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**Proceedings of
4th International Conference
on Management, Finance and Entrepreneurship
ICMFE-2015**

**Garuda Plaza Hotel, Medan, Indonesia
April 11-12, 2015**



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Proceedings

4th International Conference on Management, Finance & Entrepreneurship

Medan, Indonesia

11 -12, April 2015

ISSN 2311-6269

Organized by

**International Foundation for Research and Development
(IFRD)**

Preface

Dear Distinguished Delegates and Guests,

The Conference Committee warmly welcomes our distinguished delegates and guests to the 2015 International Conference on Management, Finance and Entrepreneurship (ICMFE-2015) held on April 11-12 in Medan, Indonesia.

ICMFE-2015 is organized by International Foundation for Research and Development (IFRD). The conference is aimed at discussing with all of you the wide range of problems encountered in present and future issues in economies and Societies. ICESS-2015 is organized in collaboration with Universitas Islam Sumatera Utara, Medan, Indonesia, Yildirim Beyazit University, Turkey, Shinawatra International University, Thailand, PERTRE ANDERI of IASI, Romania and National Academy of Management, Ukraine where researchers from around the world presented their work. The conference committee is itself quite diverse and truly international, with membership around the world.

Proceeding records the fully refereed papers presented at the conference. Main conference themes and tracks are Management, Finance and Entrepreneurship. Conference aims to bring together researchers, scientists, engineers and practitioners to exchange and share their experiences, new ideas and research results about all aspects of the main conference themes and tracks and discuss the practical challenges encountered and the solutions adopted. The main goal of the event is to provide a scientific forum for exchange of new ideas in a number of fields that interact in depth through discussions with their peers from around the world.

Conference has solicited and gathered technical research submission related to all aspects of major conference themes and tracks. All the submitted papers have been peer reviewed by the reviewers drawn from the scientific committee, external reviewers and editorial board depending on the subject matter of the paper. Reviewing and initial selection were undertaken electronically. After the rigorous peer-review process, the submitted papers were selected based on originality, significance, and clarity for the purpose of the conference. Conference program is extremely rich, featuring high-impact presentations. The high quality of the program guaranteed by the presence of an unparalleled number of internationally recognized top experts. Conference will therefore be a unique event, where attendees will be able to appreciate the latest results in their field of expertise, and to acquire additional knowledge in other fields. The program has been struttred to favor interactions among attendees coming from many diverse horizons, scientifically, geographically, from academia and from industry.

We would like to thank the program chairs, organization staff, and members of the program committee for their work. We are grateful to all those who have contributed to the success of ICMFE-2015 especially our partners. We hope that all participants and other interested readers benefit scientifically from the proceedings and find it stimulating in the process. Finally, we would like to wish you success in your technical presentations and social networking.

We hope you have a unique, rewarding and enjoyable time at ICMFE-2015 in Medan.

With our warmest regards,

Conference Committee
April 11-12, 2015
Medan, Indonesia.

ICMFE-2015

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International Conference on Management, Finance & Entrepreneurship (ICMFE-2015)

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**International Conference on Management, Finance &
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PAPERS

Role of Commitment in the Relationship between Islamic Leadership and Islamic Work Ethic on Employee Performance

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Abstract: This study is aimed to analyze and show the influence of the leadership perception and Islamic work ethics toward the employee commitment in organization and employee performance. The samples of this study are 93 employees of PT. Telkom Indonesia Tbk and PT. PLN (Persero) Indonesia, who have joined ESQ training and management qalbu. The data are collected through open and close questionnaires. The results of quantitative test show that (1) Islamic leadership has positive and significant effect toward employee commitment in the organization; (2) Islamic leadership has positive and significant effect toward Islamic work ethics; (3) Islamic leadership has positive and significant effect toward employee performance; (4) Islamic work ethics has positive and significant effect toward employee commitment in organization; (5) Islamic work ethics has positive and significant effect toward employee performance; and (6) Employee commitment in organization has positive and significant effect toward employee performance. The functions of human as Khalifatu'llah fil ardhyy and Abdullah stated in Koran Surah Al Baqarah (2): 30 and Surah Al Dzariyat (51): 56 have been well and appropriately implemented by the managers and employees.

Keywords: *Islamic Leadership, Islamic work ethic, Employee commitment, employee performance, State owned enterprises*

1. Introduction

The importance of spiritual values in improving organizational performance has been conducted by many researchers today (Chen & Yang, 2012; Lynton & Thogersen; Crossman, 2011; Fry et al., 2011, Pawar, 2008; Pin et al, 2010; Jurkiewicz & Giacalone, 2004; Giacalone & Jurkiewicz, 2003, Duchon & Plowman, 2005; Fry, 2003; Fry & Matherly, 2006, Ali, 2005). Spiritual leadership is part of the implementation of spiritual values in the workplace which is the development of the theory of the previous leadership. Concept and implementation of spiritual values in the workplace is still an issue and the relatively new field related to the individual and organizational (Sheep, 2006; Moor & Casper, 2006) including leadership and work ethic. The concept and measurement of spiritual leadership has been studied by Fry (2003, 2005); Fry, Vitucci, and Cedillo (2005); Malone and Fry (2003). While Islamic work ethics in the workplace has been developed by Ali (1985) and Yousef (2000). Study about the previous leadership has not been able to find leadership pattern which can accelerate organization member to be oriented to performance accompanied by ethics and religious moral totally. The recent leadership patterns still consider that the meaning of leadership is mandate from people (subordinate) and not consider leadership as mandate from God and people. Leadership approach is still dominated by authority and not by spirituality and deep inside. The follower in organization is supported by material and altruistic influence by neglecting model values, inspiring, encouraging, empowering and humanizing.

Islamic work ethics is the life attitude and point of view toward work, work habit, the characteristics about the way of work owned by someone which is based on divine teachings and mind that cooperate one to another (Asifudin, 2004). Islamic work ethics reflected from belief system / Islamic belief related to work that is formed by divine and mind. Islamic work ethics can increase performance if work is the explanation of belief, work is based on science, work by applying the characteristics of Illahi. Oliver (1990) found that work ethics has significant relation with organizational commitment. Yousef (2000) found that organization commitment mediates the relation between Islamic work ethics and attitude toward the changing of organization. The purpose of this study was to investigate the influence of Islamic leadership, Islamic work ethic and commitment to the performance of employees.

2. Literature Review

Islamic Leadership: In Islam view, leadership is a mandate and responsibility that is not only accounted to his members he leads, but also will be accounted in front of Allah SWT. Leadership in al-Qur'an and hadiths view is a mandate that must be done well, full of responsibility, sincere, and professional.

Consequently a leader must have the characteristics of trusteeship, professional and responsible. A leader must have bravery to maintain law and justice. Islamic leadership can be defined as a process to direct and to motivate other people and has cooperate bussiness based on Al-Qur'an and Hadist to reach the purposes they wanted. Some of Islamic leadership indicators found based on conventional and Al-Qur'an and hadist leadership theories are the characteristics of *shiddiq, amanah, fathonah, tabligh*. Islamic leadership indicator consists of shiddiq based on QS. Al Baqarah (2): 177, QS. At Taubah (9): 119, QS. Al Ahzab (33):70, trusteeship indicator based on QS. Al Mukminun (23):8, QS. Al Anfal (8): 27, QS. Al Ahzab (33): 72 and hadist HR. Ahmad from Anas bin Malik., fathonah indicator based on QS. Al Baqarah (2):269, tabligh indicator based on QS. An Nuur (24):54. Fair indicator based on QS. Al Maidah (5): 8, QS. Shaad (38): 26 and sincere indicator based on QS. Shad (38):83, QS. Al-Bayyinah (98):5, QS. Az-Zumar (39):3, QS. An-Nahl (16):66.

The research done by Mei (2003) about structural equality model of leadership behavior, organization's commitment concluded that there is direct influence between leadership practices toward work satisfaction and indirectly influence toward organization's commitment. The research done by Hennesey (1998) concluded that leadership influence significantly toward organization performance. The research done by Koene, *et al.*, (2002), examined different leadership styles concluded that local leadership influences financial performance and organization atmosphere. The research done by Brodbeck, *et al.*, (2002) about leadership in Germany concluded that leadership influences significantly toward employee's performance. The research result done by Chen (2004) concluded that leadership influence positively toward organization commitment. The research done by Daniel (2003) about the influence of leadership toward organization commitment in multinational telecommunication company showed the result that there is significant influence between leadership toward organization commitment.

Islamic Work Ethics: Rasulullah commanded: "working is an obligation for every moslem". According to Ali (2005) Islamic work ethics is an orientation that has great influence to Islam people and organization. Islamic work ethics is made of four elements namely effort, competition, transparency, and moral behavior which have responsible in work. According to Yousef (2000) Islamic work ethics sees that work is a goodness, work done by cooperation and consultation is the way to overcome problem and lessen mistake in work. According to Asifudin (2004), Islamic work ethics has basic life attitude toward work, identical to belief system or Islam attitude concerning work based on understanding from divine and mind that cooperate each other proportionally. Yousef (2000) studied about the relation between Islamic work ethics and attitude toward organization changing mediated by organization commitment. Yousef found that Islamic work ethics has positive relationship toward commitment and attitude toward organization changing. Islamic work ethics such as cooperation principle, responsibility, social influence, and dedication proven positively produced commitment from organization members. The research done by Yousef (2001) concluded that Islamic work ethics directly related to organization's commitment. Islamic work ethics directly related to work satisfaction. Islamic work ethics moderates the relationship between work satisfaction and organization's commitment. The research done by Putti *et al.* (1989) about the relationship between work ethics and organization's commitment in Asia concluded that intrinsic work ethics has stronger relationship with organization's commitment than extrinsic work ethics. Oliver (1990) also examined the influence of employee's work ethics toward organization commitment of company cocluded that work ethics influences significantly toward commitment. The research done by Yousef (2000) concluded that employee with high commitment to organization, is very satisfied with his work and his performance is high. Kumar and Rose (2008) concluded that there is relationship between Islamic work ethics and innovation capability. All innovation capabilty indicators have significant correlation toward Islamic work ethics.

Hypotheses: Based on thinking process framework and conceptual framework, study hypothesis is arranged as follow:

- H1: Islamic leadership influence the employee's commitment
- H2: Islamic leadership influences Islamic work ethics of employees
- H3: Islamic leadership influences employee's performance
- H4: Islamic work ethics influences employee's commitment
- H5: Islamic work ethics influences employee's performance
- H6: Employee's commitment influences employee's performance

3. Methodology

Sample: Population in this research are all employees of BUMN PT. Telecommunication Tbk and PT. State Electricity Company in Central Java Province and Special Region Yogyakarta who have joint ESQ or MQ training, as many as 1310 employees. Sample in this research is employees of PT. Telecommunication Indonesia Tbk and PT. State Electricity Company (Persero) in Central Java Province and Special Region Yogyakarta who have joint ESQ or MQ training. Sample took as many as 100 people using proportional technique sampling and purposive sampling, for PT. Telekomunikasi Indonesia Tbk as many as 66 people and PT. Perusahaan Listrik Negara (PLN) Persero as many as 27 people. Collecting data is done by using survey method that uses questionnaire instrument guided by interview. Questionnaire instrument is designed using combination between closed question and opened question

Measure: Islamic leadership indicators measured multi item using instrument developed by Zainudin and Mustaqim (2005) as many as six indicators based on main characteristics of Rasulullah Muhammad saw. Islamic leadership Indicators are Shiddiq, Amanah, Fathanah, Tabliq, Fair. Islamic work ethics indicator consists of six indicators developed based on research done by Ali (2008), cooperation, dedication, giving benefit in work, justice, creativity. All of the variables is measured using Likert scale 1 to 5. Organization commitment indicator is developed based on research done by Mowday, R.T., R.M. Steers, and L.W. Porter, (1979). is measured multi item using Likert scale with score 1 to 5. Employee's performance indicator is developed based on research done by Janseen, Onne (2001) and based on Al Qur'an and hadist. all variables were measured using a Likert scale, 1= strongly disagree and 5 = strongly agree

4. Result and discussion

The Result of Outer Model: Loading score indicator of shiddiq (X1.1) is 0,893, amanah (X1.2) is 0,735, fathonah (X1.3) is 0,839, tabligh (X1.4) is 0,879 and fair (X1.5) is 0,715. the result of *convergent validity* test, 5 Islamic leadership indicators have *loading factor* score of all indicators more than 0,5 and T statistic score of all indicators greater than T Table as many as 1,6711. Loading score indicator of cooperation is goodness in work (Y1.1) is 0,787, work dedication (Y1.2) is 0,821, work is useful for self and other people (Y1.3) is 0,876, justice and comfort in work place (Y1.4) is 0,865, work creativity (Y1.5) is 0,838. The result of *convergent validity* test, 5 Islamic Work Ethics indicators have *loading factor* score of all indicators more than 0,5 and T statistic score of all indicators greater than T Table is 1,6711. Loading score indicator of possessive of organization (Y2.1) is 0,838, bounded emotionally to organization (Y2.2) is 0,814, aware to organization fate (Y2.3) is 0,678, spending career in organization (Y2.4) is 0,745, proud of organization (Y2.5) is 0,741, organization's problem is oneself problem (Y2.6) is 0,735. The result of *convergent validity* test, 6 indicators of employees' commitment have *loading factor* score of all indicators more than 0,5 and T statistic score of all indicators greater than T Table is 1,6711. so all employees' commitment indicators are valid. Based on *composite reliability* test from indicator block that measures construction, show satisfying result that is 0,891, means that employees' commitment construction can give relatively same result if remeasure is done to the same subject. Loading indicator score of work quantity (Y3.1) is 0,646, work quality (Y3.2) is 0,699, work efficiency (Y3.3) is 0,667, professional standard (Y3.4) is 0,737, punctuality (Y3.5) is 0,606, often do sunnah pray (Y3.6) is 0,712, the increasing of ZIS (Y3.7) is 0,603, the increasing of devotion (Y3.8) is 0,684. The result of *convergent validity* test, 8 indicators of employee's performance have *loading factor* score of all indicators more than 0,5 and T statisti of all indicators greater than T Table is 1,6711.

The Result of Inner Model: The first hypothesis, is the influence of Islamic leadership toward organization commitment, test result of t – statistic score is 2,167 and t-Table is 1,6711. While coefficient estimation (β) score is 0.324. So it can be concluded that there is significant positive influence from Islamic leadership variable toward employee's commitment to organization. The second hypothesis is the influence of Islamic leadership toward Islamic work ethics, the test result of t–statistic score is 16,428 and t–Table is 1,6711. While coefficient estimation (β) score is 0.826. So, it can be concluded that there is significant positive influence from Islamic leadership variable toward Islamic work ethics. The third hypothesis is the influence of Islamic leadership toward employee's performance, the test result of t – statistic is 2,330 and t-Table is 1,6711. While coefficient estimation (β) score is 0.182. So it can be concluded that there is significant positive influence from Islamic leadership variable toward employee's performance. The fourth hypothesis is the influence of Islamic work ethics toward employee's commitment to organization, the test result of t –statistic score is 3,882 and t-Table is 1,6711. While

coefficient estimation (β) score is 0.607. So it can be concluded that there is significant positive influence from Islamic work ethics variable toward employee's commitment to organization. The fifth hypothesis is the influence of Islamic work ethics toward employee's performance, the test result of t -statistic score is 4,975 and t-Table is 1,6711. While coefficient estimation (β) score is 0,514. So, it can be concluded that there is significant positive influence from Islamic work ethics variable toward employee's performance. The sixth hypothesis is the influence of employee's commitment to organization toward employee's performance, the test result of t -statistic score is 2,875 and t-Table is 1,6711. While coefficient estimation (β) score is 0.319. So it can be concluded that there is significant positive influence from employee's commitment to organization variable toward employee's performance

Table 1: Result for inner weights

	Original sample estimate	Mean subsamples	of Standard deviation	T-Statistic
Leadership >> Commitment	0,324	0,316	0,149	2,167
Leadership >> Islamic work Ethic	0,826	0,835	0,050	16,428
Leadership >> employee performance	0,182	0,171	0,078	2,330
Islamic work ethic >> Commitment	0,607	0,610	0,156	3,882
Islamic work ethic >> employee performance	0,514	0,481	0,103	4,975
Commitment >> employee performance	0,319	0,362	0,111	2,875

T-Table is 1,6711.

Discussion: Islamic leadership (X1) has significant and positive influence toward organization commitment (Y1), so the first hypothesis of this study is proven and accepted. The results support the findings of Fry et. al (2011) that the spiritual leadership to increase organizational outcomes. This result widen the research done by Nowack (2004) which concluded that employee who judges his superior has bad leadership practice make the employee has high intention to quit from organization, low work satisfaction, stress, and employee's commitment to organization is low. This research also widen research done by Fry, Vitucci, Cedillo (2005), about causal model of *spiritual leadership theory*. Research conclusion gives strong support toward *spiritual leadership theory* and the measurement. The resarch result also support Yousef finding (2000) which stated that a leader must be able to do managerial activities. The result of the research also widen Chen finding (2004) which concluded that leadership with innovation culture gives positive influence toward organization commitment. The result of the research also widen Daniel finding (2003) about the influence of leadership toward organization commitment in multinational telecommunication company which shows result that there is significant influence among the four leadership frameworks toward organization commitment. The result of the research also suit to theory given by Thobroni (2005) and Nawawi (1993) which stated that Islamic leadership is as something concerning with leading consists of directing, guiding, leading, showing the way, conducting and training to that people lead can do themselves to reach the decided goals. Islamic leadership in this resarch enrich conventional leadership model with main principle that the essential of leadership is as a test, mandate from Allah Swt and human so that should be beared to Allah Swt (*vertikal* responsibility) and to human (*horizontal* responsibility).

Islamic leadership (X1) has significant and positive influence toward Islamic work ethics (Y1), so the frst hypóthesis of this study is proven and accepted. It means the better and more consistent the application of Islamic values in leadership will increase Islamic work ethics of the employee. The result of this research widen the research done by Howard and Wilson in Timpe (1999:358), leadership gives influence

to work ethics. It means if leadership is not well done, it will cause the decreasing work ethics of employee. Leadership process can influence organization *outcomes*, one of them is the higher work ethics of employee (Pierce and Newstrom, 2006:65). Islamic leadership (X1) has significant and positive influence toward employee's performance (Y1), so the first hypothesis of this study is proven and accepted. It means the better and more consistent the application of Islamic values in leadership will increase employee's performance.

Islamic work ethics (Y1) has significant and positive influence toward organization commitment (Y1), so the first hypothesis of this study is proven and accepted. It means the better the implementation of Islamic values in work ethics will increase employee's commitment toward organization. The result of this research widen research finding done by Yousef (2000) which research about the relationship between Islamic work ethics and attitude toward organization changing which is mediated by organization commitment. By using Islamic work ethics identification developed by Ali (1996), Yousef found that Islamic work ethics has positive relationship toward commitment and attitude toward organization changing. Islamic work ethics such as cooperation principle, responsibility, social influence, and dedication is proven positively produces commitment from the member of organization. The result of research widen research done by Yousef (2001) which examine Islamic work ethics as moderator of relationship between organization commitment and work satisfaction and examine the impact of national culture as relationship moderating variable between Islamic work ethics and work satisfaction. The result of research also widen finding of Putti *et al.* (1989) about the relationship between work ethics and organization commitment in Asia concluded that there are two major dimensions of work ethics named intrinsic and extrinsic derived from Wollack *et al.* Scale analysis factor. The result of research is in line with Oliver finding (1990) which examine the influence of employee's work ethics toward organization commitment company in England concluded that work ethics influences significantly toward employee's commitment. Employee who has strong ethics relatively has high commitment.

The result of this research widen Meglino *et al.* finding (1989), that work ethics can predict *work outcomes*. The result of research widen Furham finding (1990), that work ethics influences behavior such as employee's performance. The research finding is also in line with theory stated by Asifudin (2004) about Islamic work ethics. Identification about Islamic work ethics was firstly stated by Ali (1986). Then, research about Islamic work ethics is developed by Yousef (2000). Organization commitment (Y2) has significant and positive influence toward employee's performance (Y3). The result of research widens the research done by Yousef (2000) about organization commitment as relationship moderator between leadership behavior and work satisfaction and performance. The result of research also widen Suliman and Iles finding (2000) which examine the relationship between commitment characteristics on three companies in Jordania with employee's performance, concluded that there is significant influence between *affective*, *continuance* and *normative* commitment toward performance. The strong possessive to organization and always feel bound emotionally with organization will create strong employee's commitment to organization and will increase employee's professionalism in work and the increasing employee's spiritual performance in doing sunah worship which finally increase employee's performance wholly.

5. Conclusion

Based on the results of the study showed that the leadership of Islam and Islamic work ethic is very important in improving employee commitment and performance. Leadership and work ethic that is based on the spiritual values will encourage employees to commit to the organization and have a passion to improve performance.

Recommendations: The leaders need to master and to explain in practice of Islamic leadership concept based on Al Qur'an and As-Sunah and to be able to understand and explain Rasulullah Muhammad Saw leadership values to have honesty, can keep amanah, can communicate, smart in taking decision, fair and wisdom. Management should continuously do spiritual activities in order to understand and to master the content of Al-Qur'an and As-Sunnah especially that relate to the application of Islamic leadership, Islamic work ethics and implement and civilize the Islamic values in management of company. Government in this case states own enterprises ministry need to organize management by emphasizing spiritual values more, so that employees and organizational performance can increase significantly. Good company management and supported by the strengthening of spiritual values will increase organizational performance optimally more.

Limitation of the Study: Based on the result of this study, there are some things that have not been able to be finished, so there are some limitedness in this study. The less support theory and empiric in this research need further exploration study to find more satisfying indicators for each variables.

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