

## ISLAMIC LEADERSHIP PRINCIPLES AND ACCOUNTABILITY OF ISLAMIC INSURANCE INSTITUTIONS: A PLS PATH MODELLING APPROACH

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**Abstract:** *This paper reports the findings of the questionnaire survey which aims to examine the effect of Islamic leadership principles on accountability practices of Islamic insurance institutions in Malaysia. A total of 227 employees responded to the survey, were attached with Islamic insurance operators located throughout Peninsular Malaysia. Five principles were derived from the literature namely; altruism, emotional healing, wisdom, persuasive mapping, and organizational stewardship. Partial least squares approach was employed as the main analytical procedures to test the research hypotheses. The results of the study indicate that all five principles are significantly related to the level of accountability among Islamic insurance institutions. The findings of this study suggest that for an Islamic insurance institution to demonstrate high level of accountability, the leader needs to exhibit principles of altruism, emotional healing, wisdom, persuasive mapping, and organizational stewardship. In addition, this study provides implications and conclusion.*

**Keywords:** Islamic Leadership; Governance; Accountability; Partial Least Squares (PLS)

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### Introduction

The rapid pace of economic development and transformation that creates new demand as well as opportunities for business has called for more effective and efficient provisions of financial services (IBBM, 2008). In order to achieve that are by promoting dynamic financial system, sound and strong financial system is needed pre-condition for a steady and balanced economic and social development in Malaysia. The Malaysian financial system is somewhat unique as it currently divided into a dual system, the conventional financial and Islamic financial system respectively which operating in parallel. Islamic finance came into picture with the emergence of Pilgrimage Fund Board or widely known as *Lembaga Tabung Haji* among

Muslims in Malaysia. Bank Islam Malaysia Berhad (BIMB) was the first full-fledged Islamic financial institution established in 1983 under the Islamic Banking Act. The first Islamic insurance institution took place a year after the inception of BIMB namely Syarikat Takaful Malaysia Berhad in 1984 regulated under Takaful Act. Today, the separation between both acts have been incorporated into one regulation that is, Islamic Financial Services Act 2013 comprises of both Islamic banking and Takaful sector.

Islamic insurance or widely-known as Takaful is a concept in which a group of participants mutually agree among themselves to guarantee help each other against a defined loss or damage that may inflict upon any of them by contributing in the Takaful funds. In other words, it emphasized on helping others in need via shared contributions from members. The industry keeps developing and gained positive response from its clients in terms of its product. Mohamad, Nik Mutasim, & Norfaizah (2012) assert that this development is expected to continue due to the role played by agents in order to attract clients to purchase Takaful products.

Governance is essential to ensure partners are working in a collective and supportive manner, in dealing with conflicts as well as managing and utilizing resources effectively (Provan & Kenis, 2007). The rising importance of governance has awoken the players of the industry due to the collapse of a big company such as Enron (Munzig, 2003; Resick, Hanges, Dickson, & Mitchelson, 2006). Lack of accountability did contribute to corporate failures of several organizations such as Enron and WorldCom (Hall, Blass, Ferris, & Massengale, 2004). Islamic insurance has been in place in 32 years after its inception in Malaysia. However, the level of governance has yet to receive a widespread coverage in this industry especially from the accountability perspective.

Studies on leadership has attracted much attention in the literature and it appears that previous studies on leadership mainly emphasized on investigating types of leaders in a large scale or globally (Abdul Jalil & Mohd Khairuddin, 2012). However, Islamic leadership has not been given focus as much as the mainstream leadership especially in Islamic insurance institutions. Recent study on Islamic leadership emphasized on identifying the appropriate principles to applied in an academic institution (Ahmad & Fontaine, 2011; Ahmad & Ogunsola, 2011). Thus, this study attempts to investigate the extent of Islamic leadership principles on accountability practices in the context of Islamic insurance institutions in Malaysia.

## **Literature review**

Leadership from Islamic perspective go way back to the traditional approach of which a father reminded his son to discipline himself to fulfil his duty as a Muslim performing five times daily prayers with deep sincerity. To relate with organizational practices, a leader should be committed to his work and completes it with full discipline (Ang, Low, & Al-Harran, 2012). Therefore, the phrase “leader by example” could be applied in this context. Literally, in Islam a leader is usually referred as the “*imam*”, a person who led the *shalat* (daily prayer). However, all actions and decisions must be with the guidance from Allah swt through the teachings of the Quran and Sunnah. Muslims based their behaviour as leader or followers upon the Word of Allah in the Quran. Referring to the articles of faith (*rukun iman*), they believe that Prophet Muhammad ﷺ is the Messenger of Allah, thus, modelled the way for Muslims leaders and followers of all time. Therefore, it can be described Islamic leadership is a process whereby a leader guides willing followers to achieve goals but cannot force them to do things that against their will (Beekun & Badawi, 1999).

## **Islamic Leadership Theory**

In Islam, leader is a member of a team who is given a certain rank and is expected to perform in a manner consistent to Shariah law. To a certain extent, Islamic leadership and conventional leadership do not have much difference in terms of the role of a leader whose main responsibility is to lead a group who is expected to exercise influence in forming and accomplishing the organization's objectives (Ather & Sobhani, 2007). There are several attributes that could define Islamic leadership (Majeed et al. 2011), and one of them would be servant leaders (Northouse, 2013). Several characteristics of servant leader from Greenleaf's work, ten domains have been highlighted to describe this type of leader (Spears, 2010). Those characteristics are listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment to the growth of people, and building community. Barbuto and Wheeler (2006) have developed and validated the scales for servant leadership and it was found that five domains representing servant leadership. Those domains were altruism, emotional healing, wisdom, persuasive mapping, and organizational stewardship.

Viewing servant leadership from Islamic perspective indicates that the best example of a servant leader was Prophet Muhammad (Salie, 2008). He possessed an exemplary character for mankind from all generation during his time until today, to be followed and learned the wisdom (*hikmah*) from it. Prophet Muhammad's character was virtue centric and consistent with the Quran. Based from hadith Sahih Muslim, 'Aishah (ra) was asked about the prophet's character, she answered '*verily the character of the prophet of God was the Quran*'. He modeled his character and behavior based on truthfulness and integrity, justice, benevolence, humility, kindness, and patience (Beekun, 2012).

From the organizational viewpoint, it is a philosophy in which an individual interacts with others either in a management or fellow employee capacity. The aim is to achieve authority rather than power. The authority figure intends to promote the well-being of those around the leader. Traditional leadership generally being portrayed as an authoritarian whilst servant leaders give focus on serving their followers (Zhang, Lin, & Foo, 2012). On the other hand, apart from the leadership theories such as traits, behavior, contingency, transformational and charismatic leadership, servant leadership concentrates on increased service to others including employees, customers, and community (Öner, 2012).

## **Accountability**

Accountability was seen as necessary to ensure that responsibility goals were not only set but enacted (D'Amato, Eckert, Ireland, Quinn, & Van Velsor, 2010). Conventional function of accountability underlined that individuals or group in a company, who makes decisions and take actions on specific issues, need to be accountable for their decisions and actions. Wajeeh and Muneeza (2012) asserted that mechanisms must exist and be effective to allow for accountability. Hall et al. (2004) stressed that issues on accountability are often discussed in relation to major scandals at companies such as Enron and WorldCom, where the corporate executives were implicated in unethical and illegal behaviours due to lack of accountability. In relation to leadership context, leader accountability refers to a situation where a leader willing to accept responsibility to lead a community in one way or another, making decisions, and act on organization's behalf rather than finger pointing to others if things went the other way round (Bagget, Cole, & Cole, 1990; Wood & Winston, 2007).

Based on previous literatures, accountability has been measured in various concepts. One would be personal accountability which was measured by responsibility, openness, and answerability

(Wood & Winston, 2007). Felt accountability refers to an implicit and explicit expectations that one's actions will be subject to evaluation by relevant audience, with the beliefs in the potential for either rewards or sanctions based on these evaluations (Wikhamn & Hall, 2014). Other measure would be informal accountability for others which describes the willingness of oneself to answer for the attitudes and behaviours of individuals in an organization regardless of formal position within the company, rank, or mandate by the organization (Royle, 2013; Royle & Hall, 2012).

### **Framework Development**

Recent studies relating to accountability were conducted using a direct effects model to examine antecedents of accountability outcomes based on different samples, such as 462 accountants from the Malaysian GLCs (Jamaliah & Nur Hidayah, 2014; Jamaliah, Nur Hidayah, & Ruhaya, 2015) and 107 top-level managers from the NPOs (Jamaliah, Nurul Aisyah, & Noraini, 2013). On the other hand, Royle (2013); Royle and Hall (2012) in their studies were conducted using an indirect effects model involving perceptions of 187 working adults in the south-eastern of U.S.

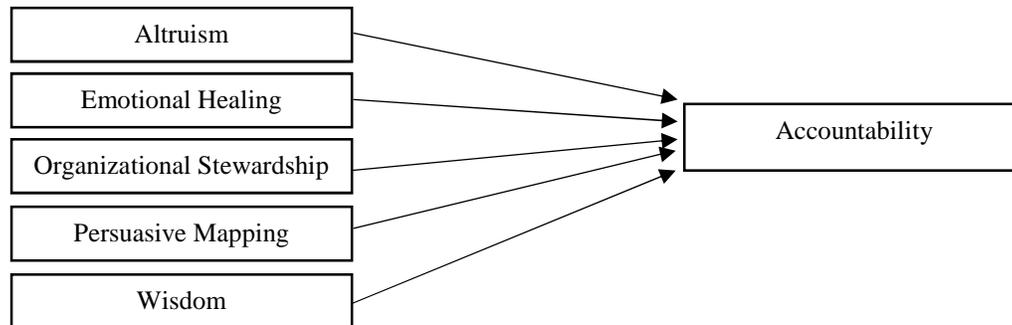
Previous studies have shown the importance of accountability practices to be adopted in organization daily activities (Jamaliah & Nur Hidayah, 2014). Accountability could be enhanced when individual needs promoted better behaviours in an organizations (Royle, 2013; Royle & Hall, 2012). There were various factors discussed in the literature that would contribute to favourable accountability outcomes such as board effectiveness, internal control, and leadership qualities in the context of government-linked companies (Jamaliah et al. 2015). Furthermore, mission-based management practices and financial priorities were found as a significant predictor to accountability from the perspective of non-profit organizations (Jamaliah et al. 2013). In sum, these studies found that in order to improve accountability outcomes, important determinants such as accounting practices, individual needs, and organizational characteristics are contributing to the success of an organization (Jamaliah & Nur Hidayah, 2014; Jamaliah et al., 2015, 2013; Royle, 2013; Royle & Hall, 2012).

Several studies were undertaken by previous researchers to investigate the effect of Islamic leadership on organizational outcomes based on different samples, such as 120 bank employees and Shariah advisors in Pakistan (Majeed et al., 2011), 219 hospital employees vacated in the south-eastern region in the U.S. (McCann, Graves, & Cox, 2014), members and supervisors of cooperatives in the East Kalimantan, Indonesia (Mushofa, Mursinto, & Anam, 2014), 140 hotel employees in Malaysia (Azeyan et al., 2014), 143 employees attached in public organizations in Malaysia (Aznarahayu & Nasina, 2013), 207 full time university employees in the U.S. (Sokoll, 2014), and 342 secondary school teachers in the northern zone of Malaysia (Izani & Yahya, 2014).

Islamic leadership has proved to be an important element for organization's advancement (Majeed et al. 2011; McCann et al. 2014; Mushofa et al. 2014). For example, the element of justice served as main factor contributing to the success of an organization (Majeed et al. 2011). In view of servant leadership practices, previous studies have shown that servant leadership able to positively influence organizational outcomes. Those are commitment (Azeyan et al., 2014; Aznarahayu & Nasina, 2013; Sokoll, 2014) and change management (Izani & Yahya, 2014). The findings of these studies showed that servant leaders has the ability to provide organizational outcomes in the organization (Azeyan et al., 2014; Aznarahayu & Nasina, 2013; Izani & Yahya, 2014; Majeed et al., 2011; McCann et al., 2014; Mushofa et al., 2014; Sokoll, 2014).

In the light of this study, we expect that Islamic leadership could positively influence accountability practices of Islamic insurance institutions. Furthermore, this study also predicts that Islamic leadership would serve as one of the important antecedent among other factors that favourably enhance accountability.

The literature has been used as the basis of establishing the research framework for this study as exhibited in Figure 1. Hence, the following hypotheses are proposed:



**Figure 1. Research Model**

H<sub>1</sub>: There is a significant relationship between altruism and accountability.

H<sub>2</sub>: There is a significant relationship between emotional healing and accountability.

H<sub>3</sub>: There is a significant relationship between organizational stewardship and accountability.

H<sub>4</sub>: There is a significant relationship between persuasive mapping and accountability.

H<sub>5</sub>: There is a significant relationship between wisdom and accountability.

## **Methodology**

### **Sample**

227 questionnaires were distributed to respondents who are the employees of the Takaful operators in Malaysia. The distribution method was conducted in two approaches; first stage, researchers distributed the questionnaire using hard copy instrument and sent to half of the respondents; and the other half were sent using electronic survey. The questionnaires were answered by participants based on their consents and on a voluntary basis. Sample size of this study was based on Cochran's formula (Bartlett, Kotrlik, & Higgins, 2001) and it exceeds the minimum sample of probability sampling. Data were distributed randomly to employees based on convenience sampling technique for the data collection procedure. For confidential reasons, the name of respondents are kept anonymous.

### **Instrumentation**

The survey questionnaire was designed by adapting measurement from various studies. There were two parts, namely Part A and Part B. Part A was divided into five sections which comprise of altruism, emotional healing, wisdom, persuasive mapping, and organizational stewardship. Part B described the demographic information of respondents such as gender, age, race, level of education, designation in organization, and work experience. Questions from each sections in Part A were derived from the scales developed by (Barbuto & Wheeler, 2006; Northouse, 2013). Questions representing accountability were adopted from personal accountability scales (Bagget et al. 1990).

## Analysis Procedures

To test the hypotheses, partial least squares (PLS) approach using the Smart-PLS version 3 (Ringle, Wende, & Becker, 2015) to analyse the data. Two procedures were undertaken; firstly, the measurement model that includes reliability and validity testing; and secondly, the structural model using bootstrapping method to determine the significance level of loadings, weights, and path coefficients (Chin, 2010; Hair, Hult, Ringle, & Sarstedt, 2014; Henseler, Ringle, & Sinkovics, 2009).

## Results and Discussion

Table 1 shows that majority of the respondents were female (57.7 percent), aged between 26 – 35 years old (52.9 percent), mostly participated by Malays (91.6 percent), bachelor's degree (51.1 percent), almost half of the employees were holding the position of executive (41.9 percent), and with working experience less than five years (46.7 percent).

Due to the data collection process undertaken in this study, it is essential to conduct common method bias analysis to ensure that there is no systematic bias that could influence the data. We use the common marker variable developed by Lindell and Whitney (2001) to test the level of common method bias. We included in the PLS model a marker variable whose indicators are non-related to the study's indicators and calculated each indicator's variances substantively explained by the variable and the marker. The results demonstrate that the average substantively explained variance of the indicators is 0.849, while the average marker-based variance is 0.004. In addition, most marker factor loadings are not significant at  $p < 0.05$ . Therefore, we contend that the common method bias is unlikely to be a serious concern given the small magnitude of the variance.

**Table 1: Summary of frequency analysis**

<b>Gender (%)</b>	<b>Age (%)</b>	<b>Race (%)</b>
Male = 96 (42.3)	less than 25 years = 46 (20.3)	Malay = 208 (91.6)
Female = 131 (57.7)	26 – 35 years = 120 (52.9)	Chinese = 9 (4)
	36 – 45 years = 48 (21.1)	Indian = 10 (4.4)
	46 – 55 years = 13 (5.7)	
<b>Education (%)</b>	<b>Position (%)</b>	<b>Work Experience (%)</b>
SPM/STPM = 25 (11)	Executive = 95 (41.9)	less than 5 years = 106 (46.7)
Diploma = 60 (26.4)	Senior Executive = 38 (16.7)	6 – 10 years = 74 (32.6)
Bachelor's Degree = 116 (51.1)	Assistant Manager = 27 (11.9)	11 – 15 years = 27 (11.9)
Masters = 21 (9.3)	Manager = 9 (4)	16 – 19 years = 9 (4)
PhD/Doctor of Philosophy = 2 (0.9)	Senior Manager = 1 (0.4)	more than 20 years = 11 (4.8)
Others = 3 (1.3)	Others = 57 (25.1)	

Note:

SPM/MCE : Sijil Pelajaran Malaysia/ Malaysia Certificate of Education

STPM/HSC : Sijil Tinggi Pelajaran Malaysia/Higher School Certificate

## Measurement Model

A two-step process in this model assessment focused on the measurement models (Hair et al., 2014). We first assessed the construct's reliability according to certain criteria associated with its specification such as indicator loadings and composite reliability as shown in Table 2. Indicator loadings of the outer assessment is absolute standardized where it should be higher than 0.70 (Hair et al., 2014; Henseler et al., 2009) and composite reliability was used to indicate the internal consistency reliability of the constructs. The acceptable level of composite reliability should be higher than 0.70 (Hair et al. 2014; Henseler et al. 2009). The results showed that the internal consistency reliability for both indicator loadings and composite reliability were greater than 0.70, indicating the instrument used in this study is reliable.

**Table 2. Results of Internal Consistency Reliability**

<b>Model Construct</b>	<b>Indicator</b>	<b>Loadings</b>	<b>Composite Reliability</b>
Accountability	Acct1	0.923	0.949
	Acct2	0.889	
	Acct4	0.893	
	Acct5	0.921	
Altruism	Alt1	0.873	0.952
	Alt2	0.854	
	Alt3	0.925	
	Alt4	0.892	
	Alt5	0.923	
Emotional Healing	EH1	0.929	0.974
	EH2	0.959	
	EH3	0.960	
	EH4	0.952	
	EH5	0.893	
Wisdom	Wsd1	0.927	0.964
	Wsd2	0.948	
	Wsd3	0.942	
	Wsd4	0.911	
Persuasive Mapping	PM3	0.918	0.947
	PM4	0.944	
	PM5	0.913	
Organizational Stewardship	OS1	0.946	0.964
	OS2	0.929	
	OS3	0.942	
	OS5	0.911	

Table 3 shows the results of discriminant validity and convergent validity. Loadings that have values of average variance extracted (AVE) larger than 0.50 indicating that it met the acceptable standard of convergent validity (Fornell & Larcker, 1981; Henseler et al., 2009). Discriminant validity was tested using Heterotrait-monotrait (HTMT) for each construct to ensure that they are empirically distinct from each other. The HTMT value of 0.90 indicate that discriminant validity is established (Gold, Malhotra, & Segars, 2001; Teo, Srivastava, & Jiang, 2008). The results showed that the discriminant validity is established (Henseler, Ringle, & Sarstedt, 2015).

**Table 3. Convergent and Discriminant Validity of Constructs**

Constructs	AVE	1	2	3	4	5	6
Accountability	0.822						
Altruism	0.799	0.738					
Emotional Healing	0.882	0.656	0.846				
Organizational Stewardship	0.869	0.789	0.676	0.688			
Persuasive Mapping	0.856	0.869	0.819	0.825	0.840		
Wisdom	0.869	0.845	0.699	0.682	0.743	0.848	

### Structural Model

Structural model evaluation was undertaken to test the study's hypothesis. The results are presented in Table 4 and Figure 2. The  $R^2$  values for the endogenous variable in this study is 0.741 which suggest that the modelled variables of Islamic leadership principles in the analysis had explained 74.1 percent of the variance in accountability practices. The high  $R^2$  values substantiate the model's predictive accuracy.

The result of testing the model displayed that explanation was significantly influence the organization's accountability practices ( $\beta = 0.208$ ,  $t = 3.027$ ;  $\beta = -0.178$ ,  $t = 2.787$ ;  $\beta = 0.212$ ,  $t = 2.990$ ;  $\beta = 0.330$ ,  $t = 3.420$ ;  $\beta = 0.361$ ,  $t = 4.815$ ), therefore all hypothesis were supported. This result demonstrates that all principles of Islamic leadership do seen as important predictors to accountability practices of Islamic insurance institutions in Malaysia.

This findings also supported by the  $Q^2$  value of Stone-Geisser's predictive relevance (Hair, Ringle, & Sarstedt, 2011; Henseler et al., 2009). After running the blindfolding procedure (Chin, 1998; Henseler et al., 2009), we obtained the  $Q^2$  value of accountability (0.603), which is well above zero, indicating the predictive relevance of the PLS path model. Therefore, the explanatory variables showed its capability to predict the endogenous variable.

**Table 4. Path Coefficients and Hypotheses Testing**

Hypothesis	Relationship	Coefficient	T-statistics	Supported
H <sub>1</sub>	Altruism → Accountability	0.208	3.027	Yes
H <sub>2</sub>	Emotional Healing → Accountability	-0.178	2.787	Yes
H <sub>3</sub>	Organizational Stewardship → Accountability	0.212	2.990	Yes
H <sub>4</sub>	Persuasive Mapping → Accountability	0.330	3.420	Yes
H <sub>5</sub>	Wisdom → Accountability	0.361	4.815	Yes

Note: Significant at \*t-value >1.96 ( $p < 0.05$ )

The study hypothesized the relationship between Islamic leadership principles that contained altruism, emotional healing, wisdom, persuasive mapping, and organizational stewardship on the practice of accountability. The result shows that all principles act as important predictors to accountability in the studied organization. Viewing the context of this study, in general, leaders who lead by applying the Islamic principles most likely able to enhance the level of accountability of the organization. The findings of this study is supported by Majeed et al. (2011); McCann et al. (2014); Mushofa et al. (2014) in terms of the role of Islamic leadership principles as a significant predictors to the organizational outcomes.

The results show that altruism is positively associated with accountability with the coefficient value of 0.208 ( $t = 3.207$ ,  $p < 0.01$ ) and the relationship is significant. This result explains when there is higher level of altruism portrayed by the leader, accountability of the organization could be enhanced. For example, when the leader willing to sacrifice his self-interest for the

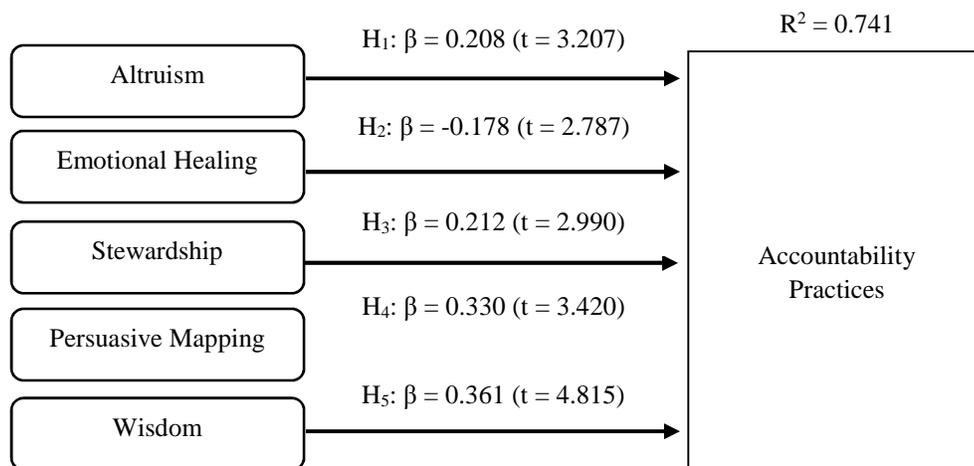
importance of their followers, they will show respect to their superior and subsequently improve the level accountability practices of the organization. Thus, H<sub>1</sub> is supported.

The results for the relationship between emotional healing and accountability is significant at the coefficient value of -0.178 ( $t = 2.787, p < 0.01$ ). However, the association between both constructs are negatively related. Emotional healing involves leader's sensitivity towards others' personal concern (Washington et al. 2014). The finding explains that the lesser emotional healing process takes place, the better for the enhancement of the accountability of the organization. For example, if a leader frequently handling the personal dissatisfaction of the employees, it might implicate negatively on the accountability practices. With that, H<sub>2</sub> is supported.

Results from the path coefficients of organizational stewardship indicate a positive association with accountability at the coefficient value of 0.212 ( $t = 2.990, p < 0.01$ ) and the relationship is significant. This result explains when the leader plays a large role in ensuring the contributions of the organization towards the society, it would enhance the level of accountability. This is because, in making contributions, a leader incorporates ethics and values in their decision-making, subsequently improves the accountability of the organization. Thus, H<sub>3</sub> is supported.

The results show that persuasive mapping is positively associated with accountability with the coefficient value of 0.330 ( $t = 3.420, p < 0.001$ ) and the relationship is significant. This result explains when the leader is high in persuasive mapping, the outcome of accountability could be enhanced. For example, leaders who use rational persuasion to their followers in completing task, which then, in turn, facilitate accountability practices in the organization. Thus, H<sub>4</sub> is supported.

Finally, the results for wisdom is positively associated with accountability with the coefficient value of 0.361 ( $t = 4.815, p < 0.001$ ) and the relationship is significant. This result explains when there is higher level of wisdom portrayed by the leader, accountability of the organization could be enhanced. For example, when the leader is aware about the consequences of actions taken, it implicate positive impact on accountability practices of the organization. Therefore, H<sub>5</sub> is supported.



**Figure 2. Results of the structural model analysis**

## Conclusion

This study aimed to examine the relationship between Islamic leadership principles that comprised of altruism, emotional healing, wisdom, persuasive mapping, and organizational stewardship on accountability practices of Islamic insurance institutions in Malaysia. Based on the results, it can be concluded that Islamic leadership have a significant impact on the improvement of accountability practices in Islamic insurance sector. The findings suggest that Islamic leadership could be viewed as among factors that would be able to influence accountability outcomes of an organization, such as Islamic insurance institutions. In addition, this study discovered that one of the Islamic leadership domains has a significant negative relationship towards accountability practices that is, emotional healing. One possible explanation could be that the lesser a leader attended to follower's emotional issues, he is able to focus on making other important decisions and subsequently enhance the accountability outcomes.

The study has several limitations that may influence the interpretation of the findings which should be taken into consideration when interpreting the results or when applying the methods of this study in other research settings. First, sampling technique not able to apply random sampling approach due to company policy and confidentiality issues when it comes to distributing the questionnaires directly the employees in the operation floor. Thus, distribution was done with the help of the office managers or company's representative. Future researcher should consider adding different strategies that enable them to undertake random sampling approach when gathering data without jeopardizing the company's policy.

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