

# The Role of Organizational Culture on Spiritual Leadership, Human Capital, and Employee Loyalty

## (Study at Private Hospital in Denpasar, Bali, Indonesia)

I Made Artha Wibawa, Eka Afnan Troena, Armanu, Noermijati

Faculty of Economic and Business, Brawijaya University, Veteran Road, Malang, East Java 65145, Indonesia

E-mail of the corresponding author: [arthawibawa@unud.ac.id](mailto:arthawibawa@unud.ac.id)

### Abstract

This study is proposed to examine the causal effect of organizational culture, spiritual leadership, human capital, and employee loyalty. Specifically, this study applied organizational culture dimension that was developed by Denison who has classified organizational culture into two focuses, external and internal focus, also based on its characteristics, they are stable and flexible. This study also applied spiritual leadership that was developed by Fry (2003). Based on the relevant literatures that are used, this study developed structural model of those four variables. This model then was analyzed by applying Structural Equation Modeling (SEM). Data collection was conducted by applying survey methods that was spreading questionnaires to 291 nurses at 10 private hospitals in Denpasar, Bali proportionally by simple random sampling.

The result reveals that organizational culture does not influence employee loyalty directly. This can be explained due the organizational culture that was developed by private hospital in Denpasar tends to be external focus. This external focus culture is adaptive and flexible to consumer needs that are supported by clear vision and objectives. Therefore, this organizational culture cannot directly influence employee loyalty as internal stakeholders, unless there are other factors that facilitate organizational culture through complete mediation, they are spiritual leadership and human capital. Instead of that, this study also conveys that spiritual leadership fully mediates organizational culture in influencing human capital. Human capital partially mediated spiritual leadership in influencing employee loyalty. Hence, this study concludes that human capital is crucial factors in that mediating organizational culture and spiritual leadership in influencing employee loyalty. This finding of this study contributes importance implication theoretically and practically on human resources development and organizational behavior.

**Keywords:** organizational culture, spiritual leadership, human capital, employee loyalty

### 1. Preface

The current phenomenon of leadership in organization needs the transformation of leadership style in which is able to accommodate more to both employees and corporate needs. A leader must be able to build the good relationship with the employee in order that creating the positive and qualified relations. As postulated in LMX Theory (leader-member exchange) that there are three element of leadership that cannot be separated each other they are leader, member/follower, dan exchange/relationship (Graen & Uhl-Bien, 1995). These elements form a leadership as a relation and process, because a leader will be exist only if there is follower(s), and there will be follower(s) if there is a leader. Therefore, implicitly, Locke et al., (1999:2) stated that "effective leaders must know how to inspire and relate to their followers". When both build relationship each other reproxically, the leadership will be effective, and will positively gives impact on employee loyalty, human capital, competencies, work attitude, and organizational commitment.

Yet, leadership is not thing that easily practiced, because in establishing a leadership function, a leader must have an understanding to the external and internal environment. Hence, the practiced leadership style can accommodate the employee needs, leader, and organization's. Based on this fact, Fry (2003) developed spiritual leadership theory, in which explained that spiritual leadership is a set of values, attitudes, and behavior that were needed to motivated him/herself or others intrinsically, therefore each of them has survival feelings spiritually through membership and calling. Hence, the dimension of spiritual leadership that was developed by Fry (2003) consist of vision, hope/faith, altruistic love, membership, and calling. Further, based on that analysis model, all dimension of spiritual leadership will influence spiritual survival to the follower(s), that is calling and membership in which the primary asset of follower(s) to give all their potention to the organization. Then, finally, it will give impact on organizational commitment and productivity. Spiritual survival itself is a continuity of spiritual life of employee that intrinsically will bring the employee(s) to be encouraged to increase their potention and use it for the organization's needs. Thus, the authors get interested in investigating the role of spiritual leadership in influencing human capital and employee loyalty.

Ther relationship between spiritual leadership and human capital was described by Fry & matherly (2006) in which the impact of spiritual leadership in establishing leader-follower spiritual welfare was to develop the congruency of values through strategy, team and individual empowerment that will increase the healthy and welfare either physiological or psychological, organizational commitment, employee productivity, then finally

will influence organization performance. It means that there is synergy between spiritual leadership and human capital, because spiritual leadership will encourage work environment conductively by paying attention to positive values and ethics to the employees. Thus, spiritual leadership supports the theory of scientific management that had been developed by Frederick Winslow Taylor on 1911. This theory explained that there are four principles in the scientific management, they are gathering of the traditional knowledge of the workman, scientific selection of the workman and his progressive development, bringing together the trained workman and the scientific approach, and teamwork (Montemurro & Smith, 1998). The implementation of these principles will give the benefits and improvement for the work conditions. This scientific management then raised the human capital management in which explained that employee is asset that must be preserved, maintained, and developed. This approach, of course, is different to the human resources management concept in which views the employee as expenses, therefore employee must be controlled and rewarded (Cook, 2008:24).

Beside a leader, organizational culture also influence the human capital and employee loyalty. The strong organizational culture will encourage human capital, because it is a set of values, norms, and artifact that includes the way to solve the problem that is faced by employee in the organization (Ferrell et al., 2011:181). Schultz (1994:304) also explained that one of primary function of organizational culture is coordination of internal systems and processes. Thus, the strong organizational culture reflected the corporate and employee abilities in adapting each other, having high consensus in holding values, ethics, norms, and vision. Hence, corporate's human resources welfare will be guaranteed physically and psychologically. Finally, this study is objected to investigate and analyze:

1. Direct effect of organizational culture to employee loyalty.
2. The role of spiritual leadership in mediating effect of organizational culture to human capital and employee loyalty.
3. The role of human capital in mediating effect of organizational culture and spiritual leadership to employee loyalty.

## 2. Theoretical Framework and Hypothesis

The LMX Theory explained that the components of leadership are leader, follower, and interaction between leader and follower (Graen & Uhl-Bien, 1995). This theory is supported by ideal leader concept that was developed by Kirkeby (2000) that the ideal leader is the leader that is functioned as a 'leader' with his/her superiority in any (strength, knowledge, information), and is only accepted by employee actually (not only formality). Symetrically, the ideal leader reflects the existence of relationship between subjects (leader and follower).

Fry (2003) developed the spiritual leadership model in which described the causal effect of leadership to spiritual survival of human capital in which will carried of employee to commit to the organization (Figure 1). Based on the theoretical framework on Figure 1, then it can be developed the conceptual framework for research hypothesis as follows:

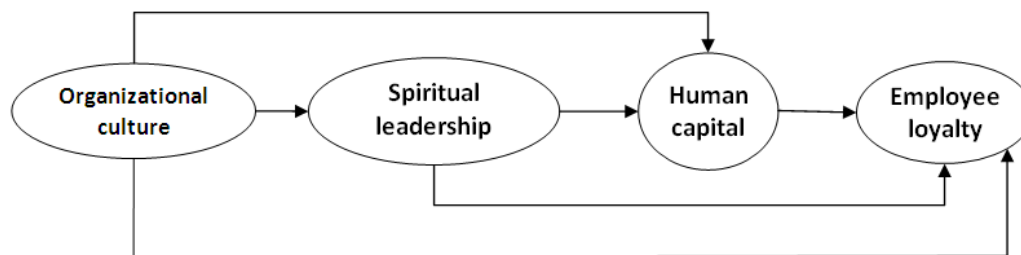


Figure 1. Conceptual Framework

Organizational culture can encourage the employee behavior to commit by developing the willingness of employee to stay in the organization. Instead of that, organizational culture also can bridge the personality and employee social life in the organization, in which will influence the attitude and positive behavior of employee(s). These, finally will make them proud to be employee in the company, and state positive things about the organization to the others voluntarily. This argument is based on the empirical studies in which revealed that positively and significantly, organizational culture influence employee loyalty (MacIntosh & Doherty, 2010; Lincoln & Doerr, 2012). Therefore, the hypothesis is:

### H<sub>1</sub>: Organizational culture influence employee loyalty.

Beside influencing employee loyalty, organizational culture also influence spiritual leadership (Mehta & Krishnan, 2004; Erdogan, et al., 2006; Van Emmerik, et al, 2009; Butarbutar & Sendjaya 2010; Alas, et al., 2011; Mohanty et al, 2012; Kong, n.d; Gunawan, 2009) and human capital (Majeed et al, 2010; Fey & Denison, 2003; Shah, 2007; MacIntosh & Doherty, 2010; Khan et al, 2011; Zain et al, 2009; Mahal, 2009; Mohanty et al, 2012;

Lincoln & Doerr, 2012; Robert & Wasti, 2002; Suharti & Suliyanto, 2012).

The previous study also shows that spiritual leadership influence human capital (Müller & Raich, 2005; Bontis & Serenko, 2009; Jing-Zhou et al, 2010; Shahzad et al, 2010; Ouyang et al, 2010; Tsai et al, 2010; Dolatabadi & Safa, 2010; Bushra et al, 2011; Ouyang et al, 2010; Janssen & Van Yperen, 2004; Krishnan, 2005; Harris, et al, 2007; Lee, 2008; Ouyang et al, 2010; Tsai et al, 2010; Bushra et al, 2011; Yusof & Tahir, 2011; Pandey & Khare, 2012) and employee loyalty (Fry, 2003; Podsakoff et al, 1990; Yu, 2010; Jing-Zhou et al, 2010; Lee, 2008).

Therefore, the hypothesis are:

**H<sub>2</sub>: Spiritual leadership plays a role as metiating variable in the effect of organizational culture to employee loyalty.**

**H<sub>3</sub>: Spiritual leadership plays a role as metiating variable in the effect of organizational culture to human capital.**

Martensen & Grønholdt (2006) had arranged the employee loyalty determinants, in which revealed that personal development and competencies will influence employee loyalty. Whereas, the human capital itself is influenced by organizational culture (Majeed et al, 2010; Fey & Denison, 2003; Shah, 2007; MacIntosh & Doherty, 2010; Khan et al, 2011; Zain et al, 2009; Mahal, 2009; Mohanty et al, 2012; Lincoln & Doerr, 2012; Robert & Wasti, 2002; Suharti & Suliyanto, 2012), and organizational culture also has a direct effect on employee loyalty (Shah, 2007; MacIntosh & Doherty, 2010; Lincoln & Doerr, 2012). Due the existence of human capital factor that influence employee loyalty and the relationship of them to the organizational culture, therefore, the developed hypothesis is:

**H<sub>4</sub>: Human capital plays a role as metiating variable in the effect of organizational culture to employee loyalty.**

Moreover, supported by the empirical previous study that revealed the effect of spiritual leadership on human capital (Majeed et al, 2010; Fey & Denison, 2003; Shah, 2007; MacIntosh & Doherty, 2010; Khan et al, 2011; Zain et al, 2009; Mahal, 2009; Mohanty et al, 2012; MacIntosh & Doherty, 2010; Lincoln & Doerr, 2012; Robert & Wasti, 2002; Suharti & Suliyanto, 2012) and the effect of human capital on employee loyalty (Martensen & Grønholdt, 2006) shows that there is indication of indirect effect of spiritual leadership to employee loyalty, instead of its direct effect (Fry, 2003; Podsakoff et al, 1990; Yu, 2010; Jing-Zhou et al, 2010; Lee, 2008). Therefore, the developed hypothesis is:

**H<sub>5</sub>: Human capital plays a role as metiating variable in the effect of spiritual leadership to employee loyalty.**

### 3. Subject and Methods

This study applied survey method that was implicated by distributing questionnaires to the respondents, that is nurses at the 12 private hospital in Denpasar, Bali, Indonesia. From 312 distributed questionnaires, it was taken 291 from 10 private hospital, because there were two hospitals that were not willing to permit to be location of the study. The collecting data then was analyzed by applying Structural Equation Modeling (SEM) in which supported by software AMOS 20.0.

### 4. The Result of Research

The investigated variables in this study are multidimensional item, therefore the validity test of each latent variable/construct were tested by looking at the loading factor of the relationship between each observed variable and latent variables by applying Second Order Confirmatory Factor Analysis. Based on the results of analysis shown that all indicators are able to describe the observed variables, because it has a significant loading factor at the level of 0.000, which is smaller than 5%. Furthermore, judging from the value of loading factor, critical ratio, and the significant value generated by each item can also be explained that all items able to describe the indicators, because it has a significant loading factor at the level of 0.000, which is smaller than 5%. The model is a model that is formed after the modification fit twice as many models (Figure 3).

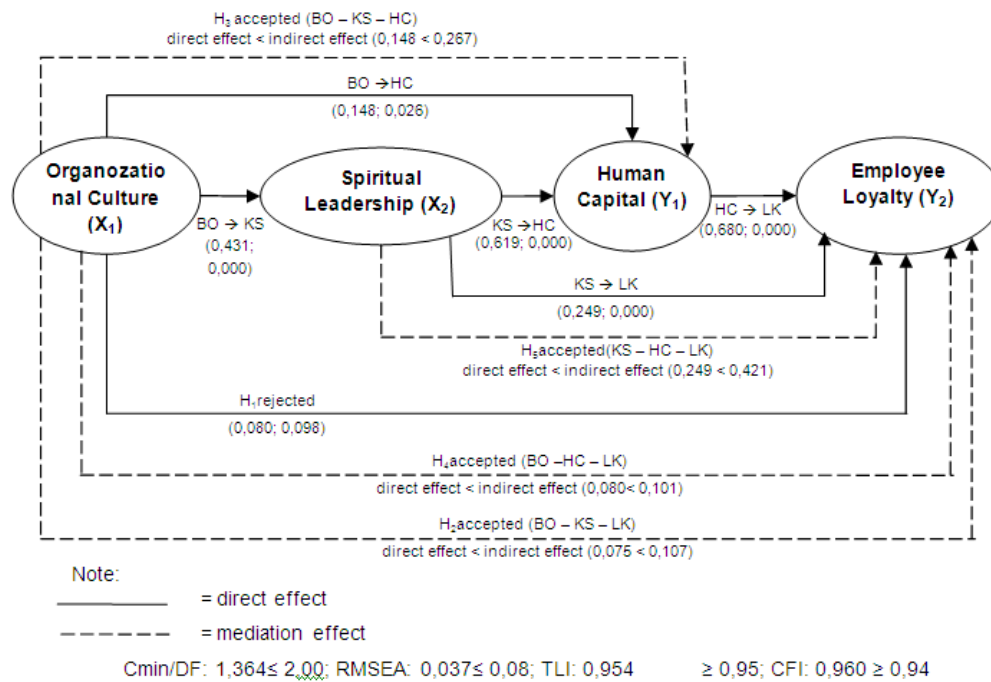


Figure 2. Hypothesis Examination (Full Model)

Figure 2 shows that the influence of organizational culture on loyalty is not significant, thus, organizational culture embraced by the hospital is not able to increase employee loyalty. These results do not support the empirical studies that have been done before that are positive and significant, organizational culture influence on employee loyalty (MacIntosh & Doherty, 2010; Lincoln & Doerr, 2012). Not influential organizational culture on employee loyalty Hospital Denpasar, Bali is supported by the fact that organizational culture is applied in the corporate culture of an organization that tends to external focus (see Figure 3), which indicated the high value of the index on customer-related appraisals focus.

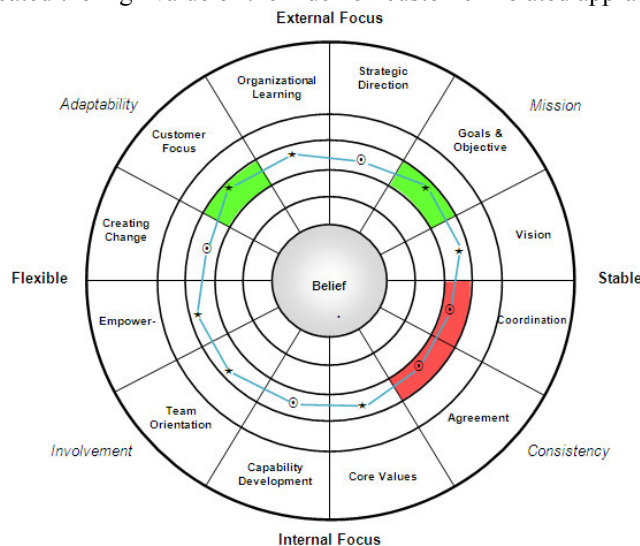


Figure 3. Organizational Culture of Private Hospital in Denpasar, Bali in Denison's Perspectives of Organizational Culture

While employee loyalty is an internal element (stakeholders), therefore the culture that was adopted by the company does not give effect to employee loyalty. Thus, organizational culture applied in hospitals will give effect to the loyalty when there is leadership and human capital which gives its influence on employee loyalty. In this case, leadership and human capital suggests its role in mediating the influence of organizational culture on employee loyalty.

To examine the role of spiritual leadership and human capital in mediating the influence of organizational culture on loyalty, whether playing a role as a partial mediator or absolute mediators (complete mediation), it can be accomplished by testing the significance of mediating variables in the model in which can be checked from the indirect influence test results. Of this test can be examined levels of intervention whether mediating

variables mediate fully (complete mediation) or mediate partially or even not mediation. Methods of testing mediating variables used are as follows (Hair et al., 2010):

1. Checking the direct influence of the independent variables on the dependent variable in the model involving mediating variables (full model).
2. Checking the effect of independent variables on the dependent variable in the model without involving mediating variables (partial model).
3. Checking the effect of independent variables on the mediating variable.
4. Checking the influence of mediating variables on the dependent variable.

## 5. Discussion

Under the terms of the role of mediating variables such testing above, could be conducted to test the role of spiritual leadership and human capital as a mediating variable in this study as follows:

The existence of higher indirect effect given by organizational culture due to the loyalty of the significant role of spiritual leadership, the research results can be explained that that spiritual leadership role as complete mediation that mediate the influence of organizational culture on employee loyalty. This suggests full mediation role that organizational culture can not give influence on employee loyalty in the absence of spiritual leadership factor. In other words, if the leadership is applied in a private hospital in Denpasar does not lead to spiritual leadership behaviour, organizational culture is not able to increase the loyalty of employees at the hospital.

These results are consistent with the explanation of Peterson's (2010) that organizational culture is built through a process of socialization organization, so that organizational culture can provide benefits to increased employee loyalty then the managers and co-workers need to help new employees to be able to accept the prevailing organizational culture. Peterson's explanation of this can be understood that the formation of employee loyalty not only directly affected by the adopted organizational culture within the organization, but it takes the role of other factors, namely managers and co-workers in the organization. Where in this study, the role played by managers spiritual leadership behavior.

This result also confirms the LMX theory describes how the leader-member relationship, where when the exchange takes place in the superior and subordinate relationships, the values espoused in the organizational culture will influence the formation of the superior-subordinate relationship. Where ultimately superior-subordinate relationship that is based on the culture of the organization will establish similarity values that was adopted by the employer as a representative of the company with a subordinate. These results enrich previous empirical studies that have been done that organizational culture has an influence on leadership (Mehta & Krishnan, 2004; Erdogan, et al., 2006; Van Emmerik, et al., 2009; Butarbutar & Sendjaya 2010; Foundation, et al., 2011; Mohanty et al., 2012; Kong, nd; Gunawan, 2009). Comparing to the previous research, that was conducted before, it shows that in any situation and in any context, organizational culture is a universal element that will influence the behavior of the leadership in an organization. In addition, the result of this study also enriches the empirical studies carried out in previous studies that prove that the leadership has a positive influence on employee loyalty (Fry, 2003; Podsakoff et al., 1990; Yu, 2010; Jing - Zhou et al., 2010; Lee, 2008). Thus, as other types of leadership, such as transformational and transactional leadership the right pattern will be a positive impact on employee loyalty.

If viewed from the terms of the dimensions of organizational culture consisting of mission, involvement, consistency, and adaptability, it can be explained that the mission, involvement, consistency, adaptability and explanatory factors need to be interpreted and have been implicated in the development of behavior and attitudes of employees loyal to the hospital. The need for explanatory factors mentioned by Peterson's (2010) that organizational culture is built through a process of socialization organization, so that organizational culture can provide benefits to increased employee loyalty and co-workers then the manager should help new employees to be able to accept the prevailing organizational culture. Peterson's explanation of this can be understood that the formation of employee loyalty not only directly affected by the adopted organizational culture within the organization, but it takes the role of other factors, namely managers and co-workers in the organization.

The indirect effect of organizational culture to human capital is a result in multiplying significant effect of the spiritual leadership to the human capital and organizational culture to spiritual leadership. In which the spiritual leadership itself is significantly affected by the organizational culture. The results show the complete mediation role of spiritual leadership in mediating the influence of organizational culture on human capital. This shows the absolute mediation role that organizational culture can not give effect to human capital in the absence of spiritual leadership factor. In other words, if the leadership is applied in a private hospital in Denpasar does not lead to any spiritual leadership behavior, organizational culture can not increase human capital in the hospital. When referring to the study of Rashid et al (2004), can be explained that the culture of the organization in a private hospital will be able to influence the attitudes of employees, which is one dimension of the role of human capital when there are other factors that help to interpret the culture of the organization that could be easily accepted by employees will ultimately affect employee attitudes toward work and the organization. In addition, research



Sibirian (2013) which proved that organizational culture has an indirect influence on organizational commitment, because of the factors necessary to encourage employees to achieve higher performance. That is, the encouragement for employees to achieve the feat can affect the level of employee commitment to the organization. Where this impulse will be born because of the inherent values of the organization are used as a individuals' guide in the organization.

The results are consistent with previous empirical research that leadership has a positive effect on human capital (Müller & Raich, 2005; Bontis & Serenko, 2009), affective commitment within the employee (Jing - Zhou et al., 2010), organizational commitment (Shahzad et al., 2010; Ouyang et al., 2010; Tsai et al., 2010; Dolatabadi & Safa, 2010; Bushra et al., 2011), and job satisfaction (Janssen & Van Yperen, 2004; Krishnan, 2005; Harris, et al., 2007; Lee, 2008; Ouyang et al., 2010; Tsai et al., 2010; Bushra et al., 2011; Yusof & Tahir, 2011; Pandey & Khare, 2012), as well as employee engagement (Ouyang et al., 2010). The similarity of these results with previous studies strengthen the theory of spiritual leadership that spiritual leadership is a set of values, attitudes, and behaviors necessary to motivate yourself and others is intrinsically, so that each one has a sense of spiritual survival through membership and of calling (Fry, 2003; Fry & Kriger, 2009). The similarity of this result also proves that the concept of spiritual leadership can be applied in a private hospital in Denpasar, Bali. Moreover, these results also prove that spiritual leadership is a form of effective leadership, leadership that has the ability to identify and provide the right amount of coaching for subordinates (Morgan, 2006:322).

This suggests full mediation role that organizational culture can not give influence on employee loyalty in the absence of human capital factors. In other words, if the level of human capital is low, then the culture of the organization is not able to increase the loyalty of employees at the hospital. Human capital is formed from the dimensions of competence, commitment, and attitude of the employees must be managed properly so that the employee is still able to maintain and sustain loyal attitudes and behavior. As explained by Hutapea & Thoah (2009:109) that the concept of human capital capacity focuses on the total development of the individual whose direction is not explicitly linked to the performance of individuals within the company, although the components of the same development, the knowledge, skills, and character. Nevertheless, taking into account the elements of human capital benefit individuals in the organization. These results are also consistent with previous studies conducted by Martensen & Grønholdt (2006) who compiled the determinant of loyalty, which included a personal development and competencies that will affect employee loyalty.

Whereas human capital itself would be able to function optimally if there is an organizational culture that supports the effectiveness of human resource development practices, including the development of human capital in the company. As described by Hopkins (2009) that the organizational culture that tends oriented group that will encourage employees to participate in training compared to the individualistic culture of the organization. If related to the results of this study indicate that the team orientation are items that have strong relationships with organizations in the corporate culture, the role of culture to foster human capital is vital that human capital can have a positive impact on employee loyalty .

The partial mediation role of human capital in the model which explains the influence of spiritual leadership to employee loyalty with or without the presence of human capital factors. In other words, human capital should not be considered the existence of, if there are already elements of spiritual leadership in leadership behavior in private hospitals. However in certain situations, when human capital is needed to encourage the role of organizational culture in increasing employee loyalty. If viewed from the context of LMX theory, then the leadership there will be a reciprocal relationship between leader and follower in order to create a leadership process. That is, the behavior and attitude of loyal employees will be formed through relationships with the leaders of the employees, in which the relationship will there are factors that affect the success of the relationship itself, both in terms of potential leaders and employees. This context will ultimately have an impact on the need for other factors to influence strengthen leadership on employee loyalty. Martensen & Grønholdt (2006) who develop employee loyalty modeling explained that the leadership will be able to give the effect of employee loyalty, when the leadership can encourage employee job satisfaction, which is one form of employee attitudes toward the job and organization.

## 5. Conclusion

Research findings have managerial implications on efforts to increase employee loyalty through organizational culture, the attitude of spiritual leadership, and human capital in the company. The study found that organizational culture does not significantly influence employee loyalty. This result can be explained that the organizational culture that was embraced by a private hospital in Denpasar, Bali tends to lead to a culture that refers to an external focus on the interests of external stakeholders, namely consumers, so it does not give effect to that employee loyalty is internal stakeholders. Nevertheless, as a whole can be explained that organizational culture is a factor that affects positively and significantly to the spiritual leadership and human capital. In this case, human capital has a central role in mediating the influence exerted by the organizational culture and spiritual leadership to employee loyalty. In other words, the existence of human capital becomes a crucial factor

in the formation of employee loyalty.

Theoretically, this study resulted in a theoretical model of the relationship between organizational culture, spiritual leadership, human capital, and employee loyalty. The model is able to explain that organizational culture is an antecedent to the style of leadership, because the organizational culture to inspire the members to remove the competence and capability, knowledge, and the skills to carry out the duties and responsibilities in providing health services to the community. The model found in this study also explains the role of human capital as a mediating variable between the influence of organizational culture and spiritual leadership to employee loyalty. Empirically, the study found that the size of the variable of organizational culture, spiritual leadership, human capital, and employee loyalty.

This study has limitations of which is the use of statements in the questionnaire so that the respondents are still difficult to charging takes much times. In addition, variables intellectual capital is still limited so that human capital standpoint only limited human resources have not touched other resources. Therefore, although this study could be a reference to the development of further research, but the model generated in this study can still be studied further by developing the use of the concept of intellectual capital in the overall study.

In practical terms, the recommendation in this research is that the human resource management needs to consider matters relating to the creation, dissemination, communication, and implementation of organizational culture as an important factor in the creation of employee loyalty, spiritual leadership, and human capital company. In this case, management should begin to notice an increase in the values of team orientation to strengthen education and training programs, recruitment and placement of employees, growth attitude and commitment of employees, thus encouraging employees to create conformity values espoused by the company's values and contribute. In addition, the company should begin to maintain customer focus, organizational learning and strategic direction and intent and starts transferring energy and bright ideas to improve team orientation, strengthening socialization vision, mission, goals, and strategy of the company.

Loyalty building through the human capital can be completed by the company in undertaking appropriate education and training to encourage the creation of team orientation and accompanied by the ability of a leader in encouraging employees, such as training and education that is implemented using an efficient and effective method. In addition, also done by implementing programs pereutan and placement of employees in accordance with their respective competences of employees, making it easier for enterprises to create work teams and improve employee morale.

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