and non-Muslims in choosing their banks. The following discussion reviews each of these constructs and the relationship between the dependent variables and the independent variables and moderator variables which also explain through Figure 4.0.

3.2.1 Micro-enterprise owners' loyalty

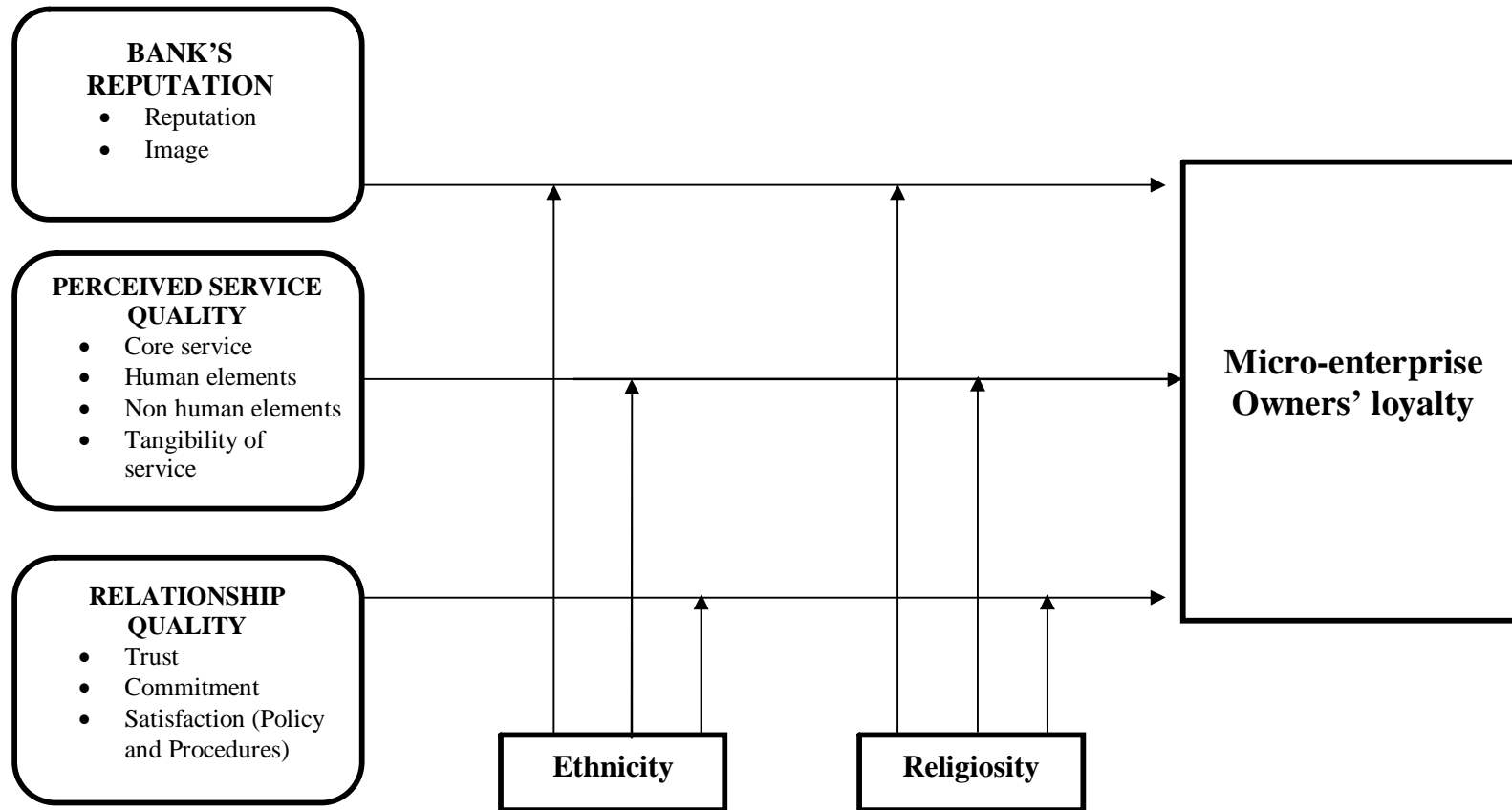
Micro-enterprise owners' loyalty is a key premise of this study. Micro-enterprise owners are more loyal to banks when they are assured that their requirements will be met and at the right time. For a customer to be satisfied he or she wants his or her interest to be cared for by the bank that is serving them. As a result the level of profit will rise in the micro-enterprise owners' businesses due to the ability to produce varieties of products for their customers.

There are many principles which govern micro-enterprise owners' loyalty towards the bank most common of which are ethics and integrity, trust, honesty and willingness to disclose the information. There is a need for the business to maintain contact with the customers by showing interest in the customer to make them feel part of the business. The business should at times surprise customers by providing them with what they anticipate and this in turn could help to generate loyalty among the customers. The management

should uphold the following as a principle to safeguard loyalty among the customers, reinforcing behaviours of staff, internal benchmarking, resolving of customer requirements, observing competitive ability, determining loyalty among the customers, listening to customer's and improving business practice. Various researches show that loyalty in customers is a result of attitude and behaviour (Capezzi and Cuthbertson, 2004). Loyalty is observed as the relationship between the attitudes of the customers towards the business as compared to other competing businesses. Customer loyalty is directly related to other variables researched in the paper i.e. bank reputation and service quality. Customers tend to be loyal to a business with good reputation; business with a good reputation will also have good customer retention as customers are contented and do not see the need to change banks. Loyal customers bring with them new customers whom they have influence and the end result is increase in the number of customers, who enhance increase in profit. Increase of the profit in the business contributes to the expansion of the business as it increases company capital. Customer loyalty is also influenced by the service customers get from the banks; quality service is the key to the foundation of the business. Customers will be satisfied if they are treated well. Satisfied customers will tend to perform more transactions in the bank.

Figure 4.0

Research model for micro-enterprise owners' loyalty



3.2.2 Banks' reputation and micro-enterprise owner s' loyalty.

As discussed earlier and also in figure 4.0, bank's reputation in general is one of the factors that could directly affect micro-enterprise owners' loyalty towards their favorite banks. The findings from in-depth semi-structured interviews conducted are somewhat similar to those found in the existing literature related to the banking and financial sectors. In fact, Aziz (2006), highlights that for a bank to gain reputation a bank can provide lending to micro- finance in which the bank makes no commitment to future refinancing if the borrower experiences financial distress. A bank with a good reputation can also provide what is called the relationship lending, in which the bank promises refinancing, which could be very costly in the short term. The difference between the future expected returns from arms length lending and that of relationship lending determines the bank's incentives to incur any short-term cost to keep its commitment and maintain a good reputation (Alreck & Settle, 1999). The research also showed that most banks that had low lending rates maintained high customer loyalty. It also revealed that the management of banks highly influenced retention of customers as the very few banks that had scandals among the leadership lost when it came to micro-enterprise loyalty. Again, from both literature review and analysis of the in-depth interview from the qualitative study, it can be concluded that reputation and image of the banks do support this premise as in figure 4.0.

3.2.3 Perceived service quality and micro-enterprise owners' loyalty.

Quality of service offered by firms is a vital aspect of business management since it drives market growth and performance ratings. Marketing of goods and services within a global market assumes increased significance in the highly competitive industry environment that exposes the firms to increased pressure to deliver high quality products to its consumers (Crew & Kleindorfer, 2009). Therefore, the quality standards underlining the services offered assume increased significance in helping the organizations meet their marketing goals. For many years now the service encounter has been seen as central to service quality and has been termed the "*moment of truth*" (Salvendy & Karwowski, 2009) based on in-depth interview findings as well as literature. Perceived service quality is influenced by both human

elements and non-human elements. The human elements that helped maintain high levels when it came to micro-enterprise owners' loyalty and attraction of new customers included word –of- mouth. It occurred that as micro-enterprise owners met and discussed along the way they would praise or even disapprove the services offered to them by various banking institutions. The non-human elements included the tangibles which in particular are evident services offered by the banking institutions like the unsecured loans. From the qualitative findings and existing literature, the combination of 4 main elements such as Core service, Human elements, Non-human elements and tangibility of service appeared to be the factors under the Perceived service quality theme in measuring the factors that could direct micro-enterprise owners' loyalty towards their service providers as mentioned in figure 4.0.

3.2.4 Relationship quality and micro-enterprise owners' loyalty

Other than bank s' reputation and perceived service quality, relationship quality is also a vital variable of the research model. The variable is well-expressed using the following dimensions of trust, commitment and satisfaction. In this research, the relationship between business and its customers has been analyzed together with its effect to the bank noted. The research conducted by Ongena and Smith (1998) stressed on the effect of the mutual relationship between the bank and its customers. The relationship has an effect on the performance of the business. Good relationship between the banks and its customers has proven beneficial to both parties. Customers tend to be loyal to a company which gives them good services. The result of a good relationship between the parties is increased profits to the bank and quality service to the customer. Satisfaction of customers is only achieved when customers get what he or she wants at the right time. Convenience and competitiveness are important factors in determining if a customer is contented with the services of the bank. Research conducted by Thurau (2002) shows that commitment and trust are the key factors in delivering customer satisfaction. Relationship quality from the bank normally results in satisfaction to the customers. When customers are satisfied they commit themselves to the business and the end result is that they are loyal. From the qualitative findings it can be seen that, relationship quality and micro-enterprises owners' loyalty are

present and relationship between them is established. Micro-enterprises confidence or trust results in commitment in the business relationship. Committed micro-enterprise owners' would spend in the bank and also influence other customers to do transaction with the bank. On the other hand the bank focuses on developing long-term relationship with customers by giving high priority customer service, frequent customer interaction, improved customer commitment and trust, and promoting high quality practices among workforce. Relationship quality is also assessed through a bank' performance from a small business perspective (Crosby et al., 1990; Dorsch et al., 1998 and Dwyer et al., 1987). According to Dwyer et al. (1987) relationship quality is different from high levels of satisfaction and trust, and minimal opportunism.

3.2.5 Ethnicity as a moderated variable influencing micro-enterprise owners' loyalty

Existing literature it is shown that ethnicity does not have a significant influence on the bank reputation. However, many banks in Malaysia are biased towards demographic segmentations: the reason of which may be to avoid being seen as racial or ethnicized (**Chaudhry & Pallister, 2002**). Ethnicity is an obvious relevant casual construct and is vital for business and consumer behavior that cannot in anyway be abandoned as an area of scientific study (Rossiter & Chan, 1998). In the competitive banking markets in countries and cities with a diverse ethnic mix, ethnic banking may prove to be a competitive advantage. Banks that can accurately identify the selection factor where ethnic differences occur can adapt their marketing strategies to benefit from on these differences. However, compared to the knowledge the retailers and consumers have on the role of ethnicity in decision-making, the financial institutions have not really exploited this notion (Burton 1996). It is believed that multi-culturalism has turn into a social reality in many countries of the world, thus affecting every aspect of the business operation. There is such a required therefore for ethnicity and cultural differences to be fully integrated in the bank marketing (Burton 1996).

Besides, a variety of demographic factors have been engaged in attempts to draw attention to differences between groups of customers. In short, only a limited

consumer research on ethnicity however, has extended beyond consumption and choice behaviour into the domain of retail banking behaviour.

Yet in those example in which ethnicity has been empirically examined in a retail-banking perspective, the research endeavour has been somewhat restricted to certain aspects of consumer behaviour. Joy et al. (1991) for instance investigated ethnicity as one of the factor influencing the customer patterns of financial services in Quebec, Canada. Another example is Snow et al. (1996) focused their study on ethnicity influences on expectations of retail financial services in Canada while a study conducted by Burton (1996) studied consumer financial behaviour among British Asians in the pension markets. There is no verification of any preceding published research investigating the influence of ethnicity on choice criteria in retail banking.

Only a limited consumer research on ethnicity, however, has extended beyond consumption and choice behaviour into the field of retail banking behaviour. Even in those instances in which ethnicity have been empirically examined in a retail-banking context, the research effort has been somewhat limited to certain aspects of consumer behaviour. Joy et al. (1991) investigated ethnicity as a factor influencing the use patterns of financial services in Quebec, Canada. This proves that there is no proof of any previous published research investigating the influence of ethnicity on choice criteria in retail banking. Thus, findings from in-depth interviews elicit rather interesting facts that encouraged the researcher to study further and more into the study 2- the quantitative methodology stage.

Customer perceived quality as consisting of two dimensions. The dimensions of quality customers perceive typically differ from industry to industry and depending on what strategy a firm uses. In service quality model of total perceived quality, the customer perceived quality is basically a purpose of the customer perceptions of two dimensions, the impact of what the customer receives and a further impact based on the customer's perception on a range of interactions with the firm (Grönroos, 1994). It is documented that relationships exist between customer perceived quality and loyalty, hypothesizing an indirect effect mediated by satisfaction (Ball et. al, 2004). Based on relational theory, it is extensively agreed in the literature that trust and

commitment are considerable variables in influencing customer loyalty in successful relationship (Ruben, 2007).

There are three main or distinct cultural groups in Malaysia, namely: the Malays, the Chinese, and the Indians. Because of the different values and lifestyles across each ethnic group, it has been inferred that various groups employ different and embedded cultural dimensions in choosing their banks. One of the strategies that could enhance in a big way customer loyalty in the service industry is quality of their services (Iqbal & Molyneux, 2005).

In many countries, studies have shown that there are significant choice criteria in relation to banking in terms of gender ethnicity, language, age and education level (Laroche et al 1986). Bank selection criteria which are based on these groups have found their way in the notion taken by most of the SME groups particularly on micro-enterprises. It is also found that customers with different demographic backgrounds had different levels of importance towards choice criteria for Islamic banks (Rashid & Hassan 2009).

Research conducted by Joy et.al (1991) found that ethnicity is a factor that influences the use patterns of most financial institutions in Malaysia. In fact, an exploratory research done by Rossiter and Chan (1998) highlighted that ethnicity is a very important factor for use in the consumer research and for ethnic micro culture it is the most potent influence on society and does affect decision making process. Based on this discussion, it is expected that ethnicity will have a significant influence on perceived service quality in determining micro-enterprise owners' loyalty towards their favorite banks and that the ethnicity of micro-enterprise owners does not have any impact in influencing perceived service quality on the owners' loyalty towards their favorite banks.

On the other hand, a study done by Heyatule (2010), where the study had drawn its data from the multi-ethnic group in Malaysia that due to the cultural difference that is in existence in Malaysia, there is a noticeable lack of homogeneity in the consumer behaviour where it is highly ethnicized or ethnically segmented. Ethnic relationship commitment leads to enduring desire to maintain the valued

relationship. The relational commitment exists only when the relationship is thought to be important (Zineldin & Jonsson, 2000).

Demographic characteristics must be considered by the bank managers to understand further their customers. Perception of the customers' towards the quality of the service differs in terms of gender, ethnicity, education and income (Zineldin & Jonsson, 2000). There is not much study that can support the effect of ethnicity to the relationship quality of banks to the micro-enterprises. Based on this, it is expected that ethnicity has a significant influence on the relationship quality in determining micro-enterprises loyalty towards their favorite banks. Ethnicity of micro-enterprise owners does not have any impact on the influence of relationship quality on the owners' loyalty towards their favorite banks.

3.2.6 Religiosity as a moderated variable influencing micro-enterprise owners' loyalty

It is universally accepted that religion played a considerable role in the process of economic growth in the early years of world history. Adam Smith (1776) for instance, the role of established clergies, one of religion's most imperative contributions to the economic development process was its value as a moral enforcement mechanism. In societies where there was a belief in God, the values of sincerity and truthfulness were more prevalent, and less resources would be devoted to determining the veracity of an individual's or firm's business ethics and economists call the credit or default risk associated with lending to an unknown individual. The establishment of the Islamic banks which in the past few years have vigorously grown in Malaysia and thereafter, spread to the whole world have received very wide acceptance for both the Muslims and non Muslims (Iqbal & Molyneux, 2005) in the country will see more influence of religiosity in business transactions.

Being one of the very important aspects in life for many customers, religion is a key element in their cluster of beliefs. This is a specific way of communication that is systematic and is a cultural arbitration. Religions not only have the capacity to differentiate people, but also to structure, and lend meaning to the local world of

interactions (Haq & Smithson, 2003). Prior research also indicates that the reference group often has a lot of impact on consumer behaviour (Fishbein & Ajzen, 1975; Kotler et al, 1999). On the other hand, Islamic banking has been established in order to satisfy the financial needs of the Muslims who have to observe the prohibition of interest-based transactions (Haq & Smithson, 2003).

Islamic banks have played their role similarly to what other conventional banks do other than being in conformation to Islamic principles and regulations (Henry and Wilson, 2004). A study conducted by Othman and Owen (2001), based on the fact that it is compliance to the religious principles such as Islam, is perceived as the most significant attribute that results in the criteria for choosing banks. Consequently, loyalty as investigated was discovered in their study where the Malaysians prefer to deal with the institutions that suit their religious values and principles.

According to the sustained filed experience of “Tabung Haji”¹, the Malaysian government also introduced a harmonized, methodical, and proficient process of materializing Islamic financial system. Haque et al., (2007a) state, that in the beginning they took the plan to familiarize the process by establishing BIMB and listed on the major board of the Kuala Lumpur Stock Exchange (KLSE) Bank Islam has developed itself as one of the most reputable financial institutions in the country. subsequently Islamic bank has played vital role for the overall Malaysian financial market (Dusuki & Abdullah, 2007). According to Aziz (2006) the Islamic banking industry has been growing at an average rate of 18 percent per annum since 2000 in terms of assets. Aziz (2006) cites that Islamic bank constitutes 8.2 percent of the total banking system in terms of assets, with roughly 70 percent of the assets being generated by the conventional banks.

At present 27 banking institutions (9 Islamic banks and 18 conventional banking institutions) are offering Islamic banking products and services under the

¹ Tabung Haji has been introduced to assist all the Muslims in Malaysia to perform hajj. It is among the top financial institution for caring up Muslim Malaysians wellbeing with regard to hajj. Tabung Haji was introduced in 1969 to administer and cater for the needs of Muslims in Malaysia to perform hajj. The objectives of Tabung Haji firstly, is to facilitate Muslims to accumulate savings and then use to proceed for their expenses in performing the pilgrimage or for other purposes beneficial to them. Secondly is to enable Muslims via their savings to participate in investments in industry, plantations and so forth according to Islamic teaching. Finally, to protect, control and welfare of Muslims while on pilgrimage through the various facilities and services of Tabung Haji. (Tabung Haji, 2011).

Islamic Banking Scheme (IBS) (Bank Negara, 2006). Based on the above, it can be concluded that religion has a marked influence on the reputation of banks. A religion has a significant influence on bank's reputation in determining micro-enterprise owners' loyalty towards their favorite bank.

According to Sethi (2002) attitude is accepted as one of the most important aspects in understanding and predicting behaviour of the customers. The attitudes that are displayed are generally good predictors of the probability of the customer's behaviour (Eagly & Chaiken, 1993). In addition, the match of the service user image with the customer's self-concept (Ekinici & Riley, 2003, Wang & Heitmeyer, 2005) mostly influences the customer's attitude towards a service. The philosophy of Islamic banking and finance are based on the premise that any kind of financial arrangements leading to investments that are considered '*non-halal*' are unproductive and socially undesirable and thereby they firmly prohibits them.

For Islamic products and services as they enter the market, a very important factor is the attitude, the perception and the knowledge of the market participants, towards the new products and services (Sethi, 2002). These factors determine the level in which the consumers choose to patronize these consumer products and services. The main concern is the influence of religion in persuading and their relative pricing, the cost and the benefits, their convenience, and the accessibility to these products and services (Eagly & Chaiken, 1993). As for the conventional banking, the availability of Islamic banking with their products and services could affect in a way the level of competition, thus affecting their position in the market, forcing them to strategise once again (Dusuki & Abdullah, 2007).

The following commercial products and services are offered by the Islamic banks making them highly competitive to conventional banks. First, they provide capital to a partial-equity partnership and in return they share profit. Secondly, is the full equity partnership, where the business is fully shared. Thirdly, they finance the purchase of goods and services, and purchasing on behalf of the customers among others.

According to Kotler (1997), it is the consumers, who make choices based on the mixture of the products' attributes that best meet their needs based on the

dimension of value, cost and satisfaction. Moreover, Assael (1991) indicates that the customer's attitude should be studied through demographic, attitude and belief. Additionally, it has been related that demographic is a factor that has a very big role in understanding the customers or the consumers' behaviour and attitudes (Jaywardhena & Foley 2000; Mattilla, 2001).

Moreover, both the attitudes and the non-attitude factors also influence behaviour in the choice of the service providers (Agle & Chaiken, 2007b). Therefore, as the results of the previously indicated studies it is showed that it that religiosity has a significant influence on perceived service quality in determining micro-enterprise owners' loyalty towards their favorite banks.

In recent times, we have been witnessing a broad religious reinterpretation, spurred on by the changes of the national and the global levels (Haynes, 1999; Has & Smithson, 2003). The political and the social cultural values that have been embedded in the development goals of a variety of projects have in big ways created the development and the use of technology (Madon, 2000). It is recognized that the customers perceived quality has a relationship with loyalty, hypothesizing an indirect outcome that is mediated by the satisfaction of the customers (Ball, 2004). On the other hand, because of the relational theory we find that trust and commitment are key or key variables in the influence of customer loyalty in a successful relationship (Ruben, 2007).

Islamic banks also assist in providing information on making considerable improvement on the nature of the business (Naylor & Greco, 2002). Alternatively, race and ethnicity are also very important in the question of effects. This is because the democratic anthropological sense has always described it as a '*whole way of life*', which is actually ordinary in every society and in every one's mind (Haq & Smithson, 2002).

According to consumer behaviour, it is seen that reference groups often impacts on the consumer behaviour (Fishbein & Ajzen, 1975; Kotler et al.1999). The banking sector is usually very personal that it does not depend on other people's

influence or examples. In fact, previous experiences regarding the services tend to influence people's perception (Fishbein & Ajzen, 1975).

Bank selection criteria as studied by Whitely & Kaynak (1999), observed that the convenience of a bank was the main motivation for customers in choosing their specific institution. In addition, the convenience motivation could also include location or other factors such as quality. In the study conducted by Haron et al. (1994), they highlighted the main difference in the patronage of the Islamic and conventional banks in their study of Muslims and non-Muslims in Malaysia. As in Errol and El-bdour (1989), and Errol et al (1990), their factor analysis indicated that the religious motivation was not the core reason for Muslims dealing with Islamic banks.

Furthermore, there was not any difference depicted by the Muslims and the non-Muslims in their bank choice of criteria for choosing banks with the provision of very fast and high quality bank services being the most important selection factor for both the Muslims and the non-Muslims. These findings also depicted that the Malays were not well-informed of the specific Islamic financing methods and yet they were aware of the existence of the Islamic banks.

A subsequent survey by Zainuddin et. al (2004) concluded that spouses, friends, relatives, and their innate religious motivation influenced decision making for banking. However, fast and efficient services were the major motivation of bank selection by the Malays (Haron et al, 1994). Verification shows that relationship rudiments affect customer loyalty and relationship practices have a direct impact on customer loyalty. Religion and relationship quality are predicted to have influence on customer loyalty, as construction of relationship with customer increases loyalty and purchases (Rauyruen & Miller, 2007). Therefore, religion has a lot of influence in relationship quality. Religious factor has a significant influence on relationship quality in determining micro-enterprise owners' loyalty towards their favorite banks.

In short, this study effectively delineates empirical evidence on the attitudinal differences of Malaysian customers toward Islamic banking services. As the competition among the banking service providers rose rapidly, concerns on

customers' attitudinal behaviours in the banking markets practically became the spotlight of academic and field researches.

In short, in this study, religiosity and ethnicity are related to four variables as listed below: banks' reputation, perceived service quality and relationship quality and the dependent variable, is the micro-enterprise owners' loyalty. The following discussion focuses on the hypotheses development of the study and link the explanation with figure 5.0.

3.3 Hypotheses Development

Micro-enterprises play a significant role in the developing and the least developed countries as they help in eliminating unemployment problems, which has always remained a major puzzle to the nation's economic growth. Although there are huge industries that play a part in mass production and have invested large amounts of money, they are always located in the urban areas, thus failing to play a important role in eliminating unemployment among the rural or marginalized people. This is where the micro-enterprises come in and reap a lot of success (Anderson, 1982; Macuja, 1981; Asher & Cosslett, 1989; Little, 1988; Little et al, 1987; Anderson and Khambeta, 1982). Additionally, these authors also found that micro-enterprises play a major role in the formation of job opportunities in the rural areas and also in the urban areas.

As a bank provides an array of services through time to the customers, it gains substantial knowledge about its customer's financial needs. The bank can use this knowledge to establish a close kinship with the customers. This kinship can, in turn, lead to benefits for both customer and the bank. For example, as a bank learns more about a customer's payment habits, it can tailor contracts to directly suit the financial requirements of the customer. A loyal customer will be more willing to purchase all of his financial services from the bank he trusts, aiding the bank in the marketing of profitable new products.

The banks are optimistic as this segment of SMEs particularly in micro-enterprises, is still immature and not saturated (Lassar et al, 200, Yavas & Yasin, 2001). However, many creditors believe that the SMEs financing market is big and its growth prospects are generally incredible. Thus, this SMEs market is expected to continue growing, although it will do so at

a slower rate due to increase in competition. In the past few years, the market structure has remained the same with a few large domestic banks and leasing agents taking the lead. Most banks perceive that there is the first mover advantage. This is because the SMEs particularly small businesses tend to use fewer banking institutions, thereby exhibiting very high loyalty, they also do less switching and shopping around like the corporate clients do. Despite the perception of its importance, the value in a modern economy of a close relationship between the bank and its customer is unclear. Many of today's financial transactions are executed via automated, anonymous markets that require little relationship-building. The banking industry in Malaysia comprises of Malayan Banking, CIMB group, Public Bank, RHB capital, AMMB Holding, Hong Leong Bank, EON Capital, Affin Holdings, Alliance Finance Group, and Bank Islam (Lassar et al, 2000; Yavas & Yasin, 2001).

Table 2.0

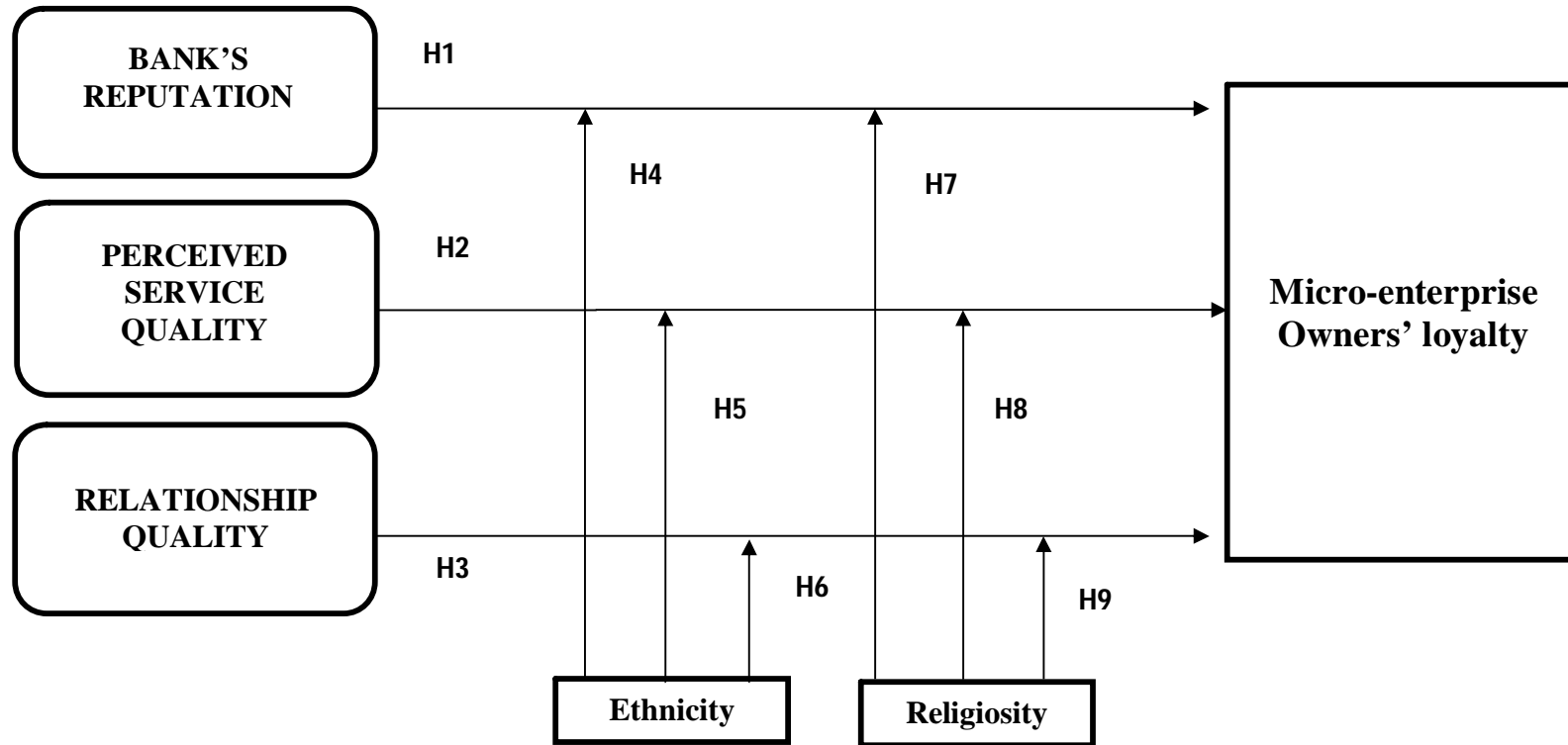
List of local commercial banks and Islamic bank in Malaysia

	Local Commercial Bank	Local Islamic Banks
1	Affin Bank Berhad	Affin Islamic Bank Berhad
2	Alliance Bank Malaysia Berhad	Alliance Islamic Bank Berhad
3	AmBank (M) Berhad	AmIslamic Bank Berhad
4	CIMB Bank Berhad	CIMB Islamic Bank Berhad
5	Hong Leong Bank Berhad	Hong Leong Islamic Bank Berhad
6	Malayan Banking Berhad	Maybank Islamic Berhad
7	Public Bank Berhad	Public Islamic Bank Berhad
8	RHB Bank Berhad	RHB Islamic Bank Berhad
9		Bank Islam Malaysia Berhad
10		Bank Muamalat Malaysia Berhad
11		EONCAP Islamic Bank Berhad

Note: http://en.wikipedia.org/wiki/List_of_banks_in_Malaysia. Assessed on 29th Dec 2011 and http://www.mifc.com/index.php?ch=menu_know_ibt_ib&pg=menu_know_ibt_ib_list.

Bank also help in ensuring that there is availability of loans for as wide a range of service for the micro-enterprises. The banks also ensure credit worthier to the micro-enterprises achieving high loan and interest rate repayments to make sure that there is a continuous flow of funds, thus making the micro-enterprises very dependent on the banks. In this regard the many parameters that the banks have to contend with in order to retain the old customers and bring in new customers are banks' reputation or image and how this affects their customers specifically in the small business (micro-enterprises).

Figure 5.0 Hypotheses for the research model



3.3.1 Banks' reputation

The banking industry is dynamic and to gain a competitive edge, it is critical for banks to build a positive reputation by offering high quality services that meet and exceed micro-enterprise owners' expectations. Clemes, Gan and Zhang (2010) argue that good reputation is an important intangible resource to a bank because it enhances micro-enterprise owner's loyalty towards their favorite banks. According to Kennington, Hill and Rakowska (1996), micro-enterprise owners tend to be loyal to bank that is reputable and has a good corporate image.

Kennington, Hill and Rakowska (1996) argue that banks' reputation is a major contributing factor to micro-enterprise owners switching from one bank to another. However, the stability of banking is usually defaced by the fact that the cost of switching for customers in the banking industry is low and as we know, when the opportunity cost is low, the chances of loyalty and the chances of stability also becomes low. This fact has always been making it easy for micro-enterprise owners to switch from one bank to another, in such a way that their reason is usually that if a bank's reputation falls short of their expectation, they can easily switch up and there will be no big problem that they need to deal with.

According to Clemes, Gan and Zhang (2010), the recent banking crisis in the United States posed a major challenge to smaller banks and they are still struggling to rebuild their image and reputation. Micro-enterprise owners also associate a bank's reputation and image with quality of service. Prior to making purchase decision micro-enterprise owners can only access the service quality by reviewing a banks reputation and its corporate image.

Clemes, Gan and Zhang (2010) further add that, a good reputation of a bank in the banking industry can help them with their image problem and enhance micro-enterprise owner's loyalty because service quality cannot be assessed accurately before purchase of service. Banks use reputation as a strategic tool to increase their profits by building micro-enterprise owners' loyalty towards their services. A banks reputation and corporate image also plays a fundamental role in building micro-enterprise owners loyalty by influencing purchase and repurchase patterns.

Kennington, Hill and Rakowska (1996) argue that micro-enterprise owners consider a bank's reputation as the minimum threshold during purchase and repurchase decisions. In addition, reputation is one of the key variables that micro-enterprise owners consider before other factors such as facilities, personnel and communication. There is a positive relationship between a bank's reputation and micro-enterprise owners' loyalty towards their favorite banks. Firms in the banking industry should therefore use reputation as a strategic tool to increase their market share and profitability.

As shown in the figure 5.0 therefore, this supports the sentiment of the hypothesis that banks reputation has a relationship with the micro-enterprise loyalty. From this reviewed literature the following hypotheses has been created:

H1 Banks reputation will have a positive effect on micro-enterprise owners' loyalty towards their favorite banks.

3.3.2 Perceived service quality

Service quality is a critical success factor in the banking industry. Perceived service quality is measured through quality of core services, human and non-human systemization elements of service delivery. A bank can differentiate its services from competitors in the industry using the quality of service it offers its customers. According to Siddiqi (2011), banks should constantly reinvent both human and non-human elements of service delivery in order to keep up with micro-enterprise owners changing expectations.

In most countries, there has been a significant growth in the banking sector which gives micro-enterprise owners a strong bargaining position. Service quality determines micro-enterprise owners' satisfaction and their loyalty towards their favorite banks. According to Culiberg and Rojsek (2010), it is critical for banks to offer exceptional services through friendly and highly competent employees in order to achieve and maintain competitive edge in the industry. Micro-enterprise owners

associate banking facilities such as banking systems with quality of service. According to Sureshchandar and Anantharaman (2003), banks should use the latest technology such as e-banking, mobile banking and automated teller machines to increase accessibility to banking services by micro-enterprise owners. In addition, banks should ensure that their service delivery systems are reliable and convenient. The quality of service also plays a fundamental role in building a bank's reputation and image. A positive bank's reputation is highly dependent on the quality of service that a bank offers micro-enterprise owners.

According to Siddiqi (2011), service quality is the difference between a micro-enterprise owners expectations and the actual service delivered by the bank. According to Sureshchandar and Anantharaman (2003), a match between service delivery and micro-enterprise owner's expectations increases satisfaction and loyalty towards a bank. Banks must strive to offer exceptional service to micro-enterprise owners in order to build loyalty. As highlighted in the figure 5.0 this is to say that service quality has an amicable relationship with micro-enterprise loyalty.

H2 Perceived service quality will have a effect on micro-enterprise owners' loyalty towards their favorite banks.

3.3.3 Relationship quality

According to Sureshchandar and Anantharaman (2003), over the last one decade the banking industry has changed drastically owing to improvements in communication infrastructure and increased use of self-service technology. Modern communication and self-service technology are non-personal in nature, which present a major challenge for banks that want to maintain a competitive edge through relationship quality. According to Ahmad (2005), irrespective of the changes in delivering of services, banks cannot underscore the importance of strong relationship with their customers. The bank-customer bond is a critical success factor for survival in the banking industry.

Micro-enterprise owners evaluate service quality based on trust, commitment and satisfaction with the bank's policies and procedures. A bank should establish policies and procedures that will promote trusting and on-going relationship with micro-enterprise owners. Relationship quality plays a fundamental role in enhancing a bank's ability to retain its existing customer base. Banks and micro-enterprise owners interact and form bonds, which exemplify commitment thus reducing the likelihood of switching to another bank. A bank should cultivate a committed relationship that aims to promote the welfare of micro-enterprise owners.

Ahmad (2005) argues that in the banking industry a committed and trusting relationship between banks and micro-enterprise owners goes beyond face-to-face interactions. Micro-enterprise owners engage in non-personal interactions with self-service and modern communication technology. Whether using human or non-human methods of service delivery banks should establish trust by ensuring confidentiality and reliability of service. When using an automated teller machine, a micro-enterprise owner will evaluate the non-personal relationship depending on commitment by the bank to ensure safety, reliability and convenience when disbursing cash and information. Since all interactions between micro-enterprise owners and the bank involve cost-benefit analysis, the bank should strive to maximize the benefits accruing to micro-enterprise owners by establishing procedures which will enhance satisfaction. When the non-personal relationship with a bank's system does not meet the micro-enterprise owner's expectations, the likelihood of switching to another bank is very high. Vegholm (2011) argues that although corporate customers are more reluctant to switch banks, when offered quality relationships by another bank through commitment to promote well-being, trust, favorable policies and procedures they will not hesitate to switch. Relationship marketing has been a subject of interest among many marketing scholars over the last few decades. It is therefore critical for a bank to create quality relationship with micro-enterprise owners fostered through commitment and trust in order to increase loyalty and its competitiveness in the industry.

As mentioned in the figure 5.0 the following propositions are projected: that there is a relationship between relationship quality and business loyalty. Consequently, the following hypothesis is made:

H 3 Relationship quality will have a positive effect on micro-enterprise owners' loyalty towards their favorite banks.

3.3.4 Ethnicity and banks' reputation

Ethnicity is a moderating factor, which micro-enterprise owners consider as an important factor in some situations when determining a bank's reputation and image (Lopez et.al 2007). Micro-enterprise owners evaluate a bank's reputation based on reputation and image. According to Dhaliwal, Stone and Foss (2003), some banks have used ethnicity as a factor to develop new products for minority groups who cannot use conventional banking due to their cultural and religious beliefs.

Ethnic micro-enterprise owners tend to be loyal to banks that have tailor-made products to cater for their needs (Dhaliwal et.al., 2003). Micro-enterprise owners who value their ethnicity determine a banks reputation and image depending on the banks ability to cater for the needs of the ethnic group that he or she belongs. For example, most banks in Malaysia have included Islamic Banking into their portfolio, in order to attract micro-enterprise owners of Islamic background. Dhaliwal et., al (2003) further argue that micro-enterprise owners will only use ethnicity to determine a banks reputation if they have strong affiliation to ethnicity. The banking industry uses business type, ownership structure and capital needs when categorizing their corporate clients. It is critical for banks to include ethnicity of the micro-enterprise owners when the target market comprises of a large number of potential customers with strong affiliation to ethnicity.

According to Lopez, Hart and Rampersad (2007), banks have decentralized their operations to increase accessibility of their services at the grassroots. Unlike banks in urban areas, banks in rural areas serve customers from one or two ethnic groups. Ethnicity plays a fundamental role in determining the banks reputation and micro-enterprise owner's loyalty towards their favorite bank only if the micro-enterprise owners have strong affiliation to ethnicity. When the majority of micro-enterprise owners served by a bank have strong affiliation to ethnicity, it is critical for the marketing manager to incorporate ethnicity during decision-making in order to build a

positive reputation and image. Ethnicity of micro-enterprise owners does not have any impact on the influence of bank's reputation or the owner loyalty towards their favorite bank unless the micro-enterprise owners have strong affiliation to ethnicity.

According to Lopez, Hart and Rampersad (2007), with globalization and transformation of the family unit in the society, most individuals have abandoned ethnic ties and adopted modern value system. Second and third generation micro-enterprise owners determine a bank's reputation and image using service and relationship quality. According to Burton (1996), ethnicity is just a moderating factor that has little or no significance on the bank reputation. According to Dhaliwal et.al., (2003), Malaysia is a country that is predominantly Islamic in their beliefs. In Islam, the private and the public facets of life are considered as the same and Islam as a religion has always provided for the right ways to work on things even on banking. However, micro-enterprise owners who are not Muslims evaluate a bank's reputation and image using service and relationship quality which are highly important when it comes to making a rational and economic decision.

In addition, micro-enterprise owners with weak affiliation to ethnicity are loyal to banks that offer them exceptional services and timely information for decision-making. Therefore ethnicity of micro-enterprise owners does not have any impact on the influence on banks reputation and the owners' loyalty towards their favorite bank when he or she has weak affiliation to ethnicity.

H4 Ethnicity of micro-enterprise owners does not have any impact on the influence on bank's reputation and the owners' loyalty towards their favorite banks.

3.3.5 Ethnicity and Perceived service quality

According to Dhaliwal et.al., (2003), from the Malaysian perspective micro-enterprise owners with a strong affiliation to ethnicity evaluate perceived service quality using core services, human and non-human service delivery and ethnicity.

Ethnicity, unlike other factors defining the target market, determines the product needs of micro-enterprise owners and is thus, a critical success factor. According to Lopez, Hart and Rampersad (2007), ethnicity also determines the micro-enterprise owner's purchase and repurchases patterns. Service quality and satisfaction is highly dependent on the ethnicity of the micro-enterprise owner when he or she has a strong affiliation to ethnicity. According to Burton (1996), micro-enterprise owners with a strong affiliation to ethnicity are loyal to banks that uphold their cultural values and beliefs. The ethnicity of the micro-enterprise owners has significant influence on the bank's reputation and loyalty to their favorite banks only when he or she has strong affiliation to ethnicity.

Some ethnic groups such as Asians and Muslims tend to be loyal to banks that uphold their cultural values and beliefs during service delivery (Dhaliwal et.al., 2003). They also evaluate a bank's reputation, based on the bank's ability to tailor a product, which will serve their special needs. The introduction of Islamic banking shows that ethnicity of the micro-enterprise owner has great influence on the bank's reputation and loyalty towards a favorite bank especially when the micro-enterprise has a strong affiliation towards ethnicity.

According to Lopez, Hart and Rampersad (2007), different ethnic groups perceive service quality differently. Service quality determines the reputation of the micro-enterprise owner's bank and their loyalty towards their favorite banks. The ethnicity of the micro-enterprise owner has significant influence on the influence of bank's reputation and the owner's loyalty towards their favorite banks. It is therefore critical for banks to take into consideration the ethnicity of micro-enterprise owners during service delivery in order to enhance customer loyalty and a positive bank's reputation.

According to Li (2003), most industries including banks have tailored their banking services in response to changes in the demographics to enhance a positive corporate image and increase brand loyalty. Lopez, Hart and Rampersad (2007) contend the move by organizations to include ethnicity when defining their target market is only aimed at increasing their market share across the board. Ethnicity of the micro-enterprise owner does not have influence on the perceived quality and owners' loyalty towards their favorite bank. Li (2003) argues that ethnicity is just a

moderating factor especially if the micro-enterprise owner has a weak affiliation to ethnicity when determining perceived service quality. Micro-enterprise owners prefer banks which offer quality through highly competent employees and modern service delivery technology.

According to Lopez, Hart and Rampersad (2007), with globalization and drastic transformation of the family unit ethnic affiliations have become less important during purchase decisions. Only first generation micro-enterprise owners use ethnicity to determine the bank's reputation and their loyalty towards their favorite banks. Second and third generation micro-enterprise-owners use service quality, reputation and relationship during purchase and repurchase decisions. Despite the strong correlation between age and ethnic affiliations, in most situations ethnicity is just a moderating factor, which has little significance on bank reputation and micro-enterprise owner's loyalty towards their favorite banks.

H 5 Ethnicity of micro-enterprise owners does not have any impact of the influence on perceived service quality on the owners' loyalty towards their favorite banks.

3.3.6 Ethnicity and Relationship quality

Ahmad (2003) argues that difficulty in differentiating products in the banking industry has prompted most banks to use relationship marketing in order to increase competitiveness in the industry. The quality of relationship that a bank establishes with its customer's plays a fundamental role in determining micro-enterprise owner's loyalty towards their favorite banks. The quality of the relationship between banks and micro-enterprise owners is based on the trust and commitment during service delivery and communication. According to King and Crowther (2004), ethnicity of the micro-enterprise owner affects relationship quality only if he or she has strong affiliation to ethnicity. Micro-enterprise owners with strong affiliation to ethnicity evaluate relationship quality by assessing the bank's commitment in promoting their values and beliefs.

Banks can only show commitment to a micro-enterprise owner's ethnicity by incorporating his or her values and beliefs into communication, policies and procedures during interaction with bank's employees and service delivery systems. In order to foster quality relationship when servicing ethnically diverse micro-enterprise owners the bank should ensure that all its employees are culturally diverse.

The employees should aim to understand and appreciate the values and beliefs of the micro-enterprise owners, which will help build to trust and commitment. There is a positive relationship between ethnicity, bank reputation and micro-enterprise owners' loyalty towards their favorite banks when the micro-enterprise owners have a strong affiliation to ethnicity.

The ethnicity of micro-enterprise owners only has little or no significance when the micro-enterprise owner has a weak affiliation to ethnicity (McCallister, 2001). When a micro-enterprise has weak a affiliation to ethnicity, he or she uses factors such as perceived service quality, reputation and image to determine loyalty towards a bank. Ethnicity is just a secondary factor with little or no influence on the purchase decision. According to Lopez, Hart and Rampersad (2007), second and third generation micro-enterprise owners relationship quality is greatly influenced by a bank's commitment to offer convenience during service delivery through use of technology such as automated teller machines, mobile and internet banking. The relationship between the bank and the micro-enterprise owners is non-personal. Communication between the bank and modern micro-enterprise is based on trust assessed by quality of information offered and confidentiality policies established by the bank. In addition, a micro-enterprise owner with weak affiliation to ethnicity has favorite banks is also greatly influenced by satisfaction of policy and procedures. Micro-enterprise owners' ethnicity does not have any influence on the bank's reputation and micro-enterprise owners' loyalty towards their favorite banks. Ethnicity of the micro-enterprise owner has no influence on bank's reputation and loyalty towards his or her favorite bank especially when he or she has weak affiliation to ethnicity.

H6 Ethnicity of micro-enterprise owners does not have any impact of the influence of relationship quality on the owners' loyalty towards their favorite banks.

3.3.7 Religiosity and banks' reputation

Religion plays a fundamental role in influencing consumer social and purchase behavior especially when the consumer has strong religious affiliation (Swimberghe, Flurry & Parker, 2011). Differences in religious affiliations cause variation in purchase and repurchase decisions for micro-enterprise owners (Khraim, 2010). Religious beliefs and values influence a micro-enterprise owner's influence of perceived service quality and loyalty towards their favorite banks. Micro-enterprise owners tend to be loyal to banks that promote their religious beliefs and values. In addition, religion influences the micro-enterprise owners perceived service quality which has significant influence on a banks reputation.

According to Singh & Paolillo (2007), religion represents a market niche, which demands religious products. For example, in Malaysia, Islamic banking has tailored financial services to match Islamic beliefs and values thus satisfying the needs of the Islamic market segment. Islamic banking is tailored according to the Shari'ah law in order to promote Islamic religious values and beliefs. For example, Shari'ah law "Riba" or charging interest is unlawful because it is viewed as exploitative. When a bank serves a large number of micro-enterprise owners from Islamic background it is critical to tailor a product that takes into consideration their religious beliefs and values in order to portray a positive reputation and image. Religion has a significant influence on a banks reputation and micro-enterprise owners' loyalty towards their favorite banks only when the micro-enterprise owners have strong religious affiliation.

According to King and Crowther (2004), although religion plays a significant role in determining consumption patterns, when a micro-enterprise owner has weak religious affiliation, religion is just a moderating factor during the purchase and

repurchases decision. Micro-enterprise owners with weak religious affiliation use perceived service quality and relationship quality to determine a bank's reputation and their loyalty towards a bank. According to Singh & Paolillo (2007), micro-enterprise owners with weak religious affiliation will evaluate a bank's reputation based on universally acceptable standards. For instance, micro-enterprise owners will be loyal to banks that exercise corporate social responsibility because it is universally acceptable for organizations to act ethically. While micro-enterprise owners with strong affiliation to religion will be loyal to banks that give back to society and the less fortunate groups in the society because of their religious beliefs, a micro-enterprise owner with weak religious affiliation will be loyal to the bank because it is ethical and universally acceptable to engage in corporate social responsibility (Vitell, 2009). Religiosity forms the basis for micro-enterprise owners' values and beliefs but it is just a moderating factor without any direct impact on the bank's reputation and owners' loyalty towards their favorite banks.

H7
Religiosity of the micro-enterprises owner does not have any impact in influencing banks reputation the owner's loyalty.

3.3.8 Religiosity and Perceived service quality

Religion is an element of culture that influences every aspect of the society and an individual whether he or she is a believer or non-believer (Khraim, 2010). Religious tenets form a stable pillar in the society and it is a valuable construct, which marketers must understand to determine consumer social and purchase habits (Singh & Paolillo, 2007). Religious affiliations and extent of observance vary from society to society. Religious values and beliefs have great influence on micro-enterprise owners perceived service quality. If religious beliefs of a micro-enterprise owner promote friendliness and shun lazy people in the society, the micro-enterprise owner expects high competence and friendliness from bank employees during service delivery. If a dishonest, incompetent and rude employee serves the micro-enterprise owner, he or she will switch to a bank that promotes his or her religious values. For example, Shari'ah laws promote 'Wadiah' or safekeeping. The bank's service delivery method should ensure safety of its micro-enterprise finances and private information in order

to portray a positive image and reputation to its micro-enterprise owners of Islamic background. In order to increase micro-enterprise owner's loyalty marketers should ensure micro-enterprise owners' perceived service quality matches with the service offered by the bank. Religiosity has significant influence on the perceived service quality in determining micro-enterprise owners' loyalty towards their favorite bank whether he or she a believer or not.

In situations where a micro-enterprise owner has weak religious affiliation, he or she uses other factors such as reputation, image and relationship quality to assess the perceived service quality and loyalty towards his or her favorite banks. Religiosity is just a moderating factor during purchase and repurchased decision for micro-enterprise owners with weak religious affiliations. Micro-enterprise owners have hectic day-to-day schedules and tend to be loyal to banks that offer high quality services through reliability, convincing and accurate information during service delivery. Religion is just a secondary factor when micro-enterprise owners are determining a banks reputation and loyalty towards their favorite banks. According to King and Crowther (2004), religiosity only forms a platform for determining the perceived service quality but does not have a direct impact on the micro-enterprise owners' loyalty towards their favorite banks.

According to Singh & Paolillo (2007), micro-enterprise owners want up-to-date information, reliability of service, convenience and competence that will increase efficiency of their operations. Factors such as corporate social responsibility and ethics are secondary during purchase and repurchase decisions, if the bank's service quality matches the expectations of the micro-enterprise owners. Therefore, religiosity of the micro-enterprise owners does not have an impact on the influence of perceived services quality or owners loyalty towards their favorite banks.

H8 Religiosity of the micro-enterprises owners does not have any impact in influencing perceived service quality of the owners' loyalty.

3.3.9 Religiosity and Relationship quality

The relationship between a bank and its customers is built upon common values and beliefs. The values established by a bank should focus on promoting the welfare of all its stakeholders including employees, customers and society. Micro-enterprise owners tend to be loyal to banks that share in their values and beliefs. Both believers and non-believers derive their values and beliefs from religion. According to Kum-Lung and Teck-Chai (2010), religion forms a pillar for acceptable behavioral standards in the society. According to Khraim (2010), although different religious organizations offer different religious tenets to their followers, they tend to promote the same values in the society. Relationships in the society are governed by commonly acceptable values. Religion plays a fundamental role in determining the quality of relationship between the bank and micro-enterprise owners when the micro-enterprise owner has strong religious affiliations. Micro-enterprise owners' loyalty to their favorite banks is greatly influenced by religion. For instance, when the religious beliefs and values of a micro-enterprise owner promote fairness among all regardless of their social status in the society, he or she will be loyal to banks that have policies that ensure its employees with are treated with dignity through good working environment and commensurate payment package. For example, the Islamic religious beliefs and values on finances differ slightly from other religions. Most banks have introduced Islamic banking in order to foster quality relationship with Muslim micro-enterprise owners based on the shared value system. Therefore, religions have a significant influence on the relationship quality and micro-enterprise owners' loyalty towards their favorite banks.

Micro-enterprise owners with weak religious affiliations assess relationship quality based on banks' commitment to promote their welfare through timely information, confidentiality and friendliness during service delivery (Mokhlis, 2006). Micro-enterprise owners want up-to-date information, which increases effectiveness of decision-making in their organizations. The relationship between the micro-enterprise owners and the banks should be based on trust and common values. A bank can enhance trust and build quality relationship with micro-enterprise owners by ensuring reliability of service and accuracy of information.

According to Khraim (2010), when the micro-enterprise owner has weak religious affiliation, he or she uses universally accepted principle to evaluate the quality of relationship with a bank. For instance, it is prudent for banks to give all their clients timely and correct information to help in decision-making. Banks that do not communicate information that could affect micro-enterprise owners' decision-making in a timely and correct manner have low quality relationship. Religion is just a moderating factor when determining the quality of relationship between the micro-enterprise owners and their banks.

H9 Religiosity of the micro-enterprises owner does not have any impact of the influence of relationship quality or the owner loyalty towards their favorite bank.

3.4 Domain in the model

The proposed model is expected to be appropriate in most situations particularly in the relationship between service providers and their loyal business client. In some instances, this model is thought to be not appropriate for mass customers who do not have any specific interest in their service providers' particular financial interest. Captive customers who do not have any option to make a choice are also not considered in this research model. In short, this model is expected to apply only in those situations where a customer has a choice of service providers and is not locked or forced into using only one provider.

3.5 Summary

This chapter has presented a new model of service loyalty which is based upon literature review and analysis of in-depth interviews. This model includes three factors expected to influence the development of service loyalty, including perceived service quality, bank's reputation and relationship quality. The moderated factors; religiosity and ethnicity also play important roles in determining loyalty to their service providers in this model. The chapter concluded with a discussion of the proposed relationship among the constructs in the model, presented in the form of hypotheses which is supported by previous literature.

CHAPTER 4

RESEARCH METHODOLOGY

This chapter discusses the rationale behind the study. It begins with the research paradigm as the basic foundation, followed by the research framework which includes approach, strategy and data collection for both methods. The methodology and approach explained here will be a guideline in the organization of data collection, the analysis process and research findings for both qualitative and quantitative methods. Further deliberations on adapting both study methods were made before deciding on the best approach in answering each of the research questions.

4.1 Overall research design

Research methodology is a body of knowledge that enables the researcher to clarify, explain and analyse the methods that are engaged in this study. It also indicates limitations of the research and available of the resources, identifying their presuppositions and consequences, and relating their potentialities to research advances (Miller 1983). Moreover, it helps to underline the types of questions that can be addressed and the nature of the generated evidence. Consequently, the issue of research methodology is vital for all sorts of studies. Thus, appropriation between paradigm of the research, nature of data, and methods of collection are the major implications upon the findings of the research investigation.

4.2 Research paradigm

This study has adapted the qualitative and quantitative research methodologies in the pragmatic research paradigm. The choice of paradigm may be thought of as worldview, epistemological stance, a set shared belief or as some combination of these (Creswell et al., 2008). The qualitative phase of the study was conducted in the phenomenological tradition of inquiry, where the researcher aims to build up a deeper understanding of the phenomenon under study by applying the in-depth inquiry into micro-enterprise owners' relationship experiences with their favorite banks. By understanding this approach, the researcher should come away with the feeling, ' *I understand better what it is like for someone to experience that*', in reference to the phenomenon under study (Polkinghorne, 1989, p.46)

It is a strategy of inquiry in which the researcher identifies the essence of human experience regarding a certain phenomenon as described by participants (Creswell, 2009, p.13). The key point here is to gain the subjective experience of the informants. In other words, this approach seeks to understand the world from the informant's point of view (Gray, 2009, p.171). The implementation of qualitative methods in this study's perspective is to enable the researcher to explore and understand further the informants' view on being loyal to their existing service providers and any other elements that may influence the micro-enterprise owner's loyalties which are not mentioned in current literature within the Malaysian settings. In addition, the researcher's experience as a banker dealing with the bank's corporate clients in both conventional and Islamic banking actually helped in assisting and investigating the subject from the interpretive paradigm.

The second stage of the paradigm adapted in this study is '*positivism*'. This research philosophy is also known as quantitative paradigm (de Vaus, 2001; Collis & Hussey, 2003) and scientific approach (Frankfort-Nachmias & Nachmias, 1992; Sekaran, 2000). This research paradigm has a long tradition in business and management research, and can be traced back to the philosophical stance of the natural scientist (Saunders et al., 2003). In management, research that is based on a

positivistic perspective is aimed to generate causal relationships or laws which manage the ways in which organizations operate. This permits management to become more scientific and allows managers to envisage and control their environments (Johnson & Duberley, 2000).

Positivist paradigms are preferred when '*working with an observable social reality and believe that the end product of such research can be law-like generalizations similar to those produced by the physical and natural scientists*' (Remenyi et al., 1998, p.32). It means that the positivistic researchers believe they are independent of what they study and are value-free in selecting both what to study and how to study including collecting and analyzing the data.

For the purpose of generalization, a sufficient size of sample is required in order to allow the researcher to draw appropriate conclusions and for it to be representative of the wider population. The positivists attempt to identify causal explanations through a process of hypothesizing and deduction (Easterby-Smith et al., 2004). It is believed that the problems should be reduced into the simplest possible elements (reductionism) rather than analyzed as a whole situation (holistic view). They are also focused on a highly structured methodology, operationalization and statistical analysis in order to permit replication (Saunders et al., 2003).

In short, from the philosophical stance, this study embraced qualitative and quantitative approach to explore and explain the issue regarding the bank's small business customers; loyalty towards their banks in the Malaysian scenario. This is in line with the pragmatism worldview, which typically is associated with mixed methods research (Creswell & Clark, 2007).

The choice of explanatory mixed methodology where early qualitative research results were subjected to later quantitative analysis was driven largely by the strength of the emergent themes of the qualitative phase of the research. The combination of methods could provide a better understanding of research problem rather than one approach alone (Creswell & Clark, 2007). In fact, mixing of both

qualitative and quantitative sources provides a more robust analysis because the two data collection and analysis methods supported each other, while compensating for the weaknesses of each other (Greene, Carecelli & Graham, 1989 and Morgan, 1998). In addition, the use of both qualitative and quantitative data can be used to construct theoretical models (Remenyi & Williams, 1996).

The reasons for using different methods will allow the researcher to examine the research problem from various perspectives (Easterby-Smith, Thorpe & Lowe, 1991). The advantage of this approach is that it enables the researcher able to look at the problem from several angles (Gioia & Pitre, 1990 and Patton, 1990). The different sources of information will be included such as previous published articles, journals, published work, expert panel, pre-test questionnaires, in-depth interviews, and cross sectional surveys. Hence, various sources of information are taken into account and contribute to the findings of this study.

Brewer and Hunter (1989) highlighted three reasons on the importance of using both methods: (1) most problems are the subject of repeated investigation, so using different methods within the same study provides a means of replication within the investigation, (2) inquiries based on one type of research may not accomplish what they call '*healthy scepticism*', and (3) using different methods guards against biases either for or against certain types of theories. Multi-method approaches allow for multiple perspectives to be collected when studying a phenomenon. Thus, this explanation is supported by Brinberg and Hirschman (1986), where multi-methods will provide the strength of one method and can often compensate for weaknesses in other methods. The main strategy as a fundamental for using this methods is to attack a research problem with method that have complementary strengths and non-overlapping weaknesses (Brewer & Hunter, 1989).

Finally, combining the qualitative and quantitative methods could helps to extend a conceptual framework to certify qualitative findings by referring to information extracted from the quantitative phase of the study and to construct

indices from qualitative data that can be used to analyze quantitative data (Madey, 1982). First, the findings of the qualitative study will be reported. Then, the quantitative study will explore the findings of the results from the qualitative study. To be precise, the results from the qualitative study become the basic foundation and indicator for the quantitative study.

In this study, the researcher adapted the qualitative data method in which data were collected and analyzed first. In the second phase, the quantitative method was used to confirm the variables found to be significant predictors of the micro-enterprise owner's loyalty towards their favorite service providers. Even, the scholars have argued that while the quantitative paradigm is often appropriate for theory testing (i.e. justification), the qualitative paradigm, which seeks to understand behaviour of the informants from their own frame of reference (Hudson & Ozanne 1988). As recommended by Creswell and Plano (2007), there are three main things that have to be considered prior to the selection of the study's research approach that is timing, weighting and integration.

Timing refers to whether qualitative or quantitative data collection and analysis occur concurrently or sequentially. For this study, data collection and analysis followed the sequential order, where the qualitative data were collected first followed by the collection and analysis of the quantitative data. Then, in the conclusion and recommendation chapters, the results will be integrated from both methods. Weighting refers to which method, either qualitative or quantitative, is given more weight or emphasis. In this study, priority was given to the quantitative data as the second phase of the study and qualitative data played a lesser or secondary role. The quantitative study played a primary role in this study because the central aim of the study was to identify the role of mediator variables in influencing the micro-enterprise owners' loyalty.

The final criteria recommended by Creswell and Clark (2007) are integrating. This stage in the research process where connecting or mixing the qualitative and quantitative approaches in the study at the research questions, research sample, research instrumentation, and research conclusion levels (Yin,

2006). At the research sample level, integration occurred because the qualitative informants were purposefully selected to be respondents for the quantitative survey. At the research instrumentation level, integration was supported by the overlap and the complementary nature of the survey items and the interview questions. At the research conclusion stage, integration occurred because the quantitative findings will be supporting qualitative earlier findings. At the conceptualization stage, both qualitative and quantitative approaches were used to formulate the study's purpose statement and research questions.

4.3 PHASE 1: QUALITATIVE STUDY

In this research, the qualitative study is considered essential although it will be the secondary vehicle to investigate the nature of micro-enterprise owners' as a small business perspective with their banks. From the ontological point of view, this study is based on the assumption that *'.....people's knowledge, views, understanding, interpretation, experiences and interactions are meaningful'* (Mason, 2002 p.63). This is because from the epistemological view, it is assumed that people talking interactively is a meaningful way to create data. This is supported by Miles and Huberman's (1994) design of a framework for qualitative research which stated that:

- It should be conducted through intense contact within a real life setting.
- The researcher's role is to gain a holistic or integrated overview of the study, including the perceptions and participants.
- Themes that emerge from the data were reviewed with informants for verification.
- The main focus of research is to understand the ways in which people act and account for their actions.

The purpose of this phase is to answer the first research question concerns the experiences of the micro-enterprise owners' in dealing with their favorite banks by looking at the small business owners' points of view. This will direct the researcher to understand the factors that influence them to stay loyal, bank's interest and normal factors (e.g. service quality, convenience) that other researchers used to highlight in their research findings. The main inquiry instrument used in this phase was the semi-structured in-depth interview guide.

During the fieldwork stage, the researcher spent time in setting up the study particularly at specific banks such as Maybank, Citibank and CIMB Islamic Bank particularly at the counters and loans department or wherever beneficial situations to study occur. The researcher took the opportunity to interview and analyze the documents (Patton, 2002: p.4) and had some informal chat with the banks' business clients.

4.3.1 The data collection method and instrument

The following explanation focuses on data collection methods for phase 1 of the qualitative

4.3.1.1 Semi-structured interview

Semi-structured interview is the major data collection method used in the first phase of data collection. The main reason of study 1 was to extract insights into the nature of the relationship between the micro-enterprise owners and their banks as their service providers in B2B (Small Business) perspectives that could contribute to loyalty. Interviews are used to obtain a first-person's description of some specified domain of experience Cope (2005).

The advantage of using the semi-structured interview is to allow the interviewers to ask more probing questions during interviews in order to gain

more information from informants and at the same time to control the direction of the interview. This technique is the most suitable technique in developing understanding of how micro-enterprise owners' construct the meaning of their experiences (Seidman, 1991). Secondly, probing questions allow the investigation of one-to-one micro-enterprise owners - service provider relationship closely. In addition, in-depth interviews allow probing of the concepts such as psychological loyalty of micro-enterprises owners towards their service providers in relation to business matters. Bryman and Cassell (2006) believed that the strongest reason for the interview used is because the questionnaires are unable to answer all aspects of the research questions. Through the interviews, researchers are able to tackle uncovered areas where practice and opinion have not been articulated in a systematic way. This is vital to gather insights that would assist the concept and measurement scale development that will be used later.

4.3.1.2 Informant sample recruitment

Only the micro-enterprise owners based on the Malaysia's SMEs (Micro-Enterprise) definitions are the targeted respondents to participate in the study. A total of 20 informants were purposefully selected from the list of banks and SMECorp database out of 30 informants that have been suggested. The researcher had to call and email 30 micro-enterprise owners for confirmation that they belonged to the list of clients of the conventional and Islamic Banks and they can name one bank as their favorite banks. This was just to remind respondents not to have more than one favorite bank. An interview confirmation letter thanking the final listed 20 informants for their interest in participating in the interview was mailed one week prior to the anticipated interview date, along with a list of the available interview times. The informants were informed and encouraged to notify the researcher if they had any questions related to the study or if they needed the researcher to provide additional times and dates on weekends to complete the interview.

4.3.1.3 Characteristics of informants

The chosen informants are the ones who could represent the population of the banks of small business clients that have purchased and used a few of the banks' products or services and to generate as much information as possible on their extent of loyalty.

As mentioned earlier, the micro-enterprise owners are actually the initial intent focusing on the needs of the study. A theoretical sample (judgment or purposive sample) of the bank's micro-enterprise owners was selected. The most logical criteria for selecting informants appeared to be the likelihood of each informant having used a number of different services and thus having experienced a variety of decisions regarding the selection and continued use of several kinds of service providers (Jorgensen 1989). The final sample included 20 micro-enterprise owners. The previous research has suggested that samples of eight to twelve informants are sufficient for generating themes in this type of qualitative work (McCracken 1988; Schouten 1991).

The sample for micro-enterprise owners chosen from a varied range of gender, age and race portraying at least three main races in Malaysia including Malay, Chinese and Indians as well as other ethnic races in East Malaysia. Table 4.0 below shows a brief description of each informant in the customer's samples.

Table 3.0
List of micro-enterprise informants

Informant Initial	Age	Gender	Race	Type of Business	Type of Banks	Years in Business
OP	36	Male	Malay	ICT consultant	LCB	12
MA	38	Male	Malay	Architecture firms	LIB	10
JT	36	Male	Malay	Production House	LCB	8
CH	38	Male	Chinese	Interior Designer	LCB	15
ZHR	41	Male	Malay	IT and Telecommunication	FIB	12
SHR	50	Male	Malay	Medical Consultant	LIB	20
MKJ	38	Male	Chinese	Health consultant	FCB	10
MHZ	40	Male	Indian	IT and Dev. Consultancy	LCB	13
AO	34	Male	Malay	Legal Firm	LCB	10
MN	36	Male	Malay	Travel Agency	LCB	12
SA	40	Female	Malay	Cleaning Services	LCB	15
GC	45	Male	Chinese	Agro Chemical Supplier	LCB	18
MA	50	Female	Indian	Education Consultant	LIB	22
VV	40	Female	Swk Native	Cleaning Services	LCB	12
VJ	38	Male	Indian	Medical Consultant	LCB	7
SHM	42	Male	Malay	Legal Company	LIB	16
CHN	38	Female	Chinese	Insurance Agency	LCB	7
MTH	33	Male	Indian	Medical Consultant	LFB	8
ZHM	41	Male	Malay	Wedding Planner	LIB	10
MZH	50	Female	Malay	Travel Agency	LIB	12

Note: LCB (Local Conventional Bank), LIB (Local Islamic Bank), FCB (Foreign Conventional Bank) and FIB (Foreign Islamic Bank)

The sample was selected among conventional and Islamic banking customers consisting of the micro-enterprise owners who are the bank's corporate clients and who have also been using the financial services offered by their favorite banks. The informants of this study were recruited through the banks and SMEs related institutions. These informants were deemed sufficiently diverse in their choices as well as in their use of banking products and services. In approaching the informants, they were asked whether they were interested to participate in the study of customer loyalty that would take approximately more than half an hour. All informants who

were approached agreed to participate. Interviews were conducted over a period of six weeks.

4.3.1.4 Interview format

The interview began with a brief explanation of the purpose of the study to understand why the micro-enterprise owners were generally loyal to their specific banks. A few qualifying questions were asked to clarify, whether they belonged to the micro-enterprise group and whether they used a few facilities either from conventional or Islamic banks for both local and international banks. To attract their attention during the interviews, the researcher allowed informants to describe in brief their business operation with the current economic situation and opportunities. As part of the qualifying question, informants should be '*satisfied*' with their existing banks of choice, before they can proceed with the interviewing process.

This later led to the source of financing for running their business which is purposely divided into portion of local or foreign conventional and Islamic banks. Furthermore, the interviewer showed to the informants a list of conventional and Islamic banks for local and foreign banks that operate in Malaysia and asked them to identify their bank of choice and where they hold an account (Refer to Table 4.1). During the loosely structured interview, the informants were also asked to explain why they chose those specific banks and not other banks. The informants were encouraged to share the good things of their favorite banks with little interruption from the researcher.

Table 4.0**List of banks operating in Malaysia**

Local Conventional Bank	Foreign Conventional Bank	Local Islamic Bank	Foreign Islamic Bank
1. Malayan Banking Berhad	1. Citibank	1. Bank Muamalat Malaysia Berhad	1. Asian Finance Bank Berhad
2. Public Bank Berhad	2. Bank of America Malaysia Bhd	2. Hong Leong Islamic Banking Berhad	2. Alliance Islamic Bank Berhad
3. Hong Leong Bank Berhad	3. Bank of China (M) Bhd	3. CIMB Islamic Bank Berhad	3. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
4. Affin Bank Berhad	4. OCBC Bank (M) Bhd	4. RHB Islamic Bank Berhad	4. Kuwait Finance House (Malaysia) Berhad
5. AmBank (M) Bhd	5. Bangkok Bank Bhd	5. Am Islamic Bank Berhad	5. HSBC Amanah Malaysia Berhad
6. Alliance Bank Berhad	6. Bank of Tokyo-Mitsubishi UFJ (M) Bhd	6. Affin Islamic Bank Berhad	6. OCBC Al-Amin Bank Berhad
7. CIMB Bank Berhad	7. Deutsche Bank (M) Bhd	7. EONCAP Islamic Bank Berhad	7. Standard Chartered Saadiq Berhad
8. EON Bank Berhad	8. HSBC Bank Malaysia Berhad	8. Maybank Islamic Berhad	
9. RHB Bank Berhad	9. J.P Morgan Chase Bank Berhad	9. Public Islamic Bank Berhad	
	10. Standard Chartered Bank Malaysia Bhd		
	11. The Bank of Nova Scotia Berhad		
	12. The Royal Bank of Scotland Berhad		
	13. United Overseas Bank (M) Bhd		

Note: Developed by the researcher for this thesis

4.3.1.5 Informants' debriefing

The informants' debriefing was conducted at the end of all the interviews. The informants' debriefing helps to establish credibility when collecting such data (Lincoln and Guba 1985). In order to ensure the collected data are valid, the researcher asked the informants' permission to re-play the recorded interview for them to listen and have a clear picture of what had been discussed during the interview. After the interview had been inscripted, the texts were also shown to the informants for the final verification.

4.3.1.6 Pilot testing of the interview protocol

A pilot test of the interview protocol was conducted by administrating the interview to Mr. Shah, a 52 year old entrepreneur in Kuala Lumpur who had been doing his Ice Cube business supply for more than 20 years. His company supplies ice cube to almost of the small shops and restaurants in Kuala Lumpur City Centre. He clearly stated that so far he has only one favorite local conventional bank.

At the beginning of the pilot test, Mr. Shah was given a copy of the study's cover letter and instructed to read the letter. The cover letter was used in the study to explain that the aim of the research was to understand the relationship between the micro-enterprise owners and their favorite banks and the factors that could direct them to be loyal to their banks of choice. The researcher informed Mr. Shah that his participation in the study was entirely voluntary and that there were no anticipated risks to participate in the study. Mr. Shah was also informed that the interview would be recorded.

The pilot test interview was recorded and transcribed verbatim. For easy communication the interview was conducted purely in the Malay language. The researcher reassured Mr. Shah that all personal identifiers would be removed from transcribed data reports to prevent linking with any individuals to the research. Mr. Shah had been informed that his name would be replaced with an identification code on all written material and electronic data files connected to the research and this identification code was replaced with a '*fictitious name*' for purposes of describing and reporting the research results. Mr. Shah was also asked if he had any further questions to ask related to the research procedures. The pilot interview was administered and was completed in approximately 30 minutes.

Based on this pilot study, some changes were made to the interview protocol and minor changes were made to the researcher's introduction of the study to the actual interview participants. The probe '*Elaborate further*' was added to questions 3 and questions '*If you have used other banks, what was your previous bank? If you change, why did you decide to change? If you did not, why did you decide to stay with the existing bank?*', were taken out. It seems that the informants would give similar answers for the questions on '*Elaborate further on why he chose Bank A as their favorite bank*'. Further examples are also needed to highlight to the informants to request them to explain further on their experiences dealing with their favorite banks such as experience in services, relationship with the staff from respective departments and position, the procedures in making loans or requesting any extra services and probing on more issues related to ethnicity and religious elements indirectly if informants mentioned it implicitly.

In addition, as a result of the pilot interview, the researcher incorporated an introduction to the study that encouraged the participants to provide a detailed response to the interview questions. The researcher reminded the participants that real factors contribute to their loyalty towards the favorite banks could help banks understand further the things that the

micro-enterprise owners' really expect from their banks in terms of building a strong relationship. The actual data interviews were discussed in the following sub-topics.

4.4 Qualitative data management

Under this section, the researcher discussed the data collection methods and the procedures involved in analysing the data.

4.4.1 Data collection

On average, the informants completed the interviews between 45 minutes or less. Informants were asked a broad range of questions, followed by 10 open-ended questions and the corresponding probe for each of the questions. With permission of the informants, all interviews were recorded in order to allow the flow of the interview to be faster and smoother as well as to capture the actual content of the informants' comments. The recorded interviews were subsequently transcribed by hand and the data converted into a printed form to facilitate further analysis. No information identifying the informants was included in the written copy of the interviews. The informants' names were replaced by an identification code on all written materials and electronic data file connected to the research (Creswell & Clark, 2007). The resulting data included over 50 pages single-spaced transcript.

4.4.2. Procedures of qualitative analysis

Procedure of the qualitative analysis of this study was guided by the systems process based on Tesch (1990), Strauss and Corbin (1998) which is outlined by Creswell for analysis of qualitative data in the constructivist paradigm (Creswell, 2007). The transcripts were prepared from recordings of individual informants. Transcripts were done immediately after each of the interviews to have a fresh description of informant's explanation. The researcher wrote the report of each of the individual interview, and sent it back to the informant in order to receive their comments on the accuracy of the expressed ideas and to ensure the transparency of the process.

The analysis began with the segmentation of the data. The researcher read individual transcripts as a whole, in order to divide them into units of analysis and also taking into account that each unit of analysis was comprehensible by itself and contained one idea (Tesch, 1990). This will make things easier for the researcher to identify who said the statement (Bloor et al, 2001) and see the continuation of the dialogue. Open coding process begins to identify categories or common themes of responses from the informants in each of the ethnic and gender group. Constant comparisons were made between the codes generated and data gathered in the interviews in order to begin filling out the categories and verifying the relationships.

The transcript was segmented into units of analysis, the categorization and codification process started. As Tesch (1990) mentioned, categorizing or classification is a way of knowing. When doing categorizing, the analyst has to be aware of the attributes of things in order to group them in a meaningful way. Tesch (1990) again highlighted that the purpose of categorization was to produce concepts that fitted the data and later, to develop them. Strauss and Corbin (1998) use the micro-analysis to generate codes from data. Micro-analysis refers to '*detailed line-by-line analysis*

necessary..to generate initial categories...and to suggest relationship among the categories' (p.57). Codes are actually derived from the data themselves. This stage followed '*de-contextualization*' of the data because segments of data (units of analysis) are separated from their context (Tesch, 1990). However, code is not ready to be interpreted because data must be '*re-contextualized*'. This is where the information that belongs to one category has to be assembled in one place in order to be analyzed within the category itself.

As the coding process was developed, codes were renamed, modified, sub-divided with the purpose of searching for data arrangements. Therefore, as the analysis progresses, new codes or sub-codes were identified, needing to return to the data previously analyzed so that it could be included (Bloor et al, 2001).When the data has been categorized, each category configuration will be analyzed to describe its content and linkages with other categories (Tesch, 1990). This way of analysis is also called Axial Coding (Strauss & Corbin 1998). Axial coding is prominently used to relate categories with the sub-categories in order to develop a more complete and precise information.

After several iterations through the data, these segments were organized into what is considered similar themes or categories. Table 4.1 below shows the raw data by combining both most salient and new emerging themed data.

Table 5Table 4.1

DEVELOPMENT OF THE RAW DATA, 1st ORDER THEME AND 2nd ORDER THEME

Raw data Theme	N	1st Order Theme	2nd Order Theme
<i>Bank is getting stronger and bigger after the merger.</i>	10	Reputation	Bank Reputation
<i>Banks expand their operation to other countries.</i>	10		
<i>The bank is able to distinguish their customer experience tailored to the needs and wants.</i>	12		
<i>Experienced officers and staff.</i>	13		
<i>Still between top 3 if the listed the best local bank in Malaysia.</i>	14		
<i>Implementing customer development and retention programme.</i>	16	Image	
<i>Banks well known as 'convenient' and ease to access.</i>	17		
<i>The best bank offering e-banking services.</i>	14		
<i>Feel the difference of the bank services compared to any other banks.</i>	13		
<i>Good electronic channels to supports user friendly online services.</i>	14	Core Services	
<i>Customers receive the same level of services no matter what channel they use.</i>	15		
<i>Offer various range of the products and services.</i>	18		
<i>Understand clients who are always on the move.</i>	15	Human Elements	
<i>Friendliness of the staff and easy to deal with.</i>	14		
<i>Interpersonal relationship with the bank staff.</i>	16		
<i>Value of the advisory service offered by the bank.</i>	13		
<i>The bank staff remember me by name.</i>	12	Non- Human Elements	
<i>Good office layout and not crowded</i>	15		
<i>Easy access and transaction at any of the bank branches.</i>	15		
<i>Internet banking supports a lot of the banks' operation.</i>	18	Tangible of the service	
<i>Banks location and accessibility.</i>	17		
<i>Providing the right product tailored to meet the needs of their specific customer.</i>	12		
<i>Simplifying their product (clear in mind what the products might be suitable for).</i>	13		
<i>Good product bundling and reward programs.</i>	13		

Note: developed by the researcher for this study

Table 4.1 Continued..

Raw data Theme	N	1st Order Theme	2nd Order Theme
<i>Keep account secure and protected.</i>	14	Trust	Relationship Quality
<i>Check irregularity in the account.</i>	12		
<i>Government controls our bank, no security matter arises.</i>	11		
<i>Sometimes things can just be discussed via phone calls.</i>	12		
<i>Feel strong bond with the bank.</i>	16	Commitment	
<i>Feel the value of the relationship.</i>	14		
<i>Feel like part of the bank's family.</i>	12		
<i>Never thinking of changing my bank because happy with existing bank.</i>	15		
<i>Banks show an effort to maintain the relationship.</i>	13	Satisfaction	
<i>Vulnerable fees and structure rate.</i>	11		
<i>Bank transparent in all of the processes e.g. fees</i>	13		
<i>Easy to deal with and not many complicated procedures.</i>	13		
<i>I am happy if people know that I belong to this bank customer.</i>	12		
<i>Because the bank offers Islamic products</i>	11	Faith and Belief	Religiosity
<i>Feel more confident how and where they invest my money</i>	13		
<i>Have Islamic elements and products as well as services clear in profit calculating</i>	10		
<i>Do not tolerate if the bank does not offer any Islamic products</i>	10		
<i>We speak the same language and it will make a lot of difference.</i>	14	Race and ethnic related	Ethnicity
<i>Feel convenient and easy probably because we come from the same area</i>	12		
<i>They understand better due to similar background</i>	16		
<i>The bank engages up to our personal level</i>	16		

Note: developed by the researcher for this study

4.4.3. Qualitative data quality

The verification procedures are used in qualitative research to establish the trustworthiness, credibility and transferability of the study. Trustworthiness is used in this qualitative research instead of the 'validity' because the focus of the

study at this phase of the research is to understand the individual micro-enterprise owner's experiences. In fact, trustworthiness is an umbrella term used by qualitative researchers to encompass several dimensions of validity which includes credibility, transferability, conformability, and dependability. Credibility refers to the fit between the informants' narratives and the researcher's representative of data. Besides, transferability is a term used by qualitative researchers to substitute for the quantitative term, external validity. However, transferable refers to the extent to which the inferences can be generalized to other settings or samples (Polit & Beck, 2004). In the perspectives of naturalistic paradigm, transferability only applies to a case-to-case transfer because there is not a single correct or true interpretation (Tobin & Begley, 2004). Conformability refers to the extent to which the inferences are objectives or true to the data. The dependability is comparable to the quantitative term reliability and refers to the stability of the research inferences across time and research conditions (Polit & Beck, 2004).

In validating the methodology, reference was made to Mason's (2002) prescription that the ultimate test of qualitative research accurately reflects the social world of the research participants, from their own perspectives. To meet the conditions of Mason's test, the researcher decided that coding would be validated through confidential interview with individual micro-enterprise owners. During these interviews, the participants were invited to reflect in their own words their reaction, interpretation and feelings in relation to reasons of being loyal to their existing service providers. The researcher considered that this process would strengthen the validity of this research by adding a degree of critical realism to the interpretation of the data analysis, as suggested by Fleetwood (2004).

The following stage of research method is quantitative method. The aim of this part of the study is to further understand the relationship between the variables in the study using factor analysis which will be explained in detail in the following discussion.

4.5 PHASE 2: QUANTITATIVE STUDY

The second phase of this study uses a quantitative methodology, which employs a self-administered method and a cross-sectional survey design. Targeted respondents are the micro-enterprise owners as corporate clients of both conventional and Islamic banks in Malaysia. Structured questions were developed to measure the independent variables (Micro-enterprise owners' loyalty), the dependent variables (Bank's reputation, Perceived service quality and Relationship quality) and moderator variables (Ethnicity and Religiosity).

The intent of the survey was to gather the data to measure and test the hypotheses presented in Chapter 3. The next section discusses reasons for employing a survey method, the choice of the cross-sectional design, the contexts from which respondents in the sample have been chosen, and finally the sampling procedures used in this study.

4.5.1 Reasons for choosing survey methods

Survey methodology has several advantages that provide the rationale for its use in the present study. First and foremost, surveys are particularly effective when used for descriptive, explanatory, and exploratory purposes. Given these reasons, this phase of the study is to test and demonstrate a newly proposed model of customer loyalty.

Secondly, surveys are also effective vehicles for gathering information from a wide range of respondents. As supported by Barbie (1989) surveys are particularly useful in describing the characteristics of large population. Surveys especially self-administered, make large samples more feasible. This is because this method is able to generate data from a large variety of respondents that could enhance the potential generalizability of findings.

Thirdly, a survey method allows a large number of variables to be directly measured and systematically examined. Thus, the '*wide scope*'

(Kerlinger 1986) of survey method provides for both variables and number of respondents and makes it appropriate for the present study.

Fourthly, surveys provide the ability to examine naturally occurring phenomena where the micro-enterprise owners' loyalty and the moderators of ethnicity and religiosity can be a complex activity and would be very hard to create or manipulate in a laboratory setting. However, people who are involved daily in purchasing behaviour across a variety of services and display various degrees of loyalty to many different service providers particularly in banking sectors.

Finally, the opinion highlighted by Kerlinger (1986) is acceptable when he says surveys are very economical in terms of amount and quality of information they yield although survey methods seem to be more expensive compared to laboratory experiments and field studies.

Survey definitely has its limitations. One of the major limitations of survey design is that the causal relations among the variables cannot be inferred. Although surveys might be helpful in predicting relationships among the variables, the cause-and-effect relationships cannot be determined. The survey instrument must be standardized in order to avoid researchers from missing what is most appropriate to the respondents (Babbie 1989). However, many of the questions in this instrument were developed as a result of the qualitative phase of study. It is expected that the questions are indeed most appropriate for studying customer loyalty. In short, the survey method is being used in this study because of its appropriateness in getting the data and information from the respondents.

4.5.2 Data collection method

Basically, the sources of data consist of two main types: (1) Secondary data e.g. journals, newspapers and (2) primary data e.g. questionnaires. Most scholars basically agree that the initial data should come from secondary data (e.g. Churchill & Iacobucci, 2002). Churchill and Iacobucci (2002) highlighted that the primary data comes from questionnaires collected by the researcher with the purpose of examining the present research problem which is completed with research questions as well as research objectives. The following explanation is on self-administered questionnaires as a tool used for collecting the data.

4.5.2.1 Self-administered

The survey instrument for study 2 is self-administrative questionnaire, which were distributed to micro-enterprise owners. The sample was obtained from the list of the micro-enterprise owners' provided by SMECorp, Matrade and the banks. The researcher contacted them via emails individually and asked them whether they are interested to participate in the study. Within 6 months, the researcher managed to collect 400 questionnaires with the help of relatives, friends and existing network within the researcher's business circles.

Questionnaires were distributed via mail, '*drop-off and collect techniques*' as well as via email. The mailed package as well as '*drop-off and collect*' techniques consisted of a cover letter explaining the survey, questionnaires that included cover letters to the respondents and reply paid envelopes (for mailed questionnaires). After six weeks of mail, email and '*drop-off and collect techniques*' approximately 200 questionnaires were returned out of 1,000 questionnaires distributed. Then, the researcher sent a second a batch

of the questionnaires to the back-up list and after another 6 weeks was able to collect 200 questionnaires out of 500 questionnaires that had been distributed. Almost seventy per cent of the questionnaires were not returned. This raised several issues. Firstly, most of the respondents were busy travelling and daily business activities. They tended to forget and kept on delaying to fill and return the questionnaires to the researcher. The 78 sets of items in the set of questionnaires appeared to be too much for the respondents to read and understand. Accordingly, there were no specific tests for non-response biases conducted for this study. Instead, participating micro-enterprise owners were contacted and asked to describe the criteria to be fulfilled before they could take part in the respondents' criteria.

4.5.3 Sampling design: Sample size, sampling frame and unit of analysis

Consensus of SME in 2005 stated that 1,523,82 (87.9%) of SMEs in Malaysia falls under services based industry. A random sampling of the general population of business customers of conventional and Islamic banks involved in services based industries who are officially registered under SMECorp are counted under this study as samples.

In terms of sampling size, using a 95% confidence level and a 5% confidence interval, the researcher determined that there would need to be approximately 380 responses $1.96 (.5/\sqrt{380})/.05$. Approximately a 25% response rate was needed from this sample to ensure appropriate confidence in the data. The sample size in this study was also determined by the requirement of the proposed data analysis techniques. Based on questionnaires that have been collected, 356 sets of questionnaires would fulfil the requirement to use factor analysis as a tool for analysing the data.

Targeted respondents are focused only in the Klang Valley. The reasons for choosing Klang Valley have been discussed by the researcher in Chapter 1. In this study, only 356 questionnaires are considered completed out of 400 collected and 1,500 distributed. The rest of the questionnaires are rejected due to not having been completed.

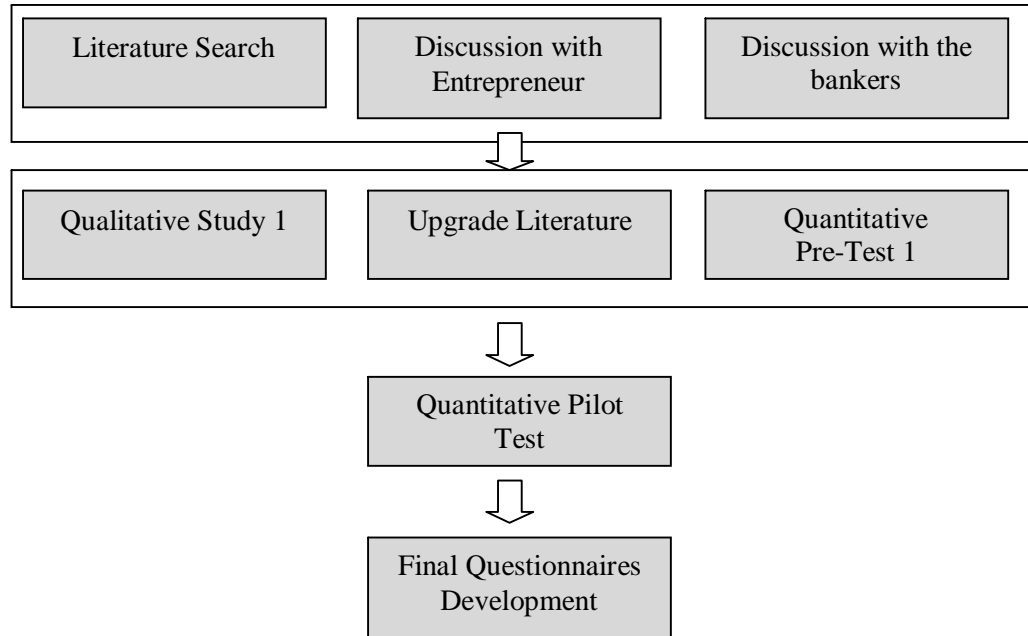
As mentioned in the earlier chapter, the sampling unit was defined as micro-enterprise under the definition of Malaysia's SME's definition as the basis for selecting the context in which to conduct the study. Micro-enterprise owners involved in services based industries are the specific respondents in the study and they have only one favorite bank of choice.

4.5.4 Instrument construction

The researcher's major references for generating and testing scale items for this study were based upon accepted methods of scale development in consumer research (Churchill, 1979; Churchill & Iacobucci, 2002). The figure 6.0 below illustrates the various steps taken by the researcher for the item generation, testing and questionnaires development when preparing the instruments' development.

Figure 6.0

Steps in instrument Construction



Note: Developed by the researcher for the purpose of this study

4.5.4.1 Specification of constructing research domain

This part of the study describes the methods for developing constructs which are incorporated in the research framework. This procedure is actually guided by Churchill (1979) which serves as a main reference. An exploratory approach was employed to gain the research background information pertaining to the research problem and to formulate related hypotheses. Three main sources have been implemented to generate clear data namely: (1) Literature Search, (2) Investigative interview with the bankers and finally (3) Investigative Interview with the micro-enterprise owners.

4.5.4.2 Literature Search

The researcher used various procedures in setting up references such as online journals, articles published in proceedings (conferences and seminars) and the Malaysian government publication such as trade literature. Generally, six main constructs described in Chapter 3 were related to various research fields such as marketing, management, organizational behaviour and psychological other than those confirmed by the qualitative findings. From the literature search, the presence of constructs relevant to this study was examined in terms of construct conceptualization and delineation. As a result, the researcher gained valuable information particularly related to definitions of and inter-relationships between constructs.

4.5.4.3 Discussion with entrepreneurs

To complement the literature study, the researcher believed that several unstructured interviews and informal discussion are needed with the micro-enterprise owners. Unstructured face-to-face interviews among other types of qualitative methods are used because they have the potential in providing rich information especially pertaining to the issues which are still exploratory in nature (Sekaran et al, 2003). The discussion focuses on issues pertaining to the micro-enterprise owners' loyalty towards their favorite conventional and Islamic banks by looking at business-to-business perspectives. The aims were to identify the main reasons for them choosing certain conventional banks other than satisfaction, service excellence and convenience factors that used to be the normal reasons why customers stick with their existing service providers. At the same time, their complaints about their existing service providers as well as their bank's competitors would also help the researcher to understand

further the real scenario. The outcomes of these discussions were very useful in defining the construct domain, which led to practical recommendations concerning data collection, and provided the basis of understanding for the items generation.

4.5.4.4 Discussion with the bankers

In order to get a better understanding, interviewing the bankers specifically the bank's officer who handled loans for SMEs is an effective method used in this study in order to get clear pictures from the bank point of view. Informal discussions were held individually with four bank's loan officers who deal directly with the micro-enterprise owners. These preliminary discussions were conducted with the aims of gaining relevant and insightful information for types of businessmen/women who would have potential for easy loan approval. Other than financial strength and previous business performance, the researcher would like to understand other factors that might also be taken into consideration when the banks are willing to provide better services to their specific clients. The bank's officers who have vast experience resulting from close interaction and dealing with so many businessmen and businesswomen have given useful knowledge of understanding the factors that make the existing businessmen/women loyal to their banks. In essence, understanding the bank's view allowed the researcher to compare and match the factors that make micro-enterprise owners to have a strong relationship with their existing conventional or Islamic banks.

4.5.4.5 Qualitative study 1

Since this study adapts mixed methods, the first phase of study used the qualitative method to answer two main research questions pertaining to micro-enterprise owners' loyalty towards their conventional and Islamic banks. In-depth interviews which have been explained in detail in the previous chapter help the researcher in forming variables investigated in this study and to be tested in terms of the relationship of the variables in the quantitative study.

4.5.4.6 Upgrade the literature

The second phase of reviewing the literature served as a basis for identifying a range of factors that could contribute as the factors of micro-enterprise owners' loyalty to their existing conventional and Islamic banks. The literature has been upgraded in supporting the findings from the qualitative study. Moreover, it also provides a comprehensive picture of existing measurement scales for each construct being examined at the second stage of the study. A few handbooks of marketing scales (Bearden & Netemeyer, 1998; Bruner & Hensel, 1992) were used to inspect the availability of measures examined in the study. With this, the researcher can conclude that measurement scales for some constructs were not available and consequently had to be developed for this study such as religiosity and ethnicity that served as moderating variables of micro-enterprise owners' loyalty to their existing service providers. Items for Policy and Procedure under relationship quality were new items developed for the purpose of this study. Some of the measurement scales for other constructs are available, but had to be adapted to suit the study.

4.5.4.7 Quantitative pre-test 1

For the quantitative pre-test 1 stage, the items have been screened by judges who are experts in the field and a series of pre-tests on samples from relevant populations are conducted to trim and refine the pool of items (Churchill, 1979; de Villis, 2002). For this study, the researcher has conducted two phases of pre-tests (Malhorta, 1996). The first pre-test was conducted with experts and the second pre-test was conducted with the bank's micro- enterprise clients in Kuala Lumpur.

4.5.4.8 Quantitative pilot test and development of final questionnaires.

The quantitative pilot test and development of the final questionnaires will be discussed further in the following sub-topics under this chapter.

4.5.5 Questionnaire: Structures and items

4.5.5.1 Item generation

The second stage of the development of measures focuses on the process to generate an initial list of items that captures the domain specified. The main concern of this process is the critical issues of the validity of the construct which is acknowledged as the minimum requirement for measurement satisfactoriness, particularly in the validation of new, modified or untested measures (Schriesheim et. al, 1993). At this stage, face validity is extremely needed as part of the criterion of content validity for the initial pool items. The two main sources of information have been utilized at this stage, namely:

literature study before and after qualitative study and in-depth interviews (implemented in the first phase of the study) that have provided a clear picture of how to generate an item for the questionnaire development.

The structured questions were developed and included in the survey instrument to measure the dependent variables (micro-enterprise owners' loyalty), independent variables (banks' reputation, perceived service quality and relationship quality) and moderator variables (ethnicity and religiosity). The questionnaire items in this study were operationalized primarily from studies anchored in marketing, management and social psychology. Some of the variables were developed based on the qualitative findings particularly questions related to ethnicity, religiosity and satisfaction (Policy and Procedures). All the variables in the questionnaires are measured using multiple scale items, following conventional wisdom scale development. All the items in the questionnaires are 5-point Likert scales, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

A preliminary instrument containing 80 items was initially developed. This questionnaire was a pre-test with 100 respondents from who were micro-enterprise owners in Kuala Lumpur, Malaysia. Respondents were asked to complete the instruments and identify any problems with the instructions, wording of the items, or any other issues. Descriptive statistics and correlation analysis were then conducted on the data from the preliminary instruments. Based on this examination of results, items considered low-to-total correlations and those not loading significantly on any factors were eliminated. The final instrument was modified to reflect suggestions contained in respondents' instruments and the analyses of the preliminary data, resulting in an instrument with 78 questions in all.

4.5.5.2 Structure and wording of questionnaires.

Developing as well as designing a survey instrument is most likely the difficult stage of survey design (Beins, 2004). There are two important issues normally highlighted: the content and presentation of the questionnaire. In the aspect of the questionnaire content, the researchers' questions play an important role as a point of referral in determining the appropriate content (Bradburn et.al, 2004).

The content of the questionnaire of this study is consistently aligned with the research questions and objectives of the study. In a similar vein, the content must also be supported by a thorough review of the literature as well as rigorous discussion with the experts in the related area. This will guarantee that the content could reflect what it is supposed to measure.

Essentially, Synodinos (2003) stated that creating or developing a strong questionnaire format requires a superior understanding of the issues and wording of the questions, the response choices, the instructions as well as the sequence of the questions. In this study, the wording of the questions was carefully throughout to ensure that the questions are easy to read and comprehensible. The instructions also need to be very precise and clear.

The sequence of the items begins with simple and interesting questions, and ended with the sensitive and classification type questions. Shortly, the series of the question was sure to have a good flow. Churchill (1995) mentioned that the sequence in which the questionnaires are presented is essential to the success of the research efforts. In addition, ordering of the questions could also increase a

respondent's interest in answering the questions which can help to increase the response rate.

Generally, the questionnaires can be divided into four main sections. Section A is asking about the respondents' reasons for staying loyal to their favorite conventional and Islamic banks and is focusing on banks' reputation, perceived service quality and relationship quality. These variables are actually taken from the findings of the qualitative in-depth interviews and supported by previous literature. Section B is the moderated variables asking thoroughly on the micro-enterprise owners' perceptions on ethnicity and religiosity factors towards Islamic bank as well as local and foreign conventional banks. Section C is to measure the level of micro-enterprise owner's loyalty towards their service providers. Classification of the data is also known as personal information or demographic questions which are placed last (Bradburn et al., 2004). Logically, it may be that by the time the respondents reach the end of the questionnaires, micro-enterprise owners as a respondent would have been convinced of the legitimacy and genuineness of the questionnaires framed by the researcher and hence, would be more inclined and amenable to share personal information. With this regards, in this study, demographic profiles were positioned in the final section D in the questionnaires.

In this study, the closed-ended format was used. The hectic working environment and '*on-the-move*' kind of micro-enterprise owners as a target respondents definitely was taken into consideration. There are several advantages that can be gauged by having closed-ended questions. Respondents would be able to make quick decisions to choose among the numerous alternatives. Closed-ended questions would also facilitate the researcher to code the

information easily for subsequent data analysis (Beins, 2004; Hayes, 2000; Oppenheim, 2000; Sekaran, 2003).

The questionnaire was also referred to a research method lecturer other than the supervisor at Universiti Teknologi Mara, Malaysia, Universiti Sains Malaysia and Universite de Toulouse, France for their expert opinions and advice regarding the instruments. After having a thorough discussion with four academicians and four practitioners about the nature of this study, a questionnaire in the Malay language was considered more suitable to be used as compared to English. The questionnaire has to be translated to the Malay language in order to capture the respondents' attention and to make sure they really understand the meaning of each of the questions.

The questions were also organised logically and neatly in appropriate sections. All these were done to help the respondents to answer all the questions without difficulty. The researcher provided a very simple instruction on how to answer the questions. Moreover, the instructions for each questions were placed as close to the questions as possible.

4.5.5.3 Item purification for the new measurement.

Generally, it is believed that the number of items generated must '*tap the domain of the construct*', the items have been screened by judges with expertise in the literature and a series of pre-tests on samples from relevant populations were conducted to trim and refine the pool of items (Churchill, 1979; de Villis, 2002). For this study, the researcher has conducted two phases of pre-tests (Malhorta, 1996); the first pre-test was conducted with experts and the second

pre-test was conducted with bank's micro- enterprise clients in Kuala Lumpur.

4.5.5.4 Operationalization of construct

Table 4.2 below summarizes all the items involved in this study. For independent variables e.g. banks' reputation, perceived service quality and relationship quality except for Satisfaction towards policy and procedures are the items drawn from previously published scales with little amendments on the wording to suit the context of the study. Items for moderating variables for both ethnicity and religiosity are also created and considered as new sets of questions. The initial pool of statement development will be further discussed in the following sub-topics. Finally, items for dependent variables are also drawn from previous and existing published scales with some amendments.

Table 6 Table 4.2

Sources of Construct Measurement

Construct	Scale Description	Number of Items	Sources
<i>Bank's Reputation</i>			
Reputation (Q 1- 3) Questions 4-5)	1-5	5	Nguyen, N. and LeBlanc, G. (2001), Wang
Images	1-5	9	Yavas.U and Shemwell. D.J (1996)
<i>Perceived Service Quality</i>			
<i>Core service or Service product</i>	1-5	5	Sureshchandar et al (2002)
<i>Human elements of service delivery</i>	1-5	16	Sureshchandar et al (2002)
<i>Systematization of Service Delivery (Non Human element)</i>	1-5	6	Sureshchandar et al (2002)
Tangibles of service (<i>Services Scape</i>)	1-5	6	Sureshchandar et al (2002)
<i>Relationship Quality</i>			
<i>Commitment</i>	1-5	7	Dash. S, Bruning. Ed and Guin. K. K (2006)
<i>Trust</i>	1-5	14	Luis V. Casalo. L.V, Flavia'n. C and Guinali' u. M (2007), Kumar et al. (1995); Doney and Canon (1997) and Roy et al. (2001)
<i>Satisfaction towards banks' policy and procedure</i>	1-5	6	Developed for this study

Table 4.2 Sources of Construct Measurement continued...

<i>Micro-enterprise owners loyalty</i>			
Loyalty	Scale 1-5	8	Sudhahar. C, Israel. D, Britto. A.P and Selvam. M, (2006), Bove, L and Mitzifiris (2007), Bove (2002). Sudhahar. C, Israel. D, Britto. A.P and Selvam. M', (2006)
<i>Moderator Variables</i>			
Ethnicity	Original Scale 1-7 and modified to suit the study to Scale 1-5	5	Developed for this study and guided based on Shimp, Terence A. and Subhash Sharma. 1987.
Religions	Scale 1-5	5	Questions developed for this study.

4.5.5.5 Measurement for the dependent variable

The discussion on Chapter 3 proposed two main dimensions of micro-enterprise owners' loyalty towards their service providers, and this question was corroborated in the findings of the qualitative phase of the study as reported in Chapter 5. The loyalty definition in this study is based on the measures that were developed with the two-dimensional conceptualization of service loyalty that are Behavioural and Attitudinal dimensions.

The behavioural dimensions of service loyalty in this study is described as a repeat purchase behaviour- the customer continues to return to the service provider for service on a regular basis over an extended period of time. Five scale items are used to measure behavioural loyalty (Bove & Mitzifiris (2007)). The second dimension of service loyalty is the attitudinal loyalty, viewed as the extent of the

customer's psychological attachments and attitudinal advocacy towards the organization (Rauyruen & Miller, 2007). In viewing their loyalty, loyal customers encompass positive word of mouth intentions, willingness to recommend to others and encouraging others to use the products and services of a company (Zeithaml et al., 1996).

In this study, loyalty is described as the positive feelings that the customer has about a particular service provider. The researcher define attitudinal loyalty as micro-enterprise owners' psychological attachment and advocacy that could direct them to have a positive attitude towards their favorite service providers. Five scale items are also used to measure attitudinal loyalty Sudhahar at al (2006). For this study, as the researcher mentioned earlier, the measurement of loyalty is grouped under one concept of loyalty.

Table 7Table 4.3

Items concerning on Micro-enterprise owners' loyalty

	<i>Scale Items</i>	Source
1	I consider my bank to be my first choice of bank	Bove, L and Mitzifiris (2007)
2	My bank is better than other banks I have been to.	
3	I will try new services provided by my bank.	
4	I will recommend other people to patronize my bank.	Sudhahar. C, Israel. D, Britto. A.P and Selvam. M', (2006)
5	I will say positive things to other people about the services provided at my bank.	
6	I would rather stick with existing bank than try other banks which I am not very sure of.	
7	I have strong preference for my bank.	
8	I will keep patronizing this bank regardless of everything being changed.	

4.5.5.6 Measurement for the independent variables

This measurement was designed to capture the existing reasons why the micro-enterprise owners are loyal towards their existing conventional and Islamic banks. This specific concept has been conceptualized and comprises **THREE** main features which are bank's reputation, perceived service quality and relationship quality. This construct is a finding from qualitative study 1 and at the same time using past research has shown strong empirical support for using this dimension to measure micro-enterprise owners' loyalty. It is noted that a five-point scale ranging from 1 to 5 was employed to elicit respondent responses. In order to maintain the scale interval-level properties labelling need to be established, only the scale end points from (1) which denotes '*strongly disagree*' and (5) for '*Strongly agreed*' were employed to elicit respondents' responses. The major reason for using the above-mentioned scale is actually speculated by previous research that by labelling each point in a scale will implicitly lead the subject towards an ordinal-level response (Allen & Rao, 2000). Below are the items, response types and instructions in the questionnaires.

4.5.5.6.1 *Bank's reputation items*: Reputation is defined as a distribution of opinions (the overt expressions of a collective image) about an entity (Bromley, 2001) or as the interactions between and among stakeholders of which the organization has no direct role or input (Mahon, 2002). As the basic understanding on reputation, definition from Bromley (2001) seems to be relevant for this study. The researcher defines reputation as how micro-enterprise owners express their opinion on reputation of their favorite banks as one entity that is able to provide the best products, services and able to manage their clients, particularly the small business entities.

Thus, the respondents are requested to evaluate their statement towards their favorite banks reputation that will lead them to being loyal to their existing favorite banks. The banks' reputation was measured by five scale items which are commonly used in the previous study (Nguyen & LeBlanc 2001). However, some modification of the items was made to suit this context of study. The details of the questions that have been amended to suit this study are as follows:

Table 8 Table 4.4

Items concerning Reputation

<i>Reputation</i>		<i>Source</i>
1	I believe that my bank does what it promises for its clients.	Nguyen and LeBlanc. (2001)
2	My bank has a good reputation.	
3	I believe that the reputation of my bank is better than other conventional/Islamic banks in Malaysia.	
4	My bank has a reputation for offering good products and services.	
5	My bank has a reputation for being fair in its relationship with its customers.	

4.5.5.6.2 *Images items*: The researcher adapts the reputation image from Richardson and Robinson (1986), which suggests that corporate image, is “*the net result of the interaction of all experiences, impressions, beliefs, feelings and knowledge people have about a company*”. Thus, the question pertaining to this variable highlights directly the image of the employees, image and reputation of the bank from a general view and involvement with community. There are 8 items for measuring perception on image (Yavas & Shemwell. (1996), Dudley et al., 1985/1986; Evans, 1979; Laroche & Taylor,

1988; McDougall & Levesque, 1994; Neal, 1980) in determining the micro-enterprise owners' loyalty. Eight questions of images have that been amended to suit the study is as follows:

Table 9 Table 4.5

Items for banks' reputation: Image

	Sample of the Items
1	My bank and its employees are trustworthy.
2	My bank has competent employees who possess the requisite banking skills.
3	My bank provides prompt service.
4	My bank provides courteous, friendly service.
5	Employees know their customers and understand their needs.
6	My bank is a large bank.
7	My bank is a very safe bank.
8	My bank does a lot of advertising
9	My bank is interested in helping the community.

4.5.5.6.3 *Perceived service quality items*: Perceived service quality is defined as the customer's assessment of the overall superiority or excellence of the service (Zeithaml, 1988). The "perceived service" is the consequence of a customer's view of a bundle of service dimensions, some of which are technical and some of which are functional in nature. Perceived service quality is the result of perceived service when compared with expected service. The entire construct for perceived service quality was adapted from Sureshchandar et al., (2002) with some modification on the wording to suit the study context. The final section which contains community services related question has been excluded because none of the informants during the semi-structured

interview ever mentioned loyalty to the bank due to the contribution of the bank to the community services. Based on these findings as well as discussion with the practitioners, the researcher decided to exclude this element in the questionnaire. Questions related to perceived service quality can be narrowed down to (1) Core Service, (2) Service Delivery (Human elements), (3) Systematization of service delivery (Non-human) and (4) Tangibles of service. Details of the elements under Perceived service quality are as follows.

4.5.5.6.3.1 Core service and Service delivery (Human elements): The core service refers to the essence of a service. Any service features are offered is as important as how it is delivered (Rust & Oliver, 1994). Schneider and Bowen (1995) explained that in a service business normally emphasis on the procedures, processes, and contexts for service to the extent the organization tends to overlook that there is also something called the “*core service*”. The questions on core services and services products with some amendment from the main sources to suit the context of the study are as follows:

Table 10

Table 4.6

**Items concerning Perceived Service Quality:
Core service or service product**

Sample of the Items	
<i>Core service</i>	
1	My bank has a wider range of financial services. e.g. depositor, foreign exchange, traveller's cheque, safe deposit lockers etc
2	My bank has a number of options in every service/transaction e.g. various fixed deposits, recurring deposit schemes with different interest rates, etc
3	My bank provides information/details on a regular basis through post, telephonic banking, ATM, etc
4	My bank will make sure the availability of most services in every branch/department of the bank.
5	My bank provides convenient operating hours and days
<i>Human Elements of service delivery</i>	
1	My bank is able to provide a good employees' skills and ability for action whenever a critical incident takes place (e.g. when a problem arises).
2	My bank provides services as per the promised schedule.
3	My bank staff shows an effort to explain to the customers the nature and schedule of services available in the bank.
4	My bank staff is willing to help and is ready to respond to customers' requests.
5	My bank is accessible to feedback from customers to improve service standards.
6	My bank employees are able to make customers feel safe and secure in their transaction.
7	My bank employees are consistently pleasing and courteous.
8	My bank employees have the knowledge and competence to answer customers' specific queries and requests.
9	My bank employees have an effective system for customer grievance procedures and processes.
10	My bank employees understand the needs of their customers.

4.5.5.6.3.2 *Non-Human: Systematization of service delivery*

Systematization of service delivery refers to the non-human element in contrast to the human element, which has been efficiently captured by SERVQUAL. The service delivery processes should be completely standardized, streamlined, and simplified so that customers can receive the service without any hassles, hiccups or undesired /inordinate questioning by their service providers. The effectiveness of the total quality service (TQS) movement depends on understanding and utilizing the process as a tool to respond to customers quicker than the competitors (Milakovich, 1995). Ahire et al. (1995) reasoned that the overall quality of the products or services could be made better by improving the quality of the processes either directly or indirectly. The enhancement of technological capability (e.g. computerization, networking of operations, etc.) plays a crucial role in establishing the seamlessness in service delivery. Most of the items for this question were deleted because they are not suitable with the study context. Table 4.7 below exhibits the questions that relate to non-human elements with some modifications to suit the context of the study.

Table 11

Table 4.7

**Items concerning non-human:
Systematization of service delivery**

Sample of the Items	
1	My bank has highly standardized and simplified delivery process so that services are delivered without any hassles or excessive bureaucracy.
2	My bank has highly simplified and structured delivery processes so that the service delivery times are minimum.
3	My bank makes an effort to enhance the technology capability (e.g. computerization, networking of operations etc) to serve customers more effectively.
4	My bank always ensures the procedures and processes are perfectly fool-proof.
5	My bank has adequate and necessary personnel for good customer service.
6	My bank has adequate and necessary facilities for good customer service.

4.5.5.6.3.3 Tangibles of service items: Relates to the effect of physical facility, equipment, personnel and communication materials on customers. The effect of these atmospherics, popularly known as “*servicescapes*” (Bitner, 1992), does influence customers in several ways. Bitner (1992) explained how the employees and customers are influenced by these tangible facets of services in physiological, psychological, sociological, cognitive, and emotional ways. Many other authors have also specified in detail the impact of these servicescapes on the service perceptions by customers (e.g. Kotler, 1973; Shostack, 1977; Booms & Bitner, 1982; Rapoport, 1982; Upah & Fulton, 1985; Zeithaml et al., 1985; Bitner, 1986; Berry & Clark, 1986; Baker, 1987) and their

consequences towards employees (e.g. Becker, 1981; Davis, 1984; Steele, 1986; Wineman, 1986; Baker et al., 1988; Sundstrom & Altman, 1989). Table 4.8 shows the questions that relate to tangibles of service items with some modification to suit the study.

Table 12 Table 4.8

Item concerning tangibles of service items

	Sample of the Items
1	My bank provides comfortable environmental conditions such as temperature, ventilation, noise and odour prevailing in the bank’s premises.
2	My bank is able to pay attention to the physical layout of equipment and other furnishings that are comfortable for customers to interact with employees.
3	My bank has visually appealing signs, symbols, advertisement boards, pamphlets and other artefacts in the bank.
4	My bank employees have a neat and professional appearance.
5	My bank has visually appealing materials and facilities associated with the service.

4.5.5.6.4 Relationship quality items: Relationship quality is a bunch of intangible value, which augments products or services and results in an usually interchange between buyers and sellers (Levitt, 1986). It also refers to a customer’s perceptions of how well the whole relationship fulfils the expectations, predictions, goals and desires the customer has concerning the whole relationship (Jarvelin & Lehtinen, 1996). Consequently, it forms the overall impression that a customer has concerning the whole relationship including different transactions. Bejou et al. (1996) concluded that customer-salesperson relationship quality is an important prerequisite to a successful long-term relationship. Preparing items for relationship quality is based on

various literatures that have been testing the relationship quality and loyalty from different settings. However, the satisfaction towards bank procedure and policy is developed by the researcher for this study. The question is developed from the analysis and findings from qualitative study at phase 1. Confirmation from entrepreneurs and academics is also taken into consideration.

4.5.5.6.4.1 Trust items: Trust can be defined as “one party's belief that its needs will be fulfilled in the future by actions undertaken by the other party” (Anderson & Weitz, 1989, p. 312). It also refers to the value that one of the parties assigns to certain attributes of the partner in the exchange, particularly the degree of honesty (Gundlach & Murphy, 1993) and of goodwill (Larzelere & Huston, 1980; Doney & Cannon, 1997). *Trust is defined as when* one party has confidence or believe in an exchange partner's reliability and integrity (Morgan & Hunt, 1994). Trust is a willingness to rely on an exchange partner in whom one has confidence (Moorman et al., 1993). Both definitions also highlight the importance of mutual confidence. For this study, research defining trust as relationship between micro-enterprise owner and the bank staff as well as the bank's entity which could advise micro-enterprise owners not only for keeping the money but also the ability of the bank in giving them the best offer and investment for mutual profits. This five-scale items for questions no.1 until 7 are based on Dash et al (2006) and questions no. 8-14 based on Luis at. al (2007), Kumar et al. (1995); Doney & Canon (1997) and Roy et al. (2001), Ball. Dwayne, Coelho.P.S, and Macha. Alexandra (2004). Table 4.9 below shows the questions related to trust elements with some modification to suit the study.

Table 13

Table 4.9

Items concerning relationship quality: Trust items

	Trust Items
1	My bank representative has been frank in dealing with me.
2	My bank can always be counted on to do the right thing.
3	In the relationship, my bank has high integrity.
4	Though circumstances may change, I believe that our bank will always be ready and willing to offer us assistance and support.
5	While making important decisions, our bank is concerned about our welfare.
6	Based on our past experience I can say that our bank is trustworthy.
7	I think that the information offered by the bank is sincere and honest.
8	I think I can have confidence in any of the promises given by the bank.
9	I think that the advice and recommendation given by the bank are made to mutual benefits.
10	I think the bank is concerned with the present and future interest of its customers.
11	I think the bank would not do anything intentional that would be prejudicial to its customers.
12	Overall, I have complete trust in my bank.
13	When my bank suggests that I buy a new product it is because it is best for my situation.
14	My bank treats me in an honest way in every transaction.

4.5.5.6.4.2 *Commitment*: Commitment refers to an attachment between two parties that leads to a desire to maintain a relationship (Moorman et al., 1992; Morgan & Hunt, 1994; Lin, 2005) that is sometimes characterized as a “*pledge of continuity*” between customers and firms (Dwyer et al., 1987). In the buyer-and-seller relationship literature concept, commitment is defined as an implicit or explicit pledge of relational continuity between exchange partners (Dwyer et al. 1987). In simpler terms, commitment refers to the motivation to stay with a supplier or suppliers (Moorman et al. 1992).

In a business relationship context, commitment is a psychological sentiment of the mind through which an attitude concerning continuation of a relationship with a business partner is formed (Wetzels, de Ruyter & Birgelen. 1998). All of the questions in this study are adapted from Dash et al (2006) and have undergone some modifications to suit the context.

Table 14Table 4.10

Items concerning relationship quality: Commitment

	<i>Commitment Items</i>	<i>Source</i>
1	My company is committed to our bank.	Dash, Bruning and Guib (2006)
2	I intend to maintain the relationship with my bank indefinitely.	
3	The relationship of my firm and my bank is deserving of my firm's maximum efforts to maintain.	
4	The relationship with the employees of this bank is very important to me.	
5	Even if I could, I would not drop this bank.	
6	I want to remain this bank's corporate client because I genuinely relationship with it.	
7	My positive feeling towards the bank is a major reason I continue the relationship.	

4.5.5.6.4.3 Satisfaction towards Policy and procedures Items: Satisfaction identifies how the customers are satisfied with their service provider overall. It reflects the perceived quality of the services. The role of the satisfaction in customer loyalty has been discussed in the earlier chapter. All 6 items for this part were developed by the researcher based on qualitative interviews and also referring to the literature. For the purpose of this study, satisfaction refers to overall satisfaction with services that link specifically to banks' policy and the procedures involved when dealing with the banks.

Table 15Table 4.11

**Items concerning relationship quality: Satisfaction
(Procedure and Policy)**

	<i>Satisfaction (Procedure and Policy)</i>
1	My bank has provided an acceptable period of time in approving my application.
2	I do notice that the bank has less bureaucratic procedures.
3	I do notice that collateral requirement of my bank is acceptable.
4	My bank often makes speedy decision.
5	The fee structure of my bank is acceptable.
6	My bank gives acceptable interest rate.

4.5.5.6.5 *Measurement* for the moderator variables

4.5.5.6.5.1 *Ethnicity items:* The notion of ethnicity is rooted in the idea of societal groups, marked especially by shared nationality, tribal affiliation, religious faith, common or shared language, or cultural and traditional origins and backgrounds, but race is rooted in the idea of biological classification of homo-sapiens to subspecies according to morphological features such as skin colour or facial characteristics. For this study, ethnicity refers to the ethnic groups in Malaysia with the Malays forming the majority, followed by the Chinese and Indians as well as other minorities. The questions for ethnicity were also developed by the researcher for the purpose of this study from the interviews and literature review. Table 4.12 below shows the questions related to ethnicity with some modifications to suit the study.

Table 16Table 4.12

Items concerning Ethnicity

	<i>Ethnicity Items</i>
1	I deal with any types of banks in Malaysia as long as they meet my needs.
2	In my opinion, it is easier to communicate with a bank officer who speaks the same mother tongue as I do.
3	My ethnicity does influence my choice of bank I prefer to deal with.
4	The bank I deal with conducts business with me regardless of my ethnicity.
5	My ethnicity does not influence my choice of bank I prefer to deal with.

4.5.5.6.5.2 *Religiosity items*: Religion is referring to any set of beliefs and practices that have the function of addressing the fundamental questions of human identity, ethics, death and the existence of the Divine (http://creationwiki.org/Religion#Functional_definition). This broad definition encompasses all systems of beliefs, including those that disagree with the existence of any god, those that affirm the existence of one God, those that affirm the existence of many gods, and those that pass on the question for lack of proof. The questions for religiosity were also developed for the purpose of this study. The questions were developed from the interview and literature review. Table 4.13 below shows the questions related to religiosity with some modifications to suits the study.

Table 17Table 4.13

Items concerning religiosity

	<i>Religious Items</i>
1	I would prefer banks offering Islamic elements in their products and services.
2	I believe bank's products and services with Islamic orientation would be the most reliable.
3	Banks' either local or international, offering products and services with elements of Islamic orientation are important to me.
4	Banks offering Islamic products or services are an important criterion for customer acceptance in Malaysia

4.5.6 Face validity

After the initial version of the questionnaire was developed, the early stage of the scale development is determined through face validity. The main objectives in scale development is to design the scale so that it will accurately and consistently measure what it is supposed to measure (Davis & Cosenza, 1993). According to Sekaran (1992), face validity is a basic index of content validity, where the items are supposed to measure a concept. Experts in the field can be solicited to advise on whether scale items have face validity (Davis & Cosenza, 1993). This step is to seek expert judgement on the face validity of proposed item statements for new scales which has also been adopted in the service literature by Mittal and Lassar (1996), and McColl-Kennedy and White (1997). The initial process of determining face validity involved 10 experts who were invited to review and pre-test the instrument. These experts were mainly faculty members or Ph.D. students specializing in management and marketing in Universite de Toulouse (3 persons), University of Hull (2 persons) and Malaysian public universities (2 persons), bankers (1 person) and entrepreneurs (2 persons) and quantitative lecturers (1 person).

Experts who evaluated these questions were provided with a working definition of the construct being measured and asked to rate how well they felt individual statement reflected the stated definition. The panel had the opportunity to advice on (1) the clarity of the statement and (2) the degree of its relatedness to the construct. The initial one hundred statements operationalizing new items were reviewed by the panel. The statements that were criticized universally were removed. Statements regarded as adequate, but receiving comments to improve the statements, were modified. The finalised questionnaires will go to the translation stage.

4.5.7 Questionnaire Translation

Once the main components of questionnaires have been identified and combined, the questionnaire underwent several phases of further development including translating and assessing their reliability and validity. The researcher believed that as some of the respondents might not understand English, translation needed to be done in order to get a better understanding. Translation was done in two stages: firstly by peers (a PhD student and friend) and followed by a validation process by a professional translator. Since the Malay language is the official language of Malaysia, the survey form needs to be translated to Malay. However, English is a second language and is an essential medium in Malaysia because Malaysia is a multi-ethnic nation comprising three major races each with their own distinct languages.

The '*Back- translation*' technique was adapted, where the first translation from the original version in English to Malay was performed while the researcher was in France preparing for the field study. Twenty university students were approached to help with this project (some token appreciation was given). Translation followed by back-translation is claimed to establish translation equivalence (Douglas & Craig, 1983). Fifteen translations received and twelve were

completed and received on time. Each of the sentences of translation was reviewed to find the best translation for each of the questions. This procedure resulted in a single translated version of the questionnaires in the Malay language. Later the questionnaire was re-translated to English to fulfil the requirement of the back-translation process.

Another twenty colleagues in the public and government sectors were also approached in this second translation session, which took place in Malaysia. Only half of the questionnaire were received complete and within the time frame given. To sum up, the return rates for both sessions were considered satisfactory, considering the length of the questionnaires and the limited time given. Adjustment and changes were made to the Malay version of the questionnaires by taking into account the back translated version. The final stage of this process was the sending of the translated version and a copy of the original questionnaires to a professional translator qualified in English-Malay translation.

4.5.8 Validity and Reliability

To construct the validity of the questionnaires, which refers to the extent the instrument being measured is intended in the theoretical construct, the researcher relied on each component reported previously. Items in the questionnaires were reviewed in order to assess content validity. The reasons for reviewing are to further refine the instrument such as confirm ambiguous words, unclear formatting and appropriateness of questions used in the questions particularly in the Malaysian context. Four successful entrepreneurs who have been doing business for more than 10 years were personally approached to form the expert group. This targeted group is actually the representatives for this study. The second expert reviewers were two bank managers and one bank officer who handled loans for their business customers. Therefore, the questionnaires distributed for the pilot study were attached with

several comment columns. The reviewers were requested and encouraged to review each item in the questionnaires. Comments and suggestion can be made on the attached pages. All the reviewers from both groups were asked to complete the questionnaires and highlight any ambiguities or problems in the instruments. The items which were ambiguous are probably because of the quality of the translation and need to be re-phrased for more acceptable phrasing. A few items were suggested by the reviewer to be rephrased to avoid confusion among the actual respondents.

4.5.9 Summary

This chapter presented the methodology that has been used for collecting and analysing the data from both qualitative and quantitative methods. The research framework provides the guideline for the researcher in explaining the ways on how and what are the methods in collecting the relevant data to answer the research questions and research objectives. With clear explanation, this would give a better understanding for the researcher as well as the readers in following the process of preparing, collecting and gathering the data for ease of analysing later.

CHAPTER 5

RESULTS AND ANALYSIS

This chapter discussed the results and analysis for the qualitative and the quantitative findings. In study 1, the nature of the micro-enterprise owners' loyalty towards their service providers was investigated through in-depth interviews with 20 informants. The informants represented a cross-section of ages, races, years involved in the business and types of banks. Insights were gained into the reasons of micro-enterprise owners' loyalty with their chosen banks by understanding other factors, other than the normal factors put forward by previous scholars. Finally, the investigation of a few new moderated variables provides a contextual foundation based on the Malaysian experiences. This research model will be examined in study 2 by testing the hypotheses. Findings from the qualitative analysis shows three salient themes and two new emerging themes which turn out to be the factors contributing to the micro-enterprise owners' loyalty towards their favorite service providers.

In this quantitative section the descriptive analysis was reported and multiple regression and exploratory factor analysis were carried out to confirm the relationship between the variables. The discussion commences by describing the data preparation and screening steps for the analysis. The next step illustrates the measures taken for item purification where the measures generated from this analysis will be subjected to confirmatory factor analysis to validate them with more vigorous procedures. The analysis focuses on the un-dimensionality, reliability and validity for all constructs used in the present research. The final part, the plausibility of the hypothesized links among the latent constructs will be established.

5.1 PHASE 1: QUALITATIVE RESULTS AND ANALYSIS

After describing three most salient and two new emerging themes, a brief review of the literature related to the themes not discussed in the previous chapter is presented. For easy explanation, the researcher highlighted the caveat of qualitative findings. Analysis of findings will be based on the researcher's interpretation and definitely considered to be very subjective. The researcher is likely to relate this to one of the clauses from Cialdini's (1984, p.9) which mentioned that '*No matter how careful and thorough I tried to be (what), I observed (was) seen only through my eyes and registered through the filter of my expectation and previous experience*'. To avoid repetition of informant quotes and at the same time to minimize the analysis most of the quotes were assigned to just one category.

There are **FIVE** main findings showing the factors which contribute to micro-enterprise owners' loyalty to their existing conventional or Islamic banks. The themes can be divided into most salient themes and the new emerging themes that are discussed as follows:

5.1.1 Bank's reputation

In order to study how the bank's reputation influences its micro-enterprise owners' loyalty more thoroughly, the researcher has further categorised the themes into i) Bank's reputation and ii) Bank's image. Collectively, a broad picture of the bank's reputation could be generated as follows.

1. Bank's reputation in gaining micro-enterprise owners' confidence.

The findings from the data collected show that the bigger and stronger the bank the more it is preferred by the micro-enterprise

owners. This concludes that these enterprise owners' are looking for the stability and security from the bank they operate with. Even though the experienced staff and tailored services are according to the required needs and expectations, they are not the most important considerations. Since the micro-enterprise owners in this study operate small scale businesses, they are not very enthusiastic about international banking. The micro-enterprise owners demand the stability and security from the banks more than anything else so that they do not lose their money when the banks take up new ventures. In addition, the risk of the banks getting taken over by any other banks, resulting into new policies and new systems, is nullified.

Respondents' comments supporting the theme.

'Reliable – these three banks are among the biggest banks in Malaysia. Citibank one of the biggest foreign bank in Malaysia, Maybank the biggest, followed by CIMB. So, I can rest assured that I don't have to worry about my money. I do not worry next time this bank will be taken over by other bank'

JT, 36, Male, Malay, Production House

'...they are getting bigger and stronger. And, at one time I thought they are the number 1 bank in Malaysia in terms of customer count of total customers. They look stronger after the merging exercise mainly because they also showcase themselves in business news..'

GC, 45, Male, Chinese, Agriculture Chemical Supplier

2. Banks' image

From the interviews conducted, it is clear that the micro-enterprise owners look for banks which are easy to access and the transactions are conducted most conveniently. Since micro-enterprises are mostly owned by the head of the family and decisions are taken like-wise, it is completely left to the head of the family if the company could approach technology compliant banks. Hence, traditional banks are mostly preferred by such enterprises. The next preference of the customers would be the e-commerce facility which could enable the clients to operate without having to visit the bank personally. The data collected from the micro-enterprise owners also concludes that the companies are not looking for extra features offered by the banks. Due to the lack of disposable income, the micro-enterprise owners are only looking for the services which would help them grow their businesses.

Respondents' comments supporting the theme.

'Before, Maybank is considered as one of the local banks with branches throughout the country. Every year, we will hear that this bank is offering new product and services. Even, internet banking in Malaysia, I can say was, first introduced by Maybank. Now through maybank2u everything can be done without having to go out from your room'

MZH, 50, Female, Malay, Travel Agency

'This bank is very accessible. The biggest bank in Malaysia and they have more ATM machines for instance. The internet banking is more advanced as compared to other banks. So I think accessibility is the most important thing for this bank'

VJ, 36, Male, Indian, Medical Consultant

5.1.2 Literature review supporting bank's reputation

Some decades back, managing a bank's reputation was not a big task. Eventually, with globalization and increased exposure of micro-enterprise owners, the banks have to keep most of their operations transparent. This has made managing the bank's reputation a little tricky. The Reputation Institute (<http://www.reputationinstitute.com/>) states that, *'a reputation analysis concludes that the behaviour of a company in respect to transparency and ethics in its operations and business dealings influences the bank's reputation the most.'* The bank's behaviour scores at 15.9 percent in reputation analysis while providing the best products and services scores 15.8 percent. These figures have been derived to calculate the bank's standing in the nation's progress after the economic crisis.

Usually it is seen that high bank reputation is directly related to higher profitability. A reputation certificate for a bank brings in increased sustainable earnings for a long period of time through persistent high earnings as well as increased debt contracting value. (Bushman, 2010)

Reputation of the bank is a very important aspect both to stakeholders and the customers. Reputation can also be viewed as the

manner in which the business will handle different events and situations, and how it is able to settle the interest of all stakeholders. Good reputation of the bank is a vital aspect in determining the trend it will pass to achieve all its objectives. It allows the banks to benefit from premium price, attract better staff, attract investors, and also lower cost of operation (Keser, 2003). Companies check the banks reputation in regards to its finances, safeguarding of the interest of all stakeholders, avoiding surprises to its customers regarding the quality of services, safeguarding employee interest, checking on the performance of stocks in the capital market (Genasi, 2001). Good reputation enables the bank to enjoy large profits all round, and it is also important on the rating of the business for example, a bank with stocks in the capital market which has a good market trend is normally declared as better rating.

For any bank, its reputation is considered to be a most important asset. For instance, during the mid-1980s, a bank named Continental Illinois had a blow on its reputation which further suffered the liquidity crisis and the total failure of the bank as a whole (Randall, 1993). Safeguarding its reputation should be one of the major tasks for any banks – be it traditional bank or Islamic banks.

The reputation of a bank is a vital factor considered by customers' while making a choice as to where to deposit their money especially the young ones. Research carried out among various businesses showed that most of them prioritize on the reputation of the bank, with other variables following, such as location and the amount offered in terms of interest rates by the bank. Some of the business enterprises are very sensitive when it comes to matters relating to making decision; they will only choose products from a bank with a reputable name (Bushman, 2010). To safeguard or create a good a reputation bank needs to mend its relation with its

customers. This can be done through promotion and advertisements, by involving itself on campaign-related activities or taking part in social activities. The bank that involves itself with socially related activities attracts new customers and strengthens its reputation (Marken, 2002).

In order to create a good reputation, there is a need to market the bank and its product. This will not only attract the customers but will also help them to further understand their favorite services provided by the bank. The nature of quality services is what distinguishes a bank from others. Safety goes hand in hand with the image of the bank. Customers will only choose to save their money in banks where they will feel safe and secure. In the research carried out in Ghana it was noted that poor farmers aged 60 years and above choose to keep their savings in the house, this being attributable to a lack of confidence in the banking institution (Choudhury, 1986). Many people did not prefer cheque but instead prefer cash. Cheques are viewed as untrustworthy when compared to cash.

The recent development and usage of technology in banking has caused a lot of worries among the customers regarding the safety of their money. Theft in the ATM is something that has been reported often. The majority of the customers want safety in the ATM machines improved and data about the bank protected against fraudsters. The information regarding a bank details is an important aspect for customer safety, and the bank has no option but to protect itself from fraud and robbery. Another factor that influences the choice of the bank is the pricing. Most banks have similar charges, and therefore pricing is not a big issue. High interest rates discourage customers and will have negative effect on them and the degree of loyalty towards the bank is questionable. High interest rates on loans will cause customers to seek those services from other banks.

Advanced technology should be encouraged in the bank but should not come at an exaggerated price to the customers.

The pricing should be affordable to the customers and this will make them feel part of the relationship with the institution. The bank gives several services when compared to other service industries. The most important factor is that the rate of charge is still within the scope suggested by the central bank. Reputation of the bank is a very important feature in its business, and therefore it is the responsibility of the bank to safeguard its reputation at all costs. If the bank is new in the market it must engage in activities which are likely to build its reputation. Reputation is directly related to the quality of services offered by the business which in turn influences the loyalty of the company. Good reputation is built by the company through quality service which then builds loyalty among the customers.

Banks are typically long-lived institutions and long-term players, with a responsibility of maintaining good reputation and image for the sake of its business. It will also help partners with companies in financial distress. Research conducted by Erol, Kaynak, and Bdour (1990) on the analysis of financial studies show that a bank is likely to be concerned by its reputation and image more than anything else. Due to concerns of its image the bank is likely to dedicate considerably more resources than public bondholders towards accessing a borrowing company in financial problem. The business in financial distress can easily negotiate for the loan from the commercial bank. Therefore, it is easier for the micro-enterprises to borrow from the commercial bank, which has maintained good reputation. This indicates the relationship between the reputations of the bank with the micro-enterprise owners' loyalty.

5.1.3 Quality of the service provided by their service provider

The perceived service quality can be determined by analysing the following determinants:

1. Core services

The micro-enterprise owners prefer banks which would provide them with the same kind of services whatsoever channel they are using. The businesswoman or businessman who is travelling would have to contact the bank official on telephone for urgent monetary transactions. The 24x7 availability of such services will increase the bank's worth. Presenting different types of products and service options to clients is also very important for a bank.

Respondents' comments supporting the theme.

'This bank is able to provide very fast response on any inquiry particularly on accounts. And one more thing, this bank is able to provide letters of credits in supporting our tender application'

OP, 36, Male, Malay, ICT Consultant

'The rates/competitiveness is important, but as long as the service is fast and friendly and of course the gain from the transaction is better, they will be my choice. In business, the loan rate is not that important, as long as the gain from the loan is better and more, but searching for a better rate is a good habit so we are exposed to more choices'.

MTH, 33, Male, India, Medical Consultant

'Services are very fast and efficient and I don't have to wait long before being entertained'.

CH, 38, Male, Chinese, Professional Consultant

2. Service delivery from human elements

The friendly staff of the bank is always its goodwill. The micro-enterprise owners would always look for the bank whose staff is friendly and willing to entertain the client. Other qualities like interpersonal skills and the value of advice the staff provide do not count as much in importance for the micro-enterprise owners unless the staff is friendly.

Respondents' comments supporting the theme.

'I went to the bank almost every week. Most of the banks staff knows me. From the counter staff to branch manager. I feel comfortable. They will invite me for any banks' staff occasions'.

VV, 40, Female, Sarawak Native, Cleaning Services

'I don't intend to have another bank. So, if bank officers treat me nicely I am ok. I really need human factor on top of banks' product and services'.

AO, 34, Male, Malay, Legal Firm

'The process was fast and process expedited. The staff was very polite and willing to come personally to my house to get my signature to make the process faster. Once, I was waiting to get my cheque book (need to refer KL and etc- taking more time than usual) and at the same time I was

rushing for another appointment. The staff was willing to get the cheque book for me. After the process completed I just had to come later to pick up the cheque book'

ZHM, 41, Male, Malay, Wedding Planner

'It is the staff handling of their clients' needs. for RHB bank , the staff especially the current account staff and account relation officer, they are willing to entertain clients especially businessmen or businesswomen who are always busy on the move, who usually use phone call.....'

SA, 40, Female, Malay, Cleaning Services

3. Systemization of service delivery through non-human elements

In this modern age, where all the work is done through the internet, the micro- enterprise owners would want an internet banking facility from the bank so that they may not have to run to the bank every time. The client would benefit if the bank is well located and easily accessible even during peak hours. The office layout does not matter much to the client unless he is provided with the required services fast and efficiently.

Respondents' comments supporting the theme.

'Now I think most of the banks are introducing more systematic systems in supporting their counter services. I think that's a very good idea. Waiting in the long queue is the worst ever..'

CH, 38, Male, Chinese, Agriculture Supplier

'I remember one day when I was at the counter. I felt weird when the officers who entertained me kept on looking at the big clock right behind me. When the transaction was done I noticed he was actually giving himself a time limit when entertaining each of the clients...I think that's the best solution for a busy period..'

MTH, 40, Male, Indian, Medical Consultant

'I used to go to MBB at KLCC branch. I think they have very good facilities as well as good systems in controlling customer crowd. I hope it would be the same with other branches in KL..'

VV, 40, Female, Sarawak Native, Cleaning Services

4. Tangibility of the services

Providing good services to the clients as well as giving the rewards and bonuses for regular customers always help in retaining the customers. In Malaysia, there are a lot of problems faced due to parking unavailability. For some clients, it does not matter if the bank premises are big or small. However, having ample parking space allotted just for the customer's means a lot to them. Micro-enterprise owners would always look for the bank that could look after the customers' small needs that would save his time as well as money.

Respondents' comments supporting the theme.

'I feel comfortable when I am entering the bank hall and straight to the counter. Although the bank branch is not that big. But, it makes me feel relax..'

'.....feel comfortable with seats setting. They look nice, they help you a lot if you have problems.'

JT, 36, Male, Malay, Production House

'counters are very convenience to access and the also ample parking places. I can make payment on the way to my office. People who do banking, look for convenience. And also value added services'

GC, 45, Male, Chinese, Agro Chemicals

'...I do not look for the bank with a huge and impressive building but lack of parking. To me it is ridiculous. In this city, looking for parking is like crazy. I do admire CIMB bank. They are good in choosing branch location and they always reserve parking priority to their customers'

MTH, 33, Male, Indian, Medical Consultant

5.1.4 Literature review supporting perceived service quality

After the lessening of entry barriers of banks due to the reforms in the financial sector, the banks are under intense competitive pressures from international as well as national capital markets. In an age of mature competitive pressures, banks need to have a loyal customer foundation. For this to happen, banks need to improve their positions in the market. Many banks are targeting towards loyalty gained by uncompromised service quality and by increasing consumer satisfaction. The current problem with the banks is to calculate the dimensionality of the perceived service quality of the customers. The reason for this is if the service quality can be identified, the management of the bank would be able to improve the quality of its products and services thereby, improving the total outcome of the bank. The dimensions of perceived service quality of customers are as follows:

1. Competence, customer-oriented convenience and tangibility. The competence factor is related to providing trustworthy services to the customer. By being customer-oriented, the skills and attitude of the people or employees providing services have to be reformed.
2. The convenience factor defines the branch locations and how accessible they are and the availability of its ATM centres throughout.
3. The tangibility factor defines the bank's facilities and the ways through which the customer can contact his favorite staff.

Through this study, the researcher supported the old time notion which states improved quality of services and products provided can also attract behavioural intentions that are favourable.

These favourable intentions are word of mouth or WOM communications and intention to purchase. The study also find what decreases in unfavourable intention is seen through less consumers with complaining behaviours. This is the reason why the perceived service quality

is supposed to be a major concern for bank managers (Lee, 2000). One can achieve the full benefits of the quality movement by learning to use the tool of customer value analysis to choose the right market and win the competitive game with dramatically superior profits in them. (Gale, 1994). Service excellence pays off richly. With service excellence, everyone wins. Customers win, employees win, management wins, stockholders win, communities win and the country wins. (Valarie et.al, 1990)

Customers choose the channels and interactions that get them to their desired solution in the quickest, most efficient manner. Customers simply want a great banking service, tailored to their needs and in a timeframe that works. In other words, it is related to a total customer experience. Many people would argue that internet banking is the by-product of competition, globalisation and a maturity market. But the fact is most customers expect more timely and efficient service from service providers and are indeed demanding it. The consumer has had the behavioural change since the last decade, namely the psychological impact of the information age and the associated innovations, and the process of diffusion of innovations. Each of these factors contribute to create a paradigm shift in the way financial institutions need to think about service and commitment of customers (Brett, 2010).

5.1.5 Quality of the relationship between micro-enterprise owners and the banks

The theme under relationship quality can be grouped under three main categories: (1) Trust, (2) Commitment and finally (3) Satisfaction which focuses on policy and procedures implemented by their favorite banks. The relationship quality of the banks toward micro-enterprise owners can be determined by considering the following themes:

1. Trust

The trust factor is very important for micro-enterprise owners. The mutual understanding and mutual trust is the most important factor for a client to pursue his loyalty to the bank for a long period of time. Since micro-enterprise operates on a very small scale and the cash flow is less. In such cases, if the bank could provide with even one such employee to client whom the client could totally trust, the bank could earn the long term loyalty from the client. The micro-enterprise owners might feel even more secured if the bank is a public national bank. With the private bank, even if the facilities provided are more, there is always the threat of money loss. Some other factors like accessibility and operations through phone calls and intimation of irregular cash flow are not very important for the micro-enterprise owners' even if they are very essential for the business to run smoothly,

Respondents' comments supporting the theme.

'as long as our normal operation such as monthly salary, account statements and bonds application are being processed at the same speed as before. Bank will look at our cash flows and our transaction history. Small company like I have now without trust from them, I think they would not provide or offer any facilities'

OP, 36, Male, Malay, ICT Consultant

'There is one officer who used to entertain me. Probably I can say when I would like to withdraw some money, I just make a phone call and I will come to the counter later and collect the money. Or even if I would go to transfer the money, I will just fax to them and I will sign the letter later. Sometimes, level of the trust between them and me come

until this stage. But, I have to take care of this trust and relationship... ‘

A0, 34, Male, Malay, Legal Firm

2. Commitment

From the interview conducted, it is very clear that in the long term relationship with the bank, the client would only reconsider changing the bank when it is unhappy with the bank. The micro-enterprise owners who have good relation with the banks would not change their banks because that would increase switching cost.

Respondent comments supporting the theme.

‘...so every single record for the past 10 years is with them...easy to deal. I do not need to bother much..Hong Leong Bank will keep us updated and tell us what we are supposed to do...’

AO, 40, Male, Malay, Legal Company

“I will not consider changing banks because it is not possible to replace my 25 years’ relationship with the existing bank”

SHR, 50, Male, Malay Professional Consultant

‘As I mentioned to you that relationship is already built between me, the officers and managers. I trust them, I trust the bank and I believe they also trust me. I recommend a few of my clients to do some loans there. Mutual understanding already exists between me and the banks staff’

MA, 50, Female, Indian, Education Consultant

3. Satisfaction with the banks' policies and procedures.

The processing fees charged, fees and structure rates charged are the major factors considered while choosing the bank and keeping a long-term relationship with that bank. The client would always feel much closer and loyal to the bank if the bank officials recognize the client and give him yearly incentives as a regular customer. In order to be trustworthy and maintain a long term relationship, the bank can afford to close its eyes on specific policies and procedures that restrict the clients. This would provide the client with ease of operations. If the bank is transparent in all its processes, it would help in gaining the client's confidence. It is quite a challenging task for the banks to enforce upon their staff to display empathy and warmth for their clients while providing them services or attending to them. For this, banks have to genuinely listen as well as respond to micro-enterprise owner's feedback, and tailor their services to the client's requirements and needs.

Respondents' comments supporting the theme.

'Other procedure and probably bank policies they just simply close one eyes and make things done for you. To me, this really makes the different from one bank to another bank.'

MHZ, 40, Male, Indian, IT and Dev. Company

'...the procedure in this bank I found it less bureaucratic and certain things can be discussed..but it again it depends on who you deal with...'

CHN, 38, Female, Chinese, Insurance Agency

5.1.6 Literature review supporting relationship quality.

For any banks, customer satisfaction with bank's services and products should be considered the main key to the bank's long term competitiveness and success. As far as relationship marketing is considered, customer satisfaction is supposed to be the prime determinant for the retention of customers. Since the last two decades, customer satisfaction has been the subject of discussion in the area of market research and consumer research. During recent times, the customer satisfaction factor has achieved a new attention in respect to a conceptual shifting of relationship marketing from transactional marketing which has defined customer satisfaction to be achieved by all marketing activities which are meant to establish, maintain and develop profitable relationship exchanges. Customer satisfaction has been developed widely as the foundation for controlling and monitoring the transactions in relationship marketing. The relationship between long term retention of customers and satisfaction has been taken into consideration by marketing scholars and practitioners and they have described them as important concepts for the analysis. The concept that has been derived is that consumer satisfaction or dissatisfaction directly influences the consumer repurchases behaviour of the bank's products and services. Because of that, some researchers are investigating the extent and the nature of the relation between the consumer satisfaction and the consumer retention (Hening-Thurau, 2007).

A proper and well-thought relationship is of prime importance in any business. The level of personalization and friendliness the organization is able to maintain with its clients determines its success in the near future. In any part of the world and in any business, the consumer is considered to be the king. Outlining the values of the organization which enables the staff and management to adhere to the policies explaining the consumer services is very important for a successful business. Overwhelming scientific evidence supports management's focus on customer satisfaction. In particular,

researchers have found that firms that create superior customer satisfaction enjoy superior profits (Timothy, 2001).

5.1.7 The new emerging theme: Ethnicity and Religiosity

The ethnicity and religiosity factors that determine the loyalty of the micro -enterprise owners towards the banks can be determined through the following evaluation:

1. Faith and Belief

Islamic banking does not practise taking or giving interest. It practises profit sharing. During the economic turmoil of 1997, most of the micro economic businesses got affected badly due to fluctuating business rates and most of them transferred their account to Islamic banking. The transactions through this bank are transparent and a good number of services are provided to the client.

Respondents' comments supporting the theme.

'... due to the same background, probably we have the similarity and understand more our common problems. And I believe the same goes to the others too...'

CHN, 38, Female, Chinese, Insurance Agency

‘..... in particular people from rural area. I believed, among the Malay, CIMB belongs to bumiputera² or Malay and Maybank belongs to the Chinese. Although after the merging, but who managed the bank is still the Malay...’

MZH, 52, Female, Travel Agency

a. Race and ethnic behaviour

The ethnicity of the bank is not of much concern to the micro-enterprise owners as long as the banks provide good services and good income is being generated through them with the security factor taken into consideration. But still, having a bank that knows the language and values of the society helps the micro-enterprise owners get rid of day-to-day problems. If culturally the bank and micro-enterprise owners come from the same background, the bank would be able to address customers’ problems with ease.

Respondents’ comments supporting the theme.

‘...Personalized care, Saves time – to do work, fast approval, fast processing time, Convenient to work with. – good flow and of course they have some Islamic Financing.’

SA, 40, Female, Malay, Cleaning Services

²*bumiputra* referring to the ethnic group in Malaysia was coined by activist Malaysia's former Prime Minister, Tunku Abdul Rahman. It recognized the "special position" of the Malays provided in the Federal Constitution of Malaysia, in particular Article 153. But, the constitution does not use the term "bumiputra"; it defines only "Malay" and "aborigine" (Article 160(2)), "natives" of Sarawak (161A(6)(a)), and "natives" of Sabah (Article 161A(6)(b)).

'We are supporting Islamic banking product, profit is calculated based on syari'a law and we are very sure the money is clean, they offer good facilities to support small and medium entrepreneur and the profit charged is very fair...'

ZHR, 41, Male, Malay, Data Development Analysis

'We will not compromise on any bank that does not offer any Islamic banking product....'

ZHM, 41, Male, Malay, Wedding Planner

5.1.8 Literature review in supporting ethnicity and religiosity.

Islamic principles are age old principles. They explain to the people, the behavioural and moral code which governs the financial activities and stresses on fair business, the rights of the people as far as their property management is concerned. It emphasizes more on less risks and profit sharing. Islamic principles try to keep a balance between extreme communism and capitalism. In the Islamic economic principles a person has the freedom to create the wealth and to produce the wealth with set moral policies and set of rules of behaviour.

Banks in emerging markets are occupied in the core activities of intermediation and the provision of liquidity. But they have a different agenda from those in the developed world because most face a different set of challenges. No single model of banking applies to all emerging markets, though many share similar problems such as shortages in capital and trained labour. They have their fair share of crisis. In addition, there are different forms of banking. Islamic banking is one of the most important forms of emerging banks.

Though not limited to emerging markets, Islamic banking has developed mostly in countries such as Pakistan, Iran and Malaysia. Usually, Muslim countries display mixed systems, where both Islamic and conventional banks can be found. The main characteristic is the absence of payments on deposits and loans, as this forbidden by the Holy Quran forbids it (Heffernan, 2005).

Since the establishment of commercial banks in the Muslim world, Islamic scholars have been continuously examining the methods of the operations conducted by the conventional commercial banks. As time flew, Islamic scholars came to the conclusion the conventional commercial banking system and its operations are against the principles outlined in Syari'ah. According to Syari'ah principles, paying interests on the savings or charging interests on the loans as well as debts is not allowed. Taking into consideration the growing needs of humankind, Islamic scholars and Islamic economists prepared the conceptual models of financing as well as banking during the twentieth century. The development of this model was necessary for the growth and development of the Muslim businesses around the world. Indirect or direct intermediation in between resource deficit and the surpluses was taken into consideration while developing the model (Ayub, 2007). The major role of a religion as far as choosing the banks are concerned, they have been seemingly over emphasised, as per the opinions of few scholars in regards to the decision of loyalty, may see returns as the prime motive and religious sentiments are just the delight factor for the bank's customers (Dusuki & Abdullah, 2006).

There are separate rules and regulations as far as Islamic banks are concerned. The Islamic banks should necessarily perform as per the policies defined in the Islamic Banking Act which had been put to implementation in April 1983. The important factor that differentiates conventional banks from the Islamic banks is those

Islamic banks do not practice payment of interest on the savings and receipt of the interest on the loans or debts. Islamic banks practice PLS policy i.e. Profit and Loss sharing policy. The Islamic banking policies also prohibit undertaking the trading that involves financial risks. It does not fund business dealings in alcohol and pork trading and production (Cihak & Hesse, 2008). Malaysia has been making good progress after Islamic banking came into existence in 1983. It has become the main centre of the global Islamic banking. (International Monetary Fund, 2009).

Malaysia has been successful in maintaining a balancing act between Islamic banking and traditional banking systems. The Islamic banking system in Malaysia has been outlined in such a manner that it goes parallel alongside conventional banking. Both the banking systems have co-existed in Malaysia and both the systems have been making major contributions to the Malaysian economy. (El Tiby Ahmed & El Tiby, 2011).

There are many factors that have ensured the Islamic banking's success in Malaysia. The most important factor is the inter-banking money market system. The Malaysian government has made an appropriate atmosphere economically as well as fiscally for the growth of Islamic banking system.

5.1.9 The newly-emerging ethnicity and religious factors affecting the loyalty of micro-enterprise owners in Malaysia's perspective.

The Islamic banks in Malaysia have survived the economic slowdown which showed interest rates fluctuating. This slowdown resulted in heavy losses by the customers dealing in commercial banks. Islamic banks practice absolutely no interests. It believes in a profit-

sharing system. As such, more and more customers were diverted towards Islamic banks in order to avoid another slowdown. As long as the financial contracts are designed to incorporate Islamic guidelines and restrictions, the success of Islamic banking is guaranteed. (Iraj, 2009).

In Malaysia, Islamic banking came to existence in 1963 in the name of Perbadanan Wang Simpanan Bakal-Bakal Hajj. PWSBH was established to form an institution which would help the Muslims in Malaysia to save money for Hajj. Malaysia's first Islamic bank was established in 1983. From 1993, the finance companies, the merchant banks and the commercial banks were allowed to give the services and products of Islamic banking which was operated under the Islamic Banking Scheme, also known as IBS. However, under Malaysian policies, these banks and institutions were required to separate the activities and funds collected from the activities and funds of the conventional banking. This policy was brought into implementation so that there is no intermingling of the funds since the interest policies and funds accumulation systems in both types of banking are different.

Diverse culture prevails in Malaysia. Malaysia has absorbed different languages and different cultures of other Asian countries. Other than the Malays, there are also people from India, China and other origins. Malaysia has the 3rd largest economy in the whole of Southeast Asia. It ranks 29th in the world economy. Providing financial service is one of the core services in Malaysia. It is very important for the Malaysian government to recognize the wants and needs of its clients, both in retail or corporate. The government has to encourage the local businesses to make the right choices of banks as far as their business needs are concerned.

In all, Malaysia has 41 banks out of which 19 banks are Islamic banks. The assets of the Islamic banks in Malaysia have been showing

a 20% increase every year (MIDA, 2009). The Malaysian government has been considering religion and ethnicity as an emerging factor determining the loyalty of the micro-enterprise businesses. Islamic banking has emerged as major competitors to the rest in Malaysia. Initially, Islamic banks were considered as the means by which the Islamic population would facilitate to perform their religious duties like performing the Hajj. But now Islamic banks have been turning their attention towards core banking services and are ready to offer all those services that other commercial banks are offering. The Islamic policies still do exist in their banking system (Wilson, 1997).

The dramatic growth of Islamic banking and finance, internationally and within Malaysia, the lack of international banks and financial institutions in financings, and the pressing needs for home purchase financing, among other factors, have resulted in intensive consideration of formalization of the collateral security concepts in Malaysia (Kabir, 2011).

5.1.9.1 Ethnicity factors

The Malaysian population mainly comprises of Muslims. The Muslim customers claim that banking through Islamic banks help them to remain close to the culture. Since these banks are well-versed with the daily problems of local Muslims, they could provide easy solutions to their problems. The common language spoken by the bank staff and the customers make a huge influence on the client's retention. The client would always be more comfortable dealing with the official who can speak in his language.

The Islamic bank officials and the customers belong to the same background which would help them grow the business more by growing their network and contacts from as many customers as

possible of similar background. When the bank officials are of the same background, there is always a personal touch to the relation between the micro-enterprise owners and the bank officials.

Islamic Banking and Finance (IB & F) is recognized by both Muslims as well as non- Muslims as an ethical alternative, protecting against the worst excesses of leverage whilst reinstating values, such as trust, which have been lost in conventional finance (Vernados, 2010).

5.1.9.2 Religiosity factors

Since Islamic banks deal in profit-sharing policies, the micro-enterprise owners' feel more secured investing in those banks rather than the banks dealing in interest which is against the rules of Islam. Since there is an Islamic element in their transactions, the micro-enterprise owners' feel more comfortable as they are mostly well-acquainted with the Islamic procedures. There are few powerful communities existing in Malaysia who would not bear the non-Islamic products and services. In order to deal with such communities in the day-to-day business, micro-enterprise owners have to follow their policies.

In short, the ethnicity and religious factor has been emerging as a new factor in determining the loyalty of the micro-enterprise owners towards their current banks as seen from the qualitative findings.

5.2 PHASE 2: QUANTITATIVE STUDY RESULTS AND ANALYSIS

This section will discuss further the process involved in analyzing the quantitative data. As a normal sequence in determining the validity and reliability of the quantitative data, the analysis includes data preparation, data screening, pilot test and a few other processes.

5.2.1 Data preparation and screening

Data cleaning and screening refers to the process of checking data for problems that might have an effect on the legitimacy of the hypotheses testing. Issues pertaining to preparation of the data are key considerations, particularly for multivariate analysis in this case. In the following sections, five crucial issues with regards to data preparation and screening namely, missing data, outliers, normality and linearity and homoscedasticity will be discussed.

5.2.2 Missing data

Monette et. al., (2005) mentioned that the gap in a data is actually referred to as missing and that happens in studies. Non-respondent bias probably has the potential to happen if any of the data collection procedures rely on respondent's co-operation. Lessler and Kalsbeek (1992) explained that the problem with non-response happens if the bias or systematic distortion in a survey occurring because of inability to obtain data from some members of the selected sample. The missing data resulted in incomplete coverage, which, if extensive, throws into question the representativeness of the data. Furthermore, most of the statistical procedures are based on the assumption of complete data (Monette et.al., 2005).

As a result, missing data will cause misleading statistical conclusions and biases on the parameter estimates (de Vaus, 2002; Hair et al., 1998). Tabachnick & Fidell (2001). The significance of missing data depends on the pattern of missing observation, frequency of occurrence and reason for the missing values. Interestingly, Kline (2005) and de Vaus (2002) suggested that preventive measures could be taken to minimize and avoid missing data during the survey instrument administration stage. These suggestions were taken into consideration and were applied in the current research. As mentioned in the previous chapter on research design of the quantitative stage, the administration of the survey instrument methods, the '*drop-off and collect*' has considerably reduced the missing value.

The missing value for this study was noted for 4 variables i.e. AD7 (1 item), AD16 (1 item), AE2 (1 item), CB1(1 item). One approach to replace the missing data is to use SPSS software which has a procedure for substituting the mean before data analysis (Hair et. al 2007). The data was transformed via SPSS to replace the missing value. Please refer to the appendix 3 for the details of the missing values.

5.2.3 Outliers

The next step after treating the missing responses is examining outliers. There are four reasons that cause outliers (Hamid, 2006). The first reason occurs from incorrect data entry. In this research, a few cases of these errors were noted and corrected. The second type of outlier is the inclusion of missing values, and the third type is the result of sampling error where cases are not representative of the intended population. Finally, outliers include those observations within the intended population but are extreme in their combination of values across the variables.

Some cases of outliers were identified in this research, and their treatment is discussed next. An examination to detect univariate outliers was performed. Detecting univariate outliers was done on the observations of

each variable (Hair et al., 1998). Forty univariate outliers were identified and after further investigation it was found that these cases were extreme – either they strongly agree or disagree on the interval scaled statements. However, since this study investigates micro-enterprises owners' loyalty towards their favorite banks and their perception of the bank's reputation, perceived quality and relationship quality, it is normal that a consumer has strong feelings towards the chosen variables and feels otherwise towards another (Hamid, 2006). Consequently, it is quite acceptable for outliers to occur and that excluding these extreme cases will affect generalisability of the entire population of this study (Hair et al., 1998; Tabachnick & Fidell, 2001). Hence, all these cells were retained. Refer to appendix 4 for the details of the outliers' analysis.

5.2.4 Normality Test

In this study, the normality test for all of the dependent and independent variables was conducted based on skewness and kurtosis. Skewness is a measure of departure from a symmetrical or balanced distribution where mean, median and mode are in the same location and therefore a distribution that has respondent stretching towards one tail or the other is called skewed (Hair et al., 2007). Kurtosis on the other hand is a measure of a distribution's peakness or some termed it as flatness where distribution's responses cluster heavily in the centre, termed as peaked (Hair et al., 2007). As a general rule, according to Hamid (2008), skewness of +1.96 or – 1.96 and kurtosis of +2 and -2 indicate normality.

In terms of skewness, variables Banks reputation, Perceived service quality, Relationship quality and Micro- enterprises owners' loyalty statistics is less than the suggested figure (+1.96 or – 1.96). For the kurtosis measure, all the variables' figures are also less than the recommended figures of +2 and -2. Therefore, both skewness and kurtosis measures show that the normality assumption is met.

Table 18Table 5.0

Normality of the data

	N	Min	Max	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Banks' reputation	356	1.77	5.00	3.7373	.65862	-.353	.129	.267	.258
Perceived service quality	356	1.88	5.00	3.8070	.59329	-.063	.129	.041	.258
Relationship quality	356	2.33	5.00	3.7517	.61997	.157	.129	-.293	.258
Micro-enterprise owners' loyalty	356	1.71	5.00	3.6327	.84405	-.043	.129	-1.046	.258
Valid N (listwise)	356								

5.2.5 Descriptive data analysis

5.2.5.1 Demographic profile

In this section a demographic profile of the respondents is presented. The demographic profile is to provide background information such as the category of respondents under study with respect to their personal or demographic characteristics. The demographic profile of the respondents was discussed under demographic data that relates to the following aspects: (a) Gender; (b) Marital Status; (c) Age; (d) Ethnicity; (e) Religion and (f) Educational Background. The descriptive analysis for the demographic profile was analyzed to obtain the percentages and frequencies. Table 5.1 presented the detailed breakdown of the survey participants' demographic characteristics.

Table 19 Table 5.1

Overall sample demographic profile of the respondents

Classification	Items	Research Sample (n=356)	
		<i>No. of respondents</i>	<i>Percentage (%)</i>
Gender	Male	214	60.1
	Female	142	39.9
Marital Status	Single/Never Married	92	25.8
	Married	251	70.5
	Widowed	8	2.2
	Divorced or separated	5	1.4
Age	16-25 years old	32	9.0
	26-35 years old	73	20.5
	36-45 years old	102	28.7
	46-55 years old	122	34.3
	56 and above	27	7.6
Ethnicity	Malay	180	50.6
	Indian	65	18.3
	Chinese	76	21.3
	Eurasian	16	4.5
	Others (Sarawak, Sabah)	19	5.3
Religions	Islam	204	57.3
	Hindu	47	13.2
	Buddha	29	8.1
	Christian	73	20.5
	Others	3	.8
Educational Background	LCE/SRP/PMR	33	9.3
	MCE/SPM/O LEVEL	37	10.4
	Diploma/Certificate	91	25.6
	Graduate (First Degree)	172	48.3
	Postgraduate/Doctorate	23	6.5

As indicated in the table above, the major age group ranges between 46-55 years. This group of 122 respondents accounts for 34.3 percent of the respondents. The second significant age group is the 36-45 year-old group, which consists of 102 respondents representing 28.7 percent of the respondents. These two groups represent 63 percent of all the respondents. Table 5.1 also indicates

that the major ethnic group of the respondents is the Malay group. This group accounts for 50.6 percent followed by the Chinese (21.3 percent) and the Indians (18.3 percent) of the respondents. The minority group includes only 5.3 percent (Native Sabah and Sarawak) and Eurasian (4.5 percent) of the respondents.

The marital status of the respondents is also shown in the above table. A majority of the respondents are married which accounts for more than 50 percent of the total respondents. Another significant group is with the status single and never married accounting for 28.5 percent. With regards to respondents' faith the table 5.1 above displays a vast majority of the respondents are Malays, and that means that Islam should be the majority which accounts for 57 percent including, some of the Chinese and Indian micro-enterprise owners who are also Muslims.

Finally, in terms of respondent educational level, Table 5.1 shows that 48.3 percent of the respondents have bachelor degree and followed by diploma holders accounting for 25.6 percent. Other academic background with LCE (Lower Certificate of Examination) or SRP, MCE (Malaysian Certificate of Education) or SPM and Certificate level account for 9.3 percent and 10.4 percent respectively. There are 6.5 percent of the respondents who hold Masters or PhDs degrees.

5.2.5.2 Respondents' business profile

Table 5.2 illustrates the response frequencies in terms of respondent business profile. Almost 50 percent of the micro-enterprise owners have been involved between 6 to 10 years in business which accounts for 162 out of 356 samples. The second

significant number of years the respondents runs their businesses is between 3-5 years which accounts for 24.2 percent followed by over than 10 years of expenses of respondents running the business which accounts for 17.2 percent or 61 respondents from the total number of respondents.

Table 20 Table 5.2

Business profile of respondents

Classification	Items	Research Sample (n=356)	
		<i>No. of respondent</i>	<i>Percentage (%)</i>
Years of running business	1-2	47	13.2
	3-5	86	24.2
	6-10	162	45.5
	Over 10	61	17.1
Business Practices	Wholesale and Retail	90	25.3
	Transport, Logistics and Equipment	21	5.9
	Professional services	59	16.6
	Consultancy services	50	14.0
	Education and Health	32	9.0
	Hotels, Restaurants and Travel agencies	42	11.8
	Financial Intermediaries	17	4.8
	Computer services and communication	30	8.4
	Real Estates and Insurance	15	4.2
Types of Ownership	Malaysian owned	321	90.2
	Foreign owned	31	8.7
	Joint local/foreign owned	4	1.1

In terms of business practices, Table 5.2 indicates that the majority of the micro-enterprise owners in this study are involved in

wholesale and retail. This accounts for 25.3 percent of the respondents. There are 59 micro-enterprise owners' or 16.6 percent are involving in professional services, while 50 micro-enterprise owners or 14 percent involved in consultancy services. Transport, Logistic and Equipment accounts for 21 or 5.9 percent, real estates and insurance are among the lowest total number of micro-enterprise owners who are involved in this study.

In terms of ownership of the company, Malaysian ownership accounts for the highest number which representing 321 or 90.2 percent of the respondent. Most of these companies are operating only in Malaysia and specifically operates within the Klang Valley. In contrast, only 31 micro-enterprises are owned by foreign companies representing 32 respondents or 8.2 percent of the total micro-enterprise owners who are involved in this study. Joint ownership of the company only comprises 4 micro-enterprise owners or 1.1 percent.

5.2.5.3 Banks of choices among the micro-enterprise owners

Table 5.3 presents the results on the response frequencies of respondents on banks of choices among the micro-enterprise owners. The column indicating local conventional banks shows that the majority choose Malayan Banking Berhad which represents 114 or 32 percent as the bank of choice. The second significant bank of choice of the micro-enterprise owners is CIMB Bank Berhad with 83 or 23.3 percent, followed by RHB bank and Public Bank, representing 54 or 15.2 percent and 52 or 14.6 of the micro-enterprise owners' choices respectively.

Results derived for the choices of Islamic banking indicates that 66 or 18.5 percent of the micro-enterprise owners choose Maybank Islamic banking as their banks of choice, followed by

Public Islamic Banking (54 or 52.2 percent) and CIMB Islamic (36 or 10.1 percent). The result shows that Maybank and CIMB banks for both conventional and Islamic banks seem to be the banks of choice among the micro-enterprise owners in Malaysia.

Table 21 Table 5.3

Banks of micro-enterprise owners' choices

Classification	Items	Research Sample (n=356)	
		No. of respondents	Percentage (%)
Malaysian Bank	Malayan Banking Berhad	114	32.0
	Public Bank Berhad	52	14.6
	Hong Leong Bank Berhad	13	3.7
	Affin Bank Berhad	16	4.5
	AmBank (M) Bhd	12	3.4
	Alliance Bank Berhad	1	.3
	CIMB Bank Berhad	83	23.3
	RHB Bank Berhad	54	15.2
	None of above	11	3.1
	International Bank	Citibank	52
Bank of America Malaysia Bhd		1	.3
Bank of China (M) Bhd		2	.6
OCBC Bank (M) Bhd		17	4.8
Bangkok Bank Bhd		3	.8
Bank of Tokyo-Mitsubishi UFJ (M)		4	1.1
Deutsche Bank (M) Bhd		1	.3
HSBC Bank Malaysia Berhad		60	16.9
Standard Chartered Bank (M)Bhd		24	6.7
United Overseas Bank (M) Bhd		3	.8
None of above		189	53.1

Table 5.4 continued...

Classification	Items	Research Sample (n=356)		
		<i>No. of respondents</i>	<i>Percentage (%)</i>	
Local Islamic Bank	Bank Muamalat Malaysia Bhd	42	11.8	
	Hong Leong Islamic Banking Bhd	22	6.2	
	CIMB Islamic Banking Bhd	36	10.1	
	RHB Islamic Banking Bhd	20	5.6	
	Am Islamic Banking Bhd	10	2.8	
	Affin Islamic Banking Bhd	5	1.4	
	EONCAP Islamic Banking Bhd	31	8.7	
	Maybank Islamic Banking Bhd	66	18.5	
	Public Islamic Banking Bhd	54	15.2	
	None of above	70	19.7	
	Foreign Islamic Bank	Asian Finance Bank Bhd	84	23.6
		Alliance Islamic Bank Bhd	48	13.5
		Al Rajhi Banking & Invest. Corp.(M) Bhd	46	12.9
Kuwait Finance House (M) Bhd		37	10.4	
HSBC Amanah Malaysia Bhd		19	5.3	
OCBC Al-Amin Bank Bhd		30	8.4	
Standard Chartered Saadiq Bhd		44	12.4	
None of above		48	13.5	

For the foreign conventional banks, HSBC Bank represents 16.9 percent of the micro-enterprises owners' banks of choice, followed by Citibank which represents 14.6 percent of the respondents' choices. The other banks in the list only comprise less than 5 percent as banks of choice by the micro-enterprise owners. In the category of foreign Islamic Bank, Asian Finance Bank represents 84 or 23.6 percent of micro-enterprise owners, followed by Alliance Islamic Bank and Al-Rajhi Banking and Investment Cooperation representing 48 or 13.5 percent and 46 or 12.9 percent respectively.

5.2.6 Pilot test

The second phase of the scale development process was conducted with 100 subjects similar to the targeted sample in Kuala Lumpur, Malaysia. The goals of the pilot study were to evaluate the reliability of the micro-enterprise owners' loyalty measure and to ensure the respondents understand the questions in the survey. The respondents were asked how clear the questions were and how the survey format could be improved.

A variety of comments and suggestions were collected regarding choice of scales, length and organization of the questionnaire, wording of precise statements, and design and format issues. The most common comment is to reword some words which are not clear and a suggestion was made for the questionnaire to be in Bahasa Malaysia for the benefit of some of the Malay entrepreneurs who might not be well-versed in English.

In most cases, only a minor rewording was made in order to be true to the original scale. Major changes would be made based on experts' suggestions in collaboration with the pilot test results. When using measuring instruments like survey questionnaires, researchers are always

concerned with the problems of validity and reliability, among others (Bernard 2000; Gay & Airasian 2000; Netemeyer et al. 2003).

5.2.6.1 Reliability and validity test

Validity may be moderately established through adapting existing scales for the context under investigation (Rundle-Thiele 2005). To estimate the internal consistency or reliability of each of the scales, Cronbach's coefficient Alpha was engaged, which is the most widely used practice for this purpose in cross-sectional studies (Cohen et. al., 2003; Netemeyer et. al., 2003). Nunnally & Bernstein (1994) suggested that coefficients of 0.70 or higher were acceptable, while coefficients of **0.90** or above indicated good reliability. Alternatively, other researchers have argued that when the research is in the exploratory stage (Hatcher 1994) or when the number of items in a scale is less than six (Cortina, 1993), Cronbach's Alphas greater than 0.5 may be considered acceptable (Morais 2000). With two exceptions, all constructs measured in the pilot survey had Alphas greater than 0.7. Thus, it seems that most scales used in the survey demonstrated reasonable levels of internal consistency.

Based on the table 5.4 below, all items show strong internal consistency measuring the construct by achieving Cronbach's Alpha higher than 0.70. The result testing variables for all variables (N:78) shows the Cronbach's Alpha of **0.983**. It shows that the results are satisfactorily to meet the minimum acceptable level of Cronbach's Alpha coefficient that is 0.70 as suggested by Hair et.al (1998). Therefore, the items involved adequately measure a single construct for each tested variables (Banks' reputation, Perceived service quality, Relationship quality, Personal Factors (Ethnicity and

Religiosity) and micro-enterprise owners' loyalty). Reliability measurement for each construct is shown in table 5.4

The idea behind testing the reliability is to ensure the findings are reliable. The reliability measure will allow the researcher to know if any of the questions are ambiguous or unclear. The reliability is to measure the internal consistency across the items on the instruments (Creswell, 2008).

The Cronbach's Alpha for the entire instrument with 78 items is 0.979, which is considered excellent and reliable especially because an item in this instrument is gathered by the researcher from different sources. In addition, this research is an exploratory stage because it has never been conducted in Asia or Malaysia. Therefore, this instrument is the beginning of introducing a robust scale to measure the loyalty of the micro-enterprise owners. Table 5.4 shows the reliability score for each the variables in the instrument.

Table 22 Table 5.4

Reliability scores for the variables in instrument

Variables	Reliability Statistics	
	Cronbach's Alpha	No of items
Bank's reputation	0.921	14
Perceived service quality	0.948	25
Relationship quality	0.949	21
Religion	0.785	5
Ethnicity	0.782	5
Micro-enterprise owners' loyalty	0.832	8

The Cronbach's Alpha for each individual variable is also considered high with a value above 0.75. The result shows that there are internal consistency among the items which indicates trustworthiness on the items and the instrument in general.

After the validity test was performed, two items loaded less than 0.5 i.e. AC2 and CB5. Therefore, these 2 items were excluded and the reliability test was repeated. Previously, the Cronbach's Alpha for the entire instrument with 78 items was 0.979, which is considered excellent and reliable especially because items in this instrument are gathered by the researcher from different sources. After omission of 2 items, the Cronbach's Alpha for the entire instrument with 76 items is still 0.979. Table 5.5 shows the reliability score for each of the 6 variables in the instrument.

Table 23

Table 5.5

**Reliability scores for the variables in instrument
(Before and After Omission)**

Variables	Reliability Statistics		Reliability Statistics (After Omission)	
	Cronbach's Alpha	No of Items	Cronbach's Alpha	No of Items
Bank's reputation	0.921	14	0.923	13
Perceived service quality	0.948	25	0.948	25
Relationship quality	0.949	21	0.949	21
Religion	0.785	5	0.785	5
Ethnicity	0.782	5	0.782	5
Micro-enterprise owners' loyalty	0.872	8	0.880	7
Overall	0.979	78	0.979	76

The Cronbach's Alpha for each individual variable is also considered high with a value above 0.75. The results show that there is internal consistency among the items before and after omission of the 2 items which indicates trustworthiness on the items and the instrument in general.

5.2.6.2 Internal consistency

As suggested by Churchill (1979), purification of an instrument should start with the computation of coefficient Alphas because coefficient Alphas could clarify whether the items in the scale have successfully captured the domain of the construct. The ineffective items are not detected and discarded earlier before factor analysis, and this might confound exploratory analysis and lead to meaningless factors structure (Churchill, 1979). However, no guidelines are provided with regards to deleting an item and it is only mentioned that items with correlation near to zero should be eliminated and items which produce a significant or sudden drop in the item-to-total correlation should also be deleted. As recommended by Steenkamp and Van Trijp (1991), threshold values for item-to-total correlations ranging from 0.30 and 0.60 were recommended.

5.2.6.3 Validity Test

The validity of the instrument should be measured in addition to the reliability. A valid instrument is able to make a useful prediction from scores. The validity is mainly divided into two different forms, content validity and constructs validity (Creswell, 2008).

Usually content validity is the first method to start with, because it could lead to the changing of a few items or the wording before piloting the instrument. Expert opinion must be obtained to substantiate the content. The research has tested the content validity through expert reviews with three experts as discussed in Chapter 4.

Construct validity is the most difficult because it needed statistical tools to assess. One of the suggested methods to assess the validity is to run the factor analysis to see if there are any extreme outlier items that do not fit within the rest of the items and are not alien to the rest to understand the sample from a population. As discussed in Chapter 4, construct validity is divided into two types, convergent validity and discriminate validity. In summary, convergent validity is determined by calculating the items with high value loadings from the factor analysis where more than 0.5 is acceptable in basic and exploratory research (Hair et.al 2006). Table 5.6 shows the findings of factor analysis for Bank's reputation variables.

Table 24 Table 5.6

Factor analysis for bank’s reputation variables in instrument

KMO and Bartlett's Test

Bartlett's Test of Sphericity	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.915
	Approx. Chi-Square	3042.100
	df	91
	Sig.	.000

Component Matrix^a

No.	Items	Component
		1
AC1	I believe that my bank does what it promises for its clients.	.617
AC2	My bank has a good reputation.	.445
AC 3	Reputation of this bank is better than other conventional/Islamic banks	.703
AC 4	Bank has a reputation for offering good products and services.	.727
AC 5	Bank has a reputation for being fair in its relationship with its customers.	.749
AC 6	Bank and its employees are trustworthy.	.578
AC 7	Bank has competent employees who possess the requisite banking skills.	.787
AC 8	Bank provides prompt service.	.824
AC 9	My bank provides courteous and friendly service.	.804
AC 10	My bank’s employees know their customers and understand their needs.	.824
AC 11	My bank is a large bank.	.763
AC 12	My bank is a very safe bank.	.698
AC 13	My bank does a lot of advertising.	.590
AC 14	My bank is interested in helping the community.	.686

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

As shown in Table 5.6, there are three main assumptions to run factor analysis. The first is the normality of data collected and this condition exists as discussed earlier in this chapter. The second assumption is Bartlett's test of sphericity which should be significant to ensure that variables are uncorrelated in the population (Malhotra, 2007). This condition is also significant as shown in Table 5.7. Lastly, KMO measure of sampling adequacy which is $0.925 > 0.5$, and therefore for this condition, the sampling is adequate. As shown from the loading value from the table, only one item (AC2) is not proper to measure the bank's reputation as suggested by the factor analysis. Table 5.7 shows the findings of factor analysis for Perceived service quality variables.

Table 25 **Table 5.7**

**Factor analysis for Perceived service quality
Variables in instrument.**

KMO and Bartlett's Test

Bartlett's Test of Sphericity	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.930
	Approx. Chi-Square	5792.590
	df	300
	Sig.	.000

Component Matrix^a

No	Items	Component
		1
AD 1	My bank has a wider range of financial services from the bank.	.552
AD 2	My bank has more number of options in every service/transaction.	.551
AD 3	My bank provides information /details on a regular basis through post telephonic banking, ATM etc).	.577
AD 4	My bank will make sure availability of most of the services in every branch/department of the bank.	.534
AD 5	My bank provides convenient operating hours and days.	.508
AD 6	My bank is able to provide good employees with skills and ability for actions whenever a critical incident takes places.	.631
AD 7	My bank provides services as per the promised schedule.	.625
AD 8	My bank staff shows an effort to explain to the customers the nature and schedule of services available in the bank.	.586
AD 9	My bank staffs willing to help and ready to respond to customers' requests.	.702
AD 10	My bank is accessible to feedback from customers to improve service standards.	.690
AD 11	My bank employees are able to make me feel safe and secure in their transaction.	.707

Table 5.8 continued

No	Items	Component 1
AD 12	My bank employees have the knowledge and competency to answer customers' specific queries and requests.	.690
AD 13	My bank employees have an effective customer grievance procedures and processes.	.770
AD14	The bank employees understand the needs of their customers.	.768
AD 15	My bank has highly standardized and simplified delivery process so that services are delivered without any hassles or excessive bureaucracy.	.761
AD16	My bank has highly simplified and structured delivery processes so that the service delivery times are minimum.	.743
AD17	My bank makes an effort to enhance its technology capability (e.g. computerization, networking of operations etc) to serve customers more effectively.	.734
AD18	My bank always ensures the procedures and processes are perfectly attained	.661
AD19	My bank has adequate and necessary personnel for good customer service.	.783
AD20	My bank has adequate and necessary facilities for good customer service.	.715
AD21	My bank provides comfortable environmental conditions such as temperature, ventilation, noise and odour prevailing in the bank's premises	.760
AD22	My bank is able to pay attention to the physical layout of equipment and other furnishings are comfortable for customer to interact with employees.	.764
AD23	My bank visually has appealing signs, symbols, advertisement boards, pamphlets and other artefacts in the bank.	.666
AD24	My bank employees have a neat and professional appearance.	.620
AD25	My bank visually has appealing materials and facilities associated with the service.	.627

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

As shown in Table 5.8, the three main assumptions to run the factor analysis which are the normality, Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity are confirming to the conditions, thus running the factor analysis is acceptable. None of the items were omitted by the factor analysis since the loading values are greater than 0.5. Table 5.9 shows the findings of factor analysis for relationship quality variables.

Table 26 Table 5.8

**Factor analysis for relationship quality variables in instrument.
KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.943
Bartlett's Test of Approx. Chi-Square	5193.596
Sphericity df	210
Sig.	.000

Component Matrix^a

No	Items	Component
		1
AE 1	My company is committed to this bank.	.728
AE 2	I intend to maintain the relationship with this bank definitely.	.691
AE 3	My relationship with this bank deserves maximum effort to maintain.	.695
AE 4	My relationship with the employees of this bank is very important to me.	.697
AE 5	Even if I could, I would not drop this bank.	.747
AE 6	I want to remain to be this bank's client because I genuinely relationship with it.	.713
AE 7	My positive feeling towards the bank is the major reason I continue.	.712
AE 8	My bank representative has been frank in dealing with me.	.753

Table 5.8 Continued

No	Items	Component 1
AE 9	My bank can always be counted on to do the right thing.	.719
AE 10	Though circumstances may change, I believe that my bank will always be ready and willing to offer me assistance and support.	.673
AE 11	While making important decisions, my bank is concerned about my company's welfare.	.753
AE 12	Based on my past experience I can say this bank is trustworthy.	.737
AE 13	I think I can have confidence in any of the promises given by my bank.	.799
AE 14	Overall, I have complete trust in my bank.	.756
AE 15	When my bank suggests that I buy a new product it is because it is best for my situation.	.708
AE 16	My bank has provided the best of application approval period.	.709
AE 17	I do notice that my bank has less bureaucratic procedures.	.671
AE 18	I do notice that collateral requirement of this bank is acceptable.	.612
AE 19	My bank often makes speedy decision.	.638
AE 20	My banks' fee structure is acceptable.	.621
AE 21	My bank gives an acceptable interest rate.	.647

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

As shown in Table 5.8, the three main assumptions to run the factor analysis which are the normality, Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity are confirming to the conditions, thus running the factor analysis is acceptable. No items were recommended to be omitted by the factor analysis which means all the items are able to measure what the research intends it to measure. This finding gives advantages to these 21 items to be used to measure the relationship quality especially

because the reliability for these items is also high. Table 5.9 shows the findings of factor analysis for ethnicity variables.

Table 27 Table 5.9

Factor analysis for ethnicity variables in instrument.

KMO and Bartlett's Test

Bartlett's Test of Sphericity	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.811
	Approx. Chi-Square	481.599
	df	10
	Sig.	.000

Component Matrix^a

No	Items	Component
		1
BAA 1	I deal with any types of banks in Malaysia as long as it meets my needs.	.563
BAA 2	In my opinion, it is easier to communicate with a bank officer who speaks the same mother tongue as I do.	.759
BAA 3	My ethnicity does influence the choice of bank I prefer to deal with.	.747
BAA 4	The bank I deal with conducts business with me regardless of my ethnic background.	.804
BAA 5	My ethnicity does not influence the choice of bank I prefer to deal with.	.783

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

As shown in Table 5.9, the three main assumptions to run the factor analysis which are the normality, Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity are confirming the conditions, thus running the factor analysis is acceptable. None of the items were omitted by the factor analysis since the loading values are greater than 0.5.

Table 5.10 shows the findings of factor analysis for religious variables.

Table 28 Table 5.10

Factor analysis for religious variables in instrument.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.723
Bartlett's Test of Approx. Chi-Square	525.320
Sphericity df	10
Sig.	.000

Component Matrix^a

No	Items	Component
		1
BAA 6	I would prefer banks offering Islamic elements in their products and services.	.783
BAA 7	I believe a bank's products and services with Islamic orientation would be the most reliable.	.766
BAA 8	Banks, either local or international, offering products and services with elements of Islamic orientation is NOT important to me.	.686
BAA 9	Banks, either local or international, offering products and services with elements of Islamic orientation is important to me.	.683
BAA 10	Banks offering Islamic products or services is an important criterion for customer acceptance in Malaysia.	.749

Extraction Method: Principal Component Analysis.

Shown in Table 5.10, the three main assumptions to run the factor analysis which are the normality, Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity are confirming to the conditions, thus running the factor analysis is acceptable. No items were recommended to be omitted by the factor analysis which means all the items are able to measure what the research intends it to measure. This finding gives advantages to these 5 items to be used to measure religiosity since the reliability for these items is also high.

Finally, in terms of the convergent construct and the factor analysis for each variable, Table 5.11 shows the findings of the factor analysis for micro-enterprise owners' loyalty which is the dependent variable.

Table 29 Table 5.11

**Factor analysis for micro-enterprise owners' loyalty
Variables in instrument.**

KMO and Bartlett's Test

Bartlett's Test of Sphericity	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.823
	Approx. Chi-Square	936.285
	df	28
	Sig.	.000

Component Matrix^a

No	Items	Component
		1
CA1	I consider this bank to be my first choice of bank.	.571
CB2	This bank is better than other banks I have been to.	.598
CB3	I will try new services provided by this bank.	.636
CB4	I will recommend other people to patronize this bank.	.623
CB5	I will say positive things to other people about the services provided at this bank.	.394
CB6	I would rather stick with my existing bank than try other banks which I am not very sure of.	.775
CB7	I have strong preference to this bank.	.796
CB8	I will keep patronizing this bank regardless of everything being changed.	.793
CB9	I seldom consider switching to another bank.	.800
CB10	As long as the present service continues, I doubt that I would switch to another bank.	.793

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

As shown in table 5.11, the three main assumptions to run factor analysis is the normality of data collected and this condition exists as discussed earlier in this chapter. The second is Bartlett's test of sphericity which should be significant to ensure that variables are uncorrelated in the population (Malhotra, 2007). This condition is also significant as shown in table 31. The last is KMO measure of sampling adequacy which is $0.925 > 0.5$. Therefore for this condition,

the sampling is adequate. As shown from the loading value from the table, only one item (CB5) is not proper to measure the micro-enterprise owners' loyalty as suggested by the factor analysis.

The last validity test is discriminate validity which is intended to assess the extent to which a measure does not correlate with other construct from which it is supposed to differ (Malhotra, 2007). Table 5.12 shows the correlation findings between the averages of variables which are supposed not to exceed 0.8 as mentioned by Hair (2006). This table shows the findings before omitting the items as suggested by factor analysis.

Table 30 Table 5.12

**Correlation analysis for instruments variable (Before omission)
Pearson Correlations (N356)**

	Banks' Reputation	Perceived Service Quality	Relationship Quality	Micro- enterprise owners' loyalty
Banks' Reputation	1	.774**	.646**	.665**
Perceived Service Quality	.774**	1	.742**	.702**
Relationship Quality	.646**	.742**	1	.753**
Micro- enterprise Owners' Loyalty	.665**	.702**	.753**	1

** . Correlation is significant at the 0.01 level (2-tailed).

The discriminant validity is evaluated by the results of the correlation analysis. As shown in Table 5.12, all the correlation values between the variables are less than 0.8. Therefore they are acceptable. Furthermore, Table 5.13 shows the correlation between variables after omitting the two variables recommended by the convergent validity is decreasing. This shows that the items omitted are causing the correlation between the variables.

Table 31 Table 5.13

**Correlation analysis for instruments variable (After omission)
Pearson Correlation (N356)**

	Banks' Reputation	Perceived Service Quality	Relationship Quality	Micro- enterprise owners' loyalty
Banks' Reputation	1	.756**	.599**	.571**
Perceived Service Quality	.756**	1	.742**	.673**
Relationship Quality	.599**	.742**	1	.752**
Micro- enterprise Owners' Loyalty	.571**	.673**	.752**	1

** . Correlation is significant at the 0.01 level (2-tailed).

In short, based on the above findings, the measurement scale used in this study is generally valid and reliable, which permits the researcher to draw further discussion on assessing the relationship between dependent variables (Banks' Reputation, Perceived Service Quality and Relationship Quality), Moderator (Ethnicity and Religiosity) and independent variables (Micro-enterprise owners' loyalty).

5.2.7 Multiple Regression Analysis

Multiple regression analysis is chosen as an appropriate analytical technique because the purpose of the analysis is to investigate the relationship between the construct. As discussed earlier, the researcher has checked the suitability of this analysis such as no outliers were detected in data screening of the residual scatter plots. An examination of the residual scatter plots also provided no evidence of the assumptions of linearity, equality of variance, or independence of variables being violated. Finally,

high tolerance of scores indicated no multi-collinearity problems to distort beta coefficient of the variables. In supporting this explanation, Hairs et al (1995) advised against the use of factor scores for little-tested scales in exploratory studies. Below are the results discussing the multiple regression analysis between the variables investigated in this study.

5.2.7.1 Multiple regression analysis between independent variables and the micro-enterprise owners' loyalty.

Table 5.14 below shows that the model suggested by the multiple regression analysis is significant with Sig.F Change=.000. The adjusted R square is .596 which is the highest compared to the three bivariate regression models. This indicates that 59.6 percent of the variance in the micro-enterprise owners' loyalty towards their favorite banks has been significantly explained by the bank's reputation, perceived quality and relationship quality.

Table 32 Table 5.14

Model Summary for micro-enterprise owners' loyalty

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.774 ^a	.599	.596	.53674	.599	175.291	3	352	.000

a. Predictors: (Constant), Banks reputation, Perceived service quality and Relationship quality

b. Dependent variable: Micro-enterprise owners' loyalty

Multi-collinearity needs to be checked in the multiple regression analysis. Table 5.15 below shows the findings of multi-collinearity analysis. Higher degrees of multi-collinearity are reflected in lower tolerance values and higher VIF values (Hair et al., 2006). As a rule of thumb, multi-collinearity exists when tolerance is below 0.1 and VIF is greater than 10. In this case, there is no multi-collinearity as displayed in table 5.15 below.

Table 33 Table 5.15

The coefficients of the model of micro-enterprise owners' loyalty

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.683	.195		-3.496	.001		
Banks' reputation	.122	.066	.095	1.836	.067	.425	2.355
Perceived service quality	.271	.088	.190	3.078	.002	.298	3.359
Relationship quality	.754	.069	.554	10.967	.000	.447	2.239

a. Dependent variable: Micro-enterprise owners' loyalty

Table 5.15 above shows that the perceived service quality variable and relationship quality variable are significant in the model ($p < .05$) but bank's reputation is insignificant ($p = .067$) in this multiple regression model. The relationship is:

$$\text{The loyalty of micro-enterprise owners} = (-0.683) + (0.271) \text{ Perceived service quality} + (0.754) \text{ Relationship quality}$$

The model shows that micro-enterprise owners' loyalty towards their favorite bank is influenced by the perceived service quality and relationship quality. Positive perception of service quality and positive relationship quality leads to higher level of loyalty i.e. the higher the level of perceived service quality and level of relationship

quality, the higher the level of micro-enterprise owners' loyalty towards the favorite bank. Simultaneous increase in positive perception of service quality and relationship quality, i.e. increase of perceived service quality by 0.271 together with increase in relationship quality by 0.754 will lead to increase of loyalty by 1 unit

5.2.7.2 Regression between banks' reputations and micro-enterprise owners' loyalty

Table 5.16 below shows that the model suggested by regression analysis is significant with Sig.F Change=.000. The adjusted R square is .324, and this indicates that 32.4 percent of the variance in loyalty has been significantly explained by the bank's reputation. In this model, $r=.571$, which indicates average strength of relationship (Malhotra, 2007).

Table 34 Table 5.16
Model Summary for bank's reputation vs micro-enterprise owners' loyalty

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	Sig. F Change
1	.571 ^a	.326	.324	.69408	.326	170.978	.000

a. Predictors: (Constant), Banks reputation

b. Dependent Variable: Micro-enterprise owners' loyalty

Based on Table 5.16, bank's reputation variable is also significant in the model. The relationship variables in this model can be summarized as below:

$$\textit{The loyalty of micro-enterprise owners} = (0.889) + (0.731) \textit{ Bank's reputation}$$

The model shows that micro-enterprise owners' loyalty towards their favorite bank is influenced by the bank's reputation. Positive image of the bank's reputation leads to higher level of loyalty i.e. the higher the level of positive bank's reputation, the higher the level of micro-enterprise owners' loyalty towards the favorite bank. Increase in positive bank's reputation by 0.731 will lead to increase of loyalty by 1 unit.

Table 35 Table 5.17

The coefficients of the bank's reputation vs the micro-enterprise owners' loyalty

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
¹ (Constant)	.899	.212		4.238	.000		
<i>Bank's reputation</i>	.731	.056	.571	13.076	.000	1.000	1.000

a. Dependent variable: *Micro-enterprise owners' loyalty*

5.2.7.3 Regression between perceived service quality and micro-enterprise owners' loyalty

Table 5.18 below shows that the model suggested by regression analysis is significant with Sig.F Change=.000. The adjusted R square is .452, and this indicates that 45.2 percent of the variance in loyalty has been

significantly explained by perceived service quality which makes the model stronger than the bank's reputation model. In addition, this finding gives an average value of r (0.673) which is sufficient as this study is still in the exploratory stages.

Table 36 Table 5.18

**Model Summary for perceived service quality vs
the micro-enterprise owners' loyalty**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	Sig. F Change
1	.673 ^a	.453	.452	.62503	.453	293.380	.000

a. Predictors: (Constant), Perceived service quality

b. Dependent variable: Micro-enterprise owners' loyalty

Table 5.18 shows that the perceived service quality variable is also significant in the model. The relationship is:

$$\textit{The loyalty of micro-enterprise owners} = (-.013) + (0.958) \textit{ Perceived service quality}$$

The model shows that micro-enterprise owners' loyalty towards their favorite bank is influenced by the perceived service quality. Positive perception of service quality leads to higher level of loyalty i.e. the higher the level of positive perceived service quality, the higher the level of micro-enterprise owners' loyalty towards the favorite bank. Increase in positive perceived service quality by 0.958 will lead to increase of loyalty by 1 unit.

Table 37Table 5.19

The coefficients of the perceived service quality vs the micro-enterprise owners' loyalty

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
<i>Perceived service quality</i>	-.013	.215		-.062	.951		
	.958	.056	.673	17.128	.000	1.000	1.000

a. Dependent variable: *Micro-enterprise owners' loyalty*

5.2.7.4 Regression between relationship quality and micro-enterprise owners' loyalty

Table 5.20 shows that the model suggested by regression analysis is significant with Sig.F Change=.000. The adjusted R square is .564 and this indicates that 56.4 percent of the variance in loyalty has been significantly explained by relationship quality which makes the model stronger than the bank's reputation model and perceived service quality.

Table 38Table 5.20

Model Summary for relationship quality vs the micro-enterprise owners' loyalty

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	Sig. F Change
1	.752 ^a	.566	.564	.55709	.566	460.921	.000

a. Predictors: (Constant), Relationship Quality

b. Dependent Variable: *Micro-enterprise owners' loyalty*

Table 5.20 shows that the relationship quality variable is also significant in the model. The relationship is:

$$\text{The loyalty of micro-enterprise owners} = (-0.209) + (1.024) \text{ Relationship quality}$$

The model shows that micro-enterprise owners' loyalty towards their favorite bank is influenced by the relationship quality. Positive and good relationship quality leads to higher level of loyalty i.e. the higher the level of positive relationship quality, the higher the level of micro-enterprise owners' loyalty towards the favorite bank. Increase in positive relationship quality by 1.024 will lead to increase of loyalty by 1 unit.

Table 39Table 5.21

The coefficients of the relationship quality vs the micro-enterprise owners' loyalty

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	-.209	.181		-1.151	.251		
<i>Relationship quality</i>	1.024	.048	.752	21.469	.000	1.000	1.000

a. Dependent Variable: *Micro-enterprise owners' loyalty*

5.2.7.5 Moderating analysis on effect of ethnicity on the relationship between bank's reputation and micro-enterprise owners' loyalty

Table 5.22 below shows that moderating effect of ethnicity on the relationship between banks' reputation and micro-enterprise owners' loyalty is not significant with the p value for Interact equals .8625 ($p > .05$ and b value is only -.0118). In addition, the direct effect of banks' reputation on loyalty is also insignificant with p value equals .715.

Table 40 Table 5.22

Moderating analysis on effect of ethnicity on relationship between Bank’s reputation and Micro-enterprise owners’ loyalty

Complete Model Regression Summary

R-sq	F	df1	df2	p	n
.3792	71.6692	3.0000	352.0000	.0000	356.0000
	b	se	t	p	
constant	.2132	.9703	.2197	.8262	
BR	.4835	.2674	1.8077	.0715	
Ethnicity	.4641	.2679	1.7326	.0840	
Interact	-.0118	.0683	-.1733	.8625	

5.2.7.6 Moderating analysis on effect of ethnicity on the relationship between perceived service quality and micro-enterprise owners’ loyalty

Table 5.23 below shows that moderating effect of ethnicity on the relationship between owner’s loyalty and perceived service quality is not significant, since the value of p for “interact” is 0.6820 ($p > .05$) and b value is only -.0280. Furthermore, the direct effect of ethnicity on owners’ loyalty is also not statistically significant (p value of 0.6182 i.e. $p > .05$).

Table 41

Table 5.23

**Moderating analysis on effect of ethnicity on relationship
Between Perceived service quality and Micro-enterprise
owners' loyalty**

Complete Model Regression Summary

R-sq	F	df1	df2	p	n
.4536	97.4104	3.0000	352.0000	.0000	356.0000
	b	se	t	p	
constant	-.4246	.9997	-.4247	.6713	
PSQ	1.0419	.2903	3.5889	.0004	
Ethnicity	.1324	.2654	.4989	.6182	
Interact	-.0280	.0682	-.4101	.6820	

5.2.7.7 Moderating analysis on effect of ethnicity on the relationship between relationship quality and micro-enterprise owners' loyalty

Table 5.24 below shows that the moderating effect of ethnicity on the relationship between relationship quality and micro-enterprise owners' loyalty is not statistically significant since the value of p for "interact" is 0.1755 ($p > .05$) and b value is only -.0852. In addition, the direct effect of ethnicity on owner's loyalty is also not statistically significant (p value of 0.0944 i.e. $p > .05$).

Table 42 Table 5.24

Moderating analysis on effect of ethnicity on relationship between Relationship quality and Micro-enterprise owners' loyalty

Complete Model Regression Summary

R-sq	F	df1	df2	p	n
.5701	155.6191	3.0000	352.0000	.0000	356.0000
	b	se	t	p	
constant	-1.5258	.9229	-1.6533	.0992	
RQ	1.3044	.2633	4.9550	.0000	
Ethnicity	.3946	.2353	1.6773	.0944	
Interact	-.0852	.0627	-1.3575	.1755	

5.2.7.8 Moderating analysis on effect of religion on the relationship between bank's reputation and micro-enterprise owners' loyalty

Table 5.25 below shows that the moderating effect of religions on relationship between bank's reputation and micro-enterprise owners' loyalty is not statistically significant since the value of p for "interact" is 0.5947 ($p > .05$) and b value is only -.0345. The direct effect of the bank's reputation on owner's loyalty is not significant (p value of .3695 and $p > .05$)

Table 43 Table 5.25

Moderating analysis on effect of religions on relationship between Banks' reputation and micro-enterprise owners' loyalty

Complete Model Regression Summary

R-sq	F	df1	df2	p	n
.3829	72.7957	3.0000	352.0000	.0000	356.0000
	b	se	t	p	
constant	.0505	.8928	.0566	.9549	
BR	.3695	.2419	1.5271	.1276	
Religiosity	.7165	.2788	2.5697	.0106	
Interact	-.0345	.0648	-.5326	.5947	

5.2.7.9 Moderating analysis on effect of religiosity on the relationship between perceived service quality and micro-enterprise owners' loyalty

Table 5.26 below shows that the moderating effect of religions on the relationship between perceived service quality and micro-enterprise owners' loyalty is not statistically significant since the value of p for "interact" is 0.5700 ($p > .05$) and b value is only -.0371. However, religions direct affect on owner's loyalty is not statistically significant (p value of 0.1787 i.e. $p > .05$).

Table 44

Table 5.26

Moderating analysis on effect of religious on relationship between Perceived service quality and micro-enterprise owners' loyalty

Complete Model Regression Summary

R-sq	F	df1	df2	p	n
.4626	101.0112	3.0000	352.0000	.0000	356.0000
	b	se	t	p	
constant	-.6061	.9377	-.6464	.5184	
Perceived Service Quality	.8970	.2593	3.4597	.0006	
Religiosity	.3632	.2695	1.3475	.1787	
Interact	-.0371	.0653	-.5686	.5700	

5.2.7.10 Moderating analysis on effect of religiosity on relationship between relationship quality and micro-enterprise owners' loyalty

Table 5.27 below shows that the moderating effect of religiosity on relationship between relationship quality and micro-enterprise owners' loyalty is not statistically significant (p value for

“interact” is 0.0747 i.e. $p > .05$ and b value is only -.1042). Religion directly affects owner’s loyalty (p value of 0.0041 i.e. $p < .05$) and relationship quality also directly effect owners’ loyalty (p value of .0000 i.e. $p < .05$). Details of the results are shown in the Table 5.28 below.

Table 45 Table 5.27

Moderating analysis on effect of religiosity on relationship between relationship quality and micro-enterprise owners’ loyalty

Complete Model Regression Summary

R-sq	F	df1	df2	p	n
.5928	170.8208	3.0000	352.0000	.0000	356.0000
	b	se	T	p	
constant	-2.0013	.8468	-2.3635	.0186	
Relationship quality	1.2392	.2303	5.3798	.0000	
Religiosity	.6598	.2285	2.8876	.0041	
Interact	-.1042	.0583	-1.7877	.0747	

All the moderating variables in this study are not significant as the analysis only focused on the ethnics and religions in general, not towards a specific group, for example, the Chinese, Malays and Indians, nor Muslims, Christians or Budhists, respectively. Different correlation between groups will reflect variances between groups rather than true moderator effect (Frazier et al, 2004, Baron and Kenny, 1986; Chaplin, 1991; Judd et.al, 1995). Furthermore, since the unequal sample sizes are across groups (Frazier et.al, 2004, Aguinis, 1995; Aguinis and Stone-Romero, 1997; Alexander and DeShon, 1994), it might also influence the significant level of the moderator. The study does not specifically focused on the Muslims micro-entrepreneur owners, as the questionnaires are distributed to all the micro-entrepreneur owners regardless their ethnic and religions, and this would probably contributed certain effects towards the significant level of the moderator. As suggested in the literature, SEM can be used to examine the interaction involving both categorical and continuous variables (Frazier et.al, 2004).

5.2.7.11 Summary

The results from the multiple regression analysis shows that only 2 out of 3 independent variables have significant influence on the loyalty of micro-enterprise owners towards their favorite banks. The bank's reputation variable is insignificant in this multiple regression relationship. The results from the univariate regression analysis conclude that:

- a) Micro-enterprise owners' loyalty is significantly explained by the bank's reputation.
- b) Micro-enterprise owners' loyalty is significantly explained by perceived service quality and the influence of perceived service quality is stronger than bank's reputation.
- c) Micro-enterprise owners' loyalty is significantly explained by relationship quality and the influence of relationship quality is the highest and stronger than the other 2 variables i.e. banks' reputation and perceived service quality.

The result from the moderating analysis shows that ethnicity and religiosity do not have any moderating effect on the relationship between each independent variable and dependent variables. Each of the moderating analysis can be summarized as follows:

- a) Moderating effect of ethnicity on the relationship between banks reputation and micro-enterprise owners' loyalty is not significant.
- b) Moderating effect of ethnicity on the relationship between owners' loyalty and perceived service quality is not significant.
- c) Moderating effect of ethnicity on the relationship between relationship quality and micro-enterprise owners' loyalty is not statistically significant.

- d) Moderating effect of religion on relationship between banks' reputation and micro-enterprise owners' loyalty is not statistically significant.
- e) Moderating effect of religion on the relationship between perceived service quality and micro-enterprise owners' loyalty is not statistically significant.
- f) Moderating effect of religion on relationship between relationship quality and micro-enterprise owners' loyalty is not statistically significant.

The following discussion will focus on the hypotheses testing which were developed and explained in Chapter 3

5.2.8 Hypotheses testing results

This section is answering the hypotheses that are related to the loyalty of micro-enterprise owners towards their favorite banks. In addition, the findings of three single linear regressions between each independent variable with the dependent variable are presented with final multiple regressions to show the entire picture. For this research, the criterion for statistical significance is $p < 0.5$ and t-values that exceed 1.96 are significant and indicate that an individual data hypothesis is confirmed by the data. For the whole hypothesis testing, the tested hypothesis is only focusing between the main dependent and independent variables.

5.2.8.1 Hypothesis H1

The findings presented in Table 5.28 demonstrate the results of testing hypothesized relationship concerning bank's reputation.

Table 46

Table 5.28

Summarized Results of H1

Hypothesis tested	Standard Coefficient	Critical Ration (t-value)	Results
Bank reputations will have a positive effect on micro-enterprise owners' loyalty towards their favorite banks.	.571	13.076	Supported

Note: **** Significant at $p < 0.001$

H1 postulates the relationship between bank's reputation and micro-enterprise owners' loyalty. The above findings accept the hypothesis H1 that there is a positive relationship (t-value 13.079 and coefficient .571) between bank's reputation and micro-enterprise owners' loyalty towards their favorite banks. These findings lend support to the literature that convincingly argues that bank's reputation has a positive effect and significantly influence bank's reputation.

5.2.8.2 Hypothesis H2

The Table 5.29 below summarizes the results pertaining to perceived service quality.

Table 47

Table 5.29

Summarized Results of H2

Hypothesis tested	Standard Coefficient	Critical Ration (t-value)	Results
Perceived service quality will have a positive effect on micro-enterprises owners' loyalty towards their favorite banks	.673	17.128	Supported

Note: **** Significant at $p < 0.001$

As posited in H2, there is a positive relationship between perceived service quality and micro-enterprise owners' loyalty towards their favorite banks.

5.2.8.3 Hypothesis H3

The findings presented in Table 5.30 illustrate the results of testing hypothesized relationship concerning relationship quality and micro-enterprise owners.

Table 48

Table 5.30

Summarized Results of H3

Hypothesis tested	Standard Coefficient	Critical Ration (t-value)	Results
Relationship quality will have a positive effect on the owners' loyalty towards their favorite banks.	.752	21.469	Supported

Note: **** Significant at $p < 0.001$

The results reveal that relationship quality exerts a significant positive effect on micro-enterprise owners' loyalty (H3).

5.2.8.4 Hypothesis H4

In testing hypothesis 4 “*Ethnicity of micro-enterprise owners does not have any effect on the influence of bank's reputation on the owners' loyalty towards their favorite banks*”, a moderation analysis is carried out using SPSS

software. Hayes and Matthes, (2009) has developed a macro in SPSS which was used in this study to test the moderating effect of ethnicity in the relationship between bank's reputation and loyalty. Under this hypothesis, ethnicity moderates the relationship between bank's reputation and loyalty. Using the SPSS macro, loyalty was defined as the outcome variable, bank's reputation as a focal predictor variable and ethnicity as a moderator variable.

Table 49 **Table 5.31**

Summarized Results of H4

Hypothesis tested	Standard Coefficient	Critical Ration (t-value)	Results
Ethnicity of micro-enterprise owners does not have any effect on the influence of bank's reputation on the owners' loyalty towards their favorite banks	-.0118	-.1733	Supported

*Note: **** Significant at $p < 0.001$*

Table 5.31 above shows that ethnicity positively affects owner's loyalty but the effect is not statistically significant. In addition, the relationship between banks' reputation and owners' loyalty is also not moderated by ethnicity (t-value of -.1733 and coefficient of -.0118). As such, based on the results, hypothesis 4 is supported.

5.2.8.5 Hypothesis H5

Hypothesis 5 suggested that “*Ethnicity of micro-enterprise owners does not have any effect on the influence of perceived service quality on the owners’ loyalty towards their favorite banks*” and moderation analysis was performed using SPSS software to test this hypothesis. Under this hypothesis, ethnicity moderates the relationship between perceived service quality and loyalty. Using the SPSS macro, owners’ loyalty was defined as the outcome variable, perceived service quality as a focal predictor variable and ethnicity as a moderator variable.

Table 50 Table 5.32

Summarized Results of H5

Hypothesis tested	Standard Coefficient	Critical Ration (t-value)	Results
Ethnicity of micro-enterprise owners does not have any effect on the influence of perceived service quality on the owners’ loyalty towards their favorite banks	-.0280	-.4101	Supported

*Note: **** Significant at $p < 0.001$*

Table 5.32 above shows that ethnicity positively affects owners’ loyalty but the effect is not statistically significant. In addition, the relationship between perceived service quality and owners’ loyalty is not moderated by ethnicity (t-value of -.4101 and coefficient of -.0280). As such, based on the results, hypothesis 5 is supported.

5.2.8.6 Hypothesis H6

Hypothesis 6 suggested that “*Ethnicity of micro-enterprise owners does not have an effect on the influence of relationship quality on the owner’s loyalty towards their favorite banks*” and moderation analysis was carried out using SPSS software to test this hypothesis. Under this hypothesis, ethnicity moderates the relationship between relationship quality and loyalty. Using the SPSS macro, owners’ loyalty is defined as the outcome variable, relationship quality as a focal predictor variable and ethnicity as a moderator variable.

Table 51 Table 5.33

Summarized Results of H6

Hypothesis tested	Standard Coefficient	Critical Ration (t-value)	Results
Ethnicity of micro-enterprise owners does not have an effect on the influence of relationship quality on the owner’s loyalty towards their favorite banks	-.0852	-1.3575	Supported

*Note: **** Significant at $p < 0.001$*

Table 5.33 above shows that ethnicity positively affects owners’ loyalty but the effect is not statistically significant. In addition, the relationship between relationship quality and owners’ loyalty is not moderated by ethnicity (t-value of -1.3575 and coefficient of -.0852). As such, based on the results, hypothesis 6 is supported.

5.2.8.7 Hypotheses H7

In order to test hypothesis 7 “*Religiosity of the micro-enterprise owners does not have any impact of influencing bank’s reputation of the owners’ loyalty towards their favorite banks*”, a moderation analysis is carried out using SPSS software. Under this hypothesis, religiosity moderates the relationship between bank’s reputation and loyalty. Using the SPSS macro, owners’ loyalty is defined as the outcome variable, bank’s reputation as focal predictor variable and religiosity as moderator variable.

Table 52

Table 5.34

Summarized Results of H7

Hypotheses tested	Standard Coefficient	Critical Ration (t-value)	Results
Religiosity of micro-enterprise owners does not have any impact in influencing bank’s reputation of the owners’ loyalty.	-.0345	-.5326	Rejected

Note: **** Significant at $p < 0.001$

Table 5.34 above shows religiosity positively affects owners’ loyalty and the effect is statistically significant. However, the relationship between banks’ reputation and owners’ loyalty is not moderated by religiosity (t-value of -.5326 and coefficient of -.0345). As such, based on the results, hypothesis 7 is rejected.

5.2.8.8 Hypotheses H8

Hypothesis 8 suggested that “*Religiosity of the micro-enterprise owners does not have any impact in influencing perceived service quality of the owners’ loyalty towards their favorite banks*” and moderation analysis was performed using SPSS software to test this hypothesis. Under this hypothesis, religion moderates the relationship between perceived service quality and loyalty. Using the SPSS macro, owners’ loyalty is defined as the outcome variable, perceived service quality as focal predictor variable and religion as moderator variable.

Table 53

Table 5.35

Summarized Results of H8

Hypotheses tested	Standard Coefficient	Critical Ration (t-value)	Results
Religiosity of micro-enterprise owners’ does not have any impact in influencing perceived service quality of the owners’ loyalty	-.0371	-.5686	Rejected

Note: **** Significant at $p < 0.001$

Table 5.35 above shows religion positively affects owners’ loyalty but the effect is not statistically significant. Furthermore, the relationship between perceived service quality and owners’ loyalty is not moderated by religion (t-value of -.5686 and coefficient of -.0371). As such, based on the results, both of the above hypotheses 8 are rejected.

5.2.8.9 Hypotheses H 9

Hypothesis 9 suggested that “*Religiosity of the micro-enterprise owners does not have any impact in influencing relationship quality of the owners’ loyalty towards their favorite banks*” and moderation analysis was carried out using SPSS software to test this hypothesis. Under this hypothesis, religiosity moderates the relationship between relationship quality and loyalty. Using the SPSS macro, owners’ loyalty was defined as the outcome variable, relationship quality as focal predictor variable and ethnicity as moderator variable.

Table 54 Table 5.36

Summarized Results of H9

Hypotheses tested	Standard Coefficient	Critical Ration (t-value)	Results
Religiosity of micro-enterprise owners’ does not have any impact in influencing relationship quality of the owners’ loyalty	-.1042	-1.7877	Rejected

*Note: **** Significant at $p < 0.001$*

Table 5.36 above shows religiosity positively affects owners’ loyalty and the direct effect is statistically significant (t-value of 2.8879 and coefficient of .6598). However, the relationship between relationship quality and owners’ loyalty is not moderated by religiosity (t-value of -1.7877 and coefficient of -.1042). As such, based on the results, hypothesis 9 is rejected.

5.2.8.10 Summary

The first part of this chapter initially illustrates an overview of the qualitative findings and reasons that make micro-enterprise owners loyal to their banks of choice. Both elements of ethnicity and religiosity indirectly influence micro-enterprise owners when choosing the banks of their choice. The result from the qualitative study is supported by the existing literature which helps the researcher in proposing the research conceptual framework that is tested in the following study methods. The second part of this chapter highlights an overview of the sample demographic characteristics and choices of the banks among micro-enterprise owners. The researcher believes, at this point the readers should have information as well as the ‘feel’ for the sample profile and their favorite banks.

CHAPTER 6

DISCUSSION AND IMPLICATIONS

6.1 Conclusion about research issues

This research has used different variables to assess their effects on micro-enterprise owners' loyalty. The different variables include bank reputation, perceived service quality, relationship quality, ethnicity, and religiosity. These variables have direct and indirect effects on micro-enterprise owners' loyalty towards their favourite banks.

6.1.1 Banks' reputation and micro-enterprises owners' loyalty.

Banks' reputation has a direct effect on micro-enterprise owners' loyalty towards their favorite banks. The reputation of an organisation plays a vital role in determining the success of that organization. Whether an organization is service oriented or is in manufacturing, reputation is of high importance. In service-oriented organizations such as banks reputation is of high importance in determining customer's behaviour (Wang & Hing, 2003).

According to Barich and Kotler (1991) customer loyalty is likewise improved specially in the retail banking sector where it becomes impossible to evaluate quality accurately before delivery of services. The qualitative and quantitative findings towards banks' reputation indicate that bank loyalty can be achieved through reputation. Thus, reputation helps the bank's market their products with minimum cost and hence, maximizing their profits.

According to Nguyen and Leblanc (2000) reputation is the most effectual means that a company can use to market their products or services

to a wide population and be able to satisfy customer needs. Scholars in marketing and economics have studied reputation issues in relation to service and product quality as well as price (Shapiro, 1983). Moreover, marketing researches have considered reputation as a guide to customer equity and brand equity and have connected it with the company reliability (Rust et al, (2001).

Image is the overall impression of a company created in the individuals' mind concerning a firm. In marketing studies, image is perceived as an internally processed mental development in human beings. Empirical evidence in this research shows that long-term reputation of a firm is more beneficial than the firm's short-term services or product movement. Moreover, the banks' reputation provides a strong assurance of a customer's goodwill and integrity.

Company assurance helps in enhancing customer trust mostly when the customer had previous experience about a certain firm. This research aims at analyzing and describing how image can contribute to micro-enterprise owners' loyalty towards their favorite banks. Good reputation produces better company image and vice versa. Therefore, qualitative and quantitative findings are carried out to show the effect of bank reputation as an influence on micro-enterprise owners' loyalty towards their favorite banks. The majority of those interviewed acknowledged that they are more interested in visiting only those banks with a strong reputation. This is because they feel their money is safe and the bank would not be taken over by another bank. According to the responses in the interview, reputation is influenced by the services offered by the bank. The more the banks have better and high quality services as well as products, the more it achieves a strong reputation. Through reputation, the bank is in a position to retain customers for a long period (Caminiti, 1992). Therefore, the research concludes that bank reputation has a direct effect on micro-enterprise owners' loyalty towards their favorite banks.

6.1.2 Perceived service quality and micro-enterprise owners' loyalty.

Perceived service quality has a direct effect on micro-enterprise owners' loyalty towards their favorite banks. An idea that is associated with customer loyalty is perceived quality. The quantitative finding found that perceived quality services contribute greatly to customer loyalty than banks' reputation. This is because customers would wish a bank to offer them 24/7 services. According to the qualitative finding, customers need a bank that they can contact any time using a telephone for urgent monetary transactions. Therefore, the qualitative and quantitative finding found that customer loyalty can be created and maintained through quality services that are easily available and convenient to customers. For instance, customers interviewed need a bank that responds very fast to inquiries particularly on account details. There is a cross relationship between perceived quality services and customer satisfaction dimensions. Anderson and Sullivan (1993) assert that satisfaction depends highly on the price charged, whereas perceived quality does not depend on the price charged. Therefore, the conceptual model of service satisfaction and quality services has different determinants, and distinction. For instance, when the expected service was low, clients would likely move to other banks where they can have better and quality services. Therefore, this effect can lower the banks' reputation as well as other customers' loyalty towards the bank.

However, customer satisfaction influences the customer's perception of the value of the services received. Bank practitioners are keen on evaluating perceived quality services to enhance better understanding of their consequences and strategies for improving the quality, in order to achieve the desired customer loyalty and build a strong competitive advantage. The qualitative and quantitative findings found that quality services have an immense effect on micro-enterprise owners' loyalty towards their favorite banks. Customers would feel valuable when consulted and welcomed once

they visit the bank. Ruyter and Wetzel (1998) explain that it is essential to promote the company's ability in maintaining customer loyalty and quality services. Furthermore, it is strongly believed that quality services positively affect customer loyalty. Perceived service quality is becoming an essential competition factor in today's business and that the reason behind naming it as '*Quality Era*'. Furthermore, marketing researchers and intellectuals have developed numerous metaphors regarding this issue. For instance, in order to analyze perceived service quality, three dimensions have been established that have a strong correlation among each other. These dimensions are core service, service delivery from human elements, systemization of service delivery through non-human elements and tangibility of the services. Services are becoming an indispensable portion of many companies locally, nationally, and internationally and are considered as a driving tool for generating income. Today's business world requires reliable techniques of assessment, improvement, and measurement. Therefore, quality service has become an important aspect in determining customer loyalty towards their favorite banks.

It is evident in this research that when providing services, the method for assessing quality services is complex to determine. The reason behind this complexity is that services are heterogeneous and intangible. Therefore, this research analyzes different approaches the bank should adopt in order to provide high quality tangible services. This research focuses on how to maintain customer's satisfaction and retain them. To achieve this, the bank needs to provide tangible services to customers. A micro-enterprise owner would always use banks that would focus on the customer's small needs that would save his time as well as money. Thus, the research concludes that perceived service quality has a direct effect on micro-enterprise owners' loyalty towards their favorite banks.

6.1.3 Relationship quality and micro-enterprises owners' loyalty

Relationship quality has a direct effect on micro- enterprise owners' loyalty. Relationship quality has developed as a result of the marketing research theories (Crosby & Cowles, 1990). The aim of quality relationship is to promote the existing bank customer's relationship and bring a change of loyalty to different clients in the bank. In this research, the concept of quality relationship influencing micro-enterprises owners' loyalty towards their favorite banks consists of other distinct related dimensions such as trust, commitment, and satisfaction towards bank policies and procedures. Furthermore, these factors were analyzed in order to access how micro-enterprises owners' loyalty towards their favorite banks was influenced. The different dimensions in this study were based on the client's loyalty toward their bank policies and procedures. The different dimensions that are used to measure relationship quality effects on micro-enterprises owners' loyalty are trust, commitment, and satisfaction. According to the qualitative and quantitative findings, customers are more interested in banks that are friendly and which allow phone transactions.

Trust development has been associated with the marketing theory of relationship (Blois, 1999). Trust helps to understand the importance, relationship, and the contribution of a bank towards customers' loyalty. Furthermore, it helps to show how different organizations value their customers. It is evident in this research that trust is one of the key development contributors for improving service relationship in the banking sector and assisting in achieving customer loyalty. The qualitative findings clearly indicated customers feel secure in dealing with the bank and are assured that their dealings are confidential as they trust the bank. According to Berry (1995), marketing relationship theories are based on the concept of promoting organizational trust towards their customers.

Therefore, when relating to customer loyalty, the significance of trust is to gain customer's loyalty (Reichheld & Schefter 2000). Furthermore, trust is a vital feature in the development of relationship quality, which is developed through developing and keeping their promises (Hewett & William, 2001). In relation to this study, trust has a direct effect on customer loyalty. This research has demonstrated how trust plays a significant role in the bank- branding through linking trust to brand performance and brand loyalty.

Fullerton (2003) asserts that company commitment is an essential factor in promoting customer loyalty. Moreover, it is regarded as a vital ingredient in developing a successful relationship between the bank and the clients. The idea of commitment stems from organizational and industrial psychology, and is perceived as interaction that assists a course of action, developing and maintaining a relationship with the client. Commitment is a mental attitude towards client continuation with the bank services.

The qualitative and quantitative findings in this research suggest the possible effects that customer commitment which involves verbal communication, could help to enhance attitudinal loyalty. Clients with high commitment toward the bank services are expected to stay for a long period in the same bank. Pritchard, Havitz and Howard (1999) suggested this is part of important changes from resistance to commitment and finally to loyalty. In relation to this research, customer relationship and use of bank services intentions exist. Therefore, a direct relationship exists between commitment and customer loyalty.

According to Kotler (1994) customer satisfaction towards bank policies and procedures is the most essential factor in any organization. In relation to this research, it is clear that there is a link between customer satisfaction and retaining customers as well as client loyalty. Aaker (1991)

asserts that satisfaction is a means to brand loyalty. Satisfaction towards bank policies and procedures usually influences the likelihood of reusing the bank services as experienced in this research. In addition, the processing fees charged, and structure rates charged are the prime factors that are considered while choosing the bank and keeping long-term relationship with that bank. The client would always feel satisfied and loyal to the bank, if the bank officials recognize the client as shown in the qualitative finding of this research. Therefore, satisfaction towards bank policies and procedures is an essential variable in explaining the micro-enterprise owners' loyalty towards their favorite banks. The aim of including quality relationship in this research is to show how the relationship between the bank and the customer can bring effects on micro-enterprise owners' loyalty towards their favorite banks. Furthermore, this research aims to indicate how the use of the provider's service intentions, customer retentions, and behavioural intentions can contribute to customer loyalty. In relation to this research, it is evident that an indirect relationship exists between customer satisfaction and loyalty towards their favorite banks.

This research found that there is a high retention of satisfied customers. Moreover, this report indicated that as customer's satisfaction towards bank policies and procedures increases the more the customer retention exists. Thus, relationship quality has a direct effect on micro-enterprise owners' loyalty towards their favorite banks.

6.1.4 Ethnicity and micro-enterprise owners' loyalty

Ethnicity does not have a direct effect on micro-enterprise owners' loyalty towards their favorite banks. According to qualitative and quantitative findings, ethnicity of the bank is not of much concern to the micro-enterprise owners as long as the banks provide good services and a good income is being generated through them with the security factor taken

into consideration. However, having a bank that understands customer's value and language helps in building customer satisfaction through solving day-to-day of their bank issues.

If clients are not satisfied by the bank services, they are likely to move to another whether the bank supports ethnicity or not. Unfortunately, all geographical areas involving people with different perspectives, religions, ethical origins, and standards of living affect the bank in achieving customer loyalty. In relation to this research, this emerging factor is analyzed on how they influence micro-enterprise owners' loyalty in the context of Malaysian banking. Ethnicity plays a pivotal role in what the bank offers in a particular region. However, the qualitative and quantitative findings found that customers are more interested in banks' reputation, high quality service and relationship quality rather than ethnicity. Understanding the ethical preferences not only assists in determining the assortment of products and services, but also what particular services a bank should offer. Therefore, the qualitative and quantitative findings suggest that ethnicity does not have a direct effect on micro-enterprise owners' loyalty towards their favorite banks.

6.1.5 Religiosity and micro-enterprise owners' loyalty

Religiosity has a direct effect on micro-enterprise owners' loyalty towards their favorite banks. The hypothesis in the quantitative finding found that the religiosity of the micro-enterprise owners does have an impact on their owners' loyalty towards their favorite banks. This indicates that religiosity contributes to customer loyalty through relationship quality. Customers will have a good relation with the banks if they share the same religious beliefs. The operation of Muslim banking is different from that there of conventional banking. Muslim banks are required to comply with the Shari' a law in their activities. Shari'a law prohibits various elements

that are allowed by conventional banking systems such as Ghara (contractual uncertainty), Riba (interest) and Maisir (gambling).

Among many Muslim countries, Malaysia has been in the forefront of implementing Islamic finance countrywide. In order for a bank to retain the existing customer base and attract new customers this new trend has to be considered. At present, Malaysia's financial institution, represent the fastest growing financial market within Islamic financial segment. Therefore, competition between different banks is increasing rapidly. Customers are interested in banks that offer them Islamic banking services as the money transactions through these banks are transparent and a good number of services are provided to the clients. According to the findings both qualitative and quantitative, the data shows that the majority of the people would prefer to go to those banks that offer Islamic banking. The highest population in Malaysia are Muslims, and most banks including conventional banks have adapted Islamic finance in order to meet the clients' needs. Therefore, the research concludes that the religiosity dimension has a direct effect on micro-enterprise owners' loyalty.

6.1.6 Hypothesis testing results

The findings accept hypothesis H1, which says that there is a positive relationship between banks' reputations and micro-enterprise owners' loyalty toward their favorite banks. Furthermore, hypothesis H2 which states that there is a positive relationship between perceived service quality and micro-enterprise owners' loyalty towards their favorite bank, also matches with the findings. Similarly, hypothesis H3 shows that there is a positive relationship between perceived service quality and micro-enterprise owners' loyalty towards their favorite banks.

In testing hypothesis 4, ethnicity of micro-enterprise owners does not have any impact on the influence of banks' reputation on the owner's loyalty toward their favorite banks. Therefore, the relationship between banks' reputation and owner's loyalty is not moderated by ethnicity. As such, based on the results, hypothesis 4 is accepted. Hypothesis 5 suggests that the ethnicity of micro-enterprise owners does not have any impact on the influence of perceived service quality on the owner's loyalty toward their favorite banks and moderation analysis was performed using SPSS software to test this hypothesis.

Hypothesis 6 suggests that ethnicity of micro-enterprises' owner does not have any impact on the influence of relationship quality on the owner's loyalty towards their favorite banks, and moderation analysis was carried out using SPSS software to test this hypothesis. The finding indirectly supported the argument by Khraim (2010), which mentioned that the micro-enterprise owner's who has a weak religious affiliation, would have a possibility in accepting the universal principle to evaluate the quality of relationship with a bank such as precise and correct information in helping them in their decision-making. This is because, the banks that do not communicate information that could affect micro-enterprise owners' decision making in a timely and correct manner have low quality relationship.

Hypothesis 7 suggests that religiosity of the micro-enterprise owners has an impact on banks' reputation towards their favorite banks and a moderation analysis is carried out using SPSS software. Moreover, hypothesis 8 suggests that religiosity of the micro-enterprise owners' has a positive effect that influences the service quality towards owners' loyalty on their favorite banks and a moderation analysis was performed using SPSS software to test this hypothesis. Similar opinion by Khraim (2010) and Singh & Paolillo (2007) supported that if micro-enterprise owners have a weak religious affiliation they tend to evaluate a banks reputation based on universally acceptable standards. However, if micro-enterprise owners have

a strong affiliation to religion they will be loyal to banks that give back to society and the less fortunate groups in the society because of their religious belief. A micro-enterprise owner with weak religious affiliation will be loyal to the bank because it is ethical and universally acceptable to engage in corporate social responsibility (Vitell, 2009).

Hypothesis 9 suggests that religiosity of the micro-enterprise owners does have a positive effect that influences quality relationship of the micro-enterprise owners' loyalty towards their favorite banks and a moderation analysis was carried out using SPSS software to test this hypothesis. As the researcher mentioned earlier, the relationship between a bank and its customers is built upon common values and beliefs. Micro-enterprise owners tend to be loyal to banks that share in their values and beliefs. In fact, as mentioned by Kum-Lung and Teck-Chai (2010), religion forms a pillar for acceptable behavioural standards in the society. Khraim (2010), stated that although different religious organizations offer different religious tenets to their followers, they tend to promote the same values in the society. In short, the findings show that religion plays a fundamental role in determining the quality of relationship between the bank and micro-enterprise owners when the micro-enterprise owners' have strong religious affiliations. Micro-enterprise owners' loyalty to their favorite banks is greatly influenced by religion. The results of the hypotheses can be summarized in Table 6.0

Table 55

Table 6.0

Summary of Hypotheses Testing Result

	Hypotheses	Results
H1	Bank reputations will have a positive effect on micro-enterprise owners' loyalty towards their favorite banks.	Accepted
H2	Perceived service quality will have a positive effect on micro-enterprise owners' loyalty towards their favorite bank.	Accepted
H3	Relationship quality will have a positive effect on the owners' loyalty toward their favorite banks.	Accepted
H4	Ethnicity of micro-enterprise owners' does not have an impact in influencing bank's reputation the owners' loyalty towards their favorite banks.	Accepted
H5	Ethnicity of micro-enterprise owners does not have an impact in influence perceived service quality of owners' loyalty towards their favorite banks.	Accepted
H6	Ethnicity of micro-enterprise owners does not have an impact in influencing relationship quality on the owners' loyalty towards their favorite banks.	Accepted
H7	Religiosity of the micro-enterprise owners does not have any impact in influencing bank's reputation on the owners' loyalty towards their favorite banks.	Rejected
H8	Religiosity of the micro-enterprise owners does not have any impact in influencing perceived service quality on the owners' loyalty towards their favorite banks.	Rejected
H9	Religiosity of the micro-enterprise owners does not have any impact in influencing of relationship quality on the owners' loyalty towards their favorite banks.	Rejected

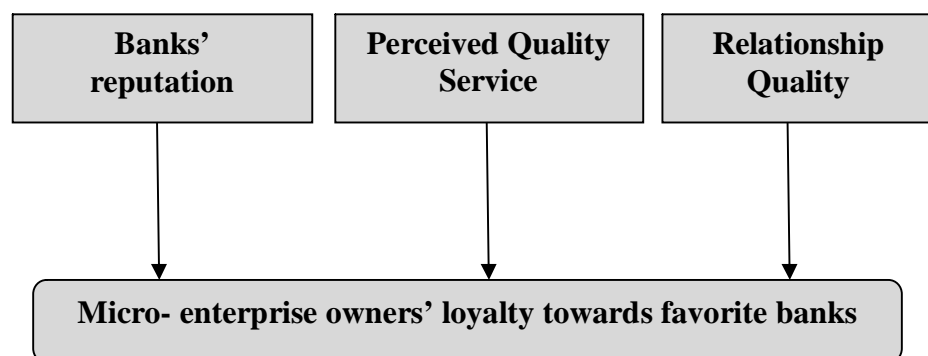
6.2 Conclusion about research problem

6.2.1 A service loyalty framework

The conceptual framework developed for this research is based on these research variables, such as banks' reputation, perceived service quality and relationship quality. According to Ticehurst and Veal (2000) development of a conceptual framework points out how individuals view the idea involved in a research especially are that involves the relationship between concepts. Banks' reputation, perceived quality service, and quality relationship on micro-enterprise owners' loyalty towards their favorite banks. This study has proved that banks' reputation, perceived quality service and quality relationship contribute directly to micro-enterprise owners' loyalty towards their favorite banks. All the three factors are independent and each contributes different dimensions to customer satisfaction towards customer loyalty.

Figure 7.0

Service loyalty framework

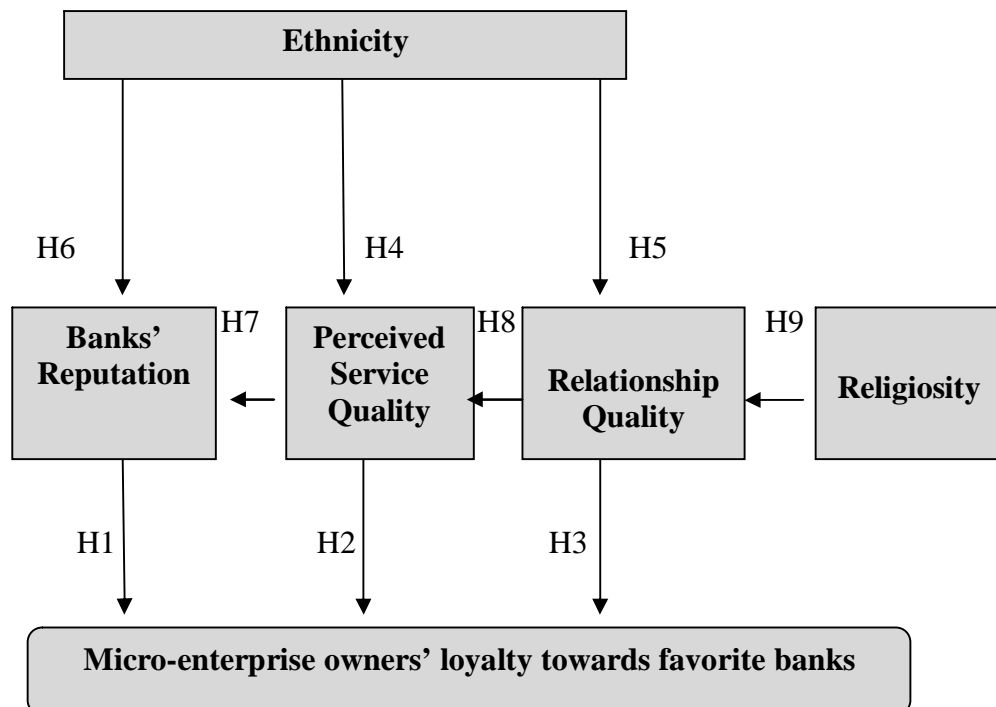


6.2.2 Proposing cultural service loyalty model ‘*Cultural*’ variables integrated from traditional model.

The proposed cultural service loyalty framework that is integrated from the traditional model (banks’ reputation, perceived quality service, and relationship quality). This framework helps in showing how the new emerging variables (religiosity and ethnicity) contribute to customer loyalty. According to the qualitative and quantitative findings of this research, ethnicity and religiosity are moderated factors to customer loyalty. For ethnicity to contribute to customer loyalty, it affects directly to the bank’s reputation, perceived service quality, and relationship quality. However, religiosity does not have an effect on customer loyalty.

Figure 8.0

Proposed cultural service loyalty model. ‘*Cultural*’ variables integrated from traditional model.



6.3 Summary of key contribution

The research finding suggests that the stronger and bigger the bank is, the more micro- enterprise owners prefer its services. This indicates that these enterprise owners look for a bank that is stable and secure. Banks' reputation is a decisive factor that SMEs owner are interested as they will be assured of better services and easier financial aid than from other banks with less corporate image. Therefore, bank reputation enhances a corporate image that SME owners desire and hence it, directly affects the customers' loyalty towards their favorite banks.

This research finds that perceived service quality appears to have a direct effect on micro-enterprise owners' loyalty. Most importantly, the five dimensions covered in this research (core services, service delivery from human elements, systemization of service delivery through non-human elements and tangibility of the services) appear to be the main drivers of micro-enterprise owners' loyalty towards their favorite banks.

The first element influences the relationship between the banks and the customers through providing 24/7 availability of the core services. The banks will only be able to retain their customers when they meet the customers' need on time. According to Lam and Burton (2005) the capability to accommodate and understand specific client's needs appears to be essential in influencing micro- enterprise owners' loyalty towards their favorite banks. They also stated that for customers to be loyal to a particular bank, the primary determinant for using the bank services for a long period was the ability to fulfil and accommodate their needs.

The second and third elements emphasize on maintaining the interpersonal relationships. For example, the micro- enterprise owners would always look for the bank whose staffs are friendly and willing to entertain clients. In relation to this research, reliability was one of the important drivers for delivering quality services. It is evident that even when a bank makes a mistake, the bank is likely to handle it

efficiently and swiftly. In contrast, the significance of having quality of the physical feature of the bank is paramount in maintaining customer loyalty.

This research has also proved that customer relationship is an antecedent to customer loyalty, i.e. micro-enterprise owners expect to maintain a healthy relation with their favorite banks in the near future. Furthermore, this study indicates that micro-enterprises owners are happy to get more services from their favorite banks due to the length of the relationship and satisfaction regarding the bank's services. According to the findings of this research, ethnicity of a bank does not affect the micro- enterprise owners' loyalty towards their favorite banks as long as the bank is able to provide good services. However, having a bank that knows the value of the community and language helps the micro-enterprise owners to deal with regular issues. Therefore, ethnicity does not affect the customer loyalty directly; rather it affects it indirectly through banks' reputation.

The religiosity dimension has positive effects on the micro-enterprise owners' loyalty towards their favorite banks. Due to the recent growth of Islamic finance, a wide range of Shari' a compliant services and products are available in order to meet the expectations and desires of Muslim investors. As a result, Muslim investors are able to subject their investment portfolio in accordance with Shari' a. A large number of Malaysians are Muslim. Therefore, banks have adopted the Islamic finance systems as Riba is forbidden in Islamic transactions, (interest charged on transactions) so are Maisir (Speculation or gambling) and Gharar (extreme uncertainty), according to Islamic law. In this modern world, and mostly in developing countries such as Malaysia, both Islamic and conventional financial companies have embraced the need to have banking services based on Shari' a compliance in order to serve a vast number of customers. As this compliance is in accordance with Muslim law, micro- enterprise owners prefer those banks that have fully embraced Islamic finance. It is proven that religiosity plays a vital part in adopting and selecting Islamic banking services. Therefore, it is important for investors to consider Islamic finance services to be incorporated in the banking sector.

It is evident that the success of an industry that provides services depends mostly on the company image, high quality services and high quality relationship with clients. These factors determine customer loyalty and satisfaction. This research has shown that corporate reputation and quality service and relationship influence the bank results such as enhancing customer loyalty, superiority, improved customer relation, improved organizational image, increased sales margin, and overall performance. Therefore, banks' reputation, quality services as well as quality customer relationship have a direct relationship to micro- enterprise owners' loyalty.

Empirical result of this research recommends that to maintain customer loyalty with micro-enterprise owners, the bank needs to put extra effort in promoting customer satisfaction as well as developing an outstanding service system. Moreover, in order to maintain the attitudinal customer loyalty of micro- enterprise owners, the bank should focus on creating a quality relationship through creating the customer's trust, commitment level and again promoting a quality service system.

6.4 Implication of the research

6.4.1 Implication for marketing theory

Social exchange theory suggests that social behaviour is the consequence of an exchange process. The reason for applying this exchange process is to increase benefits and reduce costs. According to social exchange theories, individuals weigh the potential advantages and risks associated with relationships. In case the risks outweigh the benefits, individuals will terminate the relationship. The social exchange theory is also referred as the communication theory of the process of social exchange between two cultures. For instance, Chinese banks that operate in Malaysia must apply social exchange theory in creating and maintaining good communication with the local entrepreneurs. It suggests that people make social decisions in

regard to perceived benefits and costs. This philosophy explains that individuals assess all social relationships in order to determine the advantages they will achieve out of them. Furthermore, in social exchange theory, individuals make certain decisions based on their level of personal satisfaction within a given relationship. People typically acquire a high level of satisfaction if they recognize that they will benefit more than they are contributing to the relationship.

According to the study, it is that social exchange theory that plays a vital role in maintaining in applying religiosity and ethnicity variables in banks' operation. International banks incorporate the Islamic finance system in order to maintain good relationship between the community and the bank and hence, create customer loyalty. An example of the social exchange theory application to customer loyalty is applying its reputation to indicate to potential and current clients that its achievement is due to integrating different values such as trust, corporate image, and fairness with the business tangible results (Bosch 2006).

6.4.2 Implication for Industry Practitioners e.g. bankers

It is necessary for the bank's management to maintain and uphold long-term relationship with their clients. On the other hand, the clients must believe that their favorite banks deliver their services in accordance to their missions, and visions and they are honest rather than opportunistic. The management should regularly acquire feedback from their clients and try to incorporate the suggestions desired by the clients in the feedbacks. In order to achieve customer loyalty effectively, management must arrange training and development programs for their staff to enhance their skills and efficiency in dealing with clients. Furthermore, banks should offer facilities such as providing parking facilities for their customers, the management

should try to reduce any inconvenience at ATMs and ensure that customer suggestions and complaints have top priority and are addressed promptly. It is argued that the financial performance of a service organization largely depends on the relationship that exists between the organization and the customers. Customers are the backbone of every organization. Thus, it is indispensable for managers to ensure that customer relation is given first priority within the establishment.

It is evident that there is a link between clients' loyalty towards their favorite banks and their satisfaction through banks' reputation, quality services as well as quality relationship, which results in increased profitability of a bank (Hesket et al, (1994). The research has contributed the following in the context of the Malaysian banking sector. First, this research assists the researcher to contribute and extend the knowledge of the relationship between the overall banks' reputation, perceived quality services, relationship quality, and ethnicity and religiosity. The result of this study indicates the effect and importance of their relationship in the Malaysian banking industry. Secondly, this research will help the bank practitioners, and managers to understand various strategies on how to retain loyal customers' through satisfying their needs and maintaining the customers trust as well as enhancing reputation.

The research will throw light on the decision making heuristics and perceptions of decision makers (micro-enterprise owners) on their views of business, banking and culture. By linking the social angle to a financial decision, the study aims to bridge the gap between the rational financial calculation and how this can be influenced by emotional personal considerations like religion, ethnicity, and patriotism in a business setting. Is there a trade-off on profits by micro-enterprises by accounting for these personal factors? Are these factors given precedence over business considerations? Is there a social pressure on a decision maker to adhere to ethnic groups and networks? The research will throw light on a number of

scenarios in financial decision making by micro-enterprise owners in Malaysia by understanding the influence of personal factors on their loyalty to banks. This will be a practical guide for marketers and strategists of banks in Malaysia to base their decisions when dealing with the micro-enterprise segment in the country. It will give them the insight and the sensitivity they need to deal with micro-enterprises from varying industries and cultural backgrounds for maximizing customer loyalty.

Understanding of ethnic and religious bonding in making a business decision is a crucial point for consideration for multinational banks which have traditionally relied on their global muscle power and reach to market them in Malaysia. This could explain the presence of the Islamic banking division of Standard Chartered, OCBC, HSBC and Citibank in Malaysia. The understanding of the link between the moderating factors of customer loyalty and profitability of banks is a vital gap, which will be filled through this study.

Through globalization, there has been a convergence of ideas, but a divergence of values, with ethnicity and religious as factors becoming more and more important. The extension to theory from this thesis will be the understanding of the impact of ethnicity and religiosity as moderating factors in decision making by micro-enterprise owners and then loyalty towards banks and the impact of such a phenomenon on profitability of banks.

6.5 Research limitations

There are various limitations in this research. The research respondent was limited in terms of composition and size. In terms of the survey population, the study has been restricted only Klang valley areas, which are part of Kuala Lumpur in Malaysia. Furthermore, the research focused on customers who belong to one branch of each bank. The boundary for the study is limited to local and foreign

conventional banks as well as Islamic Banking. Any of the government's banks and financial institutions is excluded. This is because the researcher would like to investigate and understand customer behaviour in the mass market where the customers actually have their own choices of banks based on their preferences.

It is noted that respondents from Klang Valley definitely may not have the same background or display similar interpersonal behaviour as individuals' persons who are residents in other parts of Malaysia. Since Klang Valley is the centre for commerce, most SMEs particularly micro-enterprises' where are based within this area. This is primarily a function of the research design involving accessibility for convenience samples for both interviews and cross-section surveys. The investigations have been restricted to face-to-face contact between micro-enterprise owners and service providers. This is based on a notion from Price, Arnould and Deibler (1995) which highlights that the domain where one would be expected to find a hypothesis relationship is important. Hence, there should be at least some evidence of relationship that exists between micro-enterprise owners and their service providers that contribute to loyalty elements such as being a customer of their favorite banks for more than 5 years and have a favourable attitude towards the bank. It has been assumed that micro-enterprise owners are interacting with their service providers in a dyadic situation. All of the micro-enterprise owners involved in this study must have experience dealing with their favorite banks in all sorts of banking services related to their business purposes.

6.6 Recommendation for future research

At a general level, customer loyalty is essential to many organizations particularly those that deal directly with customers. In particular, customer loyalty is vital in businesses such as hotels or hospitals, where customer satisfactions are an important element and contribute to the success of an organization. Banks' reputation, perceived service quality, and relationship quality contribute to the success of such an organization. Banks, hotels and hospitals can influence customer

loyalty by focusing on reputation, quality services, and quality relationship. Ethnicity and religiosity may play a different role in maintaining customer loyalty in organizations such as hotels and hospitals. Frequently, clients who visit hospitals and hotels are mostly concerned about customer service, organizational reputation, and quality services. Therefore, this research can be recommended for other organizations in the future.

Furthermore, customer loyalty can be achieved through ensuring reliability of bank services in each branch of SMEs owners' favorite banks. Therefore, customers need to feel secure when using services and products of their favorite banks and regard them as worthwhile banks. It is also beneficial for managers to ensure efficiency in the bank's operation in order to save time for both customers and the banks. More importantly, the banks' management need to fulfil the customer's requests. These requests can be customer's current needs or their future needs. Therefore, managers should not focus only on basic customer needs. They should also think of how to provide extra pleasures to their clients. This indicates the need to have a team which will be responsible for estimating the future customer's requirements as there are rapid advancement in technology especially in developing countries such as Malaysia.

The bank research group should focus on environmental factors as well as religiosity and ethnicity or cultural issues relates to the customers. This will help to enhance customer loyalty and retention. Although customer loyalty has been assessed in the past, it remains one subject that all banks need to continue researching on to overcome different challenges in the banking sector. It is important to incorporate new technology to measure bank's loyalty in future researches.

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Abstract

The purpose of this study was to gain an understanding of the structure and determinants of micro-enterprise owners' loyalty towards their favorite banks. Using both local and international banks in Malaysia as the focus of study, an exploratory research was carried out to assess micro-enterprise owners' level of loyalty to their banks and the effect of ethnicity and religiosity. Data collection included pilot studies, re-analysis of published literature, and using two major methods. Guided by the Social Exchange Theory, the study also attempted to, integrate the seemingly findings of loyalty antecedents from services marketing and banking/financial institutions literature. In the first major study, 20 informants provided insights into the nature of five reasons for micro-enterprises owner's : Bank's Reputation, Perceived Service Quality, and Relationship Quality are salient themes as well as Ethnicity and Religiosity which appeared to be a new emerging themes. A second major study collected survey data from 356 bank's business customers of various conventional and Islamic banks. Hypotheses relationships were tested through factors analysis and regression. This study finding could provide important direction for the development of the holistic framework to explain the formation and structure of micro-enterprise owners' loyalty towards banking and financial services industries.

Les effets de l'ethnicité et de la religiosité sur la loyauté des propriétaires de microentreprises envers les banques dans le contexte Malaisien.

Resume

Le but de cette étude est d'acquérir une compréhension de la structure et des déterminants des propriétaires de micro-entreprises, vis-à-vis leur fidélité à leur banque préférée. En utilisant à la fois les banque locales et internationales en Malaisie comme objet d'étude, la recherche exploratoire a été réalisée pour évaluer le niveau de fidélité du propriétaire envers leurs banques et l'effet de l'ethnicité et la religiosité. La collecte des données comprenait des études pilotes, ré-analyse de la littérature publiée, en passant par deux méthodes principales. Illuminée par la "théorie des échanges sociaux", cette étude a également tenté d'intégrer les résultats en apparence d'antécédents loyauté au services de marketing et bancaire / la littérature financière des institutions. Sur les premières données majeures de cette étude, 20 informateurs ont fourni un aperçu comparatif de la nature des cinq raisons qui attirent les propriétaires de micro-entreprises: réputation de la banque, qualité du service perçue, qualité de la relation, l'ethnicité et la religiosité. Ces deux derniers semblaient être des thème émergents et ont été établis dans cette étude. La deuxième partie des données majeures de cette étude ont été recueillies par les enquêtes de 356 clientèles de diverses banques conventionnelles et islamiques. Les hypothèses sur les relations ont été testées par l'analyse des facteurs et la régression. Les résultats attendus pourraient donner une orientation importante pour le développement du cadre holistique pour expliquer la formation et la structure de la fidélisation cliente envers la banque et des services financiers.

Mots-clés: fidélisation, Micro-entreprises, l'origine ethnique, la religiosité

