The Relationship between Islamic Work Ethics and the Performance of Nigerian Islamic Financial Institutions

Saadatu Balarabe Adam
Islamic Business School, Universiti Utara Malaysia, Sintok – Kedah State, Malaysia

Dr. Al-Hasan Al-Aidaros
Islamic Business School, Universiti Utara Malaysia, Sintok – Kedah State, Malaysia

Dr. Suhaimi Bin Ishak
School of accounting, Universiti Utara Malaysia, Sintok – Kedah State, Malaysia

ABSTRACT
This study aims at examining the relationship between Islamic work ethics (IWEs) and the performance of Islamic financial institutions (IFIs) in Nigeria. Literature suggested many factors as determinant of Islamic financial institutions’ performance. But, few studies have attempted to consider the influence of Islamic work ethics on the performance Islamic financial institutions in Nigeria. The limited empirical studies in this field of study have restricted awareness of Islamic financial institutions which results in absence of information concerning their true nature as well as their governance in accordance with Islamic principles, which leads to underperformance of the sector and especially in Islamic corporate governance practice. Therefore, in view of this deficiency, there is a need for more studies on the IFIs performance, as well as IWEs especially in Nigeria. Hence, this study aims to fill up the gap that exists in the extant literature by employing quantitative survey method, using total of 320 practitioners of IFIs in Nigeria (managers and senior management cadre) in north-western Nigeria. PLS-SEM was used for the data analysis. It has found that IWEs is positively related to IFIs’ performance. Implication of the finding and suggestion for future research were also discussed.

Keywords: Islamic work ethics, Islamic financial institutions, PLS

INTRODUCTION
Islamic Financial Institutions (IFIs) have been extensively recognized as a substance supporting economic development. They assume a critical role in the progress of any country’s economy (Hasan, 2009; Muneeza & Hassan, 2011). Therefore, they serve as an instrument for economic recovery and is among the important areas of economic proliferation in both developed and developing countries (Bukhari, Awan & Ahmed, 2013; Bukair & Rahman, 2015). Thus, the impact of IFIs on the growth and development of any country’s economy cannot be over emphasized. Considering the potential and prospects of IFIs, there is an urgent need to improve the performance of IFIs (Adebayo, 2010; Daud, Ibrahim & Abideen, 2011; Rwegasira, 2000).

Nowadays, the performance of IFIs is becoming an important area of concern among business researchers, practitioners, governments and international organizations (Daud, Ibrahim & Abideen, 2011). Empirically, it was revealed that many studies were conducted examining the relationship between various components of Islamic corporate governance such as board of...
directors, disclosure and transparency requirement, audit practice, investment account holders, and shariah supervisory board (SSB) and performance of IFIs (Abdel-Baki & Sciabolazza,(2014); Safieddine, 2009; Al-Tamimi, 2012; Hasan, 2009; Muneeza & Hassan, 2011). However, the findings from these studies are mixed. In particular, some Abdulazeez, Ndibe and Mercy (2016), Endrin, Ekueme and Edesiri (2015) and Tanko and Oladele (2008) reported a significant relationship between Islamic corporate governance and performance of IFIs, while others found no or negative relationship between them (Mohammed, 2012; Magalhaes & Al-Saad, 2013).

However, Performance of organizations is being related to Islamic work ethics (IWEs) (Abbasi, Ghulam, & Muzammil, 2012). Studies show IWEs are linked to several individual and organizational outcomes. Marri, Sadozi, Zaman and Ramay (2016) further suggested that IWEs can be assessed with organization performance. From the related literature reviewed, there are few studies that examine the relationship between Islamic Work Ethics (IWEs) and IFIs’ performance in Nigerian context. Equally, most of the previous studies also concentrated on individual performance and some on conventional organisational performance. Generally, few empirical studies have been made on relationship of IWEs and IFIs’ performance, particularly in developing countries like Nigeria; most of the literature on IWEs and performance describes research conducted in middle east and Asian economies (Abbasi, Ghulam, & Muzammil, 2012; Marri, Sadozi, Zaman & Ramay, 2016; Yousef; 2001) and mostly used first-generation analysis techniques (SPSS), neglecting second-generation techniques such as Partial Least Square- Structural Equation Modelling (PLS-SEM). This indicates an important gap in the literature. Therefore, the current study attempts to fill in these important gaps by examining the relationship between IWEs, and IFIs’ performance in Nigeria, using second-generation analysis techniques (PLS-SEM). This paper structured into five sections, the second section provide related literature reviewed, next is the methodology section, section four reported result of the analysis and finally the discussion and conclusion of the study section.

LITERATURE REVIEW

2.1 Performance of Islamic Financial Institutions

The economic and financial activities of Muslims make it appropriate to adapt to Islamic banking and finance practice (Othman, Aris, Azli, & Arshad, 2012). Porter (1985), view business performance strategies as classified into cost leadership, differentiation and focus strategies. Kaplan & Norton (2001) considered balanced scorecard, a driver to performance. However, Parnell & Hershey (2005) found out that organization can maximize its performance through becoming a low-cost producer or service provider and by providing different line of product or service from its competitors.

Past studies Ball & Brown (1968), found leverage (gearing) a relevant financial measure of firm’s performance that is implied by a combination of debt on capital structure, though, this has been debated, but financial leverage continues to affect the financial performance positively. However, Shim & Siegel (2000) found liquidity which is firm’s ability to possess assets in form
of short-term debt (one-year period) to be the corporate goal of organization for sound performance and business survival. Furthermore, Henri (2006) concludes that size is the yardstick that generally measure growth upon which most firm’s trust as indicator of performance. The higher the growth rate, the higher the ability of the firm to own assets and machinery thereby attracting competent management and employees contributing to the performance of the firm.

From the Islamic perspective, Performance in IFIs is viewed from organization of work or efforts accomplished and the ethical conduct of employees according to Islamic principles providing the best route to achieve objectives (Mohamad, 2013). Great number of studies studies measure performance of financial institutions using Return on Equity and Return on Assets which are believed to be the best yardsticks to measure performance (Choudhury & Hoque, 2006; Bukhair & Rahman, 2015). Rahman, Alias, Shahid, Hamid and Alam (2013), specified that employee performance should be based on justice, accountability, fairness and responsibility which is in line with (Rana & Malik, 2017) emphasizing on Islamic teachings. for instance, they adopted and construct 7 questions with the use of 7-point likert scale and further analysis with MS Excel and SPSS software, revealing that Islamic teachings strike a balance between employer’s role to show justice and fairness towards employees and at same time guarding the interest of the organization.

This study intends to give a broader outlook of performance of Islamic financial institutions which incorporate both the financial and social ethical aspects. It will add to existing performance measurements. This is going to be in line with Quranic injunctions and teachings of Islam through Prophet Muhammad (S.A.W.). According to Quran:

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On that day will men proceed in companies sorted out, to be shown the deeds that they (had done). Then shall anyone who has done an atoms’ weight of good, see it. And anyone who has done an atoms’ weight of evil, shall see it”. (Quran 99:6-8)
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A hadith by Muslim in his Sahih from Abu Hurayrah where the Messenger of Allah mentioned that both murderer, thief and one who severe ties will all testify to their wrong doings.

### 2.2 Islamic Work Ethics and Performance of Islamic Financial Institutions

Prior studies have assessed Islamic work ethics (IWEs) include (Rahman, Muhamad, and Othman 2006), scale development (Ali, 1988, 1992); Business (Rice, 1999; Yousef, 2000; 2001; Ali & Al-Kazemi, 2007), IWEs and performance of organization (Hayati & Caniago, 2012), Ethics and performance (Ogbonna & Ebinmobowei, 2011), IWEs with corporate governance (Nor, Mahaiyuuddin & Rozlan, 2016). The study Al-Aidarous (2012) suggested further studies on Islamic ethics when he found developing an ethical code of conduct for Yemen professional Accountants a relevant guidance in making moral decisions from Islamic context. This study will
consider researchers little attention to the application of Islamic work ethics to performance of IFIs as basis.

Other studies on IWEs involve innovation capability with sharing knowledge as moderator revealed a positive relationship among all the variables, in non-probability sample of 150 public sector workers in Pakistan (Awan & Akram, 2012). A study in Turkey Yesil, Sekkeli and Dodan (2012) on a sample of 300 organizations, investigated the implication of IWEs on performance of companies with 300 sample, found positive influence of IWEs on firm performance. The study recommended further research mediating with commitment and organizational citizenship. Abbasi, Ghulam and Muzammil (2012) on a sample of 240 employees of service firms found that IWEs are related to learning and innovation that could affect positively the performance of firms. A study Kumar and Rose (2010) investigates 472 Malaysian public servant using convenience method and a 5-point scale, revealed positive relation between IWEs and innovation capability and suggested further studies on IWEs to enhance performance. An examination in Jordanian press foundation with 204 sample using a stratified random sampling and multiple regression analysis found IWEs with no significant effect for commitment due to demographic factors and showed significant effect due to educational level (MKAlhyasat, 2012). The implication of IWEs on business was studied by (Rice, 1999). Furthermore, most of the studies on IWEs is either on relationship to job satisfaction or organizational commitments or both. For instance, Marri, Sadozi, Zaman and Ramay (2016) using a sample of 397 agriculture sector workers in Pakistan, found positive relationship between IWEs, organizational commitment and job satisfaction. Ahmad, Shad, Mumtaz and Tanveer (2012) showed positive relationship between ethics with job satisfaction when climate is good and supportive management on ethical behaviour with a 77% response rate and Cronbach alpha ranging 0.714-0.846, using statistical package for social sciences (SPSS). While Ali and Al-Kazemi (2007) believes work ethics further creates organizational value, loyalty and profitability. However, this loyalty is greater with Arab expatriates than Kuwait employees among the 762 managers. Similarly, Yousef (2000), found employee IWE in UAE to directly and positively influence their attitude towards organizational commitment and change which is consistent with findings of (Othman, Rahman, Malek & Osman, 2004; Haroon, Fakhar & Rehman, 2012; Athar, Shahzad, Ahmad & Ijaz, 2016), IWEs result in greater organizational and employee commitment to attain set goals. Athar et al., (2016) add job satisfaction as a mediator, adopted (Ali & Al-Kazemi, 2007) IWEs scale using 17 items, a Cronbach alpha of 0.85 used a 5-point likert scale, suggested organization to adopt ethical framework based on Islamic values as guide to work efficiency.

Mohamed, Abdul Karim and Hussein (2014) associated IWEs with use of computer ethics, job satisfaction and organizational commitment in Malaysia. The study surveyed academic staff and with Cronbach’s coefficient, tested reliability of the multi item scales, ranges .781 - .921 adequate level, as such good scales, with 7-point scale options, found positive relationships. A recent study Salehi and Babajani Baboli (2017) on work ethics, management style and job satisfaction using a stratified sample of 75 Iran university employees revealed work ethics and management components having significant relationship with job satisfaction. Ali and Al-Owaihan (2008) found IWEs to contribute to performance leading to higher prosperity and societal welfare after a critical review of countries studies on 100 UAE employees attitude. Sarwar and Aburge (2013) studied IWEs in relation to management challenges of the 21st
century. Rokhman and Hassan (2014) studied IWEs and organizational justice. Therefore, based on the literatures, this study hypothesized that:

**H1:** Islamic Work Ethics positively and significantly influenced the Performance of Islamic Financial Institutions in Nigeria.

**METHODOLOGY**

Considering the present research’s hypothesis and framework, a quantitative approach was employed. A single cross-sectional survey design was used for data collection, i.e. the researcher collects data at a single point and time and only once during the whole study (Sekaran & Bougie, 2010). The cross-sectional survey method is appropriate here to achieve the overall goal of the study. The target population is all the 16 IFIs as contained in the Central Bank of Nigeria directory. A survey design via questionnaire was chosen as the tool for the collection of data. A total of 320 questionnaire was administered personally to practitioners of IFIs in Nigeria (managers and senior management cadre), as this is the best method to collect all the complete responses in a short period of time (Sekaran and Bougie, 2011). It enabled the researcher and research assistant to distribute questionnaires to a large number of targeted respondents at one time, in different places. Cluster sampling technique was employed here, by allocating each type of IFIs as clusters with samples selected randomly from each. Sample were selected from the sample frame through simple random sampling, with samples selected randomly from each based on the respective sample size. 280 questionnaires were retuned and useable for the purpose of this study.

**3.1 Measurement of Variables**

Variables under study were measured using the adapted items from the prior literature. Specifically, this study measured two variables: IFIs’ performance and IWEs all in 7-point Likert scale where ‘1’ denotes ‘strongly disagree’ and ‘7’ denotes ‘strongly agree’. IFIs’ performance measured as dependent variable in this study and operationalised as an organisational successes that cover operational and financial outcomes; performance is divided into financial and non-financial. In addition, Nine items on IFIs’ performance were adapted from Suliyanto and Rahab (2012). IWEs is an independent variable that measured using 11 items from the scale of Ali and AlKazmi, (2007) which is rooted to (Ali, 1988) and in line with (Sarwar & Aburge, 2013).

**3.2 Control Variables**

Based on previous work (Abbasi, Ghulam & Muzammil, 2012; Awan & Akram, 2012; Turkey Yesil, Sekkeli & Dodan, 2012; Ahmad, Shad, Mumtaz & Tanveer (2012), this study includes industry type, size and age of the firm as control variables, to ensure the quality of the results. The size of a firm may influence its behaviour and decision making concerning the exploitation of entrepreneurial opportunities and innovation. In this study, the size was determined by the number of employees. The age of the firm determines its ability to respond and learn appropriately, as a result of maturing behaviour and environmental perception. This study
measured the age by the number of years the institutions had been in existence. Mostly, type of institution influences its behavior and environmental characteristics. Therefore, institution type was measured by asking respondents to indicate their type of institution, Islamic bank, takaful, Islamic micro-finance, Islamic capital market, Islamic banking window or Islamic cooperative society.

3.3 Data Analysis Techniques
After collection, the data was coded and keyed in to statistical software (SPSS vn 22) for screening and other preliminary analysis. Subsequently, PLS-SEM (PLS 2.0) was employed to examine the relations between the constructs of the theoretical model. As a second-generation method, SEM (Structural Equation Modeling) is acknowledged as an influential substitute to first-generation approaches, including, for example, multiple regressions. In multiple regression only one dependent/criterion variable is allowed in the model, but SEM can simultaneously handle multiple criteria/dependent variables. The inclusion of multiple predictors/independent variables is allowed in both techniques (Chin, 1998). SEM is widely used by behavioural science researchers (Gefen, Straub, & Boudreau, 2000), offering the ability to integrate unobserved (latent) variables in the analysis and use them to execute path-analytic modeling (Chin, 1998). Latent variables are those variables which are not being observed or measured directly in the study, but which need to be estimated by other measures (i.e. indicators or items) (Chin, 1998). In this study, all the variables are latent variables which need to be measured through some indicators. SEM combines a measurement model (i.e. an outer model) with a structural model (inner model) (Chin, 1998). This organises the distribution of measures into latent variables, where the structural model integrates the relationships among predictor/independent and criterion/dependent latent constructs. This technique enables the researcher to explain, predict and measure the level of interrelationships among the constructs under investigation (Chin, 2010; Chin & Newsted, 1999).

3.4 Model for Empirical Estimation
PER= β₀ + β₁ IWEs + ε
Where: β₀ = Constant (Intercept)
        β₁ = Coefficient of IWEs
        ε = Standard error of estimate

ANALYSIS AND FINDINGS

4.1 Common Method Bias
It is mostly agreed by researchers that common method variance is a key area of concern for scholars using self-report surveys (Lindell & Whitney, 2001; Podsakoff, MacKenzie, Lee, & Podsakoff, 2003; Spector, 2006). Therefore, this study conducted a test to check that there is no variance in observed scores, also correlations are not overstated due to the method’s effect. For
this, several procedural remedies were adopted to minimise the effects of CMV. Then, the researcher improved the scale items to reduce method bias by evading imprecise concepts in the questionnaire; all questions in the survey were written in a simple, concise and specific language. Furthermore, to reduce evaluation apprehension, the respondents were informed that there was no right or wrong response to the items in the questionnaire; assuring them their answers would remain confidential during the research process. Never the less, this study also adopted Harman’s single factor test proposed by Podsakoff and Organ (1986) to examine CMV. To test method bias using Harman’s (1961) single factor approach, all items of the principal constructs were exposed to principal component factor analysis (Podsakoff & Organ, 1986). This shows presence of method bias when the factor analysis provides only a single factor, or when a single factor represents the highest part of the covariance among the measures (Podsakoff et al., 2003). Therefore, in the present study, un-rotated factor analysis was used with 20 items of all the variables of the study, and it was revealed that no single factor accounted for more than 50% of the variance. The results of the analysis produced nine factors, explaining a cumulative 65.9% of the variance; with the first (largest) factor explaining 20.12% of the total variance, which is less than 50%. This is consistent with Podsakoff et al. (2003) and Lowry and Gaskin (2014), who argue that CMB exists once a single factor explains more than 50% of the variance. The results of Harman’s single-factor analysis indicate that CMV does not exist between the present study’s constructs.

4.2 The Measurement Model
The main objective of measurement model is to filter the data, which is to evaluate and confirm the constructs validity and reliability before establishing the goodness of measures. The data were evaluated through the indicators reliability, with 0.4 is accepted. While for internal consistency, using composite reliability, 0.7 is considered accepted level. Convergent validity using average variance extracted (AVE), which must be 0.5 and above (Chin, 1998). For discriminant validity using factor loading, any item loading on the other construct higher than their loadings should be deleted (Chin, 1998; Hair, 2010). Later, in order to satisfy the measurement model, some items were deleted: PER3, PER4, IWE4, IWE6, IWE7, IWE9 because they did not meet with the minimum benchmark (Chin, 1998; Hair, Babin & Anderson, 2010). Hence, it is determined that the instrument adapted in this study is reliable, since none of the items is with less than 0.4.

All the items loaded on their individual construct ranges from 0.536 to 0.813, which is considered acceptable as the all values range above the cut-off point of 0.4 (seeChin, 1998; Hair, Ringle, & Sarstedt, 2011). Likewise, the composite reliability, value ranges from 0.826 to 0.941 which is greater than the suggested value of 0.7 (Hair et al, 2011). To determine the convergence validity, AVE was used. The AVE ranges from 0.518 to 0.548, also above the minimum cut-off point of 0.5 (Hair et al, 2011). Finally, to determine the discriminant validity, the AVE is compared to correlation squared of the interrelated variables of concerned constructs which indicates adequate discriminant validity. Table 1 presents factor loading.
Table 1: Factor Loading

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loadings</th>
<th>Composite Reliability</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PER1</td>
<td>0.789</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PER2</td>
<td>0.794</td>
<td>0.826</td>
<td>0.548</td>
</tr>
<tr>
<td>PER5</td>
<td>0.557</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PER6</td>
<td>0.793</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PER7</td>
<td>0.719</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PER8</td>
<td>0.775</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PER9</td>
<td>0.813</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IWE1</td>
<td>0.569</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IWE2</td>
<td>0.688</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IWE3</td>
<td>0.753</td>
<td>0.941</td>
<td>0.518</td>
</tr>
<tr>
<td>IWE5</td>
<td>0.714</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IWE8</td>
<td>0.767</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IWE10</td>
<td>0.536</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IWE11</td>
<td>0.724</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3 Structural Model

After achieving the requirement of the measurement model (construct validity and reliability), the next step involved testing the proposed hypotheses of the study by running PLS Algorism and Bootstrapping in Smart PLS 2.0. Table 3 presents the hypothesis testing results.

Table 3: Hypothesis Testing Results (Direct Relationship)

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Relationships</th>
<th>Beta</th>
<th>SE</th>
<th>T Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>IWE -&gt; PER</td>
<td>0.361</td>
<td>0.047</td>
<td>7.736</td>
</tr>
</tbody>
</table>

Table 3 predicted the statistical analysis proved that H1 is supported where IWEs is significantly and positively related to IFIs’ performance ($\beta=0.361; t=7.736$). To summarise, the direct relationships between the latent exogenous and endogenous constructs are supported empirically, in line with its respective hypothesis statements.

DISCUSSION AND CONCLUSION

The primary objective of this study is to assess the relationship between IWEs and the performance of IFI’s in Nigeria. Generally, this study has succeeded in advancing the current understanding of the key determinants of IFIs’ performance by testing the above-mentioned research hypotheses. The objective was therefore to examine the relationship between IWEs and IFIs’ performance, that is to determine whether IWEs can be a good predictor of the performance of Nigerian IFIs. It was proposed that IWEs is significantly related to IFIs’ performance. H1 was thus formulated and tested using PLS path modeling. The relationship was found to be positively...
significant. This signified that H1 is supported. This empirical finding agrees with the results of earlier studies (Abbasi, Ghulam & Muzammil, 2012; Awan & Akram, 2012; Turkey Yesil, Sekkeli & Dodan, 2012; Ahmad, Shad, Mumtaz & Tanveer (2012) which argue that IWEs significantly influences performance.

In conclusion, the findings reported that IWEs has a significant and positive influence on performance of IFI. Theoretically the study provides further understanding on the importance of IWEs in predicting IFIs’ performance, additional empirical support for the research framework, and validation of the proposed framework. Likewise, this study contributes by providing empirical evidence to support Islamic critical theory. Therefore, this study suggests that IFIs may need to employ IWEs culture to improve their performance.

Consequently, the present study is useful to the government and its agencies, financial institutions’ practitioners, as well as business and academic researchers, in furthering understanding of how IWEs influence IFIs’ performance in Nigeria. This study suggests for future empirical studies on the relationship between Islamic corporate governance and IFIs’ performance should be conducted to study the situation in Nigeria.

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