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The Effect of Job Loyalty, Management Performance and Rewards and Recognition on Profitability of Islamic and Conventional Banks: Evidence from UAE

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Abstract: This study aimed to investigate the combined effect of job loyalty, management performance and rewards and recognition on profitability of banks in United Arab Emirate (UAE). The model of the study was developed based on the relevant theoretical background. To examine the hypothesized model, the quantitative research design was employed. A questionnaire survey was used to collect the data from 131 employees from both Islamic and Conventional banks in Dubai working in UAE. To test the proposed hypotheses, the Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed. The findings of the statistical results confirmed the significant effect of job loyalty, management performance and rewards and recognition on profitability of banks. The value of this paper was in showing the two most important variables which are job loyalty, management performance to enhance the overall profitability of banks.

Key words: Job loyalty, management performance, rewards and recognition, profitability of banks, Malaysia

INTRODUCTION

There is a significant growth in Islamic Banking worldwide over the past two to three decades and this remarkable growth is more prevalent in the Arab-world and the Southeast Asia as well as in some part of European hemisphere. The United Arab Emirate (UAE) like other Gulf Cooperation Council Countries (GCC) have adopted the practice of dual banking system wherein conventional and Islamic banks coexist in the society.

In the UAE there are 47 commercial banks, 22 national banks and the remaining 25 are foreign banks. Among the national banks there are five Islamic banks at the end of 2008. The total assets of the national banks have increased from AED 123 billion in 1996 (about USD 33.5 billion) to AED 1,041.7 billion (about USD 283.7 billion) in 2008. The total assets of Islamic bank have increased from AED 7.1 billion in 1996 (about USD 1.9 billion) to AED 182.6 billion (about USD 49.6 billion) in 2008. The proportion of UAE Islamic Bank's assets has increased from 4.1% of the UAE banking sector's total assets and 5.5% of the UAE national bank's assets in 1996- 10.6 and 14.9% in 2008 respectively (Emirates Banks Association and Orisis database). However, the UAE Islamic bank's market share is still relatively small, given that the UAE is a Muslim country.

While some Islamic banks were purposely established to operate within sharia, some Islamic banks were established through conversion of conventional banks. Thus, in Iran and Sudan, all conventional banks were converted to Islamic banks in order to conform to government legislation (Sundararajan and Errico, 2002). However, it is more common for countries with large Muslim populations to operate Islamic banking systems alongside conventional banking systems as it is now the case in Malaysia, Bahrain, Pakistan, Saudi Arabia and Egypt.

More often than not, the issues related to efficient performance of the duo banking systems is the talk of the community members. For Islamic banks to remain competitive and maintain its rate of growth in UAE there is a need to investigate the factors that can enhance the performance of Islamic banks in terms of profitability growth in order for them to maintain their current position. Ataina and Sifiah (2011) and argue that internal human factors such as reward and recognition and management performance affect the profitability of Islamic banks. This serves as motivational factor for this study to examine and determine some of the internal human factors that have influence on the profitability of Islamic banks. Therefore, the purpose of this study is to investigate some factors and determine those influencing the performance of UAE banks with respect to the profitability of Islamic banks as

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well as determine and compare the impact of these factors on the profitability of both Islamic and conventional banks in UAE.

Literature review

Profitability of banks: Basically, profit in the micro level signifies an important requirement for a competitive banking system and represents the cheapest source of funds for the banking institutions. It is also necessary for banking system to be successful in a growing competitive period in the financial markets. This implies that operational performance is a prerequisite for the improvement of profitability of the banking system.

Generally, it is believed that profitability ensures sustainability of banking system as well as essential for banks to maintain on-going business activities in order for shareholders to obtain fair returns on the investments. In addition, profitability is also important to the bank management as it guarantees increased flexibility of capital ratios, even in the context of a more risky business environment. However, the quest for higher profitability should not be pursued at the expenses of the dependability of the banking system.

The profitability of banking sector generally contributes immensely to the economies and enables economy to withstand negative and external financial shocks as well as ensures financial stability. Although, it's a common standard for measuring bank's performance but has to be modelled based on performance management that had recently assumed greater significance in the banking world.

Job loyalty: It has been discovered that human resources serves as the primary source of organization's competitive advantage. The best employee's performance within an organization is achievable with most committed employees. This employee's commitment or loyalty to job can be achieved through employee's motivation and job loyalty. Therefore, loyalty of the employee becomes a critical issue for Bank's employee retention in order to avoid wasting a huge amount of money and time on recurrent recruitment and training of staff.

However, Silvestro (2002) gave the traditional meaning of job loyalty as the ability of an employee to stay with an organization in long term. But his definition has been amended by several recent studies which believe that measuring job loyalty cannot be based on amount time alone, it must also include the amount of commitment of the employee to the job. Therefore, it is agreed that job loyalty should be seen as the willingness invest in or sacrifice made by the employee to serve the organization in order to strengthen its development as well as profit. The studies have conclusively demonstrated that employee's job loyalty related attitudes significantly influence a bank's market and financial performance.

In a nutshell, the belief is that banks that perform very well will generate higher profit. Therefore ensuring employee job loyalty will definitely attract positive financial outcomes to the banking sector:

- H_1: Job loyalty has direct influence on profitability of banks

Management performance: As expected, outcome determinants over which the management have control influence their performance evaluations and environmental determinants of outcome over which they have no control do not influence their evaluations. However, unexpectedly, central management performance outcome to a larger extent has significant effect on both employee as well as productivity (Ghosh and Lusch, 2000). Management performance evaluation is to demonstrate commitment to organizational excellence and align performance with strategic goals of the organization. This process is designed to assist with improvement of individual performance, thereby increasing institutional effectiveness. The performance evaluation recognizes achievements, establishes training needs, including suggested areas for improvement and encourages professional development. If an area is identified that needs improvement in a competency, a written plan for correction referred to as the performance improvement plan should be established including timelines for improvement and training or other resources as necessary. Failure to improve within the established timelines may result in further action, up to and including recommendation to not re-employ after expiration of contract. The outcome management performance affect or serve as a determinants to increase or decrease in company profitability and employee loyalty. It goes without saying that manager's evaluations are prone to the outcome effect and are contingent on the measure of the outcome used. Thus, it is appropriate to test the following hypothesis:

- H_2: Management performance has direct influence on profitability of banks

Rewards and recognition: Organizations are currently realizing the importance of given more attention to the issues involving establishing an impartial balance between contributions of employee to the organization and the organization's contributions to its employees. Recent studies had found that to get the best output from employees, organizations need to put in place a well

designed rewards and recognition system in order motivate the employees and ensure their job loyalty. Achieving this goal requires adequate rewarding and recognition of the employees. This is confirmed by the study conducted Scott and Monmouth which says that evidences from past studies had shown that a well rewarded and recognized employee would provide a better service to the customers and when a customer is satisfied and happy, the organizations become more profitable. Indeed, adequate rewards and recognition can be linked to the employee's satisfaction and the profitability of banks of which Islamic Banks are no exception.

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. Interestingly, Ali and Ahmad concurred that the variations in reward and recognition is capable of making positive impacts in work motivation and job satisfaction of the employees as well motivated employees tend to perform their jobs more efficiently and thereby assist to generate more profit for the organization. Based on the above discussion it is appropriate to empirically test the following hypothesis:

- H_3: Reward and recognition have direct impact on profitability of banks

MATERIALS AND METHODS

Sample and sampling procedure: The sample size of this study consists of employees from conventional and Islamic banks two conventional and one Islamic bank in UAE. The selected sample size in this study is guided by principles of the confidence interval and margin of error accuracy. Confidence interval states a range of numbers to estimate population characteristics. This is performed to obtain accurate results that reflect the target population as accurately as possible. The sample was selected using stratified sampling procedure with each type of bank standing a stratum. The two type of bank were selection among other Islamic and conventional banks. The total number of sample for the study consists of 131 respondents from Islamic and conventional banks in UAE. In order to measure the concepts the researcher was using a 5 point likert anywhere 1 = strongly disagree, 2 = disagree; 3 = Neutral; 4 = agree; 5 = strongly agree.

RESULTS AND DISCUSSION

Respondent's profile: The respondent's designation/ position in the surveyed banks type of functions is presented in Table 1. Most respondents (44%) were Managers. This is followed by the directors which accounted for 26% of the total sample. Then senior executives revealed as 8%, finally, other leaders shown as 24% of the total respondent's sample. Table 1 also shows that, 53% of the respondents research in Islamic bank while 47% of the respondents are employees in conventional banking industry. The respondents were classified according to gender, age, current position, years of service and types of bank in which they employed. As illustrated in Table 1>71% of the respondents are male while 29% are female this reflects the male dominance in banking sector in Dubai, UAE. A majority (32.1%) of the respondents is in the age interval of 36-45, this is followed by age within the interval of 20-25 (22.1%), both age range of 26-35 and 46-55 share 19.1% each. Only 6.9 % were between range of 56 or older. This pattern may imply a tendency of having less of aging population in banking sector in UAE. This may be as a result of research in banking industry which demand for more of efficient or research force of population.

Table 1: Frequencies of demographic respondents

Demographic attributes	Frequency	Percentage
Position		
Senior executives	8	6.0
Directors	34	26.0
Managers	58	44.0
Other leaders	31	24.0
Total	131	100.0
Type of bank		
Islamic	69	53.0
conventional	62	47.0
Total	131	100.0
Gender		
Male	93	71.0
Female	38	29.0
Total	131	100.0
Respondent's current position work-experience (years)		
Under12 month	2	1.5
1-2	50	38.2
3-5	10	7.6
6-9	31	23.7
10<	38	29.0
Total	131	100.0
Age of the respondents (years)		
20-25	30	22.9
26-35	25	19.1
36-45	42	32.1
46-55	25	19.1
56 or older	9	6.9
Total	131	100.0

Statistical analysis and results: This study followed the two approaches of Structural Equations Modeling (SEM) suggested by Chin (1998) to examine the measurement model, outer model and structural model, inner model. In other words, before testing the hypothesized relationships, the construct validity and reliability of the model should be confirmed. Figure 1 shows the research framework of this study that depicts the relationship between the independent variables (job loyalty, management performance and rewards and recognition) and dependent variable (profitability of banks).

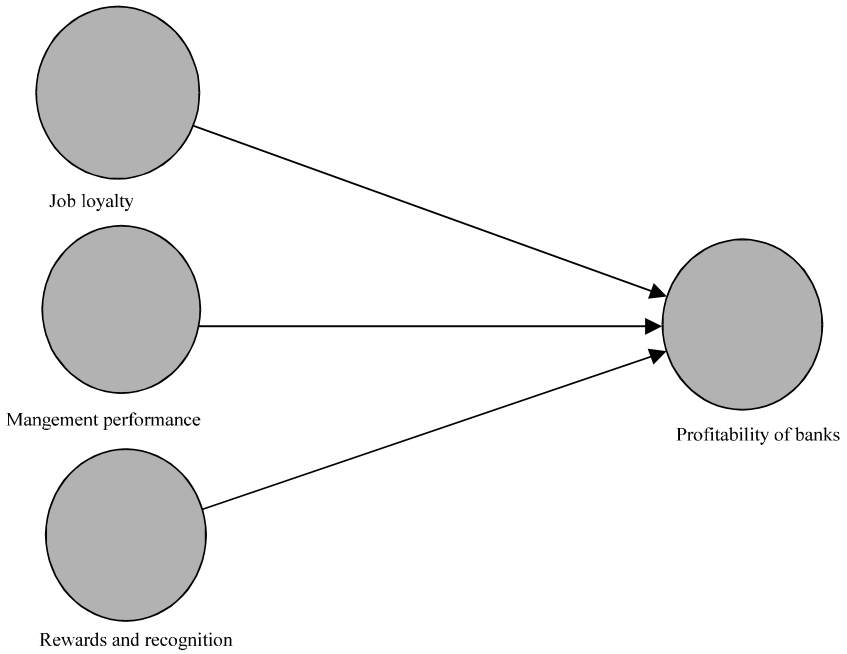

Fig. 1: The research model

Table 2: Significance of factor loadings and t-value results

Construct/Items	Loading	SE	t-value	p-value
Bank's profitability				
BP1	0.741	0.086	7.2530	0.000
BP2	0.862	0.065	13.3530	0.000
BP3	0.821	0.056	14.5620	0.000
BP4	0.785	0.085	9.3680	0.000
BP5	0.892	0.078	11.5750	0.000
Job loyalty				
JL1	0.827	0.237	3.4950	0.000
JL2	0.797	0.265	2.7400	0.003
JL3	0.898	0.249	2.7850	0.003
JL4	0.816	0.233	3.5160	0.000
Management performance				
MP1	0.762	0.145	4.5880	0.000
MP2	0.716	0.127	5.6360	0.000
MP3	0.787	0.144	4.7680	0.000
MP4	0.737	0.119	5.3510	0.000
MP5	0.737	0.141	4.5070	0.000
MP6	0.710	0.148	4.1430	0.000
MP7	0.792	0.138	5.0010	0.000
MP8	0.746	0.119	6.2660	0.000
MP9	0.784	0.111	6.1440	0.000
MP10	0.784	0.116	5.8990	0.000
MP11	0.784	0.151	4.5080	0.000
MP12	0.728	0.126	4.9680	0.000
MP13	0.750	0.142	4.5630	0.000
Reward recognition				
RR1	0.777	0.291	2.6720	0.004
RR2	0.883	0.277	3.1930	0.001
RR3	0.904	0.283	3.1930	0.001
RR4	0.734	0.332	2.9040	0.002
RR5	0.819	0.303	2.6990	0.004

The measurement model: The measurement model, the outer model has been tested through the construct validity. The construct validity is measured through the confirmation of the content validity, convergent validity and discriminant validity which are further explained in the following:

The content validity: The appropriate factor loading of an item on its respective construct is an indication of the content validity (Chin, 1998; Hair *et al*., 2010). In Table 2, the loadings of items on their respective constructs are higher than their loadings on other constructs. This confirms the content validity of the constructs.

Table 3: The results of convergent validity analysis

Construct/Items	Loading	Cronbach's alpha	CR[a]	AVE[b]
Bank's profitability				
BP1	0.741	0.861	0.901	0.748
BP2	0.862			
BP3	0.821			
BP4	0.785			
BP5	0.892			
Job loyalty				
JL1	0.827	0.725	0.827	0.738
JL2	0.797			
JL3	0.898			
JL4	0.816			
Management performance				
MP1	0.737	0.902	0.914	0.701
MP2	0.737			
MP3	0.710			
MP4	0.792			
MP5	0.746			
MP6	0.784			
MP7	0.784			
MP8	0.784			
MP9	0.728			
MP10	0.750			
MP11	0.777			
MP12	0.883			
MP13	0.904			
Reward recognition				
RR1	0.734	0.875	0.903	0.754
RR2	0.819			
RR3	0.741			
RR4	0.862			
RR5	0.821			

[a]CR = (Σ factor loading)^2 / {(Σ factor loading)^2)+Σ (variance of error)}; [b]AVE = Σ (factor loading)^2/(Σ (factor loading)^2+Σ (variance of error)}

The convergent validity: The convergent validity of the constructs measures how the sets of items meant to measure the constructs converge together in measuring their respective constructs (Bagozzi *et al*., 1991; Hair *et al*., 2010). According to the SEM literature, the convergent validity can be confirmed by examining the item's reliability, Composite Reliability (CR) and the Average Variance Extracted (AVE). In other words to confirm the reliability of the items, the construct's loading should be statistically significant >0.50; composite reliability should be >0.70 and AVE >0.50 (Bagozzi *et al*., 1991; Hair *et al*., 2010). The results in Table 3 confirm the convergent validity where reliability, composite reliability and AVE values exceeded the cut-off values as suggested in the literature. As a result, it can be confirmed that the measurement model has an adequate level of convergent validity.

The discriminant validity: The discriminant validity is the degree to which a set of items that can differentiate its own construct from other constructs in the model. In other words, the variance shared among a set of items measuring one construct is greater than the variance shared with other items of other constructs (Compeau *et al*., 1999). The discriminant validity of the model is very important step before examining the structural model. It can be confirmed using Fornell and Larcker (1981) criterion that implies that the square root of the AVE of the constructs located in the diagonal elements are higher than other off diagonal elements located in the same rows and columns. In Table 4, the diagonal line elements are the square root of AVE and they were found to be larger than all other correlations values located on the same rows and columns. This confirms the discriminant validity of the measurement model.

Table 4: Discriminant validity matrix

Construct	1	2	3	4
Ban's profitability	0.865			
Job loyalty	0.686	0.859		
Management performance	0.528	0.453	0.837	
Reward recognition	0.441	0.398	0.238	0.809

Table 5: Prediction relevance of the model

Endogenous	R^2	Cross-validated redundancy	Cross-validated communality
Bank's profitability	0.402	0.723	0.427

Predictive relevance of the model: To examine the preductive quality of the model, cross validated redundancy and R^2 were used. The results in Table 5 showed that R^2 is 38% which is considered substantial according to Cohen (1988) (0.26 = substantial, 0.13 = moderate, 0.02 = weak). To confirm the quality of the, model, cross validated redundancy was utilized through Blindfoolding technique which is built-in in SmartPLS package. According to Fornell and Cha (1994), the predictive quality can be confirmed if the cross redundancy was found to be >0. In this case, the

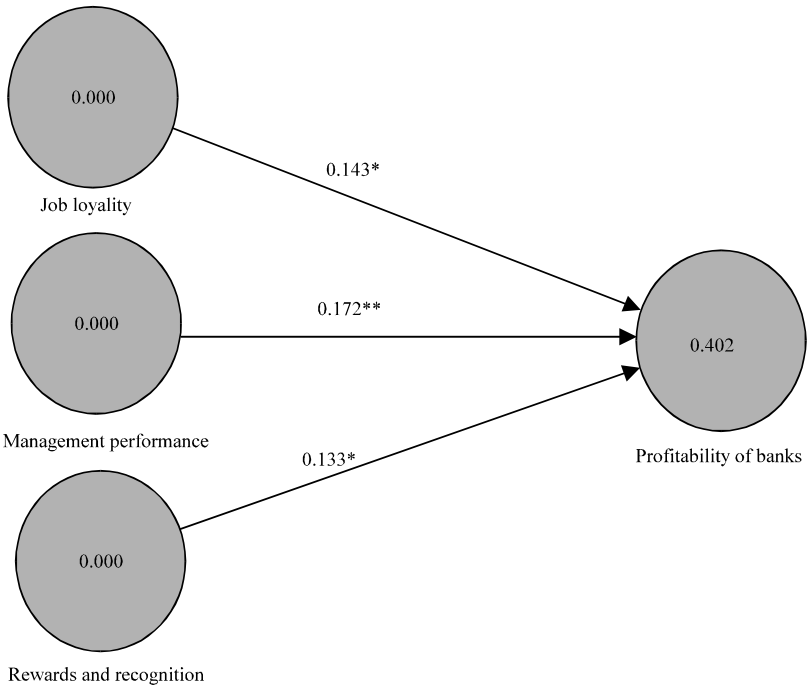

Fig. 2: Path cofficient results

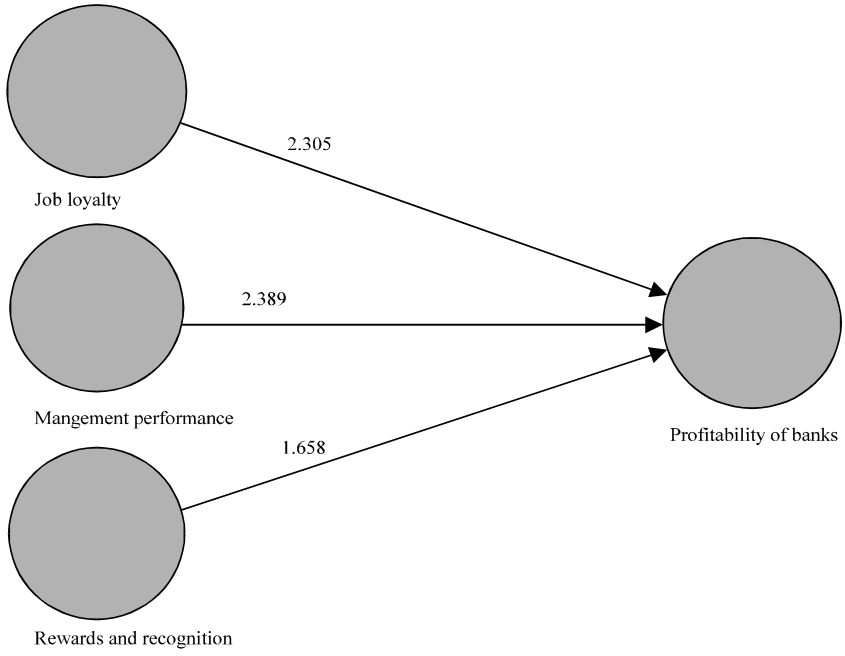

Fig. 3: Significance of path cofficient

cross-validated redundancy of the auditor's performance was found to be 0.822 which is >0 and this showed that the predictive quality of the model is confirmed. The structural model and hypothesis testing: After the measurement model has been confirmedto be valid and reliable, the next step was to examinethe hypotheses using the bootstrapping method in Smart-PLS 2.0 (Fig. 2 and 3). The summary of structural model and hypothesis testing results shows on Table 6.

Table 6: Hypothesis testing result

Hypothesis	Path coefficient	SE	t-value	p-value	Decision
Job loyalty-->Bank's profitability	0.143*	0.173	2.305	0.011	Supported
Management performance -->Bank's profitability	0.172**	0.105	2.389	0.009	Supported
Reward and recognition -->Bank's profitability	0.136*	0.090	1.658	0.049	Supported

*t-value>1.645 = p<0.05; **t-value>2.33 = p<0.01; ***t-value>3.08 = p<0.001

CONCLUSION

This study aimed to investigate the combined effect of job loyalty, management performance and rewards and recognition on profitability of banks in United Arab Emirate (UAE). Pointedly, this study fills the gap in the literature of research concerning the bank's profitability limited research has determined the impact of job loyalty, management performance and rewards and recognition on bank's profitability. As expected, the study's findings have supported the important job of job loyalty, management performance and rewards and recognition in determining the bank's profitability. The results of this study is validated with the prior results by supporting that job loyalty, management performance and rewards and recognition play an important role to increase the bank's profitability.

These results give an evidence to recommend that, the three variables job loyalty, management performance and rewards and recognition are very important in order to increase the bank's profitability. The results in this study can help Islamic bank to achieve the change goal which is transforming Islamic banking systems in UAE to persuade customers towards the acceptance of Islamic system of banking. Adopting some elements of managerial methods, decision-making process, professional and up-to-date ethic and dynamism, from conventional banking system will help in improving the overall efficiency of Islamic banking industry.

Subsequently, the findings of this research contribute to the banks in UAE and other developing countries as the findings might open the formal discussion. The discussion to take advantage of all the results in order to improve the performance of banks to follow the improvement of the business environment in today's banking. In addition, this research has another contribution by growing the recent appreciative of the manager's job loyalty, management performance and rewards and recognition and how they are significantly affected the bank's profitability. The study findings have an important contribution as the findings would start the discussion, argument and achievement that drive to supportive changes in the banking in UAE and developing countries. In addition, the study has an important contribution through growing the recent appreciative of the manager's job loyalty, management performance and rewards and recognition and how they are significantly affected the bank's profitability.

RECOMNENDATIONS

This study's findings should be interpreted in the sight of its limitations. The limitations of this study could be reflected in the future research. Future studies in this area should involve the customers of both Islamic and conventional banks as the respondents, so as to ascertain the reasons for customer preference of conventional over the Islamic bank. Similarly future research can investigate customer's acceptance of Islamic banking. As well as this should be done in all the branches of the Islamic banks in UAE. Further studies should also put factors such as Shari'ah laws and rules governing Islamic banking into consideration. Further studies also may investigate the effect of other important variables as mediating or moderating on these relationships. In reality, there are too many other variables that may affect the bank's profitability which could investigate in order to reflect clear picture.

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