

# Leadership and Organizational Commitment in the Islamic Banking Context: The Role of Organizational Culture as a Mediator

Siti Zaleha Abdul Rasid\*, Mohd. Aizat Abdull Manaf, Farzana Quoquab

International Business School, Universiti Teknologi Malaysia, Jalan Semarak, Kuala Lumpur, 54100, Malaysia

**Abstract** The purpose of this study is to examine the effect of leadership and organizational culture on organizational commitment in the context of Malaysian Islamic banking service sector. A questionnaire survey was conducted among 250 employees of an Islamic bank to collect the data which yielded 200 valid responses. The data were analyzed using statistical package for social science (SPSS) software version 19.0. Linear and Multiple Regression and SOBEL test were used in testing the research hypotheses. The results reveal that leadership and organizational culture significantly affect organizational commitment. Moreover, leadership plays a significant role in enhancing organizational culture. On the other hand, organizational culture mediates the relationship between leadership and organizational commitment. It implies that, leadership style, organizational culture and organizational commitment all play vital role in the context of Malaysian Islamic banking industry.

**Keywords** Leadership, Organizational Culture, Organizational Commitment, Malaysian Islamic Banking Industry

## 1. Introduction

Leadership, organizational culture and organizational commitment have been the topics of interest among behaviourists. However, only a handful of studies have examined the effect of leadership and organizational culture towards organizational commitment. There were few studies focusing on the basic organizational culture scopes that connect with people oriented aspects such as clan culture, mission culture and bureaucratic culture[1]. Moreover, previous studies focused mostly on non-financial firms in developed countries. Studies on financial firms especially on firms that offer Islamic banking services are still limited. Considering this, the present study aims to examine the effect of leadership style and organizational culture on organizational commitment in Malaysian Islamic banking context. It is also sought to test the mediation effect of organizational culture between leadership style and organizational commitment.

By examining leadership styles, organizational culture and organizational commitment in the Islamic banking context, this study contributes to the literature and to the practice.

The findings of this study can be used by the top management as a guideline in promoting good working

environment at workplace. Moreover, this study will benefit the banking industry and business practitioners in providing relevant information on human resources management, objectives, and strategies to create a better culture in an organization.

In the following section a brief literature review is presented. Next, a concise description of the methodology and findings are discussed. This study ends by providing the managerial implications and future research directions.

## 2. Literature Review and Hypotheses Development

### 2.1. Leadership and Its Influence in Organization

Leadership is a complex process which sets the standards, qualities or competencies which differentiate the successful from the unsuccessful ones[2]. Leadership explains that leaders can influence their subordinates in order to achieve organizational goals; therefore the capability of a leader to lead and motivate the employees at the same time can never be overlooked. Leaders and employees are dependent. The success of the organization in achieving its goals depends on how the leaders lead their organization and which leadership styles they use. The suitable leadership styles can affect the commitment, productivity and even job satisfaction of employees[3].

### 2.2. Organizational Culture

\* Corresponding author:

szaleha@ibs.utm.my (Siti Zaleha Abdul Rasid)

Published online at <http://journal.sapub.org/economics>

Copyright © 2013 Scientific & Academic Publishing. All Rights Reserved

Organizational culture is a powerful and observable force in any organization. It affects the company's well-being as it is made up of its members' shared values, beliefs, symbols and behaviours. Culture directs employees' decisions and actions at any level[4]. Robbins and Coulter described organizational culture as the shared values, beliefs or perceptions held by employees in an organization[5]. It can influence attitudes and behaviour of the employees because organizational culture reflects the values, beliefs and behavioural norms of an employee. Tsai stated that the main reason that internal conflict arises are cultural issues[6]. That is why it is very crucial to understand the organization's core values in order to prevent the occurrence of this conflict.

### 2.3. Organizational Commitment

Organizational commitment has been defined as multidimensional in nature. It reflects the degree of goal and value congruency with the organization, employees' loyalty to the organization, willingness to exert effort on behalf of the organization and maintain the membership in the organization[7]. It is a positive way to evaluate the organization and the goals itself. For many scholars, commitment is a two-way relationship that links employees to their employer[8].

### 2.4. Leadership and Organizational Culture

A large part of an organization's culture develops from its leadership while on the other hand, a culture of an organization can also affect the development of its leadership. For instance, it was found that the role expectations of a supervisor have a positive influence on subordinates' innovative behaviour[9]. The relationship of leader and follower is based on leader member exchange theory and positively related with employees' performance. Employees can produce more creative and high quality work when they were supervised in a supportive manner[10].

It was also found that organizational culture and leadership are united[11]. The interconnection of the relationship between those two can be clarified in the organizational life cycle. Leadership styles and organizational culture itself can create a positive and significant relationship. There are various research findings in the literature examining the relations between certain leadership styles such as transformational leadership and organization's innovative orientation.

### 2.5. Leadership Style and Organizational Commitment

The task of a supervisor is not to only command but to persuade employees. The effectiveness of leaders to lead an organization depends on how they deal with the employees as it affects their motivation[12]. Therefore, it is crucial for managers to influence, assist and support the employees' plans, proposals and even motivate them to execute their own decision and ideas.

Employees may show signs of commitment to their employer as an expression of contentment prior in receiving

support by their employer[13]. Tharenou expressed that support from one's direct leader can lead to fewer absentees amongst employees[14]. In a similar study, it is found that there is a positive relationship between organizational commitment with the outcome measures of supervisory trust, job involvement, and job satisfaction which ultimately increase trust in the leaders[15]. In this regard, leadership style plays an important role in influencing organizational effectiveness and efficiencies that affect the employees' organizational commitment. Therefore, it is likely that leadership style may have its own significant effect on organizational commitment. Leaders carry an important function in an organization on assisting the employees' commitment in completing their daily tasks in the organization. Thus, it is crucial for leaders to understand their employees' needs as they will affect the organizational commitment directly or indirectly.

### 2.6. Organizational Culture and Organizational Commitment

Organizational culture acts as an important predictor in generating commitments and enhancing performances. When employees are not happy at work, they are less committed and tend to look for other opportunities outside. If the opportunities are unavailable or far reaching, they will stray themselves away from the organization emotionally. This will affect one's organizational commitment[16].

Organizational culture can be assumed as the mediator towards organizational commitment. Organizational culture that can be accepted and committed by employees full heartedly will help them achieve superior performances over the long run. Brewer has conducted a research about the effects of organizational culture on organizational commitment[17]. He found that bureaucratic nature in a culture always has a negative relationship with employees' commitment. Bureaucratic culture in an organization can hinder an employee's job effectiveness. There will be a positive outcome when the culture is supportive which eventually result in increased commitment and involvement of employees. Furthermore, Odom and his colleagues found that employees who worked in an environment that is supportive can increase the level of commitment[18].

It is believed that in order for the employees to be more committed and supportive of an organization's aims and objectives, an achievement-based culture or a mission culture should be created[19]. Employees' commitment would result in the active agreement and also the support towards organization's objectives. It is proven from bureaucratic work practices that often result in less commitment of employees while supportive work environment would result in greater commitment.

Based on above discussions, the following hypotheses are developed:

H1: There is a positive relationship between leadership styles and organizational culture.

H2: There is a positive relationship between leadership

styles and organizational commitment.

H3: There is a positive relationship between organizational culture and organizational commitment.

H4: Organizational culture mediates the relationship between leadership styles and organizational commitment.

## 2.7. Conceptual Framework

Figure 1 depicts the proposed relationships among the variables.

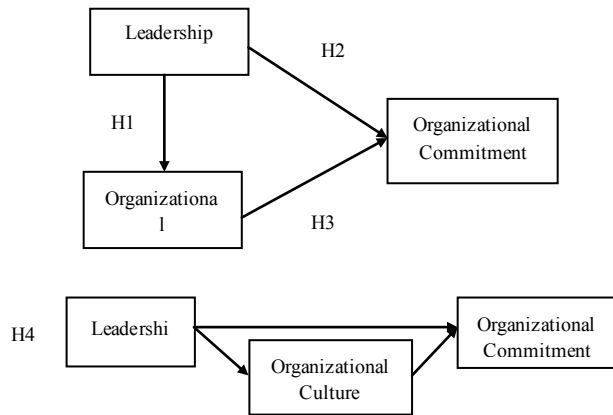


Figure 1. Proposed relationships among the variables

## 3. Methodology

### 3.1. Variables Measurement

This study borrowed the nine-item leadership scale from Chang and Lee[20]. Among the items, the first five items measured transformational leadership whereas the remaining items measured transactional leadership style. Organizational commitment scale was taken from Selma which had been modified to suit the research objectives[21]. This scale consisted of 18 items. On the other hand, organizational culture scale was borrowed from Chang and Lee which consisted of 12 items[22]. All variables were measured with multi items scale method based on a five point Likert format ranges from 1= "strongly disagree" to 5= "strongly agree".

### 3.2. Sample and Sampling Procedure

Total employees of this bank were 3500 approximately. There are three levels of sub categories in the bank hierarchy. The first group is top level management, followed by the mid-level management and the last group is the supporting group. This study focused on mid-level managers who work in Kuala Lumpur and Selangor. The total employees of mid-level management within Kuala Lumpur and Selangor branches and headquarters operation are approximately 600 employees.

In this study, a structured questionnaire which consisted of 39 items was distributed to 250 respondents in 40 branches in Selangor and Kuala Lumpur and 10 departments in the

headquarters. The targeted respondents to participate in the survey were among mid-level managers that comprises of junior and senior executives. Each branch and department received 5 questionnaires and was given about two weeks to respond to the questionnaire. Every assistant manager at all branches and departments in the headquarters had assisted in distributing and collecting the survey forms from their employees. Finally, 200 completed questionnaires were returned which generated 80% response rate.

### 3.3. Data Analysis

The data gathered from the survey were analyzed via Statistical Package for Social Sciences (SPSS) version 19.0. First, frequency analysis on respondents profile was conducted to assess the demographic characteristics of the respondents. Next, the reliability test of the variables was done through Cronbach's Alpha. According to Sekaran, reliability coefficient with less than 0.60 is considered poor; reliability coefficient in the range of 0.70 is acceptable and those above 0.80 is considered as good[23]. For the present study Cronbach's alpha coefficient for all variables ranges from 0.88 to 0.94 which satisfy the benchmark value.

The Pearson Correlation analysis was conducted to determine the relationships between independent and dependent variables. Multiple regression analysis was conducted to test the hypotheses. The last analysis conducted is the SOBEL test which is to verify the presence of mediating variable in the relationship between independent and dependent variable.

## 4. Results and Discussions

### 4.1. Profile of the Respondents

Among the 200 respondents, 61.5% are male and 38.5% are female. Majority of the respondents (51%) fall between 22 to 29 age group. On the other hand, 34.5% of respondents' age fall in the range of 30 to 39 years, and the rest are above 39 years old. About 55% of the respondents have 3 to 10 years of working experience, while the others have more than 11 years of work experience. Majority of the respondents have bachelor degree (77%), followed by master degree (12%) and 22 of respondents have diploma. In regards to the salary, majority of respondent's salary is in between RM1100 to RM3000 per month (45.5%), followed by 22% or 44 respondents salary is in a range of RM3100 to RM4000 per month.

### 4.2. Test of Hypotheses

The correlation test between leadership, organizational culture and organizational commitment are shown in the Table 1 below.

Linear regression analysis was carried out to test H1 whereas; multiple regression analysis was used to test H2 and H3. The test results are illustrated in Table 2 and Table 3.

**Table 1.** Result of Pearson Correlation Coefficient Analysis

Variable	Leadership	Organizational culture	Organizational commitment
Leadership	1		
Organizational culture	0.453**	1	
Organizational commitment	0.391**	0.438**	1

Note: \*\*Correlation is significant at the 0.01 level (2-tailed)

**Table 2.** Results of linear regression analysis

Dependent variable	Independent variable	Std. Beta	t	Sig.
Organizational Culture	Leadership Style	0.453	7.159	0.001
	R2	0.206		
	Adjusted R2	0.202		

From Table 2, it is obvious that, leadership style significantly affects organizational culture ( $\beta = 0.453, p < .05$ ). This result provides sufficient evidence to accept H1. This finding is consistent with the past studies in which also found support for this relationship in different contexts[24],[25].

In the next stage, multiple regression analysis was utilized to see the effect of leadership style and organizational culture on organizational commitment. The results in Table 3 indicate that leadership style and organizational culture both significantly and positively affect organizational commitment ( $\beta = 0.242, p < .05$ ;  $\beta = 0.328, p < .001$  respectively). Thus H2 and H3 are supported.

**Table 3.** Results of multiple regression analysis

Dependent variable	Independent variable	Std. Beta	t	Sig.
Organizational Commitment	Leadership Style	0.242	3.473	0.001
	Organizational Culture	0.328	4.707	0.000
	R2	0.239		
	Adjusted R2	0.231		

These findings are also in line with previous studies. For example, Kent and Chelladurai contended that leadership plays an important role in influencing organizational commitment[26]. Furthermore, Bourantas and Papalexandris found support for the positive association between organizational culture and organizational commitment[27].

**4.3. SOBEL Test**

The SOBEL test was utilized to test hypothesis four, i.e., to test the mediator effect of organizational culture in the relationship between leadership style and organizational commitment. The presence of organizational culture as the mediator in relationship between leadership and organizational commitment can be assessed by estimating the following equations[28]:

I. Regression of leadership (X) on organizational commitment (Y);

II. Regression of organizational culture (M) on organizational Commitment (Y);

III. Regression of organizational commitment (Y) on leadership (X) and organizational culture (M).

As such, three regression equations were developed to test the statistical significance of the mediator. The first equation established the independent variable which has a significant correlation with mediator. The second equation explained the independent variable which has a significant correlation with dependent variable. The third equation included the independent and mediator variables entered concurrently with the dependent variable[29]. Mediating variable can be seen when the effect of independent variable on dependent variable decrease with its addition and significant at  $P < 0.001$ [30].

**Table 4.** Result of SOBEL Analysis

Equation	Coefficient	Standard error	t	Significant
b(YX)	0.236	0.039	5.98	.000
b(MX)	0.282	0.039	7.15	.000
b(YMX)	0.319	0.067	3.47	.000

Results indicate that there is a significant positive mediate between variables ( $t=0.319, n=200, p < 0.0001$ ). This shows that organizational culture mediates the relationship between leadership and organizational commitment. Therefore, H4 is supported. This verdict is consistent with earlier result by other researchers[31].

**5. Conclusions**

This study explores thoroughly on the relationship between leadership, organizational culture and organizational commitment based on one Islamic bank in Malaysia. As stated above, all study hypotheses are supported. It implies that, leadership style, organizational culture and organizational commitment all play vital role in the context of Malaysian Islamic banking industry. The findings from this research can help enhance the understanding of the effect of leadership and organizational culture towards organizational commitment in Malaysian Islamic Banking sector. As such, this study contributes significantly to practicing managers who plan to develop and improve their existing working structures.

In a nutshell, a good leader affects employees' motivation which in turn leads to organization growth productivity. Hence, with good, comfortable culture in an organization, employees are most likely to perform better and develop more commitment towards their organizations in the long run.

**6. Managerial Implications**

These results propose a number of vital managerial inferences. In order to create organizational commitment; an organization needs to have good quality leaders. Any big organizations comprise of great leaders and leadership which is one of the important skills needed to sustain superior

performances. Good leadership and healthy organization culture works in tandem in creating a full bar of commitment in an organization. How the leaders lead will influence on how the organization culture will turn out to be and even the commitment of the employees. The leaders live their organization's values and personify the practices they expect from their colleagues. By practicing what they want others to do, leaders can imply on which course their colleagues should pursue when making decisions. Organization culture itself affects one's commitment because without a good and healthy culture, it will lessen the commitment of the employees. The culture helps the organization to accomplish what it desires on the basis of their employees commitment. Organization culture has motivating impact for employees to improve their own and organizational performances.

Next, implication of this study involves the leadership styles. Leaders should know what and when the styles should be used. In banking industry, through task explaining and job request, transactional leadership promotes target orientations as it helps to achieve the highest level of overall team performance and also be able to lead and promote inferiors throughout these conducts[32]. It is well documented that transactional leaders make decisions with and for stakeholders, taking into account their needs, and they see the goals that needs to be achieved.

Through this research, the researcher hopes to provide a clearer view regarding the relationship of leadership, organizational culture and organizational commitment in Islamic banking industry. The study is timely as the results would be beneficial for the bank in facing the competitive industry. It helps people in the organizations to understand, predict and control their internal and external environment. As banking industry is becoming more complex and rapidly changing, their employees are required to equip themselves with information and knowledge that will enable them to keep up with the changes.

In order to create a better commitment in an organization with the involvement of leadership and organizational culture, banks should take the initiative to produce more leaders with good qualities. Banks or any other industries with effective leaders will be successful as they will focus on the steadfast investment of a company's value which is the employees themselves. Leaders with good qualities can empower their employees, thus maintaining and sustaining the stability of the organization. The human resource in banks can play their part as well by creating more leadership development programs and trainings. The programs will enable employees to enhance their inner qualities and mould them to become successful leaders, and also help existing managers to develop their leadership qualities in becoming a more productive manager. Human resource department can conduct several leadership development programs periodically, which enable aspiring leaders and managers to enhance their managerial skills and abilities.

Banks should also create good leadership values in their organization. They should improve communication channels in organization as communication is vital in a human

relationship. It acts as an approach medium between parties and it also help to establish a strong and quality relationship between them. Programs like team building that involves everyone in the organization should be emphasized. The mass media communication in an organization should be lessen and organization need to rely more on verbal communication as it is more detailed and direct. Leaders and employees should always go for one to one or even group discussion. It allows a leader to understand employees' needs and issues and focus on how to further improve performance.

## 7. Limitations and Future Research Directions

This research examined the proposed relationships within the Islamic banking industry. Future studies can focus on other important industries in Malaysia such as healthcare and oil and gas. Future researchers can also examine the differences among diverse industries field, thus producing the expansion of the findings.

---

## REFERENCES

- [1] Daniel R. Denison and Anil K. Mishra, "Toward a Theory of Organizational Culture and Effectiveness", *Organization Science*, vol.6, no.2, pp.204-23, 1995.
- [2] Bolden R. Gosling, J. Marturano, A. and P. Dennison, "A review of leadership theory and competency frameworks", *Center for Leadership Study, Univ. of Exeter, Tech. Rep.* 1-44, 2003.
- [3] Voon M. Ling, Lo M. Chiun, Ngui K. Sing and Norazirah B. Ayob, "The Influence of Leadership Styles on Employees' Job Satisfaction In Public Sector Organizations In Malaysia", *International Journal of Business, Management and Social Sciences*, vol.2, no.1, pp.24-32, 2011.
- [4] Online Available: [www.haworth.com/en-us/Knowledge/Workplace-Library/Documents/Four-Organizational-Culture-Types\\_6.pdf](http://www.haworth.com/en-us/Knowledge/Workplace-Library/Documents/Four-Organizational-Culture-Types_6.pdf)
- [5] Stephen P. Robbins, Mary Coulter, *Essential of Organisational Behaviour*, 8th ed., Prentice Hall, USA, 2005.
- [6] Yafang Tsai, "Relationship between Organizational Culture, Leadership Behavior and Job Satisfaction", *BMC Health Services Research*, vol.11, no.98, pp.1-9, 2011.
- [7] Thomas S. Bateman, Stephen Strasser, "A Longitudinal Analysis of the Antecedents of Organizational Commitment", *Academy of Management Journal*, vol.21, pp.95-112, 1984.
- [8] Bruce Buchanan, "Building Organizational Commitment: The Socialization of Managers in Work Organizations", *Administrative Science Quarterly*, vol.19, pp. 533-546, 1974.
- [9] Pamela Tierney, Steven M. Farmer and George B. Graen, "An Examination of Leadership and Employee Creativity: The Relevance of Traits And Relationships", *Personnel Psychology*, vol.52, no.3, pp.591-620, 1999.

- [10] Edgar H. Schein, *Organizational Culture and Leadership*, 2nd ed., Jossey-Bass, San Francisco, 1992.
- [11] Gerhard Blickle, "Convergence of Agents' and Targets' Reports on Intra-Organizational Influence Attempts", *European Journal of Psychological Assessment*, vol.19, no.1, pp.40-53, 2003.
- [12] Linda Rhoades and Robert Eisenberger, "Perceived Organizational Support: A Review of The Literature", *Journal of Applied Psychology*, vol.87, no.4, pp.698-714, 2002.
- [13] Lynn M. Shore and Ted H. Shore, "Perceived Organizational Support and Organizational Justice", in Cropanzano, R.S. and Kacmar, K.M. (Eds), *Organizational Politics, Justice, and Support: Managing the Social Climate of the Workplace*, Quorum, Westport, CT, pp. 149-64, 1995.
- [14] Phyllis Tharenou, "A Test of Reciprocal Causality for Absenteeism", *Journal of Organizational Behavior*, vol.14, pp. 269-90, 1993.
- [15] Kuotsai T. Liou, "Understanding Employee Commitment in the Public Organization: A Study of the Juvenile Detention Center", *International Journal of Public Administration*, vol.18, no.8, pp.1269-1295, 1995.
- [16] Terrence E. Deal and Allan A. Kennedy, *Corporate Cultures: The Rites and Rituals of Corporate Life*. Perseus Publishing, USA, 2000.
- [17] Ernest W. Brewer, Laura F. Clippard, "Burnout and Job Satisfaction among Student Support Services Personnel", *Human Resource Development Quarterly*, vol.13, no.2, pp. 169-86, 2002.
- [18] Randall Y. Odom, W. Randy Boxx and Mark G. Dunn, "Organizational Cultures, Commitment, Satisfaction and Cohesion", *Public Productivity and Management Review*, vol.14, no.2, pp.157-169, 1990.
- [19] John Martin, *Organisational Behavior*, 2nd ed., Thomson Learning, London, 2001.
- [20] Su-Chao Chang and Ming-Shing Lee, "A Study On Relationship Among Leadership, Organizational Culture, The Operation of Learning Organization and Employees' Job Satisfaction", *The Learning Organization*, vol.14, no.2, pp.155-185, 2007.
- [21] Selma Altindis, "Job Motivation and Organizational Commitment among The Health Professionals: A Questionnaire Survey", *African Journal of Business Management*, vol.5, no.21, pp. 8601-8609, 2011.
- [22] Su-Chao Chang and Ming-Shing Lee, "A Study On Relationship among Leadership, Organizational Culture, The Operation of Learning Organization and Employees' Job Satisfaction", *The Learning Organization*, vol.14, no.2, pp.155-185, 2007.
- [23] Uma Sekaran, *Research Methods for Business: A Skill Building Approach*, John Wiley & Sons, New York, 2003.
- [24] Pamela Tierney, Steven M. Farmer and George B. Graen, "An Examination of Leadership and Employee Creativity: The Relevance of Traits and Relationships", *Personnel Psychology*, vol.52, no.3, pp.591-620, 1999.
- [25] Susanne G. Scott and Reginald A. Bruce, "Determinants of Innovative Behavior: A Path Model of Individual Innovation in The Workplace", *Academy Management Journal*, vol.37, no.3, pp.580-607, 1994.
- [26] Aubrey Kent and Packianathan Chelladurai, "Perceived Transformational Leadership, Organizational Commitment and Citizenship Behavior: A Case Study in Intercollegiate Athletics", *Journal of Sport Management*, vol.15, no.2, pp. 135-159, 2001.
- [27] Dimitrios Bourantas and Nancy Papalexandris, "Variables Affecting Organizational Commitment", *Journal of Management Psychology*, vol. 7, no.1, pp.3-10, 1992.
- [28] Reuben M. Baron and David A. Kenny, "The Moderator – Mediator Variable Distinction in Social Psychological Research: Conceptual, Strategic and Statistical Consideration", *Journal of Personality and Social Psychology*, vol.51, no.6 pp.1173-1182, 1986.
- [29] Jill A. Bennett, "Mediator and Moderator Variables in Nursing Research: Conceptual and Statistical Differences", *Research in Nursing & Health*, vol.23, pp.415-420, 2000.
- [30] Kristopher J. Preacher, Andrew F. Hayes, "SPSS and SAS procedures for estimating indirect effects in simple mediation models", *Behavior Research Methods, Instruments, & Computers*, vol. 36, no. 4, pp.717-731, 2004.
- [31] Yafang Tsai, "Relationship between Organizational Culture, Leadership Behavior and Job Satisfaction", *BMC Health Services Research*, vol.11, no.98, pp.1-9, 2011.
- [32] Online Available: [www.haworth.com/en-us/Knowledge/Workplace-Library/Documents/Four-Organizational-Culture-Types\\_6.pdf](http://www.haworth.com/en-us/Knowledge/Workplace-Library/Documents/Four-Organizational-Culture-Types_6.pdf)