

# Impact of Job Loyalty, Management Performance, Rewards and Recognition and Firm Size on Profitability in Supply Chain of Bank: Empirical Study on Islamic Banks in Iraq

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**Abstract-** The main objective of this study is to examine the impact of job loyalty, management performance, rewards and recognition, and firm size on profitability in supply chain of bank. Islamic banking industry share increasing day by day and this industry growing rapidly. The model of current study developed on the basis of theoretical background. To investigate the hypothesized model of current study quantitative research design was followed. Data were collected through questionnaire and two hundred ninety 290 questionnaires were distributed among employees of Islamic banks in Iraq. To test the proposed hypothesis SPSS version 23 was used to analyze data. The findings revealed that job loyalty, management performance, rewards and recognition, and firm size have significant and positive impact on bank profitability. The values of this paper show that job loyalty, management performance, rewards and recognition, and firm size enhance the bank profitability.

**Keywords:** Job Loyalty, Management Performance, Rewards and Recognition, Firm Size, Profitability, Supply Chain of Bank.

## 1. Introduction

[1], [2], [3] and [4] argued that during the course of recent decades the Islamic banking system or the PLS has emerged as a global phenomenon which has roots in South Asian, Southeast Asia, Europe and even in the USA. The Islamic financial industry which is based on PLS is worth more than 1.5 trillion and more than 40 percent of market share is capitalized by the non-Muslim countries. The industry is employing more than 500000 people and growing at the rate of 23 percent per year from 2005. It is projected that by 2020 the Islamic financial industry will

cross 2 trillion. It is projected that this will be a \$trillion industries by 2010. The value of Islamic banks' assets globally is expected to exceed this year. Three trillion and a half trillion dollars, and in turn we expect the Islamic banks in Iraq to have an important developmental role, especially with the great potential available to these banks, but this role remains contingent on the ability to overcome the challenges that guide them both in the field of gaining practical experience but Lean or in the field of competitiveness with conventional banks,

The main objective of this paper is paying attention on defining some factors affecting the performance of Islamic banking in Iraq. Importance of banking is based on the grounds that banks are main channels of allocation and saving of credit in an economy. Islamic banking sector grown speedily nowadays. Banking sector is one of the important sectors that sustain the economy of a country. Banking plays an important role for people to save their money as well as seek the source of finance for that people who need funds. Furthermore, Islamic banking growing rapidly few years ago and serve similarly as financial intermediary. Islamic banking is different from conventional banking in the sense of instruments used Islamic and conventional banking. In Islamic banking the instrument of interest is not permitted as this instrument used in conventional banking. As in other developing countries banking sector plays a significant financial intermediary function in the Iraq. Moreover, banks act as financial intermediary for society that excess funds to communities in need of funds. Banking sector of an economy controls most of the financial flows as well as accounts for greater than 70% of the financial system total assets. As a result, it is reasonable to expect that a well-organized and profitable banking sector may help to ensure an effective financial system that is conducive to economic development and growth. In Iraq, the start of the Islamic banking business with the establishment of the Islamic Bank of Iraq for investment in 1993, then develop

the work of Islamic banks and increase their number, especially after the legislation of the Islamic Banks Law No. 43 of 2015, where the number today to 25 banks, which constitute 33% of the total number Banks in Iraq. His increase comes in line with the great development witnessed by Islamic banking at the international level. Many international conventional banks have opened Islamic windows to match the increasing demand for this type of product. However, Islamic banks facing various issues such job loyalty, management performance, rewards and recognition, and firm size which effect on bank profitability. No doubt, Islamic banks in Iraq growing quickly but growth can be increased by covering these issues e.g. job loyalty, management performance, rewards and recognition, and firm size. Islamic banks normally describe themselves as providers of various variables e.g. job loyalty, management performance, rewards and recognition. Firm size indicated that bank profitability increase with number of assets increases. Hence, the main objective of current study is to examine the impact of job loyalty, management performance, rewards and recognition, and firm size on bank profitability.

## 2. Literature Review and Hypothesis Development

Islamic finance nowadays getting extensive acceptance in all over the world and regarded as a strong competitor for conventional finance. One of the reason to increase profit or performance of an organization is that focus on exports. One of the studies show that local banks are efficiently well then foreign banks especially shariah business units and Islamic banks. Fundamentally, for a competitive system of banking on micro level profit is most important requirement and it is the cheapest source of finance for banking institutions. Moreover, profit is also essential for system of banking to be booming in an increasing competitive era in financial market. Furthermore, operational performance is a requirement to enhance profit of banking industry. Normally, profitability is essential for sustainability of banking industry and also it is necessary to maintain running business activities of banks as well as to attain return on investment for shareholders. One of the studies tells that performance of Islamic banks after crisis going upwards. Furthermore, profitability also essential for the management of banking system because it gives guarantee to enhance capital ratio even in more uncertain business environment. However, profitability of banking industry usually adds enormously to the economies and also profitability allows economy to withstand external and negative financial shocks and ensure financial stability.

### 2.1. Job Loyalty and Profitability

Human resources for an organization serve as basic source to attain competitive advantage. Best performance of employees of organizations can be attained with the help of committed employees. Loyalty to job or commitment of employees can be attained through job loyalty and motivation of employees. Therefore, for an organization employee loyalty is most important issue to reduce extra cost that organizations pay on the time of recruitment of employees as well as training of employees. However, traditional mean of job loyalty is the ability of employee to stay in an organization for many years and several studies amend the definition of this person that job loyalty is not that an employee stay very long time in an organization. Therefore, job loyalty means an employee stay in an organization with his or her willingness and contribute positively in an organization to enhance their profit. Some of the prior studies show that job loyalty or employee commitment have significant impact on profitability in supply chain of bank. Therefore, ensuring employee job loyalty will definitely attract positive financial outcomes to the banking sector.

**H1:** Job loyalty has direct influence on profitability in supply chain of bank.

### 2.2. Management Performance and Profitability

Inevitably results determinant over with organization management have influence on their performance evaluation as well as environment determinants of results over which organization management have no control and do not influence on their evaluations. Moreover, inevitably main management performance results to a large extent have positive and significant impact on productivity and employee performance. Furthermore, management performance assessment is to display commitment to organization excellence and bring into line performance with organizational goals. Meanwhile, performance evaluation identifies achievements, make training needs, consisting recommended areas for get better and give confidence professional development. Moreover, if area identified that needs enhancement in competency, written plans for amenities that refer to performance get better plan should be made consisting timelines for enhancement and training sources as essential. On the other hand, on failure to get better contained by well-known timelines might result in additional action, able to and consisting suggestion to not reemploy after termination of contract. Some of the studies show that management performance have significant and positive impact on profitability in supply chain of bank. Thus, it is appropriate to test the following hypothesis.

**H2:** Management performance has direct influence on profitability in supply chain of bank.

### 2.3. Rewards and Recognition and Profitability

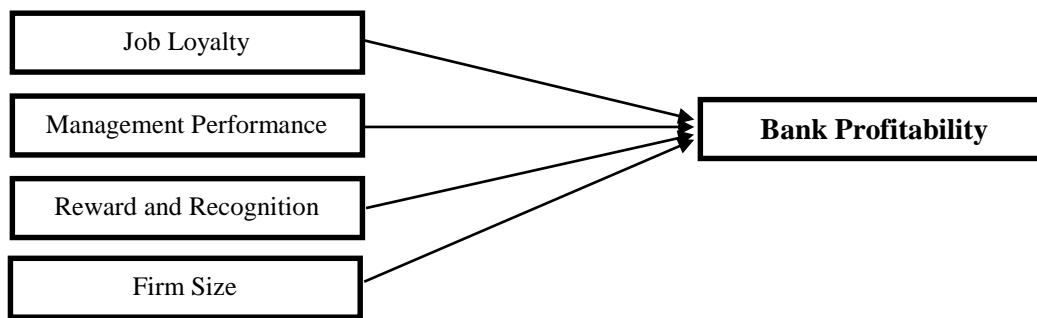
Organizations nowadays realize the importance and paying attention to balance on the issue between what organization contribute to their employee and what organization employee contribute to organization. Some of the recent studies elucidated the findings that employee contributes in positive sense then organization need to focus on giving reward to employees and give assurance on their job loyalty. However, organizations such as banking institutions must have to balance between employee's commitment and employee performance in attaining firm objectives to ensure job loyalty. However, business organizations like banking institutions have to balance between the employee's performance and their commitment to achieving the organizational goal by ensuring their job loyalty. Some of the studies show that rewards and recognition have significant and positive impact on profitability. Based on the above discussion it is appropriate to empirically test the following hypothesis.

H3: Reward and recognition has direct influence on profitability in supply chain of bank [19].

### 2.4. Firm Size and Profitability

In industrial economies and business organizations discussion are ongoing on the role that firm size to explain organization performance. Firm size specifies in number of assets that have effect on profit of bank. The higher the ability of banks provides financing risk that organizations have extra finance in providing finance risk. Meanwhile, one of the studies show that firm size have positive effect on the overall performance of an organization. Moreover, another study Agiomirgianakis, Voulgaris, and Papadogonas (2006) suggested that firm size positively related with ability of organization in producing technologically difficult products that in turn directs to attentiveness. That type of markets is supplied few competitors and these organizations lead more profitable. Some of the studies show that firm size have significant and positive impact on profitability. Based on the above discussion it is appropriate to empirically test the following hypothesis.

H4: Firm size (SIZE) has a positive influence on the performance of Islamic banks



Theoretical framework

## 3. Research Methodology

Research method for current study is cross sectional design and uses questionnaire technique to collect data from employees of Islamic banks in Iraq. Current study investigated the impact of job loyalty, management performance, reward and recognition, and firm size on Islamic banks profitability. In current study, quantitative approach used and sample selected using simple random sampling technique. Roscoe (1975), had also recommended that usually, sample size should be within 30 to 500 samples. In multiple regression analysis most of the researchers, Roscoe (1975) had also recommended that sample size should be at least ten times large as the number of variable of the research. Therefore, by using Roscoe (1975), series two hundred fifty 250 sample size was selected. Data were collected by using 5-point Likert scale. In current study respondents are employees of Islamic banks in Iraq by using simple random sampling. Two hundred fifty questionnaires were distributed among employees and all questionnaires were returned back. All

the measures were adopted from prior studies as discussed in literature. Data were analyzed through SPSS version 23.0 and as well as SEM-PLS 3.0 software.

## 4. Research Analysis, Results and Discussion

### 4.1. The Measurement, Outer, Model

PLS structural equation modeling (SEM) uses in current paper to compute approximately its theoretical model to use Smart PLS 3.0. SEM depends on two very important multivariate techniques such as multiple regression and factor analysis. PLS software uses to analyze main as well as mediating results of current study. Moreover, in analysis of PLS first step is to evaluate measurement model and this model tells the goodness of measure. Therefore, in PLS two basic criteria used to evaluate measurement model e.g. reliability and validity.

**Validity Test**

Validity refers to how well results attained from use of measure that fit with the theories around which test designed. Validity of measure confirms using of factor loading analysis. In addition, all items related to specific variable should load extremely on construct/variable that

designed to measure that variable. If some of the items in questionnaire load on some further factors higher than their own construct then these items deleted from questionnaire. Hence, all items should be 0.5 or above consider as significant.

Table 4.1

Items	Factor Loadings	AVE	CR
<b>Job Loyalty</b>		<b>0.775</b>	<b>0.932</b>
JL1	.918		
JL 2	.899		
JL 3	.822		
JL 4	.881		
<b>Management Performance</b>		<b>0.661</b>	<b>0.961</b>
MP 1	.881		
MP 2	.822		
MP 3	.809		
MP 4	.851		
MP 5	.893		
MP 6	.569		
MP 7	.877		
MP 8	.639		
MP 9	.867		
MP 10	.759		
MP11	.877		
MP12	.873		
MP 13	.785		
<b>Reward and Recognition</b>		<b>0.733</b>	<b>0.931</b>
RR1	.961		
RR2	.743		
RR3	.822		
RR4	.865		
RR5	.876		
<b>Firm Size</b>		<b>0.640</b>	<b>.946</b>
FS 1	.747		
FS 2	.839		
FS 3	.746		
FS 4	.849		
FS 5	.727		
FS 6	.859		
FS 7	.861		
FS 8	.738		
FS 9	.838		
FS 10	.779		
<b>Bank Profitability</b>		<b>0.685</b>	<b>.915</b>
BP 1	.747		
BP 2	.839		
BP 3	.814		
BP 4	.869		
BP 5	.863		

According to Fornell and Larcker (1981) factor loading construct value should greater than 0.7, CR value greater 0.8, and AVE value greater than 0.5. In current study all

the above three criteria's meet. Hence, it shows that our scale convergent being reliable and proves discriminant validity.

### Reliability Test

To examine the reliability, Cronbach's alpha was considered. According to Nunnally (1970), the value of Cronbach's alpha should be more than 0.5, however,

according to Moss et al., (1998) Cronbach's alpha should be more than 0.6. In the context of current study Table 4.1 shows the Cronbach's alpha for each variable.

Table 4.2: Reliability Results

Construct	Items	Cronbach's Alpha
Job Loyalty	04	0.980
Management performance	13	0.907
Rewards and Recognition	05	0.853
Firm Size	10	0.898
Bank Profitability	05	0.826

Table 4.1 all variable shows that Cronbach's alpha more than 0.8 and the acceptable value is 0.7 as recommended by (Nunnally, 1978). Hence, all results related from instruments are reliable and available to proceed for further analysis.

### 4.2. Normality Test

Data normality was observed by using skewness and kurtosis that followed the concept of [18] According to Meyers et al. (2016), range of skewness and kurtosis distributed between  $\pm 1.0$  and  $\pm 3.00$  respectively. However, in current study findings revealed that all values exist between  $\pm 1.0$  and  $\pm 3.00$ . Hence, data of current study normal and available to proceed for further analysis.

### 4.3. Correlation Analysis

While investigating correlation values found that all variables has moderate correlation with bank profitability. Correlation value for job loyalty is 0.47, management performance is 0.41, rewards and recognition are 0.46, and firm size 0.42. However, findings revealed that correlation is significant, and these values show that correlation exists but level of correlation is moderate. Hence, it is concluded that all variables have significant and positive correlation with bank profitability.

### 4.4. Hypothesis Testing

Regression analysis was used to test hypothesis. For this purpose, p-value and  $\beta$ -value was considered. For a significant relationship p-value should be less than 0.05 ( $p \leq 0.05$ ). Table 4.2 shows the results of regression analysis.

Table 4.2: SEM Regression Weights

Hypothesis	Path Coefficient	SE	CR	p-value	Decision
JL ...> BP	0.147	0.059	2.492	0.000	Supported
MP ...> BP	0.169	0.062	2.725	0.000	Supported
RR ...> BP	0.138	0.057	2.421	0.000	Supported
FS ...> BP	0.153	0.064	2.391	0.003	Supported

Where; JL = Job Loyalty, MP = Management Performance, RR = Reward and Recognition, BP = Bank Profitability.

Table 4.2 shows that job loyalty has significant relationship with bank profitability having p-value 0.000. Path coefficient 0.147 shows a positive relationship. Therefore,  $H_1$  is accepted. Likewise, relationship of management performance, reward and recognition, and firm size with bank profitability is also significant and positive with p-value 0.000, 0.000, and 0.003, path coefficient value 0.169, 0.138, and 0.153 respectively. Hence,  $H_2$ ,  $H_3$ , and  $H_4$  are also accepted. Findings elucidated that job loyalty, management performance,

rewards and recognition, and firm size enhances the profitability in supply chain of bank.

## 5. Conclusion

The current study examined the impact of job loyalty, management performance, rewards and recognition, and firm size on profitability of Islamic banks. Findings elucidated that job loyalty; management performance; rewards and recognition; and firm size have significant and positive impact on Islamic banks profitability. Findings revealed that increase in job loyalty,

management performance, rewards and recognition, and firm size banks profitability increased. However, decrease in job loyalty; management performance; rewards and recognition; and firm size will decrease profitability of Islamic banks in Iraq. Therefore, these variables are playing key role to enhance Islamic banks profitability particularly in Iraq. It is recommended to Islamic banks that promote job loyalty, management performance, rewards and recognition, and firm size. Further research is required to do same study in developing countries. Current study also suggested that there is need to test mediator between these independent and dependent variables in future.

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