

**INFLUENCE OF LEADERSHIP STYLES AND
WORK ORIENTATIONS ON EMPLOYEE
PERFORMANCE IN THE JAKARTA ISLAMIC
BANKING INDUSTRY**

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INFLUENCE OF LEADERSHIP STYLES AND WORK ORIENTATIONS
ON EMPLOYEE PERFORMANCE IN THE JAKARTA ISLAMIC
BANKING INDUSTRY

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ABSTRACT

Leadership styles can have both positive and negative effect on employee performance, and the effectiveness of a particular style depends on the organization's goals, the leader's personality, and the dynamics of the team. Appropriate leadership styles is a critical factor in employee performance. The study aims to investigate the effect of leadership styles and work orientations on employee performance within the Jakarta Islamic banking industry. The research design used for this study is descriptive. A pilot test was carried out prior to data collection to confirm the validity and dependability of the study instrument. This study used a questionnaire and a field survey to gauge employee performance. Using a purposive sampling technique, a total of 364 employees Islamic banks, from sample 12 commercial Islamic bank and sharia business unit. PLS-SEM was employed for the data analysis. The findings of the study that leadership styles both situational leadership and path goal leadership, both of which have a positive and significant effect on employee performance. The findings also demonstrate that work orientation, which has a favorable and significant effect on the performance of Islamic bank employees. This study suggests that leaders in Islamic banks should encourage positive innovation and creativity, leaders are willing to listen to employees' expectations and are willing to discuss with employees to achieve better performance.

Keywords: Leadership style, work orientation, employee performance, Islamic banks

APPROVAL

This is to certify that this thesis conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the degree of Degree of Doctor of Philosophy

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DECLARATION

I hereby declare that the thesis submitted in fulfilment of the DBA degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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TABLE OF CONTENTS

ABSTRACT	ii
APPROVAL	iii
DECLARATION	iv
ACKNOWLEDGEMENTS	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xii
LIST OF ABBREVIATION	xiii
CHAPTER 1 INTRODUCTION	1
1.0 Background of the Study	1
1.1 Problem Statement	12
1.2 Objectives	16
1.3 Research Questions	17
1.4 Research Hypotheses	17
1.5 Justifications and Significance of the Study	18
1.7 Practical Contributions	20
1.8 Contribution to Methodology	20
1.9 Chapter Summary	21
CHAPTER 2 REVIEW OF LITERATURE	22
2.0 Styles of Situational Leadership	24
2.0.1 Situational Leadership Definition and Concept	24
2.0.2 Situational Leadership Style and Employee Performance	32
2.1 Path-Goal Leadership	36
2.1.1 Definition and Concept of Path-Goal	36
2.1.2 Leadership Style Path-Goal and Employee Performance	45
2.2 Work Orientation	49
2.2.1 Definition and Concept of Work Orientation	50
2.2.2 Development of Work Orientation Model	53
2.3 Employee Performance	62
2.3.1 Definition and Concept of Employee Performance	62
2.3.2 Performance Measurement	64
2.3.3 Performance Evaluation	65
2.4 Research in Leadership	70
2.5 Similarities and Differences with Recent Studies	73
2.6 Development of Theoretical Framework	77
2.7 Model	80
CHAPTER 3 METHODOLOGY	83
3.0 Research Philosophy	83
3.1 Research Design	84
3.2 Conceptual Framework	87
3.3 Research Hypotheses	88
3.3.1 Hypothesis 1	88
3.3.2 Hypothesis 2	89

3.3.3	Hypothesis 3	90
3.3.4	Hypothesis 4	90
3.3.5	Hypothesis 5	91
3.3.6	Hypothesis 6	92
3.3.7	Hypothesis 7	92
3.4	Instrumentation	93
3.5	Population, Sample, and Sampling Technique	98
3.6	Permission, Ethics Clearance & Informed Consent	105
3.7	Data Analysis Method	106
3.7.1	Quantitative Descriptions	107
3.7.2	What is Structural Equation Modeling?	108
3.8	Pilot Studies	120
3.8.1	Reliability Evaluation	122
3.8.2	Validity Test	123
3.9	Summary Chapters	126
CHAPTER 4 RESULTS AND DISCUSSION		128
4.0	Number of Participants and Participation Rate	128
4.1	Descriptive Analysis	128
4.1.1	Participant Demographics	129
4.1.2	Analysing Variables Descriptively	133
4.2	PLS-SEM Result Analysis	140
4.2.1	The Specified Model	141
4.2.2	Testing the Model's Limit	142
4.2.3	Model Validity of Fit Test	149
4.2.4	Inner Model Test	152
4.3	Hypothesis Testing	160
4.3.1	Hypothesis 1	160
4.3.2	Hypothesis 2	161
4.3.3	Hypothesis 3	161
4.3.4	Hypothesis 4	162
4.3.5	Hypothesis 5	162
4.3.6	Hypothesis 6	163
4.3.7	Hypothesis 7	163
4.3.8	Summary of Hypothesis Testing	164
4.4	Chapter Summary	165
CHAPTER 5 DISCUSSION, CONTRIBUTION AND CONCLUSIONS		166
5.0	Discussion	166
5.0.1	Influence of Situational Leadership on Employee Performance	166
5.0.2	Path-Goal Leadership's Effect on Employee Performance	168
5.0.3	Effect of Situational Leadership on Work Orientation	169
5.0.4	Influence of Path-Goal Leadership on Work Orientation	171
5.0.5	Effect of Work Orientation on Employee Performance	172
5.0.6	The Influence of Situational Leadership on Employee Performance is Moderated by Work Orientation	174
5.0.7	The Path-Goal Leadership Effect on Employee Performance as Mediated by Work Orientation	176

5.1	Research Contribution	177
5.1.1	Theoretical Contribution	177
5.1.2	Practical Contribution	181
5.1.3	Methodological Contribution	184
5.2	Research Limitations	185
5.3	Suggestions for Additional Research	186
5.4	Conclusion	188
	REFERENCES	191
	APPENDICES	204
	Appendix A: Questionnaire dalam Bahasa Indonesia	204
	Appendix B: Questionnaire in English	209
	Appendix C: Pilot Study Output	214
	Appendix D: Normality Test Output	222
	Appendix E: Descriptive Statistics Output	223

LIST OF TABLES

Table		Page
1.1	Top countries in Islamic finance assets 2019 (USD Billion)	4
1.2	Asset growth and market share of Islamic banks (IDR Trillion)	6
1.3	Asset, financing and funding by region (IDR Billion)	7
1.4	Activities of Islamic and conventional banks (in IDR Billion)	13
2.1	Mapping of research field area	75
2.2	Research questions, research objectives, and research hypotheses	78
3.1	Research equipment and materials	94
3.2	Minimum sample requirements according to SEM requirements	99
3.3	Total assets, offices, and employees of Islamic banks in Indonesia	100
3.4	The sampling table of Krejcie and Morgan	101
3.5	CB-SEM vs. PLS-SEM: A comparison	112
3.6	Assessment in PLS-SEM	115
3.7	Criteria for reflective measurement models	116
3.8	Formative model measurement criteria	117
3.9	Structural model measurement	119
3.10	Results from reliability tests	122
3.11	Results of validity tests	125
4.1	Gender distribution of participant	129
4.2	Age of participants	130
4.3	Education of participants	130
4.4	Working place of participants	131
4.5	Working period of participants	132
4.6	Salary of participants	133

4.7	Responses to the situational leadership questionnaire: Descriptive statistics	134
4.8	Statistical characteristics of participants' responses for path-goal leadership	135
4.9	Work orientation responses, with descriptive statistics	137
4.10	Descriptive statistics of participants for employee performance	138
4.11	Loading factor	143
4.12	Cross-loading of indicators	145
4.13	Average variance extracted	146
4.14	Fornell-Larcker test output	148
4.15	Cronbach's Alpha and composite reliability	149
4.16	R Square output	150
4.17	Output of the Standardized Root Mean Square Residual (SRMR)	151
4.18	Multicollinearity output	152
4.19	Significances test result	154
4.20	Indirect effects	156
4.21	Total effect	157
4.22	Test of bootstrapping	158
4.23	An overview of hypothesis testing	164

LIST OF FIGURES

Figure		Page
2.1	Conceptual framework	82
3.1	Saunders research onion: A framework for study	84
4.1	Model in PLS-SEM	141
4.2	PLS-SEM algorithm	143
4.3	PLS Model estimation output (bootstrapping)	154

LIST OF ABBREVIATION

AOL	Achievement Oriented Leadership
AVE	Average Variance Extracted
COVID	Corrona Virus Desease
CB-SEM	Covariance Based – Structural Equational Model
CL	Commanding Leadership
CLS	Consultation Leadership Style
CSA	Central Statistics Agency
DLS	Delegation Leadership Style
EMP	Employee Performance
FSA	Financial Services Authority
GDP	Gross Domestic Product
ICB	Islamic Commercial Bank
ICD	Islamic Corporation for the Development of Private Sector
IDR	Indonesian Rupiah
IFCI	Islamic Finance Country Index
IFDI	Islamic Finance Development Indicator
ILS	Instruction Leadership Style
NCSEF	Natonal Committee for Sharia Economy and Finance
NPF	Non Performing Financing

OCB	Organizational Citizenship Behaviour
PGL	Pathgoal Leadership
PL	Participative Leadership
PLS-SEM	Partial Least Square-Structural Equational Model
SBU	Sharia Business Unit
SIL	Situational Leadership
SL	Supportive Leadership
SLT	Situational Leadership Theory
SRMR	Standardized Root Mean Square Residual
TPF	Third Party Fund
UAE	United Arab Emirates
USD	United State Dollar
VIF	Variance Inflation Factor
WOR	Work Orientation
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

The effectiveness of Islamic bank employees is investigated in this study in relation to leadership style in Islamic banks and its interaction with work orientation. An introduction to the background research on the effects of leadership style and work orientation on the productivity of Islamic bank personnel is provided in this chapter. The creation of research problems that lead to research questions and objectives will also be covered in this chapter. This chapter also describes how the research was justified and why it was important.

1.0 Background of the Study

The effect of leadership style and work orientation on employee performance is a complex and multifaceted topic. Different leadership styles, such as authoritative, consultative, participative, democratic, autocratic, affiliative, transformational can effect employee performance in various way. An uthoritative can be effect in the short term when quick decisions are needed, while a consultative approach can be usefull for creative problem solving. Trust in leadership is also a critical factor in employee performance, regardless of the style adopted. Research has found a strong correlation between trust and employee behaviours that stimulate long term organization commitment. Additionally, the fit of leadership style within a company's culture and the demand and tasks connected with various departments can also influence its on employee performance.

Leadership styles can have both positive and negative effect on employee performance, and the effectiveness of a particular style depends on the organization's goals, the leader's personality, and the dynamics of the team. It's important for

leader to assess their goals and determine which style, or combination of styles, is right for the given situation. Furthermore, leaders should consider the importance of building trust with their employees to boost performance over time.

The research on leadership style in islamic banking industry focuses on situational leadership and path-goal leadership. According to a theoretical study (Aravik et al., 2020), the leadership concept of islamic banks is modelled on the leadership of the Prophet Muhammad. A research (Al Aali and Alazali, 2022) investigates the unique features of leadership in Islamic banks and identifies situational leadership and path-goal leadership as the most path goal leadership styles in the islamic banking industry. The study suggests that situational leadership is effective in situations where employees lack experience or knowledge, while path-goal leadership is effective in situations where employees have a clear understanding of their roles and responsibilities. Another study (Nugroho et al., 2020) emphasizes the importance of real leadership in maintaining the performance of Islamic banks and improving their reputation. The study suggests that the leadership is critical aspect that influences sharia based business development, and that leadership style should be based on Islamic principles. Overall, the research suggest that path goal leadership in the islamic banking industry should be situational and goal oriented, and should be based on Islamic principles.

There are several successful Islamic leadership in addressing economic challenges, Islamic leadership has focused on ensuring value for all stakeholders through Islamic work ethics, sustainability, economic diversification of women in society. The majors player of Islamic banking market in Asean region and internationally include:

1. Malaysia is key majority muslim market and a significant player in the global Islamic banking industry. Local Islamic banks in Malaysia could account for about 45% of overall commercial banking loan book by the end of 2026 (Anand et al, 2022).
2. Indonesia is another important player in the Islamic banking market. The sector's market share in Indonesia could improve to about 10% by the end of 2026 (Anand et al, 2022).
3. The Islamic banking sector is also present in other Asean countries, Brunei, Singapore, The Philipphines and Thailand, with ambitions to develop the country (Iqbal et al., 2022).
4. In the international market, the Gulf Cooperation Council (GCC) countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, are major players in the global Islamic banking industry (Anand et al, 2022).

According to the State of the Global Islamic Economy Report 2021/22 Indicator Score Top 15 data, Indonesia is ranked 4th below Malaysia, which is ranked first, Saudi Arabia in second place, and the United Arab Emirates (UAE) in third place. In the Top 10 Indicator score rank by sector for Islamic Finance, Indonesia is ranked 6th below Malaysia in first place, Saudi Arabia in second place, the UAE in third place, Jordan in fourth place, and Bahrain in fifth place. The Islamic Finance Country Index (IFCI), developed by Edbiz Consulting since 2011, places Malaysia with the highest score and ranking in 2020, surpassing Indonesia and taking second place. Malaysia has dominated the index since 2011, reaching the highest position in 2016, 2017, and 2018. Indonesia jumped from fifth place in 2018 to the highest IFCI index position in 2019 but was taken back by Malaysia in 2020.

As shown in the following table, Indonesia is ranked seventh among the Top Countries in Islamic Finance Assets 2019 (USD Billion) according to The Islamic Finance Development Indicator (IFDI) of the Islamic Corporation for the Development of the Private Sector (ICD). Iran ranks first, followed by Saudi Arabia, Malaysia, the United Arab Emirates, Qatar, and Kuwait in that order.

Table 1.1: Top countries in Islamic finance assets 2019 (USD Billion)

No	Country	USD Billion
1	Iran	698
2	Saudi Arabia	629
3	Malaysia	570
4	UAE	234
5	Qatar	144
6	Kuwait	132
7	Indonesia	99
8	Bahrain	96
9	Turkey	63
10	Bangladesh	45

Source: ICD-Refinitiv IFDI Report (2020)

According to the aforementioned statistics, Indonesia has the world's largest Muslim population. However, it must do proportionately well in Islamic finance. In terms of assets, not even the Islamic banks, also referred to as Shariah banks in Indonesia, have made it into the top 10. Malaysia, which is next door, has achieved great things in Islamic finance, in contrast. The National Committee for Shariah Economy and Finance (NCSEF) was established to accelerate, diversify, and advance the development of Islamic economics and finance in an effort to strengthen national economic resilience. Increasing One of its objectives is to increase the market share of internationally competitive Islamic banking. State-owned Islamic

banks Bank Syariah Mandiri, Bank Negara Indonesia Syariah, and Bank Rakyat Indonesia Syariah amalgamated on February 1, 2021, creating Bank Syariah Indonesia (Fatinah et al., 2021). It is anticipated that it would rank among the top 10 largest Islamic banks in the world by 2025.

With 231 million Muslims, Indonesia has a larger Islamic commercial and financial market and a larger Muslim population than Malaysia. The Indonesian halal market has a potential worth IDR 4,800 trillion. But Malaysia was the country that first started to build the Islamic financial sector. In an article dated June 5, 2021, DDCAP Group (2021), a global intermediary services provider for the Islamic financial market with offices in London, Dubai, Kuala Lumpur, and Bahrain, reported that Malaysia's market share in Islamic banking had reached 34.2% of the country's total banking sector and was aiming for parity with the conventional sector at 50% by 2030 due to its adaptability and relevance during the COVID-19 pandemic. Islamic banking has the potential to foster greater financial intermediation and inclusion, especially among underserved Muslim populations, and to facilitate lending in support of small- and medium-sized enterprises. It is also recognized for promoting equity-based, asset-backed, and socially responsible finance, emphasizing financial inclusion and risk sharing.

Indonesia has a significant presence in the Islamic finance sector, particularly in Islamic banking. With the largest Muslim population in the world, Indonesia aspires to become a global leader in Sharia banking. As of 2023, Bank Mandiri, as the owner of Bank Syariah Indonesia (BSI), is Indonesia's largest Islamic lender. However, the penetration of Islamic banking products in Indonesia is relatively low compared to other countries, standing at about 7%. This is in contrast to countries like Malaysia and Brunei, where the share of Islamic banking is much higher.

Despite the large Muslim population, Indonesia's Islamic banking sector is still in the process of development. The country's potential to become a key player in Islamic banking is recognized, and there are efforts to increase the penetration of Sharia banking in Indonesia. The growth of Islamic banking in Indonesia is expected to be driven by the country's large Muslim population and their increasing demand for Islamic financial services.

On the other hand, as of December 2021, Indonesia's market share for Islamic banking was only 7.13 percent of the nation's entire banking industry. (See Table 1.2)

Table 1.2: Asset growth and market share of Islamic banks (IDR Trillion)

No	Year	Assets from Islamic Banks	Asset growth in Islamic banks	Share of Market
1	2000	1,790	-	0.17
2	2001	2,719	51.90	0.24
3	2002	4,045	48.77	0.38
4	2003	8,152	101.53	0.65
5	2004	15,803	93.85	1.20
6	2005	21,502	36.06	1.42
7	2006	27,618	28.44	1.57
8	2007	37,754	36.70	1.84
9	2008	49,555	31.26	2.05
10	2009	66,090	33.37	2.35
11	2010	97,519	47.55	2.61
12	2011	145,467	49.17	3.24
13	2012	195,018	34.06	3.98
14	2013			

No	Year	Assets from Islamic Banks	Asset growth in Islamic banks	Share of Market
		242,276	24.23	3.94
15	2014	272,343	12.41	4.31
16	2015	296,262	8.78	4.85
17	2016	366,000	23.54	4.83
18	2017	435,000	18.85	5.33
19	2018	489,690	12.57	5.96
20	2019	538,300	9.93	6.18
21	2020	608,900	13.11	6.51
22	2021	676,735	11.14	6.74
23	2022	782,100	15.57	7.13

Source: Indonesian Republic Financial Services Authority

Based on the afore mentioned table, the average annual increase of assets for Islamic banks is 32.29%, and over the past 23 years, the annual growth of their market share has been 3.37%. Despite this, the market share Islamic bank assets are still less than 10% of conventional bank assets.

In terms of assets, financing, and third-party funds (TPF), Jakarta is the province in Indonesia with the most significant Islamic banks, according to information on Islamic banking released by the Financial Services Authority (FSA) from December 2021 through 2022. In terms of financing, third-party funds, and Islamic bank assets, Islamic banks in Jakarta so significantly contribute to the performance of Islamic banks (see Table 1.3).

Table 1.3: Asset, financing and funding by region (IDR Billion)

No	Region	Asset		Financing		Funding	
		2021	2022	2021	2022	2021	2022
1	West Java	73,891	79,555	44,701	52,305	55,449	59,723

2	Banten	22,828	26,345	13,150	16,314	20,429	22,640
3	DKI Jakarta	483,343	552,711	162,242	189,819	238,290	270,468
4	DI Yogyakarta	9,181	10,185	4,573	5,370	7,722	8,288
5	Central Java	34,751	37,751	20,305	23,054	27,143	29,085
6	East Java	47,910	50,416	30,067	34,010	39,850	42,411

Source: Indonesian Republic Financial Services Authority

The specific challenges faced by the Jakarta Islamic banking industry in adopting the situational leadership style and/or pathgoal leadership style are not directly addressed in the provided research results. However, the general benefits of situational leadership style in improving employee performance and job satisfaction are highlighted in the literature. The situational leadership style has been found to have a significant positive effect on employee performance, mediated by organizational citizenship behavior (OCB) and job satisfaction

Additionally, the influence of leadership styles on employee performance in the context of Islamic banking is a subject of study, but the specific challenges related to the adoption of situational leadership style and/or pathgoal leadership style in the Jakarta Islamic banking industry are not explicitly discussed in the available research. For a comprehensive understanding of the challenges and potential benefits of adopting the situational leadership style in the Jakarta Islamic banking industry

Success in managing a company's finances, marketing, products, and human resources will determine whether or not it survives and expands. It requires effort to manage human resources inside an organization because it involves many different players, including staff members, managers, and the system itself. Combining these three elements is anticipated to generate a favorable workplace where staff members and leaders can effectively carry out their duties.

To achieve the organization's goals to their fullest extent, it is essential to perceive the motivations of the employee component. The concept of work

orientation, which is defined as a construct that incorporates diverse motivations for working and various goals depending on how people view their paid employment (Bellah et al., 1985), has been the subject of much research. Although not a new idea, the study of job purpose is nevertheless important today. According to numerous academics, people's sense of purpose at work is very important and has a variety of effects on both people and organizations (Fossen & Vredenburg, 2014; Wrzesniewski et al., 1997). Work orientation is a theory that takes a meaning-centered approach to investigating labor. According to numerous academics, work orientation theory offers a paradigm for comprehending how people behave when they are at work (Peterson et al., 2009). Despite the theory's extensive study, researchers have concentrated on people who feel a called to work (Duffy & Dik, 2013). The three aspects of work orientation are calling, job, and career. Work orientation directly affects these characteristics, which have a negative effect on a job and a favorable effect on a career (Pitacho, Palma, & Correia, 2019). According to Willner et al. (2020), the five orientations that make up the development of the work meaning model are: (1) Job (financial compensation), (2) Career (advancement and influence), (3) Calling (social purpose), (4) Social bonding (belongingness), and (5) Busyness (filling free time with activities). Since it frequently provides people's life purpose, work is a crucial component of many people's identities (Blustein, 2011). Work's meaning is continually changing, and various people attach different meanings to their employment. While for some people working is only a way to get money, pass the time, or pursue a career, for others working is a way to develop and better understand their lives (Dik, Byrne, & Steger, 2013).

Once employees within an organization have been mapped in terms of work meaning and work orientation. These personnel must be developed and their