

## MEDIATING EFFECT OF ORGANIZATIONAL COMMITMENT BETWEEN ISLAMIC HUMAN RESOURCE PRACTICES AND ORGANIZATIONAL PERFORMANCE AMONG ISLAMIC BANKS OF BANGLADESH

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### ABSTRACT

This paper aims at exploring the impact of Islamic human resource (HR) practices on organizational performance through organizational commitment. Data were collected from randomly selected 170 branch managers of six Islamic Banks listed on Dhaka Stock Exchange of Bangladesh. After collecting data, descriptive analysis and structural equation model were done to examine reliability and validity of the model. By analysis, the study finds that Islamic HR practices have more significant impact on organizational performance through organizational commitment rather than the direct effect of Islamic HR practices to organizational performance. The findings of the study advocate that Islamic banks should emphasize more on Islamic HR practices and organizational commitment to uphold their organizational performance.

**Keywords:** Islam, Islamic banks of Bangladesh, human resource practices, organizational commitment, organizational performance.

### INTRODUCTION

As stated in the Holy Quran “Indeed Allah has created the human in the best of forms” (Surah At-Tin - 95:4). This verse indicates to human being as the best and the noblest creation of the Almighty. Through human being’s physical construction or human potentiality or human soul and mind, we discover a profound glimpse of HIS wisdom. When a human uses his or her knowledge, potentiality and skill to make up the workforce of an organization, firm, business or economy is known as human resource. But each human is not resource. Human needs to convert into resource. Without this human resource, it is quite difficult to handle other physical resources. Sustainability and development of any organization depend on the efficacy of its manpower as men control all other resources (Dhar & Hoque, 2015).

In this competitive world, every organization seeks performance because it relates to its existence, and the goal of a business organization is the maximization of wealth for stake holders. For sustaining a long run, different strategies are taken by the organization (Absar et al., 2010). Sometimes strategies support organization commitment towards the society but most of the times it is being violated. Being connected to affect and emotion, religion and spirituality develop across our lifecycle which are integrally social-psychological phenomena, so it can be widely used in case of enhancing organizational performance (Rouhoma et al., 2017).

According to Azmi (2015), Islamic ethics and values are mostly being practiced in Islamic organizations. As Islamic organizations, Islamic banks listed in Bangladesh is much more Islamic - oriented. Therefore, this research focuses on the impact of Islamic human resource practices on organizational performance through organizational commitment among the Islamic banks of Bangladesh.

The aim of this study is to focus on the influence of Islamic HR practices and organizational performance through organizational commitment. The remaining portion of this research defines the relevant literature on Islamic HR practice, organizational commitment and organizational performance and analysis of gap; focuses on methodology; indicates analysis of data, emphasizes on theoretical and managerial implications, and presents conclusion which includes future research directions.

## **LITERATURE REVIEW**

Islamic HR practices depend on many variables. This study focuses on Azmi (2015), Hashim (2010) and Namazie & Tayed (2006) to determine the dimensions of Islamic HR practices. Based on this literature, this study adopted four dimensions (Practice of Islamic selection and recruitment, Practice of Islamic training and development, Islamic Career Development, and Practice of Islamic Reward). In conventional HR practices, there are different criteria (like advertising for job, short-listing of candidates, process of interview, selection of perfect candidate as far as possible and offering job) for a candidate to be selected and recruited. Apparently, it seems similar with the Islamic selection and recruitment process. But Islamic selection and recruitment process mainly focus on *alwara* (piousness), *akhlak* (ethics), *amal jamah* (teamwork) and *khibra* (experience). In addition, through Islamic selection and recruitment process, an Islamic organization fairly tries to find a candidate who has *tafan* (Dedication), *aitizām* (Commitment), *qudrat aleamal aljad* (Hardworking capability), *almasyumliā* (Responsibility) and *althiqā* (Trustworthy) (Azmi, 2015). After selecting candidates according to this process, selected candidates are provided an offer letter with six months probationary period and after the probation period they are being recruited permanently to maintain organizational commitment, as Allah SWT (Hashim, 2007).

### ***Islamic HR Practices***

According to Azmi (2015), through the practice of Islamic training and development, one's soul can be purified from bad and evil attributes to good and holy attributes. Islamic organizations emphasize on Islamic values during the practice of Islamic training and development. For this reason, Islamic organization provides regular training by highlighting Islamic ethics and values to their employees under knowledgeable and religious trainers for making capable about their work, organization's goals and performance. As Islam does not allow discrimination among people in terms of gender, religion, race or color and does not want to confine people to remain complacent in the same position, Islamic organizations focus on career development for all. According to Hashim (2007), for enhancing career, struggled, consistent and honest employees need to be provided with facilities and support. Reward and HRM are both integrated. Islam practices provide rewards to employees based on qualification, expertise and experience. Azmi (2015) states that Islam does not allow delayed or

late payment. Moreover, reward amount (in the form of allowances, bonus, overtime payment, increment of salary, leave and medical treatment) is supposed to be sufficient to buy cloth, food, accommodation and transportation without any discrimination of gender or race. In addition, married employees should be paid more than unmarried employees to help them in supporting family expenses and maintaining living standards.

### ***Organizational Performance***

The ultimate goal of a business organization is the maximization of wealth for stake holders (Absar et al, 2010; Becker & Huselid, 1998; Dhar et al., 2017; Horngren et al., 2000, Masruki et al., 2010, 2011; Masruki & Azizan, 2012). Through the research work of Azmi (2015). it has been found that organizational performance in Islam can be viewed in two perspectives, which are the achievement of the organization's objectives and accomplishment of Allah's satisfaction, though, the latter could only be measured after death. According to the research of Bontis (1998), Chen et al. (2010), Karimi, (2014), Khalique et al. (2011), and Sharabati et al. (2010), human productivity, profitability and market valuation are three major indicators of business performance. Based on Karimi (2014), human productivity denotes the association between input (what is put in to the business) and output (result) where through training and remuneration, input can be measured and through profit per employee, output can be measured. Moreover, output can be measured in two ways; based on actual goods and services produced and by considering people relative to key financial performance. Profitability arises when revenue exceeds the costs. It can be measured using sales growth and profit growth. Sales growth is the increase in sales over a specific period and profit growth is a combination of profitability and growth (Karimi, 2014). Market valuation indicates when market value exceeds its book value. It is the ratio of the total market capitalization which is the average share price time's number of outstanding common shares to book value of net assets (Karimi, 2014).

### ***Organizational Commitment***

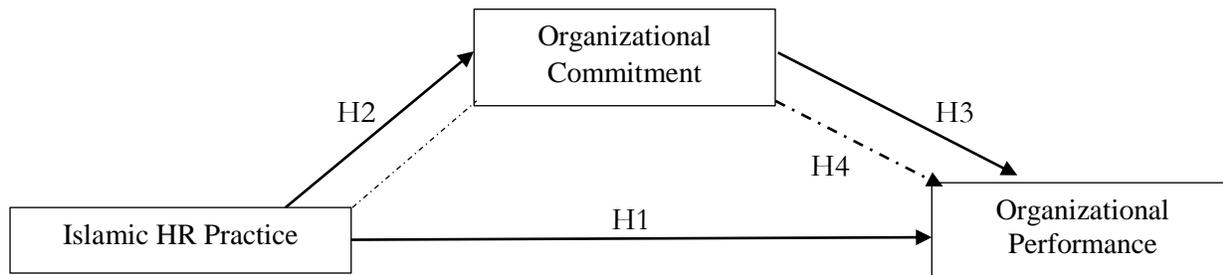
Organizational commitment indicates affective attachment to an organization characterized by shared values, a desire to remain in the organization and a willingness to exert effort on its behalf (Mowday et al, 1979). Meyer (2015) and Meyer & Allen (1991, 1997) developed three ways to justify organizational commitment: affective (want to), normative (ought to), and continuance (have to) commitment. Demirtas & Akdogan (2015) and Hartmann (2000) mentioned that this kind of commitment refers to the feelings of belonging to the organization which is related to the organizational structures, leadership performances, and individual characteristics. All definitions regarding affective organizational commitment focus on employee's bond with the organization which is captured by characteristics such as acceptance of organizational mission, vision and values (Perry 2004). Herscovitch & Meyer (2002), Meyer & Herscovitch (2001) and Meyer & Parfyonova (2010) stated that normative commitment is the mindset that one has the responsibility to chase a course of action of relevance to a particular target. Based on Jaros and Culpepper (2014), concepts of organizational commitment are based on Becker's (1960) theory of commitment resulting from 'side bets' that bind the employee to the organization, the continuance commitment construct developed by Meyer, Allen, and colleagues (Allen & Meyer, 1990; Meyer & Allen, 1984, 1991, 1997) has received the most research attention.

Few studies (Azmi, 2015; Hashim, 2009, 2010; Khan et al., 2010; Menon, 2012; Rana & Malik, 2017) tried to explore Islamic HR practices, organizational commitment, intention on turnover, job satisfaction and employee performance. Many studies focused on conventional HR practices, job satisfaction, organizational performance, employees' turnover, organizational climate, and customers' satisfaction (Absar et al, 2014; Amin et al, 2014; Andreassi et al, 2014; Bergiel et al, 2009; Chan & Mak, 2012; Delaney & Huselid, 1996; Karin et al, 2014; Moideenkutty et at. 2011;

Rogg et al., 2001). Thus, the current study attempts to fill the gap and aims to contribute to the impact of Islamic human resource practices on organizational performance through organizational commitment in the Banking Sector of Bangladesh.

### **Research Model and Hypotheses**

Based on literature, it is clear that there is a relationship between Islamic HR practices and organizational performance; Islamic HR practices and organizational commitment, and organizational commitment and organizational performance. So, there is a gap in research to find out the impact of Islamic HR practices on organizational performance through organizational commitment. The following **Figure 1** indicates the research model based on this issue:



**Figure 1:** Research conceptual model

On the basis of research model, the following hypotheses are raised:

- H<sub>1</sub>: Islamic HR practices has influence on organizational performance*
- H<sub>2</sub>: Islamic HR practices has influence on organizational commitment*
- H<sub>3</sub>: Organizational commitment has influence on organizational performance*
- H<sub>4</sub>: Islamic HR practices has influence on organizational performance through organizational commitment*

### **METHODOLOGY**

Based on the focus of practicing Islamic HR concept as well as Islamic banking concept, six Islamic Banks (First Security Islami Bank, Islami Bank Bangladesh, Al-Arafah Islami Bank, Social Islami Bank, Shahjalal Islami Bank and ICB Islamic Bank) under Dhaka Stock Exchange have been selected for the study. To increase the reliability and convenience to answer, a seven-point Likert scale questionnaire has been adopted, based on the previous studies (Harris & Ogbonna, 2001). The questionnaire was divided into four sections: respondents' information, Islamic HR practices, organizational performance and organizational commitment. The study adopted four dimensions based on the study conducted by Azmi (2015) for Islamic human resource practices (Practices of Islamic Training & Development; Practices of Islamic Reward; Practices of Islamic Recruitment & Selection, and Practices of Islamic Career Development); three dimensions based on Sharabati et al., (2010) and Karimi (2014) for organizational performance (human productivity, profitability and market valuation) and three dimensions based on Meyer & Allen (1997) for organizational commitment (Affective; Continuance, and Normative).

The questionnaire was circulated based on Krejcie & Morgan's (1970) table of determining the sample size among 265 branch managers of six Islamic banks under Dhaka Stock Exchange by using simple random sampling technique (Cooper & Schindler, 2003). From the total number, 170 completed questionnaires were returned. Based on collected data, Statistical Package for the Social Sciences (SPSS) program version 25 was used to obtain descriptive analysis. Structural Equation

Model (SEM) method was used to determine the significant influence between dependent variable, independent variables and mediating variable from collected data and to examine the reliability and validity measure for the model constructs. The statistical program, SmartPLS Version 3.2, was used to implement the structure equation model (SEM) in analyzing the research hypotheses. SmartPLS was also used to assess both measurement and structural model (Alavifar et al., 2012; Hair et al., 2014, 2016, 2017).

**Data analysis**

Based on collected data, Statistical Package for the Social Sciences (SPSS) program version 25 was used to obtain descriptive analysis. Structural Equation Model (SEM) was used to examine the reliability and validity measure for the model constructs and to determine the significant influence between dependent variable, independent variables, mediating variable and moderating variable from the collected data. The statistical program, SmartPLS Version 3.2, was used to assess both measurement model (inner) which is related to reliability and validity of the scales and structural model (outer) which shows the relationships (paths) between the research constructs, and to implement the structure equation model (SEM) to analyze the research hypotheses (Alavifar et al., 2012; Hair et al., 2016, Hair et al., 2017; Ringle et. al., 2015; Yaseen et. al., 2016).

**Demographic analysis**

The management of Islamic banks in Bangladesh are totally controlled by males. Out of the total of 170 respondents, 70.0 per cent were between 40 to 49 years old and about 80.4 per cent of them had a master’s degree. In addition, 90.6 per cent have the working experience of more than 16 years. Refer **Table 1**.

**Table 1:** Describes the demographic profile of the respondents

		<i>Frequency</i>	<i>Percent</i>
<i>Experience level (in years)</i>	<i>1-5</i>	2	1.2
	<i>5- 10</i>	3	1.8
	<i>11- 15</i>	11	6.5
	<i>Above 16</i>	154	<b>90.6</b>
	<i>Total</i>	170	100.0
<i>Age</i>	<i>less30</i>	5	2.9
	<i>30 – 39</i>	24	14.1
	<i>40 – 49</i>	119	<b>70.0</b>
	<i>50 above</i>	22	12.9
	<i>Total</i>	170	100.0
<i>Education</i>	<i>Diploma</i>	2	1.2
	<i>Bachelor degree</i>	2	1.2
	<i>Master’s degree</i>	160	<b>94.1</b>
	<i>Doctorate degree</i>	6	3.5
	<i>Total</i>	170	100.0
<i>Gender</i>	<i>Male</i>	170	<b>100.0</b>
	<i>Female</i>	0	0
	<i>Total</i>	170	100.0

**Measurement model**

Construct reliability, individual item-wise reliability, discriminant and convergent validity of all measurement items need to be examined. By using individual item-wise reliability and internal consistency of scale, reliability measures were examined. Individual item reliability needs to be measured in terms of standards loading of individual item into its original variable. Cronbach's alpha loading values of each item should be at least equal to or higher than 0.7. Average variance extracted value of 0.50 or higher indicates that the construct explains more than half of the variance of its indicators. Convergent validity was evaluated by examining the composite reliability and the average variance extracted. Composite reliability values between 0.70 and 0.90 can be regarded as satisfactory (Hair et al., 2016; 2017; Vinzi et al., 2010; Yaseen et al., 2016).

**Table 2** shows that outer model loading, discriminant validity, and composite reliability. The data indicates that the measures are robust in terms of their internal consistency reliability as indexed by the composite reliability. Cronbach's alpha, for all factor loadings, are greater than 0.7 and more significant. Composite reliability of all constructs are above 0.8, the average variance extracted for every measurement exceeds 0.50 and R2 is 0.432.

**Table 2:** Reliability and convergent validity

<i>Construct</i>	<i>Cronbach's alpha (a)</i>	<i>AVE</i>	<i>CR</i>	<i>R<sup>2</sup></i>
<i>Islamic HR practice</i>	0.950	0.870	0.964	
<i>Org Commitment</i>	0.720	0.640	0.842	
<i>Org Performance</i>	.0897	0.829	0.936	0.432

**Table 3** demonstrates the correlation matrix of model constructs. Moreover, it demonstrates square roots of average variance extracted. For stipulating that square roots of average variance extracted are more than correlation between construct and other constructs, discriminant validity was measured. (Smith et al., 2012; Yaseen et al., 2016).

**Table 3:** Discriminant validity

<i>Constructs</i>	<i>Islamic HR practice</i>	<i>Org Commitment</i>	<i>Org Performance</i>
<i>Islamic HR practice</i>	<b>0.933</b>		
<i>Org Commitment</i>	0.427	<b>0.800</b>	
<i>Org Performance</i>	0.490	0.605	<b>0.910</b>

**The structural model**

Structural model (outer) shows the relationships (paths) between the research constructs. The following analyses indicate the relationship among research constructs. Thus, the study tries to find out the loading of measurements.

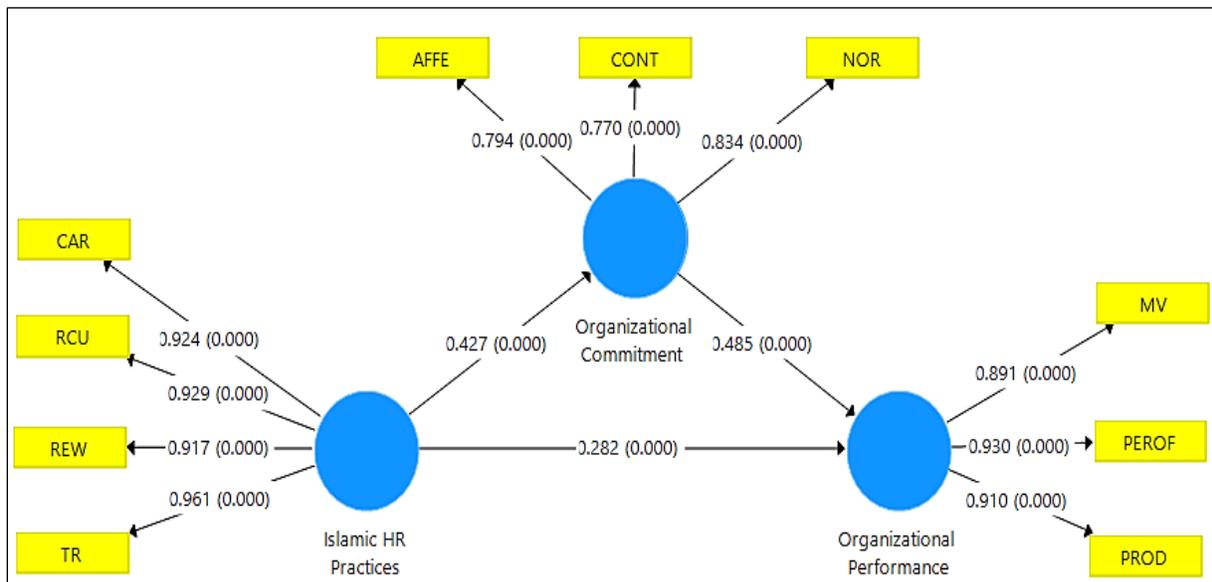
As shown in **Table 4**, most item loading were larger than 0.7 and significant at  $p < 0.01$ . Chu et al. (2004) recommended that items with small loadings and insignificant contributions should be dropped. Therefore, the study dropped the objective data from their respective constructs for having factor loadings below the 0.5 thresholds (Chin, 2010).

**Table 4:** Loadings of measurement (outer model)

Measurement item	Islamic HR Practices	Organizational Commitment	Organizational Performance
CAR	0.924		
RCU	0.929		
REW	0.917		
TR	0.961		
AFFE		0.794	
CONT		0.770	
NOR		0.834	
MV			0.891
PEROF			0.930
PROD			0.910

[Here, CAR= Practices of Islamic Career Development; RCU= Practices of Islamic Recruitment & Selection Practices; REW= Practices of Islamic Reward; TR= Practices of Islamic Training & Development; AFFE= Affective Commitment; CONT= Continuance Commitment; NOR= Normative Commitment; MV=Market Value; PEROF=Profitability; PROD=Human Productivity]

The overall path coefficients ( $\beta$ ), significance level and explanatory power ( $R^2$ ) can be inspected through structural model. The following figure (Figure 2) shows the graphical analysis of the structural model. Figure 2 specifies the relationships or paths among the constructs. Figure 2 indicates that there is a significant relationship among the constructs of the model and practices of Islamic human resources has greater effect on organizational performance through organizational commitment.



**Figure 2:** Results of PLS analysis

[Here, CAR= Practices of Islamic Career Development; RCU= Practices of Islamic Recruitment & Selection Practices; REW= Practices of Islamic Reward; TR= Practices of Islamic Training & Development; AFFE=

*Affective Commitment; CONT= Continuance Commitment; NOR= Normative Commitment; MV=Market Value; PEROF=Profitability; PROD=Human Productivity]*

**Figure 2** shows Islamic HR practices with organizational commitment, and organizational commitment with organizational performance have found statistical significant effect with path coefficients  $\beta=0.427$  and  $\beta=0.485$  respectively. All path coefficients ( $\beta$ ) are statistically significant and positive ( $p < 0.05$ ).

**Testing of hypotheses**

The study used four hypotheses. The following table shows the testing of hypotheses based on the level of significance and the analysis proves whether the hypotheses are accepted or rejected.

**Table 5:** Results of hypotheses

Path	$\beta$	T-stat.	Level of Sig.	Result
Islamic HR practices -> Org Per	0.490	4.664	***	support
Islamic HR practices ->Org Com	0.490	7.707	***	support
Org Com -> Org Per	0.485	7.850	***	support
Islamic HR practices -> Org Per -> Org Com	0.207	4.664	***	support

The results of the purposed hypotheses has been summarized in **Table 5** and it shows that all relationships among variables are significant at 0.05 level. The strongest direct effect on the competitive advantage are Islamic HR practices and organizational performance, and Islamic HR practices and organizational commitment (0.490 in both case). The path coefficients between organizational commitment and organizational performance is  $\beta = 0.485$ . The indirect effect among Islamic HR practices and organizational performance through organizational commitment is  $\beta = 0.207$ .

**Implications of the study**

**Theoretical implications**

Many existing research focuses on the influence of Islamic human resource practices on organizational performance whereas this research magnifies the relationship. The current research shows that organizational commitment has a positive influence towards Islamic human resource practices and organizational performance.

**Managerial implications**

The management of Islamic banks of Islamic financial organizations should focus more on their normative commitment, affective commitment and continuance commitment. In case of practices of Islamic human resources, banks should focus more on practices of Islamic training and development, practices of Islamic recruitment and selection practices, and practices of Islamic career development rather than practices of Islamic reward. As a result, the employees of the Islamic banks will be more enthusiastic to be loyal towards the stockholders and stakeholders, and the proper implementation of Islam can be justified in the society.

## **CONCLUSION**

Islamic HRM practices and organizational performance through organizational commitment has been examined among six Islamic banks under Dhaka Stock Exchange in Bangladesh in this study. In obtaining higher organizational performance, Islamic banks should emphasize more on the practices of Islamic HR. Though success in the Hereafter is the most blessed and forever, the in sustaining and getting competitive advantage in this unstable world, higher organizational performance is mandatory. So, by applying Islamic HR practices, organization can attempt to seek Allah's pleasure. Having the pleasure of Allah, Muslim will not only gain accomplishment in this world but also in the Hereafter. The finding of this study can be generalized in the context of Islamic banks. Further research can be conducted in other banks and organizations in Bangladesh and other countries of the World. Moreover, the study can use morality and ethics as moderator to justify the relationship more.

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