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**FACTORS INFLUENCING TAKAFUL ADOPTION AT SMEs'
MANUFACTURING INDUSTRY IN MALAYSIA**



UUM

By

ABDULLAH HAROON BIN HAMEED SULTAN

**Dissertation Submitted to
Othman Yeop Abdullah Graduate School of Business,
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in Partial Fulfillment of the Requirement for the Doctor of Business
Administration**



**OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS
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ABSTRACT

Small and medium-sized enterprises (SMEs) are minimally aware of the importance of insurance policies to protect business continuity. Despite the growing interest in Takaful, there are limited empirical studies on the adoption of Takaful in the manufacturing industry of SMEs. This study examines the relationship between awareness, perception, company size and degree of centralization on the adoption of Takaful in the manufacturing industry of SMEs in Malaysia. A quantitative approach was used for the study. A total of 179 usable questionnaires from SME owners and managers across Malaysia were analyzed using binary logistic regression and cross tabulation via Statistical Package for the Social Sciences (SPSS) version 23. The results show that awareness has a significant impact on the adoption of Takaful in the manufacturing industry of SMEs in Malaysia. Consumers who are aware of Takaful are more likely to purchase insurance plans or schemes than less informed customers. The perception and degree of centralization also influence the adoption of Takaful in the manufacturing industry of SMEs in Malaysia. Centralized decisions (at the top management level) facilitate the adoption of takaful compared to decentralized decisions (at multiple management levels) that involve different stakeholders. Decentralized decisions may not lead to favorable outcomes. Organizational policymakers should use effective information communication strategies to create a positive perception and increase the acceptance of Takaful. In terms of theoretical contribution, this study applies Theory of Reasoned Action and Organizational Buying as underlying theories and found significant relationships between awareness, perception, degree of centralization and adoption of Takaful in the manufacturing industry of SMEs in Malaysia.

Keywords: Awareness, Company size, Degree of centralization, Small and Medium Enterprise, Manufacturing.

ABSTRAK

Perusahaan Kecil dan Sederhana (PKS) kurang menyedari kepentingan polisi insurans untuk melindungi kesinambungan perniagaannya. Walaupun minat terhadap Takaful semakin meningkat, terdapat kajian empirikal yang terhad mengenai penggunaan Takaful dalam industri pembuatan PKS. Kajian ini mengkaji hubungan antara kesedaran, persepsi, saiz syarikat dan tahap pemusatan terhadap penggunaan Takaful dalam industri pembuatan PKS di Malaysia. Pendekatan kuantitatif digunakan untuk kajian ini. Sebanyak 179 soal selidik yang boleh digunakan daripada pemilik dan pengurus PKS di seluruh Malaysia telah dianalisis menggunakan regresi logistik binari dan penjadualan silang melalui Pakej Statistik untuk Sains Sosial (SPSS) versi 23. Keputusan menunjukkan bahawa kesedaran mempunyai kesan yang besar terhadap penggunaan Takaful dalam PKS Malaysia. Pengguna yang mengetahui tentang Takaful lebih berkemungkinan untuk membeli pelan atau skim insurans berbanding pelanggan yang kurang berpengetahuan. Persepsi dan tahap pemusatan juga mempengaruhi penggunaan Takaful dalam industri pembuatan PKS di Malaysia. Keputusan berpusat (di peringkat pengurusan atasan) memudahkan penggunaan takaful berbanding keputusan terpecah (di peringkat pengurusan berbilang) yang melibatkan pemegang kepentingan yang berbeza. Keputusan terdesentralisasi mungkin tidak membawa kepada hasil yang menggalakkan. Pembuat polisi organisasi harus menggunakan strategi komunikasi maklumat yang berkesan untuk mewujudkan persepsi positif dan meningkatkan penerimaan Takaful. Dari segi sumbangan teori, kajian ini menggunakan Teori Tindakan Beralasan dan Pembelian Organisasi sebagai teori asas dan mendapati hubungan yang signifikan antara kesedaran, persepsi, tahap pemusatan dan penggunaan Takaful dalam industri pembuatan PKS di Malaysia.

Kata kunci: Kesedaran, Saiz Syarikat, Darjah pemusatan, Perusahaan Kecil dan Sederhana, Pembuatan.

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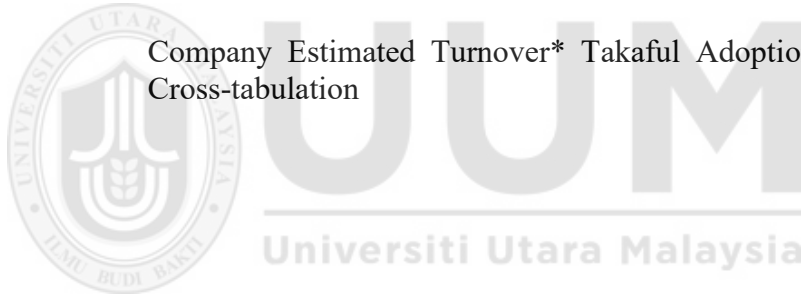
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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Small and medium enterprises (SMEs) in Malaysia significantly boost national economic growth. Nevertheless, the SME performance rate has decreased from 98.5% in 2016 to 97.4% in 2021, albeit an increase in establishments from 907,065 in 2016 to 1,226,494 in 2021 (Nordin *et al.*, 2023). In other words, the SMEs recovered in 2021 with a lower contribution to the local economy. The gross domestic product (GDP) growth was contributed by SMEs (agriculture and manufacturing sectors), which have undergone rapid advancements (SME Corp, 2021). Small and Medium Enterprises (SMEs) are commercial entities that are characterized by their limited scale in terms of revenue generation, asset holdings or workforce size (Alharbi, Yahya & Kassim, 2021). The precise parameters determining the classification of SME can exhibit variations across different countries and industries (Lin *et al.*, 2020). In general, small and medium-sized firms likely to exhibit a size that falls between giant corporations and micro-enterprises (Al-Tit *et al.*, 2019). Frequently, individuals require customized solutions to effectively handle their unique requirements. Numerous governmental bodies and financial establishments assist small and medium-sized enterprises (SMEs) in the form of grants, loans and educational initiatives. The primary objective of these programs are to assist small and medium-sized enterprises in surmounting their obstacles and achieving growth (Lin *et al.*, 2020).

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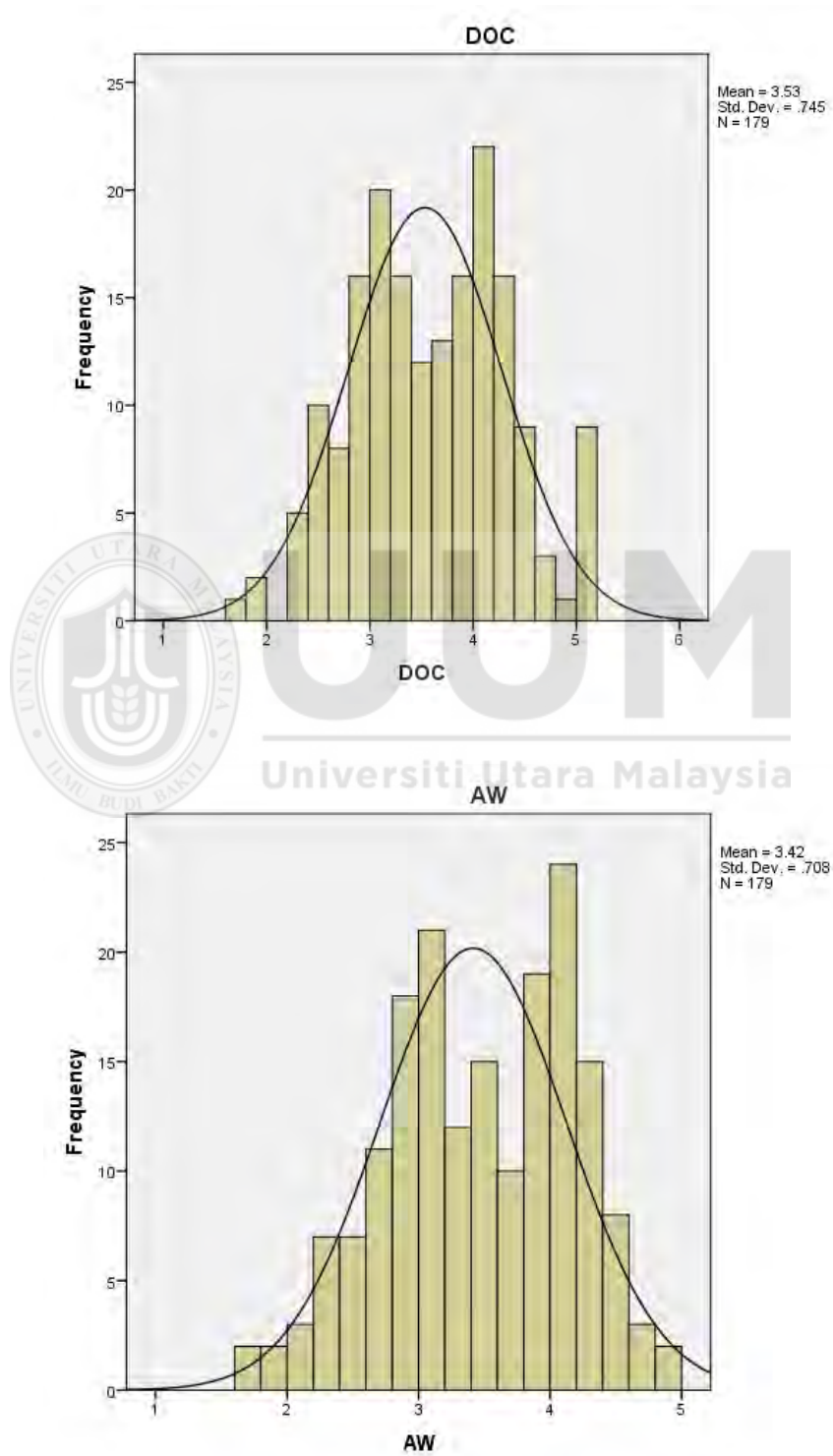
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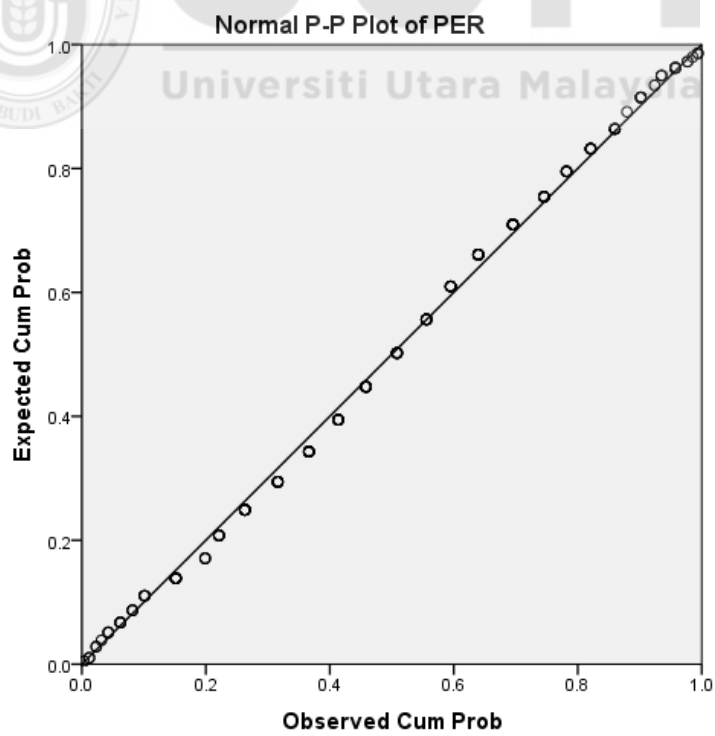
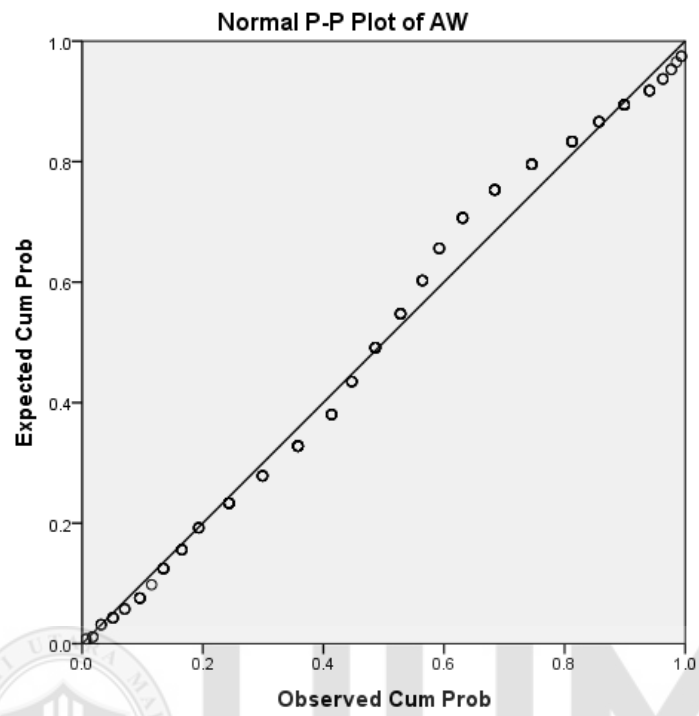


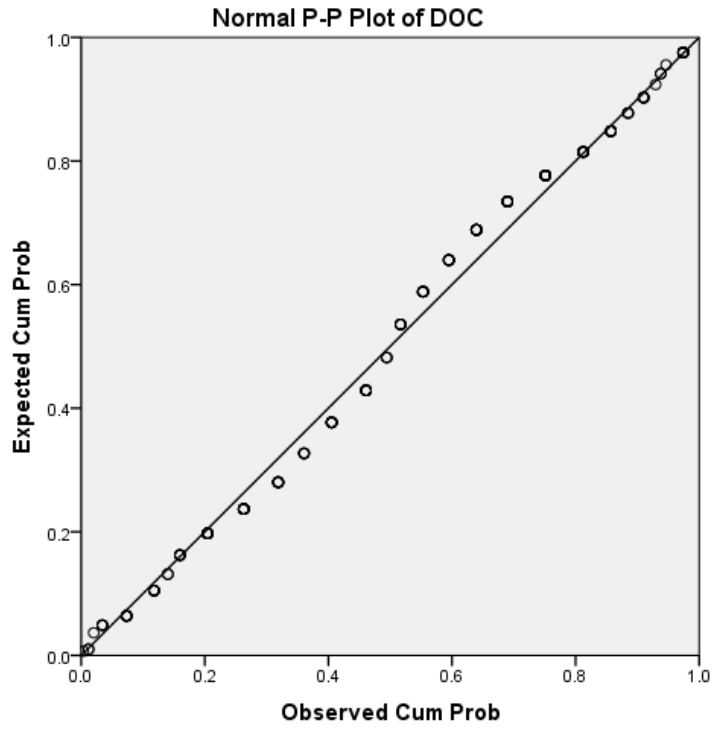
APPENDICES

APPENDIX I: HISTOGRAMS WITH NORMALITY PLOTS



APPENDIX II: NORMAL PLOTS





UUM
Universiti Utara Malaysia

APPENDIX III

QUESTIONNAIRE LETTER

Dear Sir / Madam,

I am conducting a study to fulfill the dissertation requirements of my Doctor of Business Administration program at Universiti Utara Malaysia. The title of my dissertation is 'The Factors Influencing Adoption of Takaful in Malaysian SMEs'.

I wish to request between 10 to 15 minutes of your time to complete the enclosed questionnaire, and each question is critical to the success of this study. Each section includes instructions to ensure accurate responses.

All information provided by you will be kept in strictest confidence and will be used for academic purposes only.

Thank you in advance for your cooperation and contribution to this study.

Thank You.

Saya juga melampirkan surat pengesahan pelajar bagi pengumpulan data untuk rujukan anda.

Tuan / Puan,

Saya sedang menjalankan kajian untuk memenuhi keperluan disertasi program Pentadbiran Perniagaan saya di Universiti Utara Malaysia. Judul disertasi saya ialah 'Faktor-faktor yang Mempengaruhi Penerapan Amalan Takaful di PKS Malaysia'.

Saya ingin meminta antara 10 hingga 15 minit masa anda untuk menyelesaikan soal selidik yang tertutup, dan setiap soalan penting bagi kejayaan kajian ini. Setiap bahagian mengandungi arahan untuk memastikan tindak balas yang tepat.

Semua maklumat yang diberikan oleh anda akan dirahsiakan dan akan digunakan untuk tujuan akademik sahaja.

Terima kasih terlebih dahulu untuk kerjasama dan sumbangan anda terhadap kajian ini.

Terima Kasih.

I also attached a student confirmation letter for data collection for your reference.

Abdullah Haroon bin Hameed Sultan

Matrix No: 900414

HP: +6 010 2322 740

Email: ahar0238@yahoo.com / ahar02374@gmail.com

Doctorate Business Administration

Universiti Utara Malaysia.

SECTION I

Please mark "X" in the appropriate box of each statement.

1. Are you Small and Medium Size Enterprise (SME)?(Adakah anda Perusahaan Kecil dan Sederhana (PKS)?)

2. Industry (Bidang perniagaan)

Manufacturing. (Pembuatan)

3. In which state the business / company is located? (Di negeri manakah terletak perniagaan / syarikat anda?)

Perlis

Kedah

Penang

Perak

Selangor

WP Kuala Lumpur

Negeri Sembilan

Melaka

Johor

Pahang

Terengganu

Kelantan

Sabah

Sarawak

WP Putrajaya

WP Labuan

4. What is your position in the organization? (Apakah jawatan anda dalam organisasi?)

Owner (Pemilik)

Manager (Pengurus)

Others please state (Lain lain sila nyatakan)

Please read each statement carefully. Circle a number as per appropriate scale indicated in each section that represents your best evaluation of each statement.

1. AWARENESS

(5 point scale, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree, 1=strongly disagree)

1. Conventional insurance is based on the concept of “contract of exchange”, where Takaful is based on the concept of “mutual cooperation” & tabbru’ contract among the participants. (Insurans konvensional adalah berdasarkan konsep "kontrak pertukaran" manakala Takaful pula berdasarkan konsep "kerjasama" & kontrak tabbru' di antara peserta.)

1 2 3 4 5

2. Takaful products include general insurance, such as burglary, flood and fire, which are similar to conventional insurance for companies.

(Produk takaful merangkumi insurans am seperti kecurian, banjir dan kebakaran sama seperti insurans konvensional untuk syarikat.)

1 2 3 4 5

3. SMEs are adequately aware about the Takaful concepts and products.(PKS cukup mengetahuikonsep & produk Takaful.)

1 2 3 4 5

4. SMEs cooperate among each other for protection against specific dangers in Takaful.

(PKS saling bekerjasama untuk menghadapi bahaya tertentu dalam Takaful.)

1 2 3 4 5

5. Takaful policyholders mutually share the risk.

(Pemegang polisi takaful saling berkongsi risiko.)

1 2 3 4 5

6. Takaful is distinguished by distributing surplus to participants.

(Takaful adalah berbeza dengan mengagihkan lebihan kepada peserta.)

1 2 3 4 5

7. Takaful is not involved in any prohibited business activities.

(Takaful tidak terlibat dalam aktiviti perniagaan yang dilarang.)

1 2 3 4 5

8. SMEs contribution to Takaful will be invested in Shari’ah-compliant investments.

(Sumbangan PKS dalam Takaful akan dilaburkan dalam pelaburan yang sejajar dengan syariah.)

1 2 3 4 5
9. SMEs are effectively doing enough for the awareness of Takaful products.
(PKS mempunyai pelaksanaan yang berkesan untuk kesedaran tentang produk Takaful.)

1 2 3 4 5

10. The regulatory body of Islamic insurance companies does adequate marketing for the awareness of its concepts to SMEs.
(Badan pengawalan syarikat insurans Islam membuat pemasaran yang cukup untuk kesedaran konsepnya kepada PKS.)

1 2 3 4 5



2. PERCEPTION

(5 point scale, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree, 1=strongly disagree)

1. Takaful operations are based on Shariah laws.

(Operasi takaful adalah berdasarkan undang-undang Syariah.)

1 2 3 4 5

2. Choosing between conventional and Islamic insurance depends on religion.

(Pemilihan antara insurans konvensional dan Islam, adalah kerana keagamaan.)

1 2 3 4 5

3. The Takaful scheme prohibits riba', gharar, and maysir.

(Skim takaful melarang riba', gharar, dan maysir.)

1 2 3 4 5

3. Choosing between conventional and Islamic insurance depends on religion.

(Pemilihan antara insurans konvensional dan Islam, adalah kerana keagamaan.)

1 2 3 4 5

4. The elements of uncertainty, gambling, and usury differentiate takaful from conventional insurance.

(Elemen ketidakpastian, perjudian, dan riba membezakan takaful daripada insurans konvensional.)

1 2 3 4 5

5. Takaful is an asset to Small and Medium Enterprises.

(Takaful adalah aset kepada Perusahaan Kecil dan Sederhana.)

1 2 3 4 5

6. . Insurance claim from Takaful is easier and faster to obtain than conventional insurance. (Tuntutan insurans dari Takaful lebih mudah dan pantas diperolehi daripada insurans konvensional.)

1 2 3 4 5

7. Takaful products are simpler and easier to understand compared to conventional products.

(Produk takaful lebih mudah dan senang difahami berbanding produk konvensional.)

1 2 3 4 5

8. Takaful products are more expensive than conventional products.

(Produk takaful lebih mahal daripada produk konvensional.)

1 2 3 4 5

9. Takaful schemes act as savings and protection.

(Skim takaful bersifat simpanan dan perlindungan.)

1 2 3 4 5

10. Takaful scheme elements differ from conventional ones.

(Elemen skim takaful berbeza daripada konvensional.)

1 2 3 4 5

11. The Takaful scheme benefits SMEs compared to conventional methods.

(Skim takaful memberi manfaat kepada PKS berbanding kaedah konvensional.)

1 2 3 4 5



3. COMPANY SIZE

Circle a number as per appropriate scale indicated in each section that represents your best evaluation of each statement.

1. What is the year of your company's establishment?

(Tahun bilakah penubuhan syarikat anda?)

(1)	(2)	(3)	(4)	(5)
Before 1996	1997-2002	2003-2008	2009-2014	2015-2020

2. How many full-time employees (including managers, etc.) are employed in your company?

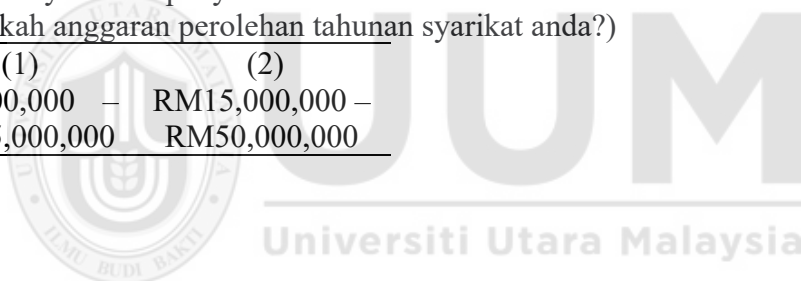
(Berapa ramai pekerja sepenuh masa yang bekerja di syarikat anda (termasuk pengurus syarikat dan lain-lain?)

(1)	(2)
5-74	75-200

3. What is your company's estimated annual turnover?

(Berapakah anggaran perolehan tahunan syarikat anda?)

(1)	(2)
RM300,000 – RM15,000,000	RM15,000,000 – RM50,000,000



4. DEGREE OF CENTRALISATION

(5 point scale, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree, 1=strongly disagree)

1. Different levels of organisational structure contribute to ineffective decision-making in purchasing Takaful.

(Tahap yang berbeza dalam struktur organisasi menyumbang kepada pengambilan keputusan yang tidak berkesan dalam membeli Takaful.)

1 2 3 4 5

2. SME employees will not make any decisions without the permission of the management.

(Pekerja PKS tidak akan membuat keputusan tanpa kebenaran pihak pengurusan.)

1 2 3 4 5

3. SME employees do not take any important decisions without the approval of the management.

(Pekerja di PKS tidak mengambil keputusan penting tanpa persetujuan pihak pengurusan.)

1 2 3 4 5

4. SME employees have a chance to take the lead in emergencies.

(Pekerja di PKS berpeluang mengetuai situasi kecemasan.)

1 2 3 4 5

5. SME employees can swiftly convey new ideas or approaches.

(Pekerja PKS dapat menyampaikan idea atau pendekatan baru dengan pantas.)

1 2 3 4 5

6. The management assesses and strongly supports the proposal of the new employees. (Pihak pengurusan menilai dan sangat menyokong cadangan pekerja baru.)

1 2 3 4 5

7. Management often makes the final decision.

(Keputusan akhir selalunya dibuat oleh pihak pengurusan.)

1 2 3 4 5

8. Management also values the employees' expertise in the decision-making process. (Pihak pengurusan juga menghargai kepakaran pekerja dalam proses membuat keputusan.)

1 2 3 4 5

9. SME employees often takes a decision-making initiative that leads to confusion. (Pekerja PKS sering mengambil inisiatif untuk membuat keputusan yang menimbulkan kekeliruan.)

1 2 3 4 5

10. Employee initiatives usually lead to confusion during the decision-making process.
(Inisiatif yang diambil oleh pekerja biasanya menimbulkan kekeliruan semasa proses membuat keputusan)

1 2 3 4 5

5. ADOPTION OF TAKAFUL IN SMALL AND MEDIUM ENTERPRISE

1. Do your company adopt Takaful in the businesses?

Yes

No

