

# The Impact of Psychological Empowerment on Organizational Commitment by Islamic Banking Employees in Pakistan

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Received: May, 27, 2024

Last revised: November 4, 2024

Accepted: December 13, 2024

## Abstract

Islamic banking is an alternate to conventional banking system and it provides *Sharia'h* compliant banking services to its customers. After several experiments, very first full-fledged Islamic bank was established in Pakistan in 2002 and since then, 5 full-fledged and 17 conventional banks are providing *Sharia'h* compliant products and services by December 2023 (State Bank of Pakistan). Employees of any organization play a vital role in development and quality enhancement of their organization. Similarly, psychological empowerment gives them a boost in performing their tasks which ultimately creates organizational commitment.

To find this impact, 101 responses have been collected with the help of a questionnaire from the employees of Islamic banks in major cities of Pakistan by using convenience sampling method. The questions related to organizational commitment and psychological empowerment were adopted from past studies. Overall results of the study reveal that psychological empowerment plays a positive and a significant role in creating organizational commitment which helps the employees of Islamic banks in the growth of their respective banks. Organizational commitment can enhance further if the quality and brilliance of the employees of Islamic banks improve by motivation and learning. Similarly, the service quality of Islamic banks can also be improved by providing psychological empowerment to their employees. Although several studies have been conducted by researchers to address psychological empowerment of employees and its impact on organizational commitment, very few studies are available to check this impact on Islamic banking employees. Similarly, there is no study available on this subject in Pakistani context. Therefore, this will be the first study to explore the impact of psychological empowerment of employees of Pakistani Islamic banks on their organizational commitment.

**Keywords:** Islamic Banking Industry, Human Resource, Psychological Empowerment, Organizational Commitment, Pakistan

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## 1. Introduction

The banking sector has always been the center of attention not just because of its immense participation in the daily needs of people but also needs for transactions which are made to purchase anything. This sector is also building a strong relation with its consumers in Pakistan by the guidelines and directions given by State Bank of Pakistan. There is competition in the banking sector in the country as banks are offering new products to attract the customers by offering lucrative profits on their investments. On the other hand, they are introducing new market strategies for lending money to businesses at minimum interest rates. Islamic and conventional banks have the direct relation and competition in the same market by applying the tools and techniques that may give opportunity to win having the same resources and using the same input for success.

Pakistan is a Muslim country, and a large part of the population prefers interest free banking for religious reasons. This leads the banking sector to introduce interest free banking (Khan & Bhatti, 2006). *Zakat* (a religious obligation) was introduced in Pakistan in June 1980 and *Ushr* (Islamic tax on agriculture) in March 1983. In 1985, Pakistani banks made a policy under the central bank to introduce Islamic Banking. Federal *Sharia'h* Court of Pakistan announced Islamic way of banking in 1991, and Supreme Court of Pakistan ordered to discard the interest-base practices by June 2001. Since then, Islamic banking is operating with 5 dedicated Islamic banks and 17 conventional banks offering Islamic banking windows. Islamic banks are doing good in Pakistan but they require more efforts to educate consumers as well as their staff. These banks are facing the problem of human resource while opening new branches (Zohaib, 2008). Therefore, the need for human resource is increasing and there is a shortage of trained Islamic bankers in the country. In fact, human resource is not growing as fast as new branches of Islamic banking are opening (Zohaib, 2008). This sector does not have enough trained people. As most of them are coming from conventional banking, they do not have practical experience of Islamic banking.

Those employees who are committed to an organization with their full spirit probably spend more time on their job and there is a less chance that they leave the organization (Hawkins, 1999). In addition, high employee commitment to their organizations improves their performance and provides more satisfaction in their work. It results in reducing absenteeism, increasing inspiration to do the job and thus leads to increased job satisfaction. Similarly, emotional commitment is a commitment that is based on identifying expressive

attachment and taking part of employees in the organization. It builds continued commitment based on a judgment of overheads and remuneration to employees. For individuals, the presence of empowerment gives them the opportunity to improve their skills which are very important. It also gives the employees a better sense of accomplishment and recognition, which can raise the incentive to the job. Islamic banking sector in Pakistan is also facing the same problems related to human resource. Therefore, Islamic banks are concentrating more and more on staff training and giving them better job environment along with financial and non-financial incentives so that they can play their productive role for the development and quality enhancement of their banks.

The objective of this paper is to explore the need for and importance of human resource in the development and quality enhancement of Islamic banking industry in Pakistan. If employees would be more satisfied, their working efficiency would be far better which ultimately plays vital role in the development of Islamic banks (Hashim, 2020). Therefore, Islamic banks should provide excellent working atmosphere in which their employees get complete satisfaction. This will also reduce their employees' turnover which means their staff can become their valuable assets.

## 2. Literature Review

Islamic banks have shown excellent performance in Pakistan. The financial results show that Islamic banks are better in maintaining the capital adequacy and asset quality. Islamic banks influence the monetary system by adjusting the forces of supply and demand for capital. It was found that the Islamic banking system is superior to the conventional banking system as it ensures that the financial sector remains more stable (Zohaib, 2008). The role of bank employees is also very important in the development of financial institutions (Khan & Bhatti, 2006). Islam urges all Muslims to do their best when they are working. Employee obligation is also affected by many factors including the management practices inside the organization (Hashim, 2010). Quality of service has a significant impact on customer fulfillment in the case of Islamic and conventional banking, while the size of bank has greater influence in the Islamic banking services compared with conventional banks (Katou, et al, 2010). The findings of Nwachukwu, et al (2022) revealed that direct relationship between psychological empowerment and employee engagement are partially mediated by job satisfaction. However, intrinsic religiosity has a moderating effect on job satisfaction and employee engagement. Intrinsic religiosity and extrinsic religiosity do not moderate the impact of psychological empowerment on job satisfaction and employee engagement; whereas, extrinsic religiosity has a negative insignificant moderating effect on job satisfaction and employee

engagement. Faliza, N. (2023) has found a positive and important influence of organizational culture on Commitment and organizational activity which can affect *Sharia'h* banking activity. Similarly, she also found that organizational commitment plays a vital role as a partial mediation between organizational culture and presentation.

Mahmoud, et al (2021) have discovered that psychological empowerment has a significant direct relationship with intrapreneurial behavior and individual performance. Similarly, intrapreneurial behavior has a positive significant impact on individual performance. The mediating influence of intrapreneurial behavior on psychological empowerment and individual performance relationships was also established. The best management companies also have a more educated workforce including managers and executives alike. Management should highlight the strengths that would give the bank an aggressive advantage. This can be defined as the capacity or else the conditions to give them an advantage over their competitors. In the long run, the achievement of the bank requires a sustainable competitive advantage (Farouk, et al. 2016). Human resource management, as a field of management, is in a relatively early stage in Asia as compared to the Western countries. Therefore, there are different management issues such as measuring the effectiveness of management and analysis process to ensure effective management and building models of administrative efficiency (Agarwal, et al. 2017). The results derived by Nguyen and Doan (2021) confirmed that psychological empowerment has a positive direct and indirect relationship through creative process engagement and intrinsic motivation with employee creativity. In their study, Nasution & Rafiki (2020) discovered that Islamic work ethics have a positive and significant relationship with organizational commitment and job satisfaction. However, there is the requirement of *Sharia'h* compliance of Islamic banks which can be aligned with principles and values of Islamic work ethics. This would create in-depth organizational commitment among employees.

Psychological empowerment and motivation are reflected in the increase in perception and reflecting the trends towards working people. The four ways of perception are meaning, competence, self-determination and impact. These variables reflect the actions of the person-oriented and pro-active role of the work (Ozturk, & Arslanturk, 2010). If the organization must provide empowerment to its employees, it should result as a great advantage while carrying out the duties and job responsibilities. Additionally, the employees have the ability and skill to face problems and obstacles in their jobs, the spirit

of innovation and learning new things, a strong optimistic approach for success in work, and stronger commitment to the organization with fewer turnovers (Lafuente, et al. 2019). Three dimensions of organizational commitment including affective, continuance, and normative commitment to the organization have been studied by Meyer, et al. (2002) in which they found that there is significant and positive relationship among all three dimensions as these are distinguishable from one another as well as from job satisfaction, job involvement, and occupational commitment. It is discussed by Manan, et al. (2013) that Islamic work ethics have positive and significant impact on organizational commitment.

### 3. Research Methodology

This study used primary data collection method in which data was collected from the employees of Islamic banks in two major cities of Pakistan, Islamabad and Rawalpindi. For this purpose, a questionnaire was distributed among potential respondents which was adapted from literature, with necessary amendments made for the study. The collected data was analyzed with the help of suitable statistical packages to get the desired outcome.

#### 3.1 Research Model

The model of this study has two variables: one is independent variable that is psychological empowerment with its four dimensions including meaning, competence, self-determination, and impact (Ozturk, & Arslanturk, 2010), and second is dependent variable which is organization commitment with three dimensions including affective, continuance and normative (Meyer, et al., 2002).

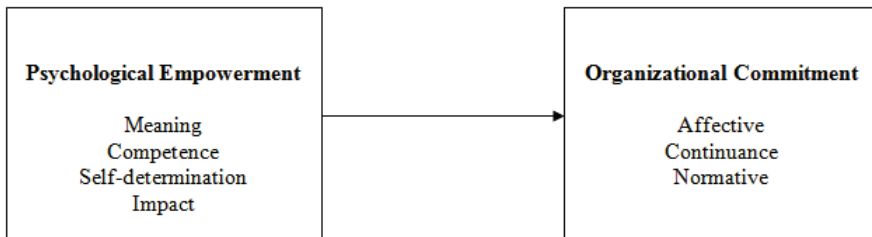


Figure 3.1: Research Model

#### Hypothesis

H<sub>0</sub>: There is a significant relationship between psychological empowerment and organizational commitment

H<sub>1</sub>: There is no significant relationship between psychological empowerment and organizational commitment

### 3.2 Research Method

150 questionnaires were distributed among the employees of Islamic banks in Rawalpindi and Islamabad, two big cities of Pakistan by using convenience sampling method. The questions related to organizational commitment and psychological empowerment were adopted from past studies. 101 filled and useable questionnaires were returned which were further used for statistical analysis.

### 4.1. Data Analysis and Discussion

Table 4.1. : Demographic Analysis

		Frequency	Percentage
Gender	Male	74	73.3
	Female	27	26.7
	<b>Total</b>	<b>101</b>	<b>100.0</b>
Age	20-25	35	34.7
	26-30	37	36.7
	31-35	17	16.8
	36-40	6	5.9
	41 and above	6	5.9
	<b>Total</b>	<b>101</b>	<b>100.0</b>
Experience	1-3 years	70	69.3
	4-6 years	24	23.8
	7-9 years	4	3.9
	More than 9 years	3	2.9
	<b>Total</b>	<b>101</b>	<b>100.0</b>
Qualification	Graduate	36	35.6
	Masters	57	56.4
	Above Masters	8	7.9
	<b>Total</b>	<b>101</b>	<b>100.0</b>

Table 4.1 shows the gender comparison in Islamic bank employees, 73% male and 27% female employees are working in Islamic banks. It means that male employees are dominating female employees. 72% of employees are young (20 to 30 years), which shows that these employees are more committed to their work and job through the impact of psychological empowerment. 70% employees have 1 to 3 years of Islamic banking experience. The reason is that Islamic banking started in 2002 when Meezan Bank was established in Pakistan;

therefore, majority of the employees have less experience. 92% employees have graduation and masters degrees which is a good sign for improving and enhancing Islamic banking operations through qualified human resource by giving them more psychological empowerment so that they should remain loyal to their banks.

**Table 4.2: Descriptive Analysis**

	N	Mean	S.D.	Skewness	Kurtosis
Meaning	101	1.7054	0.52962	0.747	0.393
Competence	101	1.9183	0.60633	0.520	0.022
Self Determination	101	2.0574	0.67191	0.459	0.451
Impact	101	2.3102	0.72611	0.582	1.385
Affective	101	2.1429	0.63149	0.498	0.050
Continuance	101	3.2607	0.99510	-0.321	-0.564
Normative	101	2.3416	0.66212	0.869	1.875

The values of skewness and kurtosis show that data is normal and all dimensions of variables value from +2 to -2. There are some statistical values of self-determination and continuance which show weak relationships. These values impact negatively on the employees' performance but there must be some other constraints behind that. Besides this, all other values are significant, and employees have full satisfaction to do job, and they are loyal to their tasks, assigned by their banks.

**Table 4.3: Correlation Analysis**

	Psychological Empowerment	Organizational Commitment
Psychological Empowerment	Pearson Correlation 1	
Organizational Commitment	Pearson Correlation 0.448(**)	1

*\*\*Correlation is significant at the 0.01 level (2-tailed).*

Table 4.3 shows the relationship between psychological empowerment and organizational commitment which values 0.448. This shows a highly significant and direct relationship with each other. The results also show that the H<sub>0</sub> hypothesis is accepted with the significant value of 0.000.

**Table 4.4: Regression Model Summary**

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
1	0.448 <sup>a</sup>	0.200	0.192	0.48764	1.765

*a. Predictors: (Constant), Psychological Empowerment*

*b. Dependent Variable: Organizational Commitment*

Table 4.4 shows the Durbin-Watson value of 1.765, which is between 1.5 to 2.5. It means that the model is acceptable which shows that organizational commitment impacts 20% by psychological empowerment and there are 80% uncontrollable variables involved. The 0.448 value of R shows that psychological empowerment impacts positively on organizational commitment.

**Table 4.5: ANOVA Analysis**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.902	1	5.902	24.818	0.000 <sup>a</sup>
	Residual	23.541	99	0.238		
	Total	29.443	100			

*a. Predictors: (Constant), Psychological Empowerment*

*b. Dependent Variable: Organization Commitment*

Table 4.5 shows the fitness of the model. The F value is 24.818, which means that the model is 24% fit and significant with the value of 0.000. In the above table, the residual values also explain the relationship between psychological empowerment and organizational commitment.

**Table 4.6: Coefficient Analysis**

Model	Un-standardized Coefficients		Standardized t Coefficients		Sig.	Co-linearity Statistics,	
	B	Std. Error	Beta	t		Tolerance	VIF
(Constant)	1.437	0.207		6.943	0.000		
Psychological Empowerment	0.506	0.102	0.448	4.982	0.000	1.000	1.000

*a: Dependent Variable: Organization Commitment*

*b: Independent Variable: Psychological Empowerment*



Table 4.6 shows the Beta value and Co-linearity statistics that help to identify the relationship between dependent and independent variables. In this analysis, the B value is 1.437 and tolerance value is 1.000, which shows strong relationship between psychological empowerment and organizational commitment. The value of Beta, which is constant and significant with the value 0.000, also accepted the relationship between IV and DV with internal consistency variable having value between -1.000 to 1.000. It shows the model fitness and shows the positive and highly significant relationship between Psychological Empowerment and Organizational Commitment.

The findings of this study also endorsed the findings by Farouk, et al. 2016; Ozturk, & Arslanturk, 2010; Lafuente, et al. 2019; and Meyer, et al. 2002. It shows that the role of human resources have the same importance everywhere in the world. These organizations provide excellent working conditions and a working environment for their employees along with psychological empowerment, and grab development and quality enhancement in return. Therefore, it is very important to business organizations, especially Islamic banks, to provide job satisfaction to their employees so that their working efficiency can be enhanced. It will automatically lead towards the development and quality enhancement of Islamic banking industry in Pakistan.

### **5. Implications of the Study**

as the results of the study indicate that psychological empowerment plays a positive and significant role in organizational commitment which may help the employees of Islamic banks in the development of their respective banks. Hence, the banks may work towards this end.

### **6. Conclusion**

Overall results of the study revealed that Islamic banks must improve the quality of their human resource for the betterment of their organizations by providing psychological empowerment to their employees. By doing this, their employees would be more confident, more satisfied and more useful because their working efficiency will be increased. It will automatically augment the development and quality enhancement of Islamic banks. Similarly, it is also found that male employees' commitment level towards the organization is higher as compared to female employees. In the same way, the organizational commitment was found significantly diverse in different age groups as older employees express better commitment. The organizational commitment, which is based on time of service, has no significant differences between different groups. Significantly different organizational commitment has been found in between different age groups of the respondents. Older workers are more

committed than young ones. Similarly, empowered attitude response showed significantly different values among male and female employees because male staff experiences more empowering as compared to female staff.

The study concludes that the Islamic banking sector in Pakistan can improve its performance by improving the qualitative skills of its human resources. It can be enhanced by giving more psychological empowerment to the employees that will lead to improve organizational commitment. When employees of an organization show firm commitment to the organization, it is taken as a sign of the success of that organization. It is only possible by providing them with excellent working conditions along with financial and non-financial rewards and utilizing their skills in a better way. Islamic banking sector is growing very fast, and it needs the skilled and committed human resource. Therefore, it is mandatory for the Islamic banks to improve the qualities of their employees to achieve the development and quality enhancement of this industry in Pakistan.

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