Islamic Leadership and Transparency Practices in Takaful Organizations

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WAN AISAH WAN MOHD NOWALID & MUHAMAD RAHI MI RAMLI

ABSTRACT

Takaful industry is faced with the issue of ineffective governance practices although it continues to excel financially at a rapid growth rate. Previous studies have started to address the importance of leadership to improve the level of transparency practices in Takaful organizations. However, little is made known on how the role of Islamic leadership would fit into the equation. Hence, the current study aims to examine the relationship between Islamic leadership and transparency. From the literature, Islamic leadership was grounded by the servant leadership approach which consists of five domains, namely altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational stewardship. A self-administered questionnaire was employed to collect the data from employees of licensed Takaful operators in Malaysia. 208 usable data were analyzed using SmartPLS software to test the hypotheses of the study. The findings revealed that altruistic calling and persuasive mapping were significant factors influencing transparency, and the other three variables have no significant effect towards transparency. Emotional healing was found to be the most underperforming factor that needs to be further improved by managers. In addition, this study provides discussion, implications, limitation, and suggestion for future study.

Keywords: good governance; transparency; Islamic leadership; servant leadership; partial least squares-structural equation modelling (PLS-SEM); Takaful

INTRODUCTION

Having good governance in the organization is very critical for long-term business continuity nowadays especially with the existence of the internet where misconducts by individuals, organizations, or even government agencies can be easily disseminated. In the past, business scandals such as Perwaja Steel Pte. Ltd. and Transmile Group Ltd. indicate an example of poor governance (Nor Azizah & Halimah @ Nasibah 2007; Norlia et al. 2011; Shamser & Zulkarnain 2011). Other notable evidences of governance failure resulted from the directors’ negligence were Enron, WorldCom, and Parmalat (Maliah et al. 2015; Raja Rizal Iskandar 2017). Such instances asserted that leadership and transparency are two important aspects of business operations. Therefore, it is important for businesses to promote good governance.

Takaful business is driven by the concept of risk sharing among members which aims to help each other through shared contributions against a defined loss or damage. The business intention is not solely about profit. Instead, it emphasizes on helping others financially. Takaful industry has proven its excellence in the economy contributing to the countries’ gross domestic products (GDP) that even surpassed the performance of conventional insurance (Al Awar 2016; Appaduray 2016). Even so, it is not an indication of the ultimate success. Relying on financial performance indicators would not drive the industry forward because statistics only lasted for a short period of time. In the long run, success could be assured by having a leader with the right quality and calibre (The Star 2011). To ensure sustainability in this business, a good leader should be able to play his or her role in making strategic decisions and decent implementation of policies and thus capable of facing any incoming industrial challenges. According to IFSB (2009), Takaful operators are urged to cultivate a culture of transparency for the benefit of its stakeholders. Nonetheless, the industry is still experiencing a constant challenge of ineffective governance practice, of which, the inconsistencies in regulatory framework globally that resulted in a lack of clarity in terms of product offerings, distributions, and statutory reporting and disclosures (Deloitte 2014; Raja Rizal Iskandar 2017).

In the wake of the issues surrounding Takaful, researchers have taken the initiative to further explore the extent of transparency practices by Takaful operators. Generally, Takaful sector has no issue pertaining to compliance with the Bank Negara Malaysia’s guidelines as the level of disclosure by the Shariah Committee was at high conformance (Nor Aziah 2012). This is central as to preserve the underlying philosophy and principles of the Takaful business. On the contrary, a much recent study by Puteri Nur Farah and Khairuddin (2016) found that there were lack of transparency and disclosure of information in the Takaful product particularly in the assessment of claims. The operators seemed prefer to avoid disputes with its clients rather than be transparent.
of the process of assessing claims. In other countries, the
issue of transparency in Takaful also exist in different
circumstances such as agency relationship problem
between Takaful operators and Takaful agents in Nigeria
(Saleh 2016), unclear Takaful regulatory framework
which hinder the people in Bangladesh from obtaining
information on Takaful products (Khan et al. 2018), and
failure to disclose the dividend rule in the annual financial
report by Alahli Takaful Company of Saudi Arabia (Al-
habshan 2017).

Review of recent literature indicated that the role
of Islamic leadership has been empirically verified to
effect positive influence on organizational outcomes.
Among those were the performance of mosques in Nigeria
(Alade et al. 2016), accountability practices of Takaful
operators in Malaysia (Raja Rizal Iskandar et al. 2016),
and Indonesian Islamic banks’ performance with respect
to culture and motivation variables (Hakim 2012). On the
other hand, other studies pertaining to Islamic leadership
were merely addressing the appropriate dimensions and
adaptation of Islamic leadership principles (Ahmad &
Fontaine 2011; Ahmad & Ogunsola 2011; Wan Norhayate
et al. 2014). From these studies, it can be observed that
the role of Islamic leadership started to gain attention
from researchers in terms of how it might contribute
to various organizational outcomes. Hence, this study
attempts to utilize servant leadership, introduced from
previous studies (Ahmad & Fontaine 2011; Ahmad &
Ogunsola 2011; Gonaïm 2016; Raja Rizal Iskandar et al.
2016; Salie 2008) to study the effect of Islamic leadership
on transparency.

Despite limited literature regarding the relationship
between the two, there were evidence of studies
attempting to focus on the leadership mechanisms that
would enhance transparency. For example, a more
popular transformational leadership are not able to
positively influence the transparency of information
from the perspective of corporate social responsibility
(Intan Maiza & Ku Nor Izah 2018; Nazahah 2016).
Conversely, partial ethical leadership elements are
significant, but inversely related to transparency (Nazahah
2016). Within the Takaful environment, a leader who
possesses the ability engage other members to involve in
a decision-making process is likely to further strengthen
transparency practices in the organization (Raja Rizal
Iskandar et al. 2017). For instance, with input and insights
from employees, the implementation process becomes
more apparent and is able to minimize the risk of failure.
As a result, the aforementioned empirical studies not only
just provided the platform to observe the relationship
between the two, but also open the prospect of Islamic
leadership to be tested in terms of its contribution to the
enhancement of transparency practices, which is in line
with the Islamic values as strive by Islamic institutions
in Malaysia, such as Takaful operators.

Motivated by the above discussions, the primary
objective of this study is to examine the relationship
between Islamic leadership and transparency. Islamic
leadership is represented by servant leadership which
includes altruistic calling, emotional healing, wisdom,
persuasive mapping, and organizational stewardship.
The remainder of this paper are the literature review,
methodology, findings of the study, discussions and
conclusion of the study therein.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT
This study begins with addressing the concept of Islamic
leadership, although it may seem to be almost similar
to conventional leadership by practice, except for its
religious, moral, and human roots (Ahmad & Ogunsola
2011; Mahazan et al. 2015). With that, Islamic leadership
can be conceptualized as a process whereby the leader
guides willing followers and he or she is not allowed to
force others to do things against their will. Primarily,
the role of a leader is to serve his or her followers by means
of seeking for their welfare and guide them towards good.
Therefore, with the given notion, Islamic leadership is
depicted based on servant leadership approach which
deeded to be consistent with the Islamic values of a
leader (Ahmad & Fontaine 2011; Ahmad & Ogunsola
2011; Beekun 2012; Beekun & Badawi 1999; Gonaïm
2016; Salie 2008). This study employed servant leadership
theory (Greenleaf 1970) and stakeholder theory (Freeman
1984) as the underpinning theories. Fundamentally, servant
leadership theory advocates a leader’s primary motivation
and role to serve others, helping them to reach maximum
effectiveness. This theory emphasizes the engagement of
servant leadership, which in turn improve outcomes at
the individual, organizational, and societal levels. On the
other hand, effectiveness theory is used to complement the
Islamic leadership theory to support the second part of this
study’s framework. Georgopoulos and Tannenbaum (1969)
asserted this concept as the ability of organization to fulfill its
objectives given certain resources and means. This theory
further accentuates that to be effective, the objectives of
the organization must be considered as well as its measures
through which it sustains itself and attain its goals.
Thus, this study aimed to assess how servant leadership
affects the transparency practices of Takaful operators.

FACTORS INFLUENCING TRANSPARENCY
Generally, transparency is defined as a lack of hidden
agendas and conditions, accompanied by the availability
of full information required for collaboration, cooperation,
and collective decision-making. On the other hand,
transparency from the perspective of good governance
is described as a framework which ensure timely and
accurate disclosure made on all material matters regarding
the organization, including relevant aspects of outcomes
of the company (OECD 2004). Recent studies based on
direct relationship model to assess the antecedents of
transparency in different organizational settings, such as
energy involving greenhouse gas in selected countries of
United States of America, Australia, Canada, and European
Union (Prado-Lorenzo et al. 2009), regional governments
Altruistic calling is defined as the desire to bring positive difference to others' lives. According to him, the characteristics of a servant leader which is considered as important is one who initiates action, goal-oriented, dreamers of great dreams, good communicator, able to withdraw and re-orient himself, dependable, trusted, creative, intuitive, and situational. Review of literature showed that scholars have identified the dimensions of servant leadership in order to validate and test the theories about the effect of servant leadership. For example, Barbuto and Wheeler (2006) adapted the concept of servant leadership from Greenleaf and validated its scales. The process derived five main dimensions comprising of altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational stewardship. The details of these dimensions are as follows:

**Altruistic Calling**
Altruistic calling is defined as the leader’s desire to bring positive difference to others’ lives. The ultimate goal is to serve. A leader who demonstrate high altruistic calling would put their subordinates’ interest ahead his own interest and diligently work to meet his subordinates’ needs (Barbuto & Wheeler 2006). This act is in parallel with the story of Ibn Umar as narrated by Nafi’ who stated that, “Ibn Umar never used to take his meal unless a poor man was called to eat with him…” (al-Bukhārī, 65: 305) indicating that a leader should always be modest himself before he could help others.

Previous studies have verified the influence of altruistic calling in various organizational outcomes such as employees’ loyalty (Hashim et al. 2017), job satisfaction (Hashim et al. 2016), organizational citizenship behaviour (Mirshekar & Haddadi 2017), and organizational learning (Guinot et al. 2015). Conversely, altruistic calling could not directly influence organizational performance without full intervention of organizational learning capability (Mallén et al. 2015). With respect to governance practice, altruistic calling demonstrates positive contribution to the improvement of accountability in Takaful (Raja Rizal Iskandar et al. 2016). Hence, this study hypothesized altruistic calling as:

\[ H_1: \text{Altruistic calling has a positive effect on transparency.} \]

**Emotional Healing**
Emotional healing exhibits the ability of a leader to be highly empathetic and a great listener indicating his proficiency in facilitating the healing process. In the organizational context, leaders usually strive to create safe environments for employees to voice their concerns personally and professionally (Barbuto & Wheeler 2006). The Prophet is the greatest example of a highly compassionate and empathetic leader. He did not blindly ask of his companions to commit *jihad* in Makkah as he knew Muslims were weak then. Once the historical *hijrah* to Medina took place, by the permission of Allah, Muslims had become stronger and ready for *jihad* for Islam (Khalid 2017). Past studies have confirmed the
effect of emotional healing on various outcomes. For example, some studies used change management of schools in Northern Malaysia (Izani & Yahya 2014) and employees’ loyalty in Pakistan’s private universities (Hashim et al. 2017). On the other hand, emotional healing was not able to positively influence job satisfaction (Hashim et al. 2016) and organizational citizenship behaviour (Mirshekar & Haddadi 2017) there have been conducted paucity of research in this area in Iran; the present research aims to assess servant leadership and more importantly, to find out the reasons on relationship between servant leadership and organizational citizenship behavior of employees. This is an applied and descriptive survey-research. The research instruments include library research and collecting information and data by structured questionnaire; In order to evaluate the validity and reliability of the questionnaire and Cronbach’s alpha and this value is equal to 0.93. Data were analyzed using multiple regression test and SPSS software were used. Regression analysis of field data showed that among independent variables of servant leadership, variables fear of God, breath control, communication altruistic vision, and persuasiveness had positive effect on dependent variable (organizational citizenship behavior). With respect to governance practice, emotional healing exhibits significant contribution to accountability in Takaful (Raja Rizal Iskandar et al. 2016). Based on the aforementioned empirical evidence, it is conjectured that:

$H_1$: Persuasive mapping has a positive effect on transparency.

$H_2$: Emotional healing has a positive effect on transparency.

Wisdom According to Greenleaf (1970), wisdom can be referred as the ability of a leader to make himself acutely attuned and receptive to his physical, social, and political environments. In other words, it is a combination of awareness of surroundings and anticipation of consequences. The Messenger of Allah modelled an exemplary of wisdom when he negotiated the Truce of Hudaibiyah to allow Muslims to perform their pilgrimage whilst at the same time held a ceasefire for ten years with the Quraish (Jamil 2015). Past research recognized the significance of wisdom as an important determinant to foster organizational outcomes, namely job satisfaction (Hashim et al. 2016) and employees’ loyalty (Hashim et al. 2017) in private universities in Pakistan. On the contrary, a study by Krog and Govender (2015) found that direct relationship between wisdom and employees’ empowerment of small medium enterprises in South Africa is not significant. With respect to governance practice, it was revealed that wisdom indicates the strongest influence on enhancing accountability in Takaful (Raja Rizal Iskandar et al. 2016). Therefore, it can be inferred as:

$H_3$: Wisdom has a positive effect on transparency.

Persuasive Mapping Barbuto and Wheeler (2006) explained persuasive mapping as the extent to which a leader uses sound reasoning and mental frameworks using skills to map issues and conceptualizing greater possibilities as well as convincing when articulating these opportunities. Islam advocates leaders to think rationally and reasonable that would lead to fair decisions on others (Muhd Norizam et al. 2017). Previous studies confirmed the significant contribution of persuasive mapping in improving several organizational outcomes such as employee innovative behaviour (Krog & Govender 2015), organizational citizenship behaviour (Mirshekar & Haddadi 2017), and employees’ loyalty (Hashim et al. 2017). Conversely, persuasive mapping do not seem to have any significant effect on job satisfaction among private universities academicians in Pakistan (Hashim et al. 2016). With respect to governance practice, a study by Raja Rizal Iskandar et al. (2016) revealed that persuasive mapping is found to be among significant determinants in empowering accountability in Takaful. Thus, the following hypothesis is conjectured as:

$H_4$: Organizational stewardship has a positive effect on transparency.

Organizational Stewardship Organizational stewardship is defined as the readiness of a leader to take responsibility on the role entrusted to him through community development, programs, and outreach (Greenleaf 1970). This is consistent with the demands of Allah SWT for His servants to take responsibility in striving for the good and blocking the means of bad deeds (Surah Ali ‘Imran 3:110). Previous studies have supported the role of organizational stewardship in influencing job satisfaction and loyalty of academicians in private universities in Pakistan (Hashim et al. 2016, 2017). From the perspective of small medium enterprises in South Africa, organizational stewardship indicates a significant relationship with employees’ perceived empowerment. However, the relationship is negatively related (Krog & Govender 2015). With respect to governance practice, organizational stewardship demonstrates its importance in contributing to strengthening accountability practice in Takaful (Raja Rizal Iskandar et al. 2016). Therefore, organizational stewardship is proposed as:

$H_5$: Organizational stewardship has a positive effect on transparency.

Based on the above discussions on underlying theories and previous literature, the role of Islamic leadership, with the features of servant leader, is important in contributing to the cause of governance specifically, transparency practices in the Takaful sector in Malaysia. As shown in Figure 1, the research model indicates the relationship between the predicting variable and the targeting variable.
METHODOLOGY

RESEARCH DESIGN
This study follows the positivism paradigm which focused on the deductive research approach (Creswell 2009; Raja Rizal Iskandar 2017). A cross-sectional survey was used to collect the data at one specific point of time using questionnaires. The advantage of this procedure is that it may help researchers to gather accurate data, reducing the potential of bias data, and increasing the quality of data being collected at low cost (Creswell 2009; Kumar et al. 2013; Sekaran & Bougie 2016). The unit of analysis in this study was the employees of Takaful operators in Malaysia as accorded to the list of licensed Takaful operators by Bank Negara Malaysia. The distribution method was conducted in two approaches; in the first stage, researchers distributed the questionnaires using the hard copy instrument and sent to half of the respondents; and the other half was sent using electronic survey via Google Form.

DATA SAMPLE
A total of 500 questionnaires were disseminated to the employees of Takaful operators upon receiving permission from the human resource managers and branch managers. Upon following up with respective managers a week after the distribution took place, a total of 208 valid questionnaires were returned to the researchers, yielding a response rate of 41.6 percent. This study employed convenience sampling in collecting data. This method is used since it is not possible to conduct random sampling procedure at the setting of the study. The respondents’ participation was based on the consent from their superiors as well as their willingness to participate due to company policy’s restriction to not allowing non-employees to enter the operation floor.

MEASUREMENT
This study’s questionnaire was designed by adapting measurement from various sources. The main predicting variable is Islamic leadership as conceptualized by servant leadership comprising of altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational stewardship. The target variable of this study is transparency. The questionnaire is divided into three sections, namely Section A, B, and C. The first section comprised the measurement items for Islamic leadership. Specifically, each domain (altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational stewardship) consists of five items which were derived from the validated scales by Barbuto and Wheeler (2006) and Northouse (2013). The following section related to the measurement items of transparency which consist of a total of five items. Four of the five items were adopted from the relational transparency scales by Northouse (2013). The remaining one item was adopted from Palanski et al. (2010). The last section described the demographic information of respondents such as gender, age, race, level of education, current job position, and work experience. All items used in this questionnaire were measured using a five-point Likert scale ranging from 1 = “strongly disagree” to 5 = “strongly agree” to estimate the level of agreement or disagreement of the respondents with each statement in the questionnaire. The questionnaire was created and administered in dual language of English and Bahasa Malaysia.

RESPONDENTS’ PROFILE
A total of 208 respondents were involved in this survey, 57.2 percent were female and 42.8 percent were male. The age range showed that 51.9 percent were between 26 – 35 years old and the least age group was between 46 – 55 years old. Although Takaful operators is mostly consisted of 92.3 percent Malay Muslim employees, there were also non-Muslim employees at 7.4 percent serving the institutions. The level of education revealed variety of academic qualifications of which contributed mostly by 50 percent of bachelor’s degree graduates, followed by 26.4 percent of diploma graduates and 12 percent of school graduates. Majority of the employees were 40.9 percent executives and followed by 26 percent non-executive positions. The working experience showed that 46.6 percent of those are currently attached with their respective organization within less than 5 years whilst the least involvement of experienced employees of more than 15 years were 8.6 percent. Table 1 summarizes the respondents’ background.
### DATA ANALYSIS AND RESULTS

This study employed structural equation modelling (SEM) technique to analyse the data. SEM purposely aimed to estimate the relationships between variables. Specifically, partial least square structural equation modelling (PLS-SEM) approach was used to address the hypotheses of the study. PLS-SEM is composed by two-stage evaluation procedure, firstly, measurement model analysed the standards of reliability and validity of the instrument. Secondly, structural model is conducted to test the study’s hypotheses. Detailed descriptions of both measurement model and structural model are summarized in the following sections.

#### MEASUREMENT MODEL EVALUATION

At this stage, measurement model needs to be evaluated to determine the reliability and validity of the research instrument. Firstly, loadings for all indicators showed a good level of indicator reliability as all of them exceeded the acceptable value of 0.70 (ranging from 0.840 to 0.955) (Hair et al. 2011). Secondly, internal consistency was commonly measured by the composite reliability (CR) to determine the instrument’s reliability. The results for CR showed that all constructs exceeded the recommended value of 0.70 (ranging from 0.939 to 0.971) (Henseler et al. 2009), therefore indicating the instrument used in this study is reliable. Thirdly, convergent validity can be observed through Average Variance Extracted (AVE) assessment, the results showed that all constructs have AVE values above 0.50 (ranging from 0.769 to 0.869) (Fornell & Larcker 1981; Wong 2013). Table 2 presents the reliability and convergent validity of the variables.

<table>
<thead>
<tr>
<th>Gender (%)</th>
<th>Age (%)</th>
<th>Race (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male = 89 (42.8)</td>
<td>≤ 25 years = 42 (20.2)</td>
<td>Malay = 192 (92.4)</td>
</tr>
<tr>
<td>Female = 119 (57.2)</td>
<td>26 – 35 years = 108 (51.9)</td>
<td>Chinese = 8 (3.8)</td>
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<tr>
<td></td>
<td>36 – 45 years = 45 (21.6)</td>
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</tr>
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<td></td>
<td>46 – 55 years = 13 (6.3)</td>
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</table>

#### STRUCTURAL MODEL EVALUATION

Prior to testing the hypotheses of the study, this study assessed the collinearity statistics in the form of variance inflation factor (VIF). Statistically, a VIF value of 5 or higher indicates a potential collinearity issue. The VIF values generated in the model for the independent variables are less than 5, verifying that multicollinearity is not a concern in this study (Hair et al. 2014; Ringle et al. 2018). The evaluation of the structural model applied the suggestions by Hair et al. (2011) and Henseler et al. (2009) in observing of the model’s explanatory power and predictive power (see Table 4). The explanatory power of a model is evaluated based on the coefficient of determination ($R^2$) and the effect sizes ($f^2$). Then, the predictive power of a model is based on the significance of path estimates (beta and t-values) via bootstrapping procedure with a resample of 4999 as suggested by Henseler et al. (2016) and the blindfolding procedure in determining the model’s predictive relevance ($Q^2$). The results of the study revealed that the role of Islamic leadership had contributed 67.3 in the variance of transparency. This outcome shows that it provides substantial effect for the model (Chin 1998; Henseler et al. 2009). The results of the effect sizes showed that the $f^2$ values for independent variables of emotional healing (0.009), wisdom (0.022), and organizational stewardship (0.019) indicating small to no effects whereas altruistic calling (0.053) and persuasive mapping are within the HTMT value is below 0.85 (Kline 2011) or 0.90 (Gold et al. 2001), it indicates that all variables fulfil the discriminant validity requirement. The results in Table 3 demonstrate that all values are lower than the acceptable value of 0.90 therefore discriminant validity is established in this study. In addition, the confidence interval (CI) of all variables were assessed through HTMT inference, where a value of 1 in any of the variables would suggest a discriminant validity issue (Henseler et al. 2015). This study further confirms its discriminant validity as the confidence interval values for all variables are not of value 1.

### TABLE 1. Respondents’ demographic profile (n = 208)

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#### MEASUREMENT MODEL EVALUATION

At this stage, measurement model needs to be evaluated to determine the reliability and validity of the research instrument. Firstly, loadings for all indicators showed a good level of indicator reliability as all of them exceeded the acceptable value of 0.70 (ranging from 0.840 to 0.955) (Hair et al. 2011). Secondly, internal consistency was commonly measured by the composite reliability (CR) to determine the instrument’s reliability. The results for CR showed that all constructs exceeded the recommended value of 0.70 (ranging from 0.939 to 0.971) (Henseler et al. 2009), therefore indicating the instrument used in this study is reliable. Thirdly, convergent validity can be observed through Average Variance Extracted (AVE) assessment, the results showed that all constructs have AVE values above 0.50 (ranging from 0.769 to 0.869) (Fornell & Larcker 1981; Wong 2013). Table 2 presents the reliability and convergent validity of the variables.

<table>
<thead>
<tr>
<th>Education (%)</th>
<th>Position (%)</th>
<th>Work Experience (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPM/STPM = 25 (12.0)</td>
<td>Executive = 85 (40.9)</td>
<td>≤ 5 years = 97 (46.6)</td>
</tr>
<tr>
<td>Diploma = 55 (26.4)</td>
<td>Senior Executive = 34 (16.3)</td>
<td>6 – 10 years = 66 (31.7)</td>
</tr>
<tr>
<td>Degree = 104 (50.0)</td>
<td>Assistant Manager = 26 (12.5)</td>
<td>11 – 15 years = 27 (13.0)</td>
</tr>
<tr>
<td>Masters = 20 (9.6)</td>
<td>Manager = 8 (3.8)</td>
<td>16 – 19 years = 9 (4.3)</td>
</tr>
<tr>
<td>Doctorate = 1 (0.5)</td>
<td>Senior Manager = 1 (0.5)</td>
<td>≥ 20 years = 9 (4.3)</td>
</tr>
<tr>
<td>Others = 3 (1.4)</td>
<td>Others = 54 (26.0)</td>
<td></td>
</tr>
</tbody>
</table>

Note:

SPM/MCE: Sijil Pelajaran Malaysia/Malaysia Certificate of Education
STPM/HSC: Sijil Tinggi Persekolahan Malaysia/Higher School Certificate
the range 0.02 to 0.15 (Hair et al. 2017), signifying that these predictors provide slightly medium effects.

In evaluating the predictive effects on the dependent variable, the results revealed that altruistic calling ($\beta = 0.220$, $t = 3.077$, $p < 0.002$) and persuasive mapping ($\beta = 0.339$, $t = 3.444$, $p < 0.001$) were significantly related to transparency, hence $H_1$ and $H_4$ are supported. On the other hand, emotional healing ($\beta = 0.098$, $t = 1.229$, $p < 0.219$), wisdom ($\beta = 0.148$, $t = 1.567$, $p < 0.117$), and organizational stewardship ($\beta = 0.126$, $t = 1.673$, $p < 0.094$) were the insignificant predictor of transparency, thus $H_2$, $H_3$, and $H_5$ are not supported. With respect to predictive relevance, the results revealed that the $Q^2$ value for transparency (0.482) is greater than zero as accorded to Stone-Geisser criterion (Hair et al. 2011; Henseler et al. 2009), signifying that the research model achieve good predictive relevance.

**IMPORANCE PERFORMANCE MATRIX ANALYSIS (IPMA)**

This section extends the results of the study by employing the importance performance matrix analysis (IPMA) focusing on transparency as the target variable. The purpose for this test is, not only to identify predictors that

<table>
<thead>
<tr>
<th>Variables</th>
<th>Indicator</th>
<th>Loadings</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency (TRSP)</td>
<td>Gov1</td>
<td>0.847</td>
<td>0.944</td>
<td>0.770</td>
</tr>
<tr>
<td></td>
<td>Gov2</td>
<td>0.883</td>
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<td></td>
<td>Gov3</td>
<td>0.884</td>
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<td></td>
<td>Gov4</td>
<td>0.879</td>
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<tr>
<td></td>
<td>Gov5</td>
<td>0.894</td>
<td></td>
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</tr>
<tr>
<td>Altruistic Calling (AC)</td>
<td>ILPA1</td>
<td>0.848</td>
<td>0.943</td>
<td>0.769</td>
</tr>
<tr>
<td></td>
<td>ILPA2</td>
<td>0.840</td>
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<tr>
<td></td>
<td>ILPA3</td>
<td>0.908</td>
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<td></td>
<td>ILPA4</td>
<td>0.874</td>
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<tr>
<td></td>
<td>ILPA5</td>
<td>0.913</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Healing (EH)</td>
<td>ILPB1</td>
<td>0.922</td>
<td>0.971</td>
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<tr>
<td></td>
<td>ILPB2</td>
<td>0.952</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ILPB3</td>
<td>0.955</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ILPB4</td>
<td>0.947</td>
<td></td>
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<tr>
<td></td>
<td>ILPB5</td>
<td>0.882</td>
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<tr>
<td>Wisdom (WSD)</td>
<td>ILPC2</td>
<td>0.904</td>
<td>0.940</td>
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<tr>
<td></td>
<td>ILPC3</td>
<td>0.931</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ILPC4</td>
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<tr>
<td></td>
<td>ILPC5</td>
<td>0.913</td>
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<tr>
<td>Persuasive Mapping (PM)</td>
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<td>0.907</td>
<td>0.939</td>
<td>0.836</td>
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<tr>
<td></td>
<td>ILPD3</td>
<td>0.928</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>ILPD4</td>
<td>0.909</td>
<td></td>
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</tr>
<tr>
<td>Organizational Stewardship (OS)</td>
<td>ILPE1</td>
<td>0.934</td>
<td>0.959</td>
<td>0.855</td>
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<tr>
<td></td>
<td>ILPE2</td>
<td>0.909</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>ILPE3</td>
<td>0.935</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ILPE5</td>
<td>0.921</td>
<td></td>
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<table>
<thead>
<tr>
<th>Variables</th>
<th>Indicator</th>
<th>Loadings</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>0.819</td>
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<td></td>
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<tr>
<td>EH</td>
<td>0.728</td>
<td>0.720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WSD</td>
<td>0.725</td>
<td>0.780</td>
<td>0.879</td>
<td></td>
</tr>
<tr>
<td>PM</td>
<td>0.590</td>
<td>0.634</td>
<td>0.739</td>
<td>0.838</td>
</tr>
<tr>
<td>OS</td>
<td>0.743</td>
<td>0.733</td>
<td>0.781</td>
<td>0.844</td>
</tr>
<tr>
<td>TRSP</td>
<td>0.660</td>
<td>0.644</td>
<td>0.686</td>
<td>0.788</td>
</tr>
</tbody>
</table>

the range 0.02 to 0.15 (Hair et al. 2017), signifying that these predictors provide slightly medium effects.

In evaluating the predictive effects on the dependent variable, the results revealed that altruistic calling ($\beta = 0.220$, $t = 3.077$, $p < 0.002$) and persuasive mapping ($\beta = 0.339$, $t = 3.444$, $p < 0.001$) were significantly related to transparency, hence $H_1$ and $H_4$ are supported. On the other hand, emotional healing ($\beta = 0.098$, $t = 1.229$, $p < 0.219$), wisdom ($\beta = 0.148$, $t = 1.567$, $p < 0.117$), and organizational stewardship ($\beta = 0.126$, $t = 1.673$, $p < 0.094$) were the insignificant predictor of transparency, thus $H_2$, $H_3$, and $H_5$ are not supported. With respect to predictive relevance, the results revealed that the $Q^2$ value for transparency (0.482) is greater than zero as accorded to Stone-Geisser criterion (Hair et al. 2011; Henseler et al. 2009), signifying that the research model achieve good predictive relevance.
have a relatively high importance to the target criterion, but also those with relatively low performance (Ringle & Sarstedt, 2016). The importance value refers to the total effect of an independent variable on a dependent variable whilst the performance refers to the predictors’ average latent variable scores. As illustrated in Table 5 and depicted in Figure 2, the results showed that persuasive mapping (0.330) is the most important variable in achieving good governance in the form of transparency practices. However, its performance value (71.964) is not mirroring its importance. Instead, organizational stewardship (76.431) indicates the highest performance reading. Conversely, emotional healing has little relevance in terms of its importance (0.078) and performance (59.713) on transparency. Thus, based on IPMA findings, emotional healing is underperforming and requires further attention for improvement.

**Discussions**

The results revealed that Islamic leadership has a substantial influence on transparency. This is supported by the high explanatory power explained by all independent variables ($R^2 = 67.3\%$). The outcomes are consistent with previous studies conducted by Alade et al. (2016) and Raja Rizal Iskandar et al. (2016) which provided empirical supports of the variance contributed by Islamic leadership. With all being equal, the finding suggests that adopting Islamic leadership approach is capable of influencing a better practice of governance in the form of transparency.

A research framework was developed to specifically examine the effect of each variable that represents Islamic leadership on transparency. Previous literature showed that there were increased interests among researchers in examining the impact of Islamic leadership, albeit different measurements were used to describe Islamic leadership as well as lack of empirical supports since the focus then was to identify the appropriate dimensions that would represent Islamic leadership. This study utilized empirically validated measurements which consist of five dimensions. The finding verifies that altruistic calling is found to have significant effect on transparency which supports earlier studies such as Guinot et al. (2015), Hashim et al. (2017), Mirshekar and Haddadi (2017), and Raja Rizal Iskandar et al. (2016). It suggests that altruistic leaders prefer to facilitate their employees’ needs in carrying out the assigned tasks which subsequently encourage them to be more open with their leaders especially when disclosing important information required. On the other hand, persuasive mapping also has significant effect on transparency and this finding is consistent with previous studies conducted by Hashim et al. (2017), Krog and Govender (2015), Mirshekar and Haddadi (2017), and Raja Rizal Iskandar et al. (2016). Of the two significant determinants, persuasive mapping is found to have the strongest influence on transparency. This means when leaders are able to articulate issues in a convincing manner as well as providing good reasoning to certain assignments, it would lead to a much clearer execution of tasks by employees and should there be any issues arising then it must be escalated to the responsible personnel handling the matter.

Contrary to this study’s expectation, it was found that emotional healing, wisdom, and organizational stewardship are not significantly related to transparency which is in line with Hashim et al. (2016), Krog and Govender (2015),

**Table 4. Results of the hypotheses testing**

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Beta ($\beta$)</th>
<th>$t$-value</th>
<th>p value</th>
<th>Decision</th>
<th>VIF</th>
<th>$R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 AC $\rightarrow$ TRSP</td>
<td>0.220**</td>
<td>3.077</td>
<td>0.002</td>
<td>Supported</td>
<td>2.800</td>
<td>0.053</td>
</tr>
<tr>
<td>H2 EH $\rightarrow$ TRSP</td>
<td>0.098</td>
<td>1.229</td>
<td>0.219</td>
<td>Not Supported</td>
<td>3.147</td>
<td>0.009</td>
</tr>
<tr>
<td>H3 WSD $\rightarrow$ TRSP</td>
<td>0.148</td>
<td>1.567</td>
<td>0.117</td>
<td>Not Supported</td>
<td>3.076</td>
<td>0.022</td>
</tr>
<tr>
<td>H4 PM $\rightarrow$ TRSP</td>
<td>0.339***</td>
<td>3.444</td>
<td>0.001</td>
<td>Supported</td>
<td>4.252</td>
<td>0.083</td>
</tr>
<tr>
<td>H5 OS $\rightarrow$ TRSP</td>
<td>0.126</td>
<td>1.673</td>
<td>0.094</td>
<td>Not Supported</td>
<td>2.577</td>
<td>0.019</td>
</tr>
</tbody>
</table>

$R^2 = 0.673$

**Table 5. Results of IPMA**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Total Effect (Importance)</th>
<th>Index Value (Performance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altruistic Calling</td>
<td>0.223</td>
<td>62.467</td>
</tr>
<tr>
<td>Emotional Healing</td>
<td>0.078</td>
<td>59.713</td>
</tr>
<tr>
<td>Wisdom</td>
<td>0.150</td>
<td>70.577</td>
</tr>
<tr>
<td>Persuasive Mapping</td>
<td>0.330</td>
<td>71.964</td>
</tr>
<tr>
<td>Organizational Stewardship</td>
<td>0.140</td>
<td>76.431</td>
</tr>
</tbody>
</table>
and Mirshekar and Haddadi (2017). These findings can possibly be attributed to the profile of the respondents that comprise of young adults who have just started working in their respective companies, therefore they are still adapting to the procedures that needs to be followed strictly in completing the assigned tasks. Thus, they are likely to make mistakes in carrying out the tasks due to a lack of experience in dealing with the problems which led to the issue of transparency in providing accurate information in a timely manner.

CONCLUSION

This study primarily aimed to examine the relationship between Islamic leadership and transparency. Previous studies related to the surrounding of Takaful merely focused on whether Takaful operators fulfilled the transparency compliance rather than investigating the determining factor that would improve transparency and subsequently achieve organizational sustainability. In line with the profile of Takaful, this study confirms the significant role of Islamic leadership in empowering transparency practices. The outcome of this study revealed that persuasive mapping has the strongest effect in enhancing transparency and followed by altruistic calling as the second most influential factor. Other predictors of emotional healing, wisdom, and organizational stewardship were found no significant impact on transparency.

This study provides two implications: theoretical contribution and practical contribution. In terms of theoretical contribution, this study has provided an empirical support for the relationship between Islamic leadership and transparency. In addition, the findings of this study add to the good governance literature (read: transparency) and confirmed the role of Islamic leadership as an important predictor that would further strengthen transparency practices. Another notable contribution in this study was the uniformity of measurements used to depict the concept of Islamic leadership focusing on the servant leadership approach that fits the traits of an Islamic leader. Further, this study utilized the importance performance matrix analysis within PLS-SEM to identify a variable of higher importance and performance as well as focusing on the underperforming variable. Lastly, this study contributes to the literature by developing research framework to explain the extent of transparency based on leadership factor applied in the organization. The findings of this study suggests that Islamic leadership theory is grounded in the concept of servant leadership (Greenleaf 1970), stakeholder theory (Freeman 1984), and effectiveness theory (Georgopoulos & Tannenbaum 1969) can be applied to explain the relationship between Islamic leadership and transparency.

From the practical perspective, the findings of this study shed light on some important factors that would lead to decent transparency practices. From the results, generally Islamic leadership is perceived as an important mechanism which needs to be seriously considered especially by the company’s management team. Interestingly, this study employed the importance performance analysis to guide decision-makers of the companies to focus on the most important areas and others that need to be improved. The analysis revealed that persuasive mapping is the most important factor that would largely contribute to enhancing transparency and subsequently achieving sustainability resulting from practicing good governance. This means, top management should ensure that appointed managers are trained and equipped with the abilities to think out-of-the-box and structured to address operational concerns.

This study is not without limitations. It may affect the interpretation of its findings which should be taken into consideration when interpreting the results or when applying the methods of this study in other research settings. Firstly, the study is conducted on cross-sectional design of which the data was collected at one point of time therefore it may be less generalizable as compared to having a mixed approach such as semi-structured interview upon questionnaire distribution to get additional viewpoints in line with the research model. Secondly, the non-probability sampling technique employed due to the restriction by the operators from allowing researchers to distribute questionnaires directly to respondents within
the operation floors. In sum, future research may need to also include semi-structured interview as part of the data collection procedure as it may provide different dynamics instead of a fully quantitative approach. Other than that, future researcher could pre-emptively build networks with companies to get easy access to potential respondents and subsequently enable the implementation of probability sampling technique.

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