



Islamic Management Practices in Islamic Microfinance

An Empirical Study

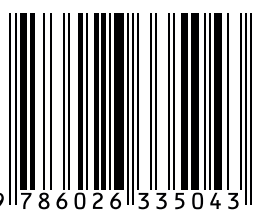
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I would like to take this opportunity to express my profound gratitude to the people whose help and support made this book such as: chairman of STAIN Kudus, lecturers, staffs and students. The work would not have been possible without the assistance of several people who help this project.



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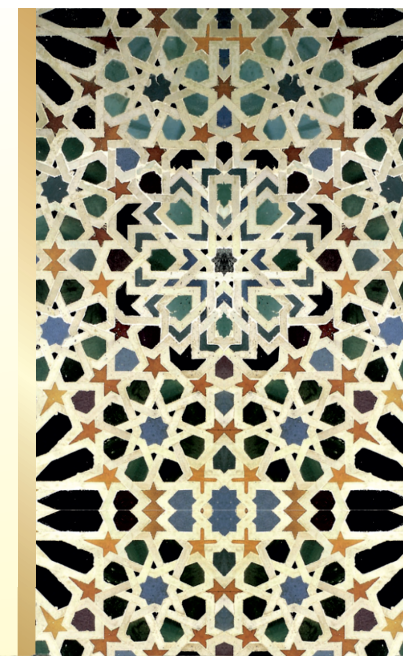
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This book is organized in several chapters includes: (1) Islamic microfinance, (2) Leadership in Islamic perspective, (3) Islamic Work Ethics, (4) Organizational justice in Islam, (5) Work outcomes, (6) Management Practices in Microfinance, (7) Summing Up. The structures of the topics of this book, students are expected to be able to understand the various theories of management in practices especially in Islamic Microfinance.

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Finally and most importantly, I would like to express my sincere thanks to my family. This book would not have been possible without their continues love, support to me. Special thank to my mother and my father for their understanding and patience. Last but not least, special thanks to my wife for her big love to me and to all my children, chania and igna who are continues inspiration.

The work may have a lot of weaknesses, I would expect Suggestions and criticisms to improve this book ahead, and May Allah helps us.

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Chapter 1

ISLAMIC MICROFINANCE

Introduction

The Islamic microfinance is one of the microfinance institutions (MFI) that has the fastest growth rate among the MFIs in Central Java, Indonesia. The Islamic microfinance in Indonesia, which is called *Baitul Maal Wattamwil* (BMT), is an important new source for the establishment of micro institutions and while gaining support from the Islamic community, they have also rapidly spread the establishment of microfinance institutions. There are approximately more than 515 institutions spread over some regencies in Central Java province, Indonesia.

Microfinance in Central Java

Central Java is a province in the Republic of Indonesia. It is located between the West Java and the East Java provinces with a total area of around 32,548 km². According to the BPS Statistics, Indonesia, the population is around 32, 1 Millions, which becomes the third most populous province in Indonesia after West Java and East Java. Administratively, Central Java province consists of 29 Regencies and six Municipalities which are divided into six Residencies (Semarang, Surakarta, Pati, Pekalongan, Banyumas, and Kedu) (BPS, 2010).

The economic development, under the Governor of Central Java, has been directed to accelerate the economic recovery and to strengthen the sustainable economic development which is based on micro, small and medium enterprises (MSMEs), and cooperatives. In Central Java, there are approximately 6.5 million MSMEs or 30 percent of the number MSMEs in Indonesia (Widiyanto, 2007), which represents the prime difference of Central Java economy compare to the other provinces in Indonesia.

Furthermore, to support the huge number of MSME, the banks need to provide a capital or credit to support the development and the success of MSME. Nevertheless, MSMEs have difficulties in obtaining credit facilities from the banking system, because most of them cannot fulfill the 5C requirements of the bank (Character, Capital, Collateral, Capacity, and Condition) (Ismawan and Budiantoro, 2005). In order to solve the capital need, several community groups have been currently supported by the government established Microfinance Institutions (MFIs). This has given great benefits to the micro-enterprises considered as special institutions that provide credit facilities for the micro-enterprises (Widiyanto, 2007; Sebel and Agung, 2008).

There are several types of MFIs in Central Java, namely, BRI Unit Desa, Rural Bank (*Bank Perkreditan Rakyat / BPR*), Pawnshops, *Danamon Simpan Pinjam* (DSP) Bank Bukopin and *Swamitra* Units, Village Credit Boards (*Badan Kredit Desa / BKD*), Rural Credit and Fund Institution (*Lembaga Dana Kredit Pedesaan / LDKP*), Cooperative, Village Saving and Credit Units (*Unit Ekonomi Desa-Simpan Pinjam / UEDSP*), Savings and Credit Service Posts (*Tempat Pelayanan Simpan Pinjam / TPSP*). all of which operate on the basis of the conventional system (interest system). The other MFIs that operate based on the Islamic system (*Shari'ah*) include *BPR Shari'ah* (BPRS) and *BMT (Baitul Mal Wat Tamwil)* (Ismawan and Budiantoro, 2005; Widiyanto, 2007). To adequately explain the functions of the

MFIs, the researcher is always faced with secondary data which are not readily available because there is not a single central body that can collect, process, and disseminate the MFIs data for updating purposes at the moment (Sebel and Agung, 2008). Table below describes the number of MFIs in Central Java from some resources.

Table: Number of Microfinance Institutions in Central Java

No.	Microfinance Institutions	Unit
1	BRI Unit Desa	790
2	BPR (Rural Bank)	597
3	Danamon <i>Simpan Pinjam</i> (DSP)	149
4	<i>Swamitra</i> (Voluntary Partnership)	44
5	Pawnshop	159
6	Cooperative	4,939
7	Credit Union	63
8	Rural Credit Fund Institution (LDKP/BKK)	160
9	Saving and Credit Service Posts (TPSP)	35
10	Village Credit Board (BKD)	1,986
11	Village Economic Unit for Saving and Credit	1,248
12	BPRS (<i>Shari'ah</i> Rural Bank)	9
13	BMT	335

Sources: Compilation from ProFi (2005), Bank Indonesia (2010), BPS Jawa Tengah (2003), Ismawan and Budiantoro, (2005), Widiyanto (2007), and Asosiasi BMTs (2008).

Islamic Microfinance Institutions

The Islamic microfinance institutions (IMFIs) are one of the MFIs group that has the fastest growth rate among the MFIs in Central Java. IMFIs consist of two institutions:

1. Bank Perkreditan Rakyat (BPRS/ syariah rural bank) and
2. *Baitul Mal Wat Tamwil* (BMT).

BPRS is an IMFI which is regulated under the Bank of Indonesia (Indonesia Central Bank), which mainly provides

services, such as savings, credits for Muslims from the middle and the lower income groups. Nevertheless, the BPRS development is quite stagnant, such as, the number of BPRS until today is only 9 institutions (BI, 2010) as result of which it has little impact on the Islamic microfinance services in Central Java (Seibel and Agung, 2008). On the hand, BMTs in Central Java are fast growing. There are approximately more than 500 institutions spread over some regencies, however, only 335 BMTs are registered in the BMT association.

BMTs are important new sources for the establishment of micro institutions and while gaining support from the Islamic community, they have also rapidly spread the establishment of microfinance institutions in Central Java. Obviously, there are some Muslims in Central Java who would not use the conventional bank services. This is because these MSMEs use interest that is not in accordance with the Islamic value. Therefore, the establishment of BMT becomes one of the alternative ways to solve the problem of lack of capital (Widiyanto, 2007). BMTs are a grass-root development supported by funds from the Islamic community members. These micro-finance institutions usually operate on the principle of profit-loss sharing and use the Islamic moral values and group solidarity as social capital to encourage repayment of loans (Sakai and Marijan, 2008). Group solidarity has been fostered through regular meetings and counseling. Hence, this study will focus on the BMTs which have a large numbers which can produce a big impact on the practice of the Islamic microfinance in Central Java. Currently, BMTs are an important part of the micro-enterprises development in Central Java. Thus, in this study the term BMTs and IMFIs are interchangeably used.

Baitul Mal Wat Tamwil (BMT)

The word *Baitul Mal Wat Tamwil* (BMT) comes from the two terms, i.e., *baitul mal* and *baitul tamwil* (Azis, 2008). As such, a more specific definition can be derived as follows:

1. *Baitul mal* means the house of wealth which refers to the social mission of BMT as an institution that will distribute the donation of *zakat*, *infaq*, and *shadaqah* to the persons who are eligible to receive (*Mustahiq*).
2. *Baitul tamwil* means the house of wealth development, which is the business mission of BMT. It is meant to conduct business development efforts and investments in productive economy in order to improve the quality of micro and small entrepreneurs, especially, by encouraging saving activities and supporting the financing of economic activities.

BMTs operate under cooperative principles which are regulated under the cooperative law of Act No. 25/1992. They are registered with the ministry of cooperatives, small and medium enterprises, but not all BMTs operate as legal entities. The establishment of BMT has to be attested by a notary and BMT statutes are standardized and include subjects, such as, identity, area of operation, objectives, and transaction under profit-loss sharing principle and using the Islamic moral values as guidance in the transactions (Sakai and Marijan, 2008).

According to the cooperative law, the establishment of a BMT requires at least 20 founding members who must be willing to deposit money as working capital and to accept the principles of joint liability. The assembly of member is the highest authority of the BMT organization and has to be executed, at least, semi-annually. Decisions are taken are based on the one-member-one-vote principle (Aziz, 2008). It is important to understand the difference between the founding and other members who are entitled to receive BMT services, whereby only the founding

members are involved in the decision-making processes (Holloh, 2001).

The regulation obligates that the BMT management consists of at least three persons, depending on the BMT size. In practice, however, three persons are not sufficiently practicable to run an institution properly. In this case, the usual minimum number of staff in the Islamic microfinance institution is five persons in the following five positions:

1. A general manager, who is responsible for BMT operations, works planning, operational policies, reporting and financing (loan) approvals;
2. A financial manager, who is responsible for servicing, guiding and supervising the borrowers as well as for planning, analysis, reporting in the field of financing, design of deposit products, fund mobilization and administration;
3. An accountant, who is responsible for the financial administration and reporting, and the calculation of income and profit sharing;
4. A cashier, who is responsible for financial transactions and daily cash administration; and
5. A real sector manager, who is responsible for marketing and dissemination of market information (Holloh, 2001; Brouwer and Dijkema, 2002).

However, practically all the staffs go to the field to collect deposit and to distribute credit, and only one or two staff members are always available in the office to serve the customers. In addition, every institution also has an advisor who does not deal with daily activities but gives advice on how to efficiently solve certain problems and the management of the institution (Brouwer and Dijkema, 2002).

According to Widiyanto (2007) the number of BMTs in Central Java has been found to be approximately more than 500,

which have spread in all regencies. However, it is difficult to get the actual number since some BMTs have collapsed while some are new establishment. In Central Java, there is an institution (Asosiasi BMT Jateng/ Central Java BMT Association) which is established by the BMT's administrator that organizes the activities of BMTs. BMTs Association recorded that the number of BMT in Central Java were around 335, but only less than half are active to submit reports to the association (Asosiasi BMT, 2008). The table 3.2 describes the number of BMTs, the estimated assets that they have and also the approximate number of staff who work in each BMTs.

Table: Assets and Number of BMTs and Approximate Staffs

BMT asset size	Number of BMTs	Approximate Number Of Staff
BMTs' assets below Rp 500 mil	50	Around 5
BMTs' assets between Rp 500 mil and 1 Billion	134	5-10
BMTs' assets between Rp 1 Billion and 10 Billion	126	10-15
BMTs' assets above Rp 10 Billion	25	More than 15

Source: Asosiasi BMT (2008)

Currently, BMT is spreading its operation in Central Java and ready to give financial facilities to micro-enterprises in an interest-free system (with easier procedure and requirement). This is in the form of profit and loss sharing and no-profit loss sharing system (trade financing). The profit and loss sharing system embraces: trustee financing (*mudharabah*) and partnership financing (*musyarakah*) while the trade financing system includes: markup financing (*murabahah*), deferred payment sale financing (*bai'u bithaman ajil*), leasing (*ijarah*) and benevolent loans (*qard al hasan*) (Seibel and Agung, 2008; Sakai and Marijan, 2008).

This condition gives more opportunities to micro-enterprises to obtain financing especially for the micro-enterprises that cannot access the bank and MFIs that are constrained by the 5C criteria. This is more so, especially, when the micro-enterprises consider the interest rate as *riba* which is highly forbidden by the Islamic law (Sakai and Marijan, 2008). As such, BMT is considered as an institution that supports the enhancement of the quality of economic and micro-enterprise business transactions based on the Islamic law and the establishment and development of BMT are closely related to the effort of the national economic development (Widiyanto, 2007).

As a viable financial institution, BMT is offering products and services similar to the Islamic banks and syari'ah rural banks (BPRS). However, it has a different market sector in terms of patronage, where the Islamic banks mainly cater for the middle class and the white collar Muslims. BPRS on the other hand mainly provide services for Muslims from the middle and the lower income groups. While BMT usually serves the Muslim customers who run small and medium enterprises and whose access to the banks is relatively limited, some customer overlapping occurs among the Islamic bank, BPRS and BMT (Sakai and Marijan, 2008).

Although it has a big impact on the micro-institution financial operations, the research on BMT is limited. For example, the study which was conducted by Sakai and Marijan (2008) found some characteristics of the BMT in Central Java as described below:

1. Most BMTs are established and run by Muslim's entrepreneurs with a strong commitment to institute social justice based on the Islamic principles. Leadership and commitment significantly affect the operational success as much as the presence of regulations.
2. To reach the social justice objective, most BMTs offer three services (micro-financing, zakat and social welfare

programs, and business/entrepreneurial training) to their members and the community.

3. There are associations and institutions which are related to BMTs, such as, BMT Center, PINBUK and BMT associations that are actively creating self-regulation codes and standard operational procedures for their group.
4. The lack of a proper understanding of the functions of BMT is because of the limitation of promotions which has resulted in the negative perception that BMTs are charitable organizations. Such perceptions have created problems for BMTs in enforcing repayment of loans.
5. Some BMTs also operate other business ventures. Success or failure of their business has a direct impact on BMTs' operations.

Finally, this study explores the human and organization behavior in BMT which is expected to contribute to the development of BMT, especially, Central Java and generally, Islamic microfinance in other places.

Chapter 2

LEADERSHIP IN ISLAM

Introduction

Leadership is an essential element in any organization irrespective of religious association. This is because of the role of a leader as the key person in managing and coordinating the whole activities in an organization. Islam is a comprehensive religion which covers all aspects of life, including the concept of leadership. The Prophet Muhammad (s.a.w) stated: “that if there are three embarking on a journey, one of them should be appointed as a leader” (as cited by Abu Dawud). The goals of leadership in Islam are directing and guiding the members to what is good in the world and the Hereafter (Ali, 2009), with emphasis on brotherhood, social economic justice and create a balanced between the material and spiritual need.

Today, business organization attempts to adapt the increase of the changing of environment, the competitive intensity and changing of customer need and desire is becoming more diverse and complex (Bass, 1985). This condition requires organizations that are able to respond the continuous changes in resources, technologies, and marketing and distribution system. For doing so, organization needs leaders to challenge the status quo, to create visions of the future, and to inspire organizational

members to achieve the visions (Robbin, 2005) and also leaders who have capabilities to adapt the changing environment.

Leadership is no doubt one of the most intensively studied concepts in social sciences (Frey et al., 2009). This is perhaps justifiable given the fact that leaders play an important role in ensuring organizational effectiveness (Bass, 1985). Despite many studies that have been conducted, in a comprehensive review of leadership literature (see meta-analyses by Bono and Judge, 2004), however, not much is known about leadership in Islamic perspectives. In this paper, firstly, we will examine the differentiation between management and leadership. Secondly, we will discuss on Islamic leadership and finally we will review on transformational leadership which was performed by Propet Muhammad (s.a.w).

Leadership

Leadership is no doubt one of the most intensively studied concepts in social sciences (Tabassi and Abu-Bakar, 2010; Frey et al., 2009). This is perhaps justifiable given the fact that leaders play an important role in ensuring organizational effectiveness (Tabassi and Abu-Bakar, 2010). Despite many studies that have been conducted, in a comprehensive review of leadership literature (see meta-analyses by Bono and Judge, 2004; Judge and Piccolo, 2004), Yulk and Van Fleet (1992) concluded that the field of leadership is still in a state of ferment and confusion.

The concept of leadership is often confused with the concept of management in organization (Nienaber, 2010). Schermenhorn, Hunt, and Osborn (2004) explain the difference between leadership and management. They stated that management is intended to support stability or to enable the organization to run smoothly, while leaderships' role is to promote adaptive and useful change. Robbins and Judge (2008: 175) suggest that "good management brings about order and consistency by drawing up formal plans, designing right

organizational structures and monitoring results against the plans. Leadership, in contrast, is about coping with the change and ... developing vision in the future". Furthermore, Greenberg and Baron (2008) explain the differences. They said that leadership is to create the essential purpose or mission of the organization and the strategy attainment, while manager is to implement the vision. Based on the three distinctions above, leadership is more strategic and powerful to create and design adaptive organization than management. However, both management and leadership are essential for organizational success (Robbins and Judge, 2008; Nienaber, 2010). Highly effective leaders may not necessarily have management skills but highly effective leaders do have access to those that do have management skill (Nienaber, 2010). Table 2.1 describes the comparison between leadership and management.

There is no universal definition of leadership because it is complex. Moreover, it is studied in different ways that requires different definitions that depend on researcher's interests (Tabassi and Abu-Bakar, 2010). Greenberg and Baron (2008) define leadership as a process whereby one individual influences group members toward attaining defined group or organizational goals. Burns (1978: 19) defined leadership as: "leaders inducing followers to act for certain goals that represent the values and

motivation, the wants and the needs, the aspirations and the expectations of both leaders and followers”.

Table: Leadership versus Management

Leadership	Management
Ideas	Facts
Shape and influence	Control
Process	Content
Creating a vision	Developing a plan
Innovation	Administration
Coping with change	Coping with complexities
Anticipating crises	Resolving crisis
Doing the right thing	Doing things right
Empowerment	Supervision
Developing	Directing
Focusing on people	Focusing on tasks
Focusing on concepts	Focusing on personalities
Removing barriers	Setting policies

Sources: modification from: Bennis (1989) and Robbins (2005).

According to Lussier and Achua (2007), leadership is the process of influencing leaders and followers to achieve organizational objectives through change. Based on this definition, the authors identified five elements of leadership. The first is the leader-follower. It involves the process of influencing between leader and follower. Therefore, followers give input and influence the leader, and leader need to listen to and to share the ideas with followers and others to be effective. The second element is influence. This is the process whereby a leader communicates ideas, gains acceptance of them and motivates his/her followers to support and implement the ideas through change. In this case, influence is an important leadership factor needed for effectiveness. Leaders should know when to lead and when to follow. As such leaders and followers will change

the roles through the influencing process. The third element is organizational objectives. In this case, leaders and followers need to work together to set objectives that should be achieved and the leader should provide the direction based on the shared idea between leader-follower. Change is the fourth element. In this instance, leaders should involve in influencing followers to adapt to the global environmental changes. As such, leaders must take risks and try new ideas for the future organization. The fifth element is people. Leadership is about leading people. As such, effective leaders and followers should work together with the people in their environments and support them to succeed.

Over the years a number of approaches to studying leadership have been pursued. These approaches of leadership theories reflect an idea of leadership based on an individual, a specific trait, and the effect of the environment on a leader. These perhaps explain the fact that theory of leadership has developed starting from trait theory until the new paradigm such as transformational leadership. The major approaches will be discussed below.

1. The Trait Theories

The trait theory was one of the first systematic attempts to study leadership in the 20th century. During this time, researchers concentrated on determining the specific trait that clearly differentiated leaders from followers (House and Aditya, 1997; Armandi, Oppedisano, and Sherman, 2003). Researches concerning trait theory concentrated on the following factors: (a) physical factor such as age, height, weight, physique, health, and appearance. (b) ability factors such as fluency of speech, tone of voice, academic performance, intelligence, judgment and decision, insight, and initiative, and (c) personality features such as integrity, emotional control, self confident, and popularity (Bass, 1997). The trait theory attempts to explain distinctive characteristics accounting for leader effectiveness (Armandi

et al., 2003). By identifying the leader's trait, successful leaders could be quickly assessed and put into leadership positions.

One of the most prominent leadership theories in the earliest study of trait theory was the Great Man Theory. It sought to identify the effectiveness of the leader's traits. The theory holds that people are born with these traits and only great man possessed them (Taylor, 2009). Scholars attempted to isolate the superior qualities and explain leadership styles in term of personality and character traits revealed.

Hughes, Ginnett, and Curphy (2002) suggest that this leadership theory embraces the notion that history is shaped by great men who have capacity to lead the masses. Leaders like John F. Kennedy, Mahatma Gandhi, Soekarno and Nelson Mandela etc. exemplify the Great Man Theory. Many leadership studies based on this theoretical framework were conducted in the 1930s, 1940s, and 1950s.

Stogdill (1948) analyzed over 124 empirical studies conducted between 1904 and 1947. In his first survey, he identified a group of successful leaders. The result of this survey showed that individuals in various groups become leaders because of the following traits: intelligence, alertness, insight, responsibility, initiative persistence, self confidence, and sociability (Northouse, 2009).

Mann (1959) conducted a study by examining more than 1400 leaders regarding to their personalities (Northouse, 2009). He found that leaders are strong in the following traits: intelligence, masculinity, adjustment, dominance, extroversion and conservatism. This theory proposed that certain individual are endowed with leadership traits that cannot be learned. Then, Stogdill (1974) in his second review of trait leadership research included an additional 163 studies that were conducted from 1949 to 1970. His review identified factors associated with energy, age, status, mobility, education and intelligence as being able to separate effective leaders from ineffective ones. He

concluded that “a person does not become a leader by virtue of the possession of some combination of traits...the pattern of personal characteristics of the leaders must bear some relevant relationship to characteristics, activities, and goals of followers” (p.64). Furthermore, he suggested that leadership requires more than just the study of people, but also the study of situation.

Lord et al. (1986) reassessed Man (1959) and found that personality traits in leadership are intelligence, masculinity and dominance (Lussier and Achua, 2007). Kirkpatrick and Locke (1991) found that leaders are different from non leaders on six traits: drive, the desire to lead, honesty and integrity, self confidence, cognitive ability, and knowledge of the business.

According to Northouse (2009), some researches in the traits theory found the following characteristics:

1. *Intelligence* refers to the leaders to have a strong verbal ability, perceptual ability, and reasoning appears to make one a better leader.
2. *Self confidence* refers to the ability to be certain on one's competencies and skills. This includes a sense of self esteem, self assurance, and belief.
3. *Determination* refers to the desire to get the job done and includes initiative, persistence, dominance and drive.
4. *Integrity* refers to the quality of honesty and trustworthiness
5. *Sociability* refers to a leader's inclination to seek out pleasant social relationship like being friendly, outgoing, courteous, fateful, and diplomatic.

Robbins and Judge (2008) offers two findings related to trait leadership theory: (a) traits can predict leadership, and (b) traits are better in predicting the emergence of leaders and the appearance of leadership than in actually distinguishing between effective and ineffective leaders. They propose that these two

findings are congruent with the personality factors identified in the Big-Five Model including: extroversion, agreeableness, conscientiousness, emotional stability, and openness to experience.

A lot of trait studies were conducted to discover the list of qualities, but no one has come up with the traits that would guarantee leadership success. Hersey, Blanchard, and Johnson (1996:103) provided a brief summary regarding trait theory studies:

“Empirical research suggests that leadership is a dynamic process, varying from situation to situation with changes in the leader, the followers, and the situation. Therefore, although certain traits may help or hinder a given situation, there is no universal set of traits that will ensure leadership success”.

The trait research did not consider the impact of situational variables that might moderate the relationship between leader and traits as well as measure the leadership effectiveness (Armandi et al., 2003; Taylor, 2009). As a result of the lack of consistent findings linking individual traits to leadership effectiveness, empirical studies of leader traits were largely abandoned in the 1950s.

2. The Behavioral Theories

This theory began in the early 1950s, when most of the leadership researches shifted away from trait theory to focusing on what the leader actually did on the job (behavioral) (Armandi et al., 2003; Lussier and Achua, 2007). The premise of this stream of research was that the behaviors exhibited by the leaders are more important than their physical, mental, or emotional traits (Dubrin, 1995).

Behavioral leadership theories attempt to explain distinctive style used by effective leaders, or to define the nature of their work (House and Aditya, 1997). There are some researchers conducted in line of this view. The two theories

that are well-known in this regard are: Ohio State Studies and Michigan Leadership Studies.

The Ohio state studies analyzed how individuals acted when they were leading a group in organization (Greenberg and Baron, 2008). This research compiled a list of 1800 examples of leadership behavior, and then reduced the list to 150 items that appeared to be examples of good leader behaviors (Yulk, 2006). The items were eventually used to form Leader Behavior Description Questionnaire (LBDQ), which was used to determine the common leader behaviors. This research found two general types of leadership behaviors: initiating structure and consideration. Initiating structure referred to the way in which a leader initiated activities in a group, organized them and defined the way work was to be accomplished which involved: planning, organizing, and coordinating the work of subordinates. Consideration measured the extent to which a leader was concerned about the welfare and well-being of the members of the group such as: showing concern for subordinates, being supportive, recognizing subordinates' accomplishments and providing subordinate's welfare (Hughes et al., 1999; DuBrin, 1995).

During the time of the Ohio State Study, researchers at the University of Michigan were also studying leadership effectiveness. In this study an effort was made to distinguish between effective leaders from ineffective ones as measured by the productivity of the worker group. This study was under the general direction of Rensis Likert. Its focus on determining the principles and methods of leadership led to productivity and job satisfaction. The research found two types of general leadership behaviors or orientations: an employee orientation and a production orientation. Leaders with an employee orientation showed genuine concern for interpersonal relations. Those with a production orientation focused on the task or technical aspect of the job (Lussier and Achua, 2007).

Likert summarized the behavior into three types that differentiated between effective and ineffective managers (Likert, 1961):

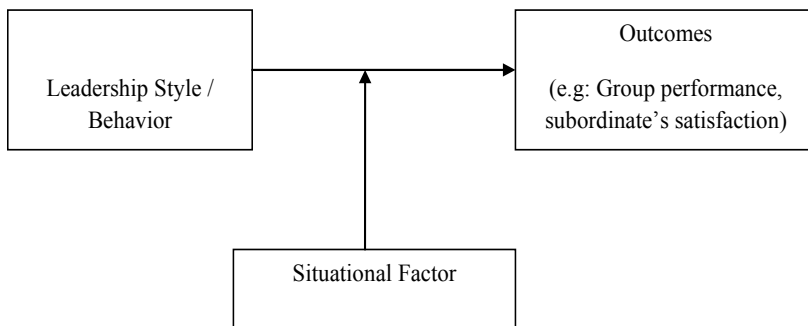
- a. Task-oriented behavior. Effective managers do not perform the same work as their subordinates. They complete planning and task scheduling activities that provide high, but reachable goals. This is similar to the initiating structure of Ohio State Study.
- b. Relations-oriented behavior. Effective managers show trust, confidence, friendly behavior, and support in their subordinates. They manage in a more general method as opposed to direct or close supervision. The effective managers attempt to build the self-worth and importance of the subordinate. This is similar to consideration in Ohio State Study
- c. Participative leadership. Group meetings are used to involve subordinates in decision making, communications, and to solve any conflicts or open issues. The effective manager did use participative methods, but also remained responsible for all decisions and results.
- d. The assumption of the above approach was that there were certain behaviors that would be universally effective for leaders. Unfortunately, empirical research has not demonstrated consistent relationship between task oriented and person-oriented leader behaviors and leader effectiveness (House and Aditya, 1997). Like trait research, leader behavior research did not consider situational influences that might moderate the relationship between leader behavior and leader effectiveness.

3. The Contingency Theories

The failure to find universal leader traits and behaviors that would always determine effective leadership led researchers in new direction to contingency theories (Taylor, 2009). Contingency

theories try to predict which type of leadership style will be most effective in different type of situations (Bryman, 1986; Tabassi and Abu-Bakar, 2010). Bryman (1986) expresses the basic structure of this approach in Figure 2.1. Contingency theories gained prominence in the late 1960s and 1970s. There are four theories that are well-known in this approach: Fielder's theory, Path-Goal theory, the Vroom-Yetton-Jago decision-making model of leadership, and the situational leadership theory.

Figure 2.1
Situational Leadership



Source: Bryman, 1986, p.126

Fielder's theory, introduced in 1967, was the first to specify how the situational factors interact with the leader traits and behavior to influence the leadership effectiveness (Tabassi and Abu-Bakar, 2010; Luthan, 2005). Fiedler suggested that the leadership effectiveness depends on two factors. One is the degree to which the leadership situation gives the leader control and influence over the group process and the group performance. The Second factor reflects an attribute of the person, an aspect of the leader's goal or focus of concern. Fiedler developed a personality measure, that is the least preferred co-worker (LPC) scale, to identify leadership style. The LPC instrument measured esteem for the leader's least preferred co-worker and the score was used to generalize leadership style (House and Aditya, 1997).

Bass (1990) reported that Fiedler developed three leadership factors, which indicated a leader's ability to influence followers. They are: first, leader-member relation, which refers to the respect and trust that followers have for the leader. Second, task-structure, it refers to responsibility of subordinate which is highly structured and measured. Third, position power, it refers to the control that the leader has over subordinates' rewards and punishments.

This study found that task-oriented leaders were more effective when the situation was either highly favorable or highly unfavorable. In contrast, person-oriented leaders were more effective in the moderately favorable or unfavorable situations. This study did not propose that leaders should adapt their style to different situation. But rather, leaders with different leadership styles would be more effective when they were placed in the situation that matched to their preferred style (Northouse, 2009).

The second theory in contingency approach is the Path-Goal theory. This theory was developed by House in 1971 and refined in 1974 by House and Mitchell. The theory revealed that leader can influence subordinates' perception of work and the paths to attaining stated goals (Silverthorne, 2001). The theory proposed two attributes to determine which leader behaviors will be more effective: the subordinates' attributes and work-setting attributes. The subordinate attributes are authoritarianism, internal-external orientation, and ability. In addition, work-setting attributes include task, formal authority system, and primary work group (Schermenhorn et al., 1994).

Chemers (1997) categorized the House and Mitchell leadership into four: (a) instrumental leadership requires the leader to clarify what is expected of subordinates, rules and procedures, and how to complete tasks; (b) supportive leadership demonstrates a leader's concern for welfare of subordinates; (c) participative leadership involves collaborative decision making

between the leader and subordinates; and (d) achievement-oriented leadership sets ambitious goals for subordinates and communicates a high level of confidence in their ability to complete tasks. The effective leader used a combination of the above styles to meet the needs of followers, which in turn increased productivity.

The Path-Goal theory has two contributions to the leadership theory: first, training could be used to change leadership behavior to fit the contingency situation. Second, the leader could be taught to diagnose the situation and to learn how to change the contingency (Schermenhorn et al., 2004). However, there are also some criticisms, for instance, interpretation of the meaning of the theory can be confusing because of its complexity and incorporation of so many aspects of leadership. Furthermore, it fails to explain adequately the relationship between leadership behavior and worker motivation (Silverthorne, 2001). Similarly, Yulk (2006) showed that the theory focuses only on a few aspects of leaders' behavior that are conceptualized in overly abstract and broad category.

Another theory is the Vroom-Yetton decision making model. This theory focused on decision making rather than style of leadership (Hughest et al., 1999). It focused primarily on the degree of subordinate participation that is appropriate in the different situations and emphasizes on the decision-making style of the leader. The styles are labeled AI, AII, CI, CII and G. These styles range from strongly autocratic (AI) to strongly democratic (G) (House and Aditya, 1997).

The appropriate style is determined by answering the questions which relate to such contingency factors as the importance of decision quality, the structure of the problem, whether subordinates have enough information to make a quality decision, and the importance of subordinate commitment to the decision. This model describes the different ways leaders can make decisions and guides leaders in determining the extent to which

subordinates should participate in decision making. This theory holds that: (a) organizational decision should be of the highest quality and (b) subordinate should accept and be committed to organizational decisions that are made (DuBrin, 1995; Hughest et al., 1999).

The last contingency approach is the situational leadership theory. This theory was introduced by Hersey and Blanchard in 1969 and was revised in 1977. The theory suggests that the key contingency factor affecting leaders' choice of leadership style is on the level of followers' readiness (Robbins and Judge, 2009). Readiness is the extent to which people have the ability and willingness to accomplish a specific task.

Hersey and Blanchard (1977) attempted to match four leadership patterns: task-oriented, dynamic, relations-oriented and delegating, with four levels of maturity (low, moderately low, moderately high, and high) of subordinates. Maturity was identified as the most significant variable in determining leadership style. Follower maturity is responsible for the relationship between leader behavior and leader effectiveness. This model identifies four leadership styles: telling, selling, participating, and delegating. Telling style is best for low follower readiness; selling style is best for low to moderate readiness; participating style is best for moderate to high readiness; and delegating style is best for high readiness. This theory requires the leader to develop the capability to diagnose the demands of situations and then choose and implement the appropriate leadership response (Robbins and Judge, 2009).

Although trait, behavioral, and contingency approaches have each contributed to the understanding of leadership, none of the approaches have provided a completely satisfactory explanation of leadership and leadership effectiveness (Northouse, 2009). Several alternative theoretical frameworks have been developed to improve understanding on this area such as transformational and transactional leadership approach.

Transformational Leadership

Over the past two decades, transformational leadership theories have emerged as one of the most popular approaches to understanding leadership effectiveness (e.g. Piccolo and Colquitt, 2006; Barling et al., 2008). In contrast to the earlier approaches, the new emerging theories focus on attempting to explain how leaders can accomplish extraordinary things and arouse follower to have higher level of thinking (Piccolo and Colquitt, 2006). These later approaches also emphasize on the importance of leaders' inspiring subordinates' admiration, dedication, and unquestioned loyalty through articulating a clear and compelling vision (see Bass, 1985; Yulk, 2006; Pillai et al., 1999; Frey et al., 2009).

It was Burns (1978) who introduced the concept of transformational leadership. He explains the concept of transforming leadership as follows:

“Such leadership occurs when one more person engages with other in such a way that leaders and followers raise one another's higher levels of motivation and morality. Their purposes, which might have started out as separate but related, as in the case of transactional leadership become fused, power bases are linked not as counter weights but as mutual support for common purpose”. (Burns, 1978: 20)

Burns did not describe transformational leadership as a set of specific behaviors rather a process in which leaders and follower raise one another to higher levels of morality and motivation (Burns, 1979). Then he tried to distinct transformational leadership with the traditional forms of transactional leadership. He described that transactional leadership is motivated by the Maslow's lower level needs (food, shelter, safety and affiliation). In contrast, transformational leaders focus on the higher level of follower needs (esteem self-fulfillment, and self actualization) (Tabassi and Abu-Bakar, 2010; Pawar, 2003; Pillai et al., 1999; Frey et al., 2009).

Extending Burns initial theory, Bass (1985) also approached transformational leadership by discussing Maslow's hierarchy of needs. The concept of the Maslow's hierarchy of needs is that an individual must satisfy basic needs for survival to some reasonable degree before bothering about his or her own safety and security. Only after this, the individual can focus upon the need for love and affiliation with family and friends. After fulfilling the aforementioned, the individual can then concentrate on self esteem and recognition. The highest level of the hierarchy is the need for self-actualization or realizing one's own potential (Tabassi and Abu-Bakar, 2010). Transformational leaders increase and arouse the follower's need to the higher level, which can produce extraordinary effort (Fitzgerald and Schutte, 2010; Frey et al., 2009).

According to Bass, the transformation can be attained in any one of three related ways. First, it is by raising the level of awareness. By doing so, the degree of consciousness related with the importance and value of designated outcomes and how to achieve them. Second, this leadership emerges when an individual interest is transcended for the sake of the higher goals which an organization or a team has. Third, by altering to a higher level of need in Maslow's hierarchy, transformation may be attained (Bass, 1990).

Although the work of Bass was based on Burns' work, Bass' work was different from Burns' work. As Bass (1985: 22) mention that:

“Burns and I are different in the three ways. He sees transformational leadership as the opposite end of a single continuum from transactional leadership. Conceptually and empirically, we find leaders will exhibit a variety of patterns of transformational and transactional leadership. Most leaders do both, but in different amounts”.

Bass regards transformational and transactional leadership as two distinct processes but acknowledges the possibility of varying relationship between them (Pawar, 2003).

Different views of relationship between transformational leadership and transactional leadership are due to different findings in empirical researches. Burns (1978) found that transformational and transactional leadership's forms are distinct from each other in political area. However, some other findings such as Waldman Bass and Yammarino (1990) indicate that these two dimensions are highly correlated, suggesting that transformational and transactional processes are related and occurred together. In addition, the effect of transformational leadership on work outcome is positively stronger than that of transactional leadership (Waldman et al., 1990). Based on this finding, it is suggested that transformational leadership is an extension of transactional leadership and some leaders have a profile of the full range of leadership. That is, they have both transformational and transactional factors (Bass and Steidlmeier, 1999).

Bass further described that transformational leadership is based upon four dimensions. The four dimensions in transformational leadership are idealized influence (or charisma), inspirational motivation, intellectual stimulation and individualized consideration. These are discussed in the following sections.

1. Idealized Influence/ Charisma

Idealized influence (charisma) is described as an attribute of a leader who behaves as a role model, and possess high standard of moral and ethical conduct and is respected by follower (Bass and Steidlmeier, 1999). Bass defined and described charisma as below:

“Charisma has been used to describe leader who by the power of their person have profound and extraordinary effects on their followers. Charismatic leaders inspire in their followers unquestioning loyalty and devotion without regard to the followers’ own self-interest”. (Bass, 1985: 35)

Based on this definition, leaders who have charisma tend to gain respect, confidence and loyalty from their subordinates. Moreover, they also acquire a strong individual identification with their followers, who also develop intense feelings for their supervisor (Dubinsky et al., 1995).

Transformational leaders behave in ways that make them role models for their followers. Such leaders are admired, respected and trusted. Followers identify with these leaders and want to emulate them. They avoid using power for personal gain and in fact use their power only when needed. Moreover, leaders who exhibit idealized influence are able to obtain the required extra efforts from followers to achieve optimal levels of development and performance (Bass and Avolio, 1992).

Bass also maintains that there are requisite abilities, interests, and personality traits of the charismatic leaders: first, charismatic leaders raise self-confidence and self-esteem. Second, charismatic leaders set extraordinary determination and capability apart from followers. Third, leaders with charisma have insights into the needs, values, and hopes of subordinates. Finally, charismatic leaders nurture in the followers, the desire to achieve a want for the team's goals (Bass, 1997).

2. Inspirational Motivation

Inspirational motivation refers to the leaders who have capacity to create a convincing vision for the future based on values and ideas (Bono and Judge, 2004). The leader's vision is not only based on tangible rewards but also provides meaning by addressing the higher order needs such as the personal growth of the followers (Humpheys, 2005). In addition, the leader also raises the expectations and confidences of the followers to achieve the ultimate goals.

Inspirational leadership is a component within charismatic leadership behavior (Bass, 1985). Bass argued that even though inspirational leadership is a sub factor of charisma. Nonetheless

inspirational leadership can be self-generated by leaders to the followers. By using inspirational leadership, the self-interests of followers can be raised above the group interest (Fitzgerald and Schutte, 2010). In addition, inspirational leaders also stimulate enthusiasm and motivation among followers to achieve the objectives of the group and organization.

Bass stated that there are a number of requirements for inspirational leadership (Bass, 1985). First, inspirational leaders motivate followers to do extra effort with an action-orientation. In this, the emphasis of the leader is upon actions, and not bureaucratic formalities (e.g., administrative protocols, organizational structures, etc.). Second, inspirational leaders built the confidence within subordinates. Third, transformational leaders are able to inspire belief in the greater cause of the group. Finally, inspirational leaders are able to increase the expectations of their subordinates, which in turn lead directly to extra-efforts and outcomes of performance (Bass, 1997).

3. Intellectual Stimulation

Intellectual stimulation is Bass's third factor associated with transformational leadership. This is characterized by promoting intelligence, rationality, logical thinking and careful problem solving (Fitzgerald and Schutte, 2010). Transformational leaders stimulate their followers' efforts to be innovative and creative by questioning assumptions, reconstructing problems and approaching old situations in new ways. Followers are encouraged to try new approaches, and their ideas are not criticized if they differ from the leaders' ideas (Humpheys, 2005).

Leaders encourage the followers to think rationally. New ideas and creative problem solutions are sought from the followers, who are included in the process of addressing problems and finding solutions (Piccolo and Colquitt, 2006). There is no public criticism on individual member's mistakes. Followers are

encouraged to question their own way of doing things or to break the past.

Leaders exhibiting intellectual stimulation actively encourage subordinates to look at old problems or methods in new ways. They seek to foster employee creativity and stress rethinking, reexamination of assumptions, and use of intelligence and reasoning rather than unsupported opinions (Dubinsky et al., 1995; Piccolo and Colquitt, 2006). The followers are able to conceptualize and understand the nature of the problems faced by the organization. Moreover, because of this augmented followers understanding, they will be better capable of participating in the problem solving process (Fitzgerald and Schutte, 2010).

The leader stimulates followers to rethink old ways of doing things and to reassess their old values and beliefs. This dimension is concerned with the degree to which followers are provided with interesting and challenging tasks and encouraged to solve problems in their own way (Pounder, 2001).

4. Individualized Consideration

Individual consideration may be characterized by the leader's ability to foster participative management and focus upon individual employee's need for growth and participation. Leaders who have individual consideration treat every employee as individual with unique needs, capabilities and concerns (Arnold and Loughlin, 2010). The result of this leadership behavior is that followers' satisfaction and productivity will be augmented (Bass, 1985).

Individual consideration also involves the leader's balance of formal versus informal communication and stimulates subordinate to participate in the decision making process. In this manner, followers are able to feel as if they are participants in organizational developments and not just spectators (Arnold and Loughlin, 2010).

Transformational leaders employing individualized consideration are also able to delineate among differences in followers (Piccolo and Colquitt, 2006). In essence, every subordinate is different from the other, and the transformational leader understands this in addressing employee issues. Finally, individual counseling is also important. Leaders are expected to be counselors and responses to followers needs are critical in the success of the leader.

Mentoring is also an essential element in this dimension. In this manner, the values of leaders can continue within the organization through the protégés (Northouse, 2009). Moreover, individual consideration implies that a leader also takes on the role of a coach or mentor. This role involves the ability to recognize individual differences concerning needs for autonomy, encouragement, support, responsibility, structure and instructions. Leaders coach and mentor the followers in order to provide continuous feedback and links with organization's mission (Arnold and Loughlin, 2010).

Transactional Leadership

Transactional leadership refers to the exchange relationship between the leader and followers (Bass and Avolio, 1992; Piccolo and Colquitt, 2006). They receive something from the other in return for something else. In other word, the leaders give subordinates something that they want (such as salary or bonus) in exchange for something that the leaders desire (such as productivity or goal attainment). Burns described transactional leadership as leaders who are based on bureaucratic authority and legitimacy within organization. They also tend to focus on task completion and employee compliance (Deluga, 1990).

Conger and Kanungo (1998) explained that transactional leadership is not a leadership at all but rather "managership". This implies an emphasis on maintaining the status quo of the organization and ensuring the stable administration of practices

and resources essentially via strategies of control. It emphasizes on work standards, assignments and task-oriented goals and as a cost benefit exchange process reinforces its perceived inferiority to the transformational notion. Furthermore, this leader also manipulates the followers' valued outcome in exchange for follower's compliance with leadership wishes (Fitzgerald and Schutte, 2010; Lussier and Achua, 2007).

Bass (1998) has identified the following dimensions of transactional leadership: contingent reward, management-by-exception (MBE), and laissez-faire. These are discussed in the next sections.

1. Contingent Reward

Contingent reward refers to the agreement between a leader and a follower on what the follower needs to do to be rewarded or to avoid punishment. Moreover, they accept interconnected roles and responsibilities to attain the goals (Bass, 1985; Northouse, 2009). In general, the forms of contingent reward are praises for work well done and recommendations for pay increases, bonuses and promotion. In contrast, contingent punishment also can be taken when an employee fails to fulfill the manager's expectations.

For the leaders of high moral development, contingent reward would imply negotiation (Bird, 1999) in good faith. In such a negotiation, the leader and subordinate agree on objectives of the leader, while not being concerned with followers' higher order needs, changing their attitudes, or enhancing their internalization of organization mission. It will also nevertheless possess values of honesty, truth, fairness, and trust. These values will be manifested in all aspects of the leader-follower relationship. These leaders will emphasize subordinates' training and stay in close contact with them thus contributing to their ability to attain the agreed upon goals (Aronson, 2001).

2. Management-by-Exception

In this dimension, the transactional leadership will devise a system to prevent any deviation from standards and on a constant basis take the steps required to keep followers on course. This style may be appropriate in situations where the personal safety of employees is at risk (Bass, 1998; Piccolo and Colquitt, 2006). Although less emphasis is placed on goal-setting and leader-follower contact in contingent reward, the relationship remains characterized by ethical values (Aronson, 2001).

The leader will tend to stand by and apply corrective measures only after the divergence from standards has occurred. The ethical leader may, therefore, lack sufficient time for personal attention to followers' needs but will nonetheless operate with a genuine concern for their well-being and a desire for them to succeed.

3. Laissez-Faire

The laissez-faire is the third dimension of transactional leadership according to Bass. This dimension is essentially a non leadership, as the leadership is absent (Bass, 1999). This type of leader tends to withdraw from leadership role and offer little in the terms of either direction or support. According to Deluga (1990) that laissez-faire leadership is a passive leader who is reluctant to influence the follower or give direction.

Laissez-faire leadership involves very little leadership. Both the work and subordinates are at liberty to run on their own with a small degree of interaction from the leader (Bass, 1999). The inactive manager is a type of laissez-faire leadership who avoid making decision, taking responsibility, and interacting with subordinates. The indicators of the laissez-faire style would be: avoid making decision, abdicate responsibility, refuse to take side in a dispute, and show lack of interest in what is going on. In addition, leaders are reluctant to influence sub-ordinates or

give direction. Hence, the subordinates are given considerable freedom of action (Deluga, 1990).

Furthermore, this style is normally ineffective in leading and managing subordinates. Bass (1997) found that there was a negative association between laissez-faire leadership and variety of subordinate performance, effort and attitude. However, there have been studies that have demonstrated that laissez-faire style is not always ineffective. For example Bass (1960) found that sometimes the autonomy of subordinates enhances the subordinates' performance (Bass, 1985).

Leadership in Islamic Perspective

Leadership is an essential element in any organization irrespective of religious association. This is because of the role of a leader as the key person in managing and coordinating the whole activities in an organization. Islam is a comprehensive religion which covers all aspects of life, including the concept of leadership. The Prophet Muhammad (s.a.w) stated: "that if there are three embarking on a journey, one of them should be appointed as a leader" (as cited by Abu Dawud). The goals of leadership in Islam are directing and guiding the members to what is good in the world and the Hereafter (Rice, 1999; Saleh, 2007; Ali, 2009), with emphasis on brotherhood, social economic justice and create a balanced between the material and spiritual need.

According to Al-Buraey (1985), the Islamic approaches of leadership are different from the western approach of leadership in the following ways. First, the early Islamic approach was characterized by the religious and moral spirit which dominated the entire field of government and administration under the prophet and the four pious-caliphs. The Islamic leadership approach is a value oriented approach that seeks to maximize Islamic value and ethical standard. Second, the Islamic leadership approach recognizes the spiritual and psychological sources of

human derivations and behaviors. Third, the Islamic approach of leadership is a human oriented approach rather than a production-oriented approach (Al-Buraey, 1985).

In Islam, Prophet Muhammad (s.a.w) was a perfect role model of a leader. He had shown how to act and behave in managing the Ummah which is explained in *Hadith* and *Sunnah*. The life of Muhammad (s.a.w) presents a practical example of how leaders behave toward their followers. Allah says (Qur'an 33:21):

"You have indeed in the Apostle of Allah a beautiful pattern of (conduct) for anyone whose hope is in Allah and the final day and who engages much in the praise of Allah"

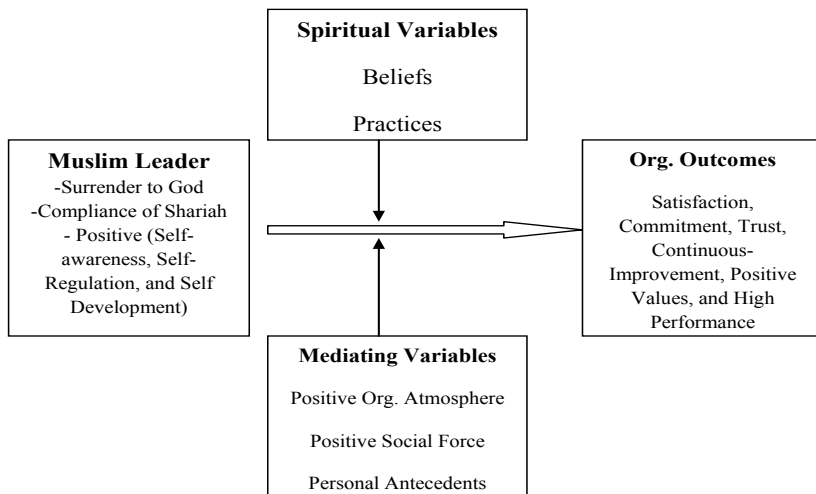
Although the study of leadership is one of the most important fields of modern time, and with the *Qur'an* and the *Sunnah* provide us with numerous references for understanding the Islamic approach to leadership. Nonetheless the Muslim intellectuals have failed to give it its proper due. As a result, they have been unable to formalize an Islamic theory of leadership (Saleh, 2007). Most of the attempts were not aimed to formulating an Islamic theory of leadership, but rather were trying to prove that Islam had sufficient resources to formulate such a theory.

The word leadership in Arabic language is same as *Khilafa*, *Umara* or *Wilaya*. Ibn Khaldun explained the word *Khilafa* as the activities to assist people to live in accordance with the Islamic rules as guidance for their interests in this world and in hereafter. It is the vicegerent duty on behalf of Allah to guard the religion and to manage life. Furthermore, *Umara* is a person who is entrusted to take care of the affair of other people in certain society (Hafidhuddin and Tanjung, 2006). Ibn Taymiya defines "*wilaya*" as maintaining the religion of the people such that, if it is lost, they will be the losers. Also *wilaya* entails maintaining a life that will assist people to understand their religion (Saleh, 2007).

There are some definitions of leadership from the Islamic perspective, Beekun and Badawi (1999) for instance, defined

leadership as trust (*amanah*). It represents a psychological contract between a leader and followers that he/she will try his/her best to guide them, to protect them, and to treat them justly. According to Altalib (1991) and Chowdbury (2001) leadership in Islam is a process of inspiring and coaching voluntary followers in effort to fulfill a clear as well as share vision and the element of complete surrender to Allah in its entire ramifications. Islam does not separate the day to day life from spiritual life, it rather integrates the socio-economic, legal, cultural and all aspects of human life. Therefore, it is reasonable to explore how Islam influences leadership practices of its follower's everyday. The focus of leadership in Islam is on doing good deeds for the sake of Allah, the Muslim community and humankind (Kader, 1973 in Aabed, 2006). Toor (2007) proposed Islamic leadership model which consists of several variables such as Muslim leaders, spiritual variable, mediating variables and organizational outcomes (see figure 2.2).

Figure 2.2
Islamic Leadership Model



Source: Modified from Toor (2007: 61).

According to Hafidhuddin and Tanjung (2006) the definition of leadership in Islam can be explained in two terms: *umara* or *ulil amri* and *Khadimul ummah*. Firstly, *umara* or *ulil amri* is a person or group of people who are entrusted to take care of the affair of other people in certain society. These leaders are responsible for managing the interest of their follower. They should be able to formulate various strategies and approaches to minimize conflict of interests that may arise among their followers. Secondly, *khadimul ummah* is defined as leaders who serve the people. The leaders must be put in a position of serving the need of people. In a company context, leaders should create the balance of interest from the owners, employees and surrounding environment. The concept of leadership in Islam combines *umara* and *khadimul ummah*. The combination of these two is necessary needed in order to produce a qualified leader who can bring harmony and prosperity in an organization (Hafidhuddin and Tanjung, 2006).

Based on the earlier studies on leadership from Islamic perspective, Aabed (2006) concluded that there are nine important components of the Islamic leadership. First, leadership in Islam is rooted in belief and willing submission to the creator, Allah. It centers on serving Him based on: *Iman* (faith in God), *taqwa* (inner consciousness of a person toward Allah), and *Ihsan* (Beekun and Badawi, 1999). Second, leaders have to provide direction (a vision) to their organization. Third, the leaders should communicate their vision to others in ways designed to generate strong commitment needed to serve as a support to achieve the desire goals. Fourth, leaders have a major role in creating and maintaining the culture of an organization. Fifth, leaders have a role of sustaining the organization over the long-term. Sixth, leaders should maintain the unity and cooperation among their followers in their organization and the momentum of their progress. Seventh, leaders should provide space for constructive criticism. Eighth, leaders should be able to initiate, guide, and

control change in order to achieve the stated objectives. Ninth, leaders should have some leadership qualities such as conviction, justice, sacrifice, eloquence, sound decision-making.

Transformational Leadership in Islam

In both Islamic and Western literatures, the transformational leadership approach views the leaders and followers as two partners who set goals and targets for the group together. As partners, they help the group to develop self-confidence and a sense of achievement (Aebed, 2006; Beekun, 2007). The nature of transformational leadership in Islam is participatory leadership which is known as *shura* (discussion) in decision making process (Aebed, 2006).

According to Aebed (2006) transformational leadership adopts a down to earth approach for involvement and for providing the opportunities to work together and assists each other. This is compatible with Islamic values and as such, the leader will bring out the best in those whom he/she leads to transform society to fulfill its mission. These characteristics are demonstrated by Prophet Muhammad (s.a.w) who transformed the society in Arabia from the *Jahilliyah* (the age of ignorance) into the light of Islam.

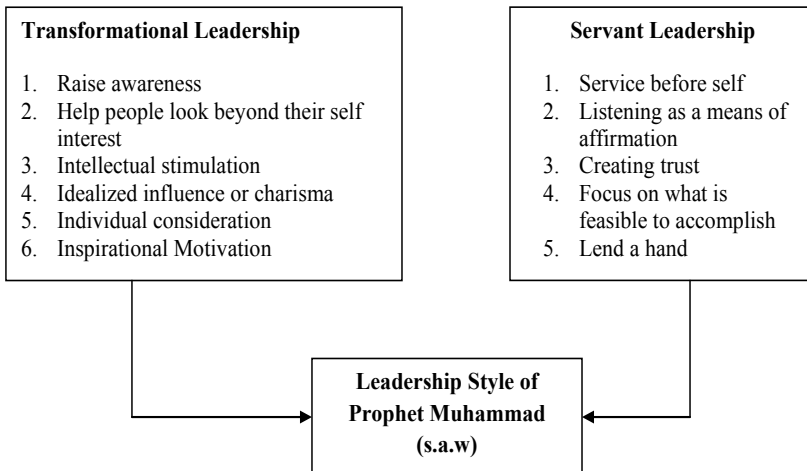
Furthermore, Beekun (2007) explained that the leadership style of Prophet Muhammad (s.a.w) was transformational leadership (see figure 2.3), because of some characteristics that are discussed below:

1. *Raising people's awareness.* The Prophet increased the awareness of the Arab community about distinguishing between the right and good. This is because during that time the Arabian Peninsula was arguably the most backward area in the world. The bad tradition such as alcoholism, gambling, prostitution, infanticide of female babies, and bribery were rampant. Allah said in the *Qur'an*, surah An-Nahl (16:64) that Prophet Muhammad

(s.a.w) was not only aware of what is right, good and wholesome in Allah's creation, he also made his followers aware of the importance and value of following the right path (Beekun, 2007).

Figure 2.3

Prophet Muhammad (s.a.w) Leadership Style



Source: Beekun (2007: 39).

2. *Helping people look beyond their self interest.* Muhammad (s.a.w) encouraged his followers to elevate the need for achievement and self actualization through intellectual and spiritual rethinking. He guided his *Ummah* to advance beyond focus on temporary material satisfaction to a permanent fulfillment (Beekun, 2007). For example, during the *Hijrah* from Makah to Madinah, Muhammad (s.a.w) encouraged his followers to look at the future of the *Ummah*. He brought together the *Muhajireen* and the *Ansor* into a spirit of brotherhood after his settlement in Madinah.
3. *Intellectual stimulation.* A notable attribute of transformational leader is that he challenges organizational norms, encourages divergent thinking and pushes

followers to develop innovative strategies (Bass, 1985). This character is important for challenging the bad tradition during the darkness (*jahiliyah*) time. The first word of revelation: "*Iqro*", implies that Muslims should use their intellectual and spiritual knowledge to get happiness in the world and in the hereafter. Islam has always been against the type of ideological stereotype. Muhammad (s.a.w) not only encouraged his Ummah to search for self-enhancement, but rather to get closer to, and serve their creator (Beekun, 2007).

4. *Idealized influence or charisma*. It refers to a leader who has a high standard of moral and ethical conduct, and who engenders follower trust in and emotionally identify with the leader (Bass, 1985). Muhammad (s.a.w) was an ethical and charismatic leader. Allah describes him (in the *Qur'an* 68: 4) as being endowed with *Akhlaq* (ethics), "You are of the highest noble characters". Muhammad (s.a.w) demonstrated deep emotional intelligence and his commitment to being a servant leader (Beekun, 2007). He was repelling evil with good. Through kindness and forgiveness, he was able to rise above the assumed traditions of retaliation and blood vengeance.
5. *Individual consideration and attention*. It refers to a leader's behavior aimed at recognizing the unique growth and the developmental needs of followers as well as coaching followers and consulting with them (Bass, 1985). The Prophet gave close attention to the personal differences among his followers (Humphreys, 2005). He acted as a mentor to his followers, coaching and advising followers with individual personal attention. A primary component of Muhammad's individual consideration was his understanding that each follower has different needs and that those needs change over time (Beekun, 2007).

6. Inspirational motivation. It refers to a leader with a strong vision for the future based on values and ideas; who inspires his followers to follow the symbol and emotional appeals directed at goal achievement. Muhammad (s.a.w) inspired his followers to accomplish great feats. He inspired the Muslims to go out and spread the message of Islam fearlessly approaching the contemporary rulers, including the leaders of the two superpowers of the day: Rome and Persia (Beekun, 2007).

Chapter 3

WORK ETHICS

Introduction

Ethics derived from the Greek word “ethos” which means custom or habit. Ethic is the study of values and customs of persons or groups and covers the analysis and employs the concept such as right and wrong, good and evil, and responsibility (Beekun, 1997). It is about what should be done and what should be avoided as human beings, and as members of a group or a society and in the different roles in life.

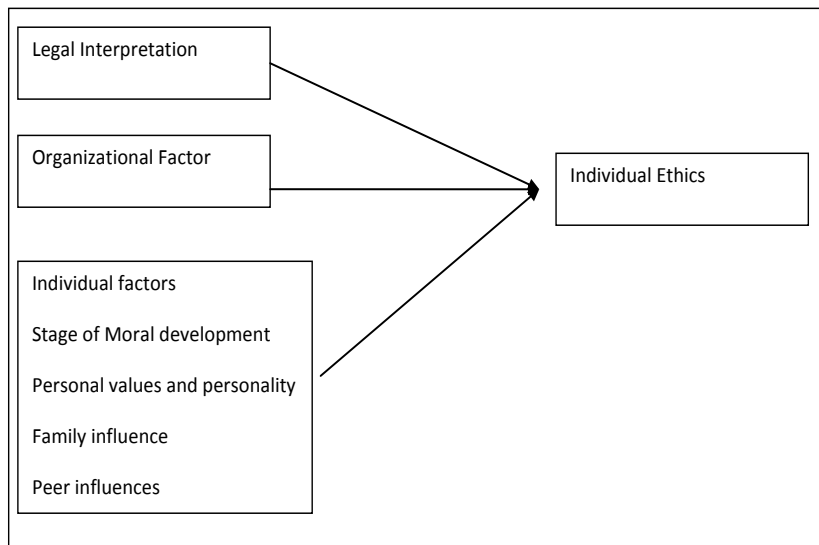
Sometimes the word “ethics” is used synonymously and interchangeably with morality. But some experts like to differentiate between ethics and morals. They argue that ethics are about social values and morality is about personal values. But in practice, courses on moral philosophy cover the same material as courses on ethics (Ciulla, 2003), and both are important as guidance in human relations.

There are some reasons for the importance of ethics. First, ethics give a baseline for understanding the concepts of right and wrong. The function of ethics here is as a standard for a guidance and evaluation of human behavior. Second, ethics is a mediator for a dealing or contact with other persons. Unethical attitudes warrant negative responses from people. Third, ethics are a source advice that guides humans on how to act morally in

certain situations and how to show others the correct behavior (Beekun, 1997; Ali, 2005).

Ethics are built in the individual; they come from within. The individual's ethics can be influenced by some factors such as family, religious values, ethnic beliefs, personal values and morals and life experiences (Beekun, 1997). It also can be culturally developed given that it is influenced by a combination of social preferences and patterns, family education, religious teachings, and ethnic beliefs and values. This combination creates a cultural and social norm as a base of the ethics of humankind. Beekun (2007) expresses the factor determinants of individual ethics as shown in figure below.

Figure: Determinants of Individual Ethics



Source: Beekun, (1997:3).

One of the most important activities in human life is work. Work is an activity that is related with the social and economical side of life. Social relations at work are needed for establishment of the equilibrium in individual and social life. Therefore an ethical guidance that regulates activities in the work place is needed. It is usually called work ethic.

Work ethic is a system of values or beliefs that guides employees' attitudes and behaviors in the workplace. It reflects on an individual's attitudes towards some aspects of work, including preference for activity and involvement, attitudes toward financial and non financial rewards and the desire for rising career mobility (Cherrington, 1980). It can be described as both a social norm and a set of individual characteristics of the worker. Cherrington (1980) suggests that besides social norm, work ethic is an attribute to promote the accountability and responsibility of the worker; it also has an intrinsic value exclusive of the external rewards (Hill and Fouts, 2005). Wayne and Chapman (1992) view work ethics as a social obligation that referred to usefulness, importance, or general worth that people assign to some behavior or conception related to work.

Because workers come to work with different values and backgrounds, they need ethical guidance that should be followed by every individual in the organization, such as ethics. It is generally believed that work ethic is an essential attribute in the work place. A survey of managers found that almost 80 percent of them agreed that productivity is suffering because the work ethic has decreased in their organizations (Lipset, 1990).

Experts have viewed work ethics from various perspectives. Some of them have the opinion that the truth of the work ethics are from the agreement among the group in the organization. In contrast, some of them have opinions that the truth of the work ethics comes from God as the creator. God made humans in His image, He created a regulation that is suitable for humankind. Based on this way of thinking, the work ethics concepts have spread to a variety of religions in the world. Notable examples are the Protestant and the Islamic Work Ethic.

Protestant Work Ethic

The term Protestant work ethic (PWE) was first mentioned by Max Weber in his book, *The Protestant Ethic and*

Spirit of Capitalism. The book addressed the issue of why people pursue material gain for its own sake and not solely for necessity. Weber saw that the root of unintended and unforeseen reaction to the protestant reformation in the 16th century. The PWE is a set of beliefs and values that emphasizes asceticism, industriousness, individualism, conservation of resources, deferment of immediate satisfaction, and overall valuing of work as the most worthwhile way to spend one's time (Weber, 2002). According to Beit-Hallahmi (1979: 263), PWE "an orientation towards work which emphasizes dedication to work hard, deferment of immediate rewards, conservation of resources, the saving of surplus wealth, and the avoidance of idleness and waste in any form".

Max Weber argued that the set of values emphasized by ascetic Protestantism reinforced a strong belief in the value of good, clean and hard work that would ensure individual salvation (Firestone et al., 2005). He proposed a causal relationship between the PWE and the development of capitalism in Western societies. Weber believed that this religious inclination produced a certain type of personality with a high motivation to achieve success in worldly terms by working diligently to create and accumulate economic wealth (Weber, 2002).

Weber (2002) was explaining the actual dimensions of the PWE. The broader meaning of the PWE refers to one or more of the following beliefs and attitudes:

- Taking hard work and industriousness as religious duties.
- A negative attitude to leisure activities
- Frugality and productivity
- Punctuality and time-saving
- Pride in work
- Commitment and loyalty to occupation and organization
- Need for achievement
- Honesty

- Taking idleness, wasting time and money as vices,
- Internal locus of control (one first must blame himself or herself instead of others)
- Taking ambition and success as the signs of God's favor,
- Taking poverty as a universal indicator of sin while taking wealth as a sign of God's favor

Some research has shown that people who believe in the PWE tend to have high internal locus of control beliefs (Furnham, 1984), conservative attitudes and beliefs (Furnham and Bland, 1982), and a high need for achievement (Furnham, 1982). Moreover, as individual difference, PWE beliefs have been found to be powerful predictors of work-related behavior (Greenberg, 1979).

Blau and Ryan (1997) used exploratory factor analysis to identify four dimensions of PWE using 543 respondents. The dimensions are: (a) hard working represents both a belief that effort at work will lead to success and hard work as a value unto itself, (b) non-leisure dimension refers to a suspicious idleness and relaxation (e.g. people should not have more leisure time to spend on relaxation), (c) independence places value on avoiding dependence on other people (e.g. to be superior, a person must stand alone), (d) Ascetics dimension cross materialism and places value on life and reinvestment of profit.

Beit-Hallhami (1979) studied the relationship between the PWE and social background variables such as religious self-identification, ethnic background, political self-identification, and religious beliefs. He found that PWE relates to other background variables and it is not independently predictive (Wentworth, and Chell., 1997). Furnham et al. (1993) measure PWE values in 13 countries and the results show that participants from richer people in first world countries tend to have lower scores than those from third world countries.

Related with PWE, Greenberg and Baron (2008) suggest that employees may consider it as a moral obligation to work hard, shun idleness, and consider an effort to be a reward into itself, therefore, such employees may be more likely to engage in some forms of extra-role behaviors even under conditions of boredom, fatigue or unfairness (Ryan, 2002).

Besides the research on the PWE that has been done in the West, a couple of studies also been done in some Eastern countries. A study conducted by Ma (1986) found that Taiwanese PWE scores were not related to religious belief or affiliation. Ali (1988) found that Arab executives had higher PWE level than their Scandinavian and American counterparts. Moreover, there are many other religions and ethnic groups that have achieved success and good economic achievement during part of their history. Notable examples are the Jain in India or Santri Muslim in Java, even though their contributions have been totally ignored in management literature (Ali, 2001). As a result, there is the need to study work ethic in the different references related to other religions such as in Islam (Ali, 2001).

Islamic Work Ethic

Despite the fact that the Protestant had some contributions for achieving the tremendous progress in economic development in the West (Weber, 1930/2001), Islam also had the concept of ethics that derives from the *Qur'an* and *hadist*. These work ethics had succeeded in bringing the Muslims' world into the golden ages in the eighth until fourteenth century, under the Islamic empire. In a manner similar to Weberian Protestantism, Islam provides the ideological foundation for a variety of personal attributes that promote economic development (Ali, 2001; Ali and Al-Owaihan, 2008).

Islamic work ethic (IWE) may be defined as a set of moral principles that distinguishes what is right from what is wrong (Beekun, 1997) in the Islamic context. The IWE is originally

based on the *Qur'an*, because the *Qur'an* is the ultimate source of guidance for Muslims in all aspects of life. The IWE emphasizes cooperation in work and consultation which is seen as a way of overcoming obstacles and avoiding mistakes. The IWE stresses creative work as a source of happiness and accomplishment. Hard work is seen as a virtue and those who work hard are more likely to get ahead in life. Both Islamic and Protestant work ethics place considerable emphasis on hard work, commitment, and dedication to work, work creativity, avoidance of unethical method of wealth accumulation, cooperation and competitiveness at the work place (Yousef, 2001).

The issue of IWE was also addressed by Prophet Muhammad (s.a.w). According to Ali (2005) they are grouped as: first, pursuing legitimate business, the Prophet asked his followers to do useful work that benefit the society. Second, wealth must be earned. Every people have different capacities and their need to use the capacity to acquire wealth. Thirdly is quality of work. The Prophet transformed the Arab community from laziness to discipline and hard work. He also linked faith and work together to steer Muslims to get prosperity. Fourth is wages. The Prophet asked Muslims to be fair, just and prompt in compensating workers. Fifth is reliance on self. One of the most important functions of work is that it sustains confidence and self-resilience. Sixth is monopoly. The Prophet said “the supplier is blessed and the monopolist is cursed” and “whoever withholds commodities is a sinner”. Seventh is bribery. The Prophet said: “God cursed the one who gives and the one who receives bribery”. Eighth is deeds and intentions. The Prophet said: God does not look at your matters and wealth, rather God examines your intentions and actions. Ninth is transparency. The Prophet said: those who declare things frankly, will not lead to each other destruction. Tenth is greed and which is considered a threat to social and economic justice. The Prophet said: be aware of greediness, it is living poverty. Eleventh, generosity is a

virtue in Islam. The Prophet said: the generous person is closest to God, heaven, people and far from hell (Ali, 2005; Ali and Al-Owaihnan, 2008).

However, not much is known about IWE. To date, there are only a few researches that have looked at IWE such as Ali (1988, 2001), Yousef (2000; 2001), Rahman et al. (2006), Ali and Al-Kazemi (2007), Moayed (2009) and Khalil and Abu-Saad (2009).

Ali (1988) developed an IWE scale and individualism. He used 150 Arab students in the US as his subjects. The result of the reliability test and correlation analysis indicated that both scales were reliable and that the IWE scale was positively and significantly correlated with the individualism scale. Then in 2001, Ali tested his scale among 117 managers in Saudi Arabia. He found that the managers were highly committed to the IWE and showed a moderate tendency toward individualism. This study also provided further evidence of the reliability of these scales.

A study on IWE in the United Arab Emirates (UAE) was conducted by Yousef (2000), who investigated the mediating role of the IWE between locus of control, role conflict and role ambiguity, using 397 samples. The results suggested that IWE related to locus of control, the IWE also mediated the relationships between locus of control and role ambiguity. On the other hand, the IWE did not mediate the relationship between locus of control and role conflict. In a further research, Yousef (2001) investigated the moderating effect of the IWE on the relationships between organizational commitment and job satisfaction. This study used 425 Muslim employees in several organizations in the United Arab Emirates (UAE). The result of the study was that IWE directly affected both organizational commitment and job satisfaction and that it moderated the relationship between these constructs.

In Malaysia, Rahman et al. (2006) examined the relationship between IWE and three organizational commitment

dimensions. The three dimensions of organizational commitment were: affective, normative and continuance commitment. This study used 227 employees from several bank branches in Malaysia. The study found that IWE has a positive and significant relation with the three dimensions of organizational commitment. Moreover, the affective commitment has a higher correlation with IWE than continuance and normative commitment.

Another study was conducted by Ali and Al-Kazemi (2007), who investigated IWE in Kuwait, using 761 managers in government and private sectors. The results indicated that managers scored high on IWE and loyalty scales. There was a positive high correlation between the two measures. Demographic and organizational variables had significant influence on managerial orientations. Furthermore, a related research was recently conducted by Khalil and Abu-Saad (2009). They investigated the IWE and individualism using 837 respondents of Arab college students in Israel. They found that there was a strong correlation between IWE and individualism scales.

Chapter 4

ORGANIZATIONAL JUSTICE

Introduction

Fairness is a central interest of leaders on providing equal opportunities to employees, fair labor practices and fair payment (Coetzee, 2005). The concept of justice has a long history as a key explanatory variable in many different social sciences (Colquitt, 2004). In the organizational context, justice refers to the fairness toward organizational resources including selections, pay, rewards, promotions and other resources. Justice in organization has been concerned by both employers and employees, because of some effects to the organization (Folger, 1997). Some studies showed that employees' perceptions of organizational justice are a significant factor influencing various work outcomes such as organizational commitment, job satisfaction, organizational citizenship behavior, turnover intention and intention to leave (Colquitt et al., 2001, Hassan, 2002).

According to Greenberg and Baron (2003) organizational justice refers to the perception of people about the fairness in organization, including the perceptions of how decisions are made regarding the distribution of outcome and the perceived fairness of those outcomes.

Table: Components of Organizational Justice

1. Distributive Justice: appropriateness of outcomes.
• Equity: rewarding employees based on their contributions. • Equality: providing each employee roughly the same compensation. • Need: providing a benefit based on one's personal requirements.
2. Procedural Justice: appropriateness of the allocation process.
• Consistency: all employees are treated same. • Lack of Bias: no person or group is singled out for discrimination or ill-treatment. • Accuracy: decisions are based on accurate information. • Representation of all concerned: appropriate stakeholders have input into a decision. • Correction: there is an appeals process or other mechanism for fixing mistakes. • Ethics: norms of professional conduct are not violated.
3. Interactional Justice: appropriateness of the treatment one receives from authority figures.
• Interpersonal Justice: treating an employee with dignity, courtesy and respect. • Informational Justice: sharing relevant information with employees.

Source: Cropanzano et al., (2007), 36.

There are three sub-domains of organizational justice which have typically focused on antecedents and consequences of subjective perceptions: first, the fairness of the allocation and distribution of outcome (distributive justice). Second, the fairness of the procedures used to determine those outcomes (procedural justice). Third, the fairness of the treatment received from the authority (interpersonal justice) (Colquitt et al., 2001; Pillai et al, 1999). The three primary constructs of organizational justice will be discussed below:

1. Distributive Justice

Historically, research on organizational justice was started by focusing on distributive justice (Peterson, et al., 2002). It refers

to the perceived meaning of fairness of the outcomes of allocation decision. Distributive justice is based on Adam's equity theory (1965), who used a social exchange theory framework as a tool to evaluate fairness (Colquitt et al., 2001). According to Adam, based on the social exchange relationships, people will compare the ratio their own inputs and outcomes with those of relevant other, and judge that people who have greater contributions should receive higher outcomes (Peterson, et al., 2002).

Individuals will measure their perceived "input" and their "outcomes" as a ratio in comparison. The inputs in social exchange are qualities and characteristics, which include age, seniority, social status, education, effort, ability or skill, etc. In contrast, the outcome is feedback from social exchange such as pay, rewards, money, increased status, authority or good work, and prestige (Ortiz, 1999; Greenberg & Baron, 2003). Allocation of resources is an important issue among individuals in a group or organization as it will affect individual performance in the organization.

Distributive justice theory suggests that individuals will evaluate the resource allocations with respect to one of the three main distributive rules: equity, equality, and need (Akgiip, 2004, Cropanzano et al., 2007). Equity suggests that outcomes should be allocated according to contribution of individuals; the more contribution, the greater the outcome. Next is equality. This norm suggests that every individual in an organization should be rewarded equally without looking at the contribution. Lastly, need. It suggests that resource allocation should be based on the individual's need, the greater the need the greater the outcomes.

Cropanzano et al. (2007) suggested a combination among the three allocation rules: first, it needs to choose one's strategic goal. Equity gives reward to high performance, while equality will develop esprit de corp. Strategic goals will decide whether emphasize on individual performance or team work building. Second, an organization can be balanced by mixing the equity

and equality together. Third, different reward should be based on different rules, such as social emotional reward: parking space or personal office (Cropanzano et al., 2007).

The research on distributive justice in organizations today focuses primarily on people's perceptions of the fairness of the outcomes they receive, that is, their evaluations of the end state of the allocation process (Cropanzano and Greenberg, 1997).

Lee (2000) found that distributive justice has a direct positive effect on job satisfaction. In addition, he also found that distributive justice plays a more vital role in employees' work related outcomes than procedural justice and the quality of interpersonal working relationship promotes employees' perception of fairness. Moreover, Robinson (2004) examined the role of distributive justice on job satisfaction, organizational commitment, motivation and performance. He found that distributive justice was a significant predictor for job satisfaction, organizational commitment, motivation and performance.

2. Procedural justice

In the early 1970s, researchers began to claim that an individual's evaluations of allocation decisions were affected not only by what the rewards were, but also by how they are made. It refers to procedural justice, the perceived fairness of the policies and procedures used to make decisions in the work place (Greenberg, 1990). The early work on procedural justice in organizations was based on Thibaut and Walker's (1975) studied. They explained that even when individuals received unfavorable outcomes, they perceive themselves as fairly treated as long as they had opportunity to contribute in decision making process.

Procedural justice refers to the issues of fairness that are related with method, mechanism, and processes used to determine outcome (Folger & Cropanzano, 1998). It is determined by:

- How much influence or input one has in decision making process

- How much respect is paid to a person during decision making process
- Whether decision is based on job related criteria.
- Whether feedback is provided and is timely.

Leventhal (1980) identified six rules for the procedure of fair treatment in organizations (Colquitt et al., 2005). The rules are:

- *Consistency*. Procedure should be consistent across people and time.
- *Biased suppression*. Procedure should be unbiased by self interest or blind allegations.
- *Accuracy*. Procedure should be based on accurate information
- *Correctable*. Procedure should have possibility to correct or modify.
- *Representativeness*. Procedure should reflect for representative of all groups concerned.
- *Ethicality*. Procedure should follow the ethical values held by the individuals in the organization

Aryee, Budhwar, and Chen (2002) studied on the relationship between procedural justice and work outcomes; they used trust as mediating variable. This study revealed that procedural justice is positively significant to job satisfaction and organizational commitment, and negatively related to turnover intention. Trust in organizations partially mediated the relationship between procedural justice and work attitude.

Robinson (2004) examined the role of procedural justice on job satisfaction, organizational commitment, motivation and performance. He found that procedural justice accounted for the most variance in organizational commitment, motivation and performance.

3. Interactional Justice

Interactional justice concerns with employee perceptions of whether organizational leaders implement procedure fairly, by treating individuals respectfully and by adequately explaining decision (Cropanzano, 1998). Empirical evidence suggests that employees show much concern for the treatment they receive from authority figure and the adequacy with which formal decision making procedures are explained (Bies, Shapiro, & Cummings, 1988). Perceptions of interactional justice are important over time and are unaffected by the individual's self-interest (Ladebo, Awotunde, and AbdulSalaam-Saghir, 2008).

Bies and Moag (1986) argued that perceptions of interactional justice are influenced by factors that go beyond the formal procedures used to arrive at outcomes. Interpersonal treatment that an individual receives during the implementation of procedures affects the individual's perception of organizational justice as well. Positive organizational justice perceptions can also be fostered when the individuals are treated with courtesy, dignity and respect, the term is called "interactional justice" (Bies and Moag, 1986).

Interactional justice refers to how fairly employees are treated both interpersonally and informationally at work (Bies, 2005; Greenberg, 1993). Interactions are deemed interpersonally fair when an employee is treated with dignity and respect and prejudicial statements and personal attacks are refrained from. Informational justice is served when communications with employees are truthful and decisions are justified (Colquitt, 2001).

Furthermore, interactional justice reflects the perceived fairness of the interpersonal treatment individuals receive from others (Bies and Moag, 1986). In brief, people perceive interactional justice when others treat them with dignity and respect and refrain from inappropriate remark or question and

provide them with adequate and honest explanations for decision making procedure and resulting decisions (Colquitt, 2001; Greenberg, 1993).

The explanation for interactional justice in the workplace is grounded in social exchange theory and norm of reciprocity (Cropanzano & Mitchell, 2005). From the social exchange perspective, employees expect fair, honest, courteous, and truthful treatments from the organization and/or its agents. Based on the norm of reciprocity, employees who perceive fair treatments by authorities are more likely to evidence positive actions through greater commitments to the values and goals of the organizations; exhibit increased job satisfaction, organizational citizenship behaviors, improved job performances and reduced withdrawal behaviors (Cohen-Charash & Spector, 2001; Colquitt et al., 2001 in Ladebo, Awotunde, and AbdulSalaam-Saghir, 2008).

The first attempt to investigate principles of interactional fairness was done in a study by Bies (1985) in which MBA job candidates were asked for their reactions to corporate recruiting focus practices. The job candidates were asked prior to their interview to define a set of fairness criteria that they expected recruiters to follow during interviews and callbacks. The candidates identified the following communication criteria as important: truthfulness (34%), respect (19%), propriety of questions (13%), and justification (2%).

Aryee, Budhwar, and Chen (2002) examined the relationship between interactional justice and work outcome. They used trust as mediating variable. This study revealed that interactional justice is positively significant to job satisfaction and organizational commitment and negatively related to turnover intent. Trust in organization fully mediated the relationship between interactional justice and work attitudes.

Rupp and Spencer (2006) recently studied a laboratory experiment in which they manipulated the interactional justice displayed by customers in a simulated call centre environment.

They found that participants who were subjected to interactionally injustice customer expressed more anger, engaged in higher level of emotional labor, vice versa.

Justice in Islamic Perspective

In Islamic perspective, justice is placing something in the rightful place. In Islamic worldview, all human beings are equal, all are entitled to equal in social status and equal rights. No one is inferior or superior. The differences of color and race found among human beings are for identification, it is not for discrimination. This verse from Qur'an:

Men, we have created you from a male and a female, and made you into nations and tribes that you might get to know one another. The noblest of you in Allah's sight is the most righteous of you. Allah is wise and all knowing (49:13).

Men in essence are equal, what really distinguishes one man from another is character. His superiority can therefore only in terms of the degree to which a man is honorable (Khan, 1991). The truly honorable man is one who is god-fearing and who recognizes and fulfils the rights of god and his fellow men. Sometime Justice is achieved through inequality, like in unequal distribution of wealth.

In Islam, Justice is also a moral virtue and an attribute of human personality, as it is in the western tradition. Justice is close to equality in the sense that it creates a state of equilibrium in the distribution of rights and duties, but they are not identical.

Chapter 5

WORK OUTCOMES

Introduction

The relationship between the organizational effectiveness and the work outcomes, such as, job satisfaction, organizational commitment and turnover intent can be explained by the social exchange theory by Blau (1964) and the equity theory by Adam (1965). These theories explain that people tend to feel obligated to repay favorable benefits and treatment offered by an organization. If they perceive a higher level of organizational justice, they would have a high commitment and most satisfaction, and also less likely to harbor an intention to leave the organization.

Organizational Commitment

Organizational commitment has been acknowledged as a critical factor in understanding and explaining the work related behavior of employees in organizations. For over a decade organizational researchers have been studying organizational commitment in its relationships with various situational characteristics, attitudes and behaviors of employees.

Commitment has been defined in many ways. Sterr (1977) defines organizational commitment as the relative strength of an individual identification with and involvement in particular organizations. Allen and Mayer (1990) define organizational

commitment as a psychological state that attaches an employee to an organization, thereby reducing the incident of turnover. Monday (1999) describes organizational commitment as the attachment that is formed between employees and their employing organization. Organizational commitment also can be defined as one's identification with, and loyalty to an organization.

Monday et al (1982) defined organizational commitment as the relative strength of an individual's identification with and involvement in a particular organization. O'Reilly and Chatman (1996) explained organizational commitment as the psychological attachment felt by the person for the organization. It will reflect the degree to which the individual internalizes or adopts characteristics or perspectives of the organization. Based on the definition of organizational commitment, there are three factors that are important in organizational commitment: commitment to compliance (instrumental involvement for specific extrinsic reward), identification (attachment based on a desire for affiliation with the organization and internalization (involvement predicted on congruence between individual and organization values). Mayer and Allen, (1997) suggest that organizational commitment is the view that commitment is a psychological state that characterizes the relationship with the organization and has implication for the decision to continue membership with the organization.

Meyer and Allen (1991) summarized the major definitions of organizational commitment provided by different theorists and categorized them under three broad themes. These concepts are based on three factors: first, the acceptance of the organization's goals and values (identification). Second, the willingness to invest on behalf of the organization (involvement), and lastly, the importance attached to keeping up the membership in the organization (loyalty).

There are two views of commitment concept that have been established over the past thirty years: commitment as a

of the effect on cost that should be paid such as separation cost, learning cost, recruitment cost etc. (Mobley et al., 1977). The theory of turnover is based on three disciplines: psychology, sociology and economics. Psychological theory argued that individual perceptions and attitudes about work conditions lead to behavioral outcomes such as theory of stress, locus of control, learning system etc (Wright and Cropanzano, 1998; Spector and Michaels, 1986; Miller, 1986). Sociological theory explains that work-related factors are more predictive of turnover intent than individual factors (Miller, 1996). It includes social comparison theory, exchange theory and social ecological theory (Moos, 1979; Miller, 1996). Economic theoretical explanation of turnover is based on the premise that employees respond with rational actions to various economic and organizational conditions. The turnover literatures explain on human capital and utility maximization (Miller, 1996).

The definition of turnover or turnover intention has various ways in organization literatures. According to Tett and Meyer (1993) turnover intention is as a conscious and deliberate willfulness to leave the organization. Vandenberg and Nelson (1999) define turnover intention as an individual's own estimated probability that they are permanently leaving the organization at some point in the near future. Sager et al, (1998) define turnover intention as a mental decision intervening between an individual's attitude regarding a job and the stay or leave decision. Moreover, Gaetner and Nellen (1992) describe it as a behavioral intention resulting from company policies, labor market characteristics and employee perceptions.

According to Jenner and Taylor (2000), there some factors that influence turnover intention: first, outside factors: an employee leaves an organization for reasons unrelated to work, such as illness, moving out of town, or aspiring to other goals. Second, functional turnover, in this factor both employee and employer are willing to accept this kind of turnover. For example,

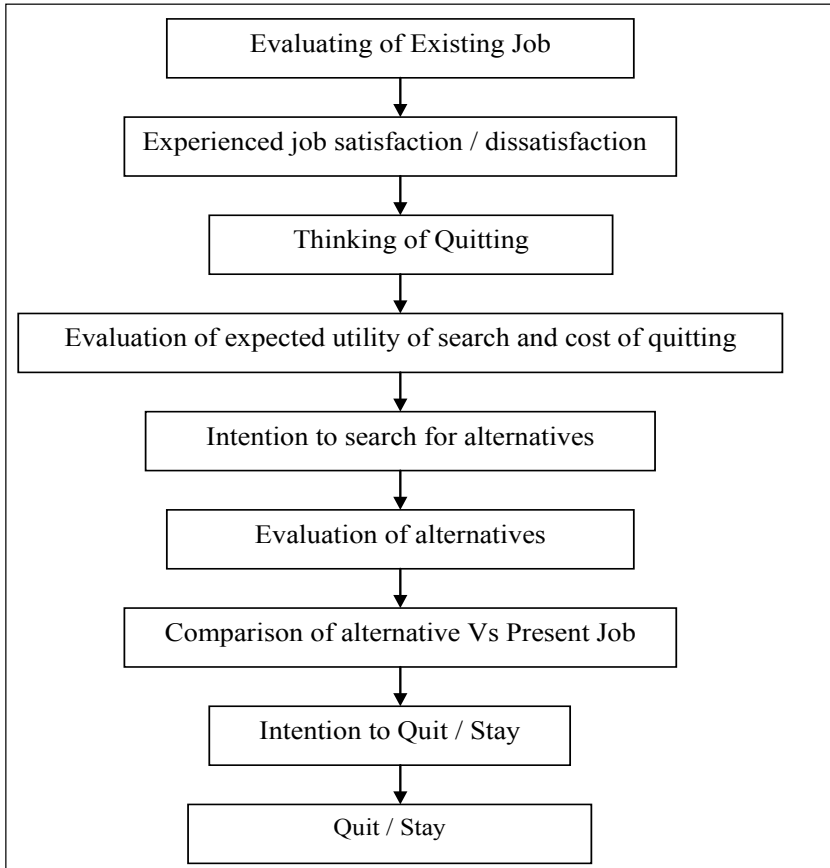
someone may feel uncomfortable with an organizational culture and poor performance. Third, push factors; in this factor employee is dissatisfied with work or the organizational leadership style, leading to unwanted turnover for the employer, because this employee may have outstanding performance. Lastly, pull of rivals: competitors have better conditions to attract employees to leave the organization.

Turnover intention refers to the three elements in the withdrawal cognition process: the thinking of quitting, the intention to search for another job elsewhere and the intention to quit (Miller et al, 1979; Mobley et al., 1979). Lewis (1991) pointed to three factors that influence turnover or intention to turnover: age, amount of experience, and rate of pay. Lewis argued that the new young employee would be least attached to a particular employer, they look for possibilities of a good career, while the older employee might be likely to anchor themselves in a certain job, in a certain location, given their stronger ties to the community. Turnover rates are highest for employees in their twenties and in their first few years, a growing lack of loyalty has caused higher rates of turnover among employees seeking out new opportunities and larger career part (Abbasi and Hollman, 2000).

Mowday, Porter, and Steers (1982) explained that intention to leave can influence turnover in several ways: first, an individual can leave even when alternative jobs are not available. Secondly, the intention to leave can cause individuals to begin to search for alternative jobs. Researchers have linked turnover intention to individual characteristics such as job satisfaction, performance, pay, and pay satisfaction (Yong-tao, 2007). Mobley et al., (1979) explained that members of group have expectations that they want to realize when they are members of work groups and when they receive inequity in when their groups and their expectations are not met this often result dissatisfaction and

possible turnover intentions (Mobley et al., 1979). They develop a turnover model as in the figure below:

Figure: Turnover Model



Source: Mobley (1977)

Many theories have been advanced to explain why employees have intention to leave the organization. First, organizational equilibrium theory was developed by March and Simon (1958), who explained that turnover occurs when individuals perceive that their contributions to an organization exceed the inducements they receive from that organization. This inducement-contribution balance is influenced by two factors: (1) one's desire to move, which generally is a function of one's

satisfaction with the work environment. The model suggests that perceived desirability of movement from the organization is affected by job satisfaction and perceived possibility of inter-organization transfer. Pettman (1973) who reviewed the March and Simon model and he said that job satisfaction was a sufficient but not a necessary condition for high turnover. This model contributed the effects of labor-market forces on turnover studies.

Second, met-expectation theory was developed by Porter and Steers (1973). They discussed the discrepancy between what a person encounters in the job in the way of positive and negative experiences and what he expected to encounter. The set expectations a person has of an employer may include rewards, advancement, and relations with peers and supervisors. Porter and Steers argue that dissatisfaction arising from the employer failing to meet a set of expectation is likely to cause turnover by an individual. Porter and Steers (1973) proposed the Met-Expectation Model. This model suggests that employees' expectations are tied to their satisfaction within their work groups. If an employee expectations are not met and the employee become dissatisfied, the likelihood of turnover intention often increases.

Third, linkage model was developed by Mobley (1977). His linkage model has received substantial empirical support in the management literature, proposes a series of intermediate linkages between job satisfaction and turnover. According to this model, individuals constantly evaluate their existing jobs and when they experience some dissatisfaction, they think of quitting, search for alternatives, evaluate the alternatives, compare alternatives to present jobs, think of quitting, and ultimately the quit.

Chapter 6

EMPIRICAL RESEARCH

Backgroud Of The Study

The study of work ethics has gained significant interest in recent years following the failures of major corporations like Enron, Arthur Anderson, and WorldCom. However, most studies in this area, as well as in the bigger subject area of business ethics, have been based on the experiences in the American and European countries (Lim and Lay, 2003; Rizk, 2008). Essentially, these studies (e.g. Furnham, 1990; Furnham and Rajamanickam, 1992) relied on the Protestant Work Ethic (PWE) as advocated by Max Weber (Yousef, 2001). Notwithstanding the impact of Protestantism and PWE on economic development in the West (Weber, 1930/2001), the applicability of models that are based on these elements may be limited in non-Western societies, particularly those which adhere to other religious believes. Islam for example has its own concept of ethics that are derived from the *Qur'an* and *Hadist*. In a manner similar to Weberian Protestantism, Islam provides the ideological foundation for a variety of personal attributes that promote economic development (Ali, 2005). Indeed, according to Ali (2005), the application of Islamic ethics brought the Muslims to the golden ages in the eighth until the fourteenth century.

The concept of work ethics in Islam, which is usually called Islamic work ethic (IWE), is a set of moral principles that distinguish what is right from what is wrong based on the *Qur'an* and *Hadist*, particularly in the work place (Ali, 2005). However, not much is known about IWE. To date, there are only a few researches that have looked at IWE (see Ali, 1988, 1992; Yousef, 2000, 2001; Rahman, Muhamad, and Othman, 2006; Ali and Al-Kazemi, 2007; Moayed, 2009; and Khalil and Abu-Saad, 2009).

Critically, it is often argued that good leadership is a precursor to ethical behaviors in organization. Indeed, over the years a number of researchers have suggested that leaders are responsible to create an organizational climate that either value ethics or shun ethics (Van Aswegen and Engelbrecht, 2009). Moreover, leadership is regarded as one of the most important factors in motivating others to meet organizational goals (Frey, Kern, Snow, and Curlette, 2009). As such, over the years, researchers have been effectively seeking the answers to the critical question of what makes leaders effective. Among the approaches to the study of leadership, one of the best known is the transformational and transactional leadership framework (Bass, 1985; Frey et al., 2009).

Transformational and transactional leadership has been linked to various work outcomes. Such outcomes include: leadership effectiveness, job satisfaction, empowerment, organizational commitment, turnover intention, performance, work ethic, organizational development, organizational justice and so on (e.g. Pillai, Scandura, and Williams, 1999a; Crooker, 2004; Piccolo and Colquitt, 2006; Bartram and Casimir, 2007; Kirkman, Chen, Farh, Chen, and Lowe, 2009). Although the underlying processes between transformational and transactional leadership and work outcomes are not entirely clear (Bass, 1995; Pillai et al., 1999a), it may be that some mediating factors influence the relationship between them (Pillai, Schriesheim, and Williams, 1999b; Asgari, Silong, Ahmad, and Samah, 2008).

Unfortunately, mediation studies regarding transformational and transactional leadership and work outcomes are rare (see Pillai et al., 1999a, 1999b; Piccolo and Colquitt, 2006; Asgari et al., 2008; Kirkman et al., 2009). For example, Pillai et al. (1999a) found support for the mediation effects of organizational justice and trust on transformational and transactional leadership and work outcomes. However, academia has yet to fully examine the wide range of potential mediators that influence the relationship between transformational and transactional leadership and work outcomes (Yukl, 1999). Quite apparently, there is the dearth of empirical studies that evaluates the mediating role of Islamic work ethic and organizational justice in this regard.

Furthermore, transformational and transactional leadership were found to have positive impacts on work ethics (Krisnan, 2001; Bass and Stedlmeier, 1999; Schminke, Wells, Peyrefitte, and Sebor, 2002; Croker, 2004; Van Aswegen and Engelbrecht, 2009). Moreover, some researchers also found positive effect of work ethic on organizational justice (Greenberg, 1990; Schminke, Ambrose, and Noel, 1997; Trevino and Weaver, 2001).

Therefore, this study will explore how the relationship between transformational and transactional leadership and work outcomes could potentially be mediated by Islamic work ethic and organizational justice.

Purpose Of The Study

The purpose of this study is to present and test a theoretical model that reveals the importance of leadership style on employees' perception of work ethics and the effect of these perceptions on employees' justice perception. Also, this study tests the effect of employees' justice perception on employees' work outcomes among Islamic microfinance institutions in Indonesia. It is proposed that the quality of leadership style in

the work-place has an influence on employees' work ethics' perceptions and this influences employees' justice perceptions. Consequently, employees' work outcomes are enhanced. Specifically, a model is developed and tested which includes transformational and transactional leadership as an antecedent to the construct of Islamic work ethic and organizational justice. Thereafter, the consequences of employees' justice perception on organizational commitment, job satisfaction and turnover intention were modeled. In other words, this model examines the mediating role played by Islamic work ethic and organizational justice in linking transformational and transactional leadership to organizational commitment, job satisfaction and turnover intention.

Research Questions

Based on these objectives of this study, the questions that guide this research are:

1. What is the relationship between transformational and transactional leadership and Islamic work ethic?
2. What is the relationship between Islamic work ethic and organizational justice?
3. What is the relationship between transformational and transactional leadership and organizational justice?
4. What is the relationship between organizational justice and job satisfaction, organizational commitment and turnover intention?
5. Do Islamic work ethic and organizational justice mediate the relationship between transformational and transactional leadership and job satisfaction, organizational commitment and turnover intention?

Research Method

1. Population and Sampling Procedures

The population for this study consists of the staff members of the Islamic microfinance institutions (IMFIs or BMTs) in Central Java, Indonesia. The focus of this study on Islamic microfinance institutions was motivated by a number of reasons. First, there is an apparent dearth of studies on Islamic work ethic in organizations in general, and in particular those that adopt Islamic management philosophy. Therefore, the choice of Islamic microfinance in Central Java in this instance may have some contribution to Islamic microfinance development. Second, Islamic microfinance is still new in Indonesia, and its crucial implication for Indonesian economic development presupposes that this study may help to improve their managerial quality. Lastly, since this study incorporates Islamic work ethic as one of its latent construct, the Islamic institutions such as Islamic microfinance is therefore, appropriate to be the sampling unit of this study.

Furthermore, according to the BMTs association, there are around 335 BMTs, but only less than half are active and that submit their report to the association (Asosiasi BMT, 2008). This study used the staff in the Islamic microfinance institutions through the BMT directory (335) as population.

This study follows a five-step procedure of sampling in order to minimize potential sampling errors (Malhotra, 1999), namely;

1. Defining target population,
2. Determining the sampling frame,
3. Selecting the sampling technique,
4. Determining the sample size,
5. Executing the sampling process.

The first step identifies the target population which is the collection of the elements or objects that possess the information sought by the researcher and about which inferences are to be made (Malhotra, 1999). The target population for this study consists of all staff members of IMFIs in Central Java, Indonesia.

The second step is to define the sampling frame which refers to a representation of the elements of the target population. It consists of a list or set of directions for identifying the target population such as telephone book, association directory listing of the firms in an industry (Malhotra, 1999). In this study, the researcher utilized the data which was provided by the BMTs association of the Central Java branch. Based on the list of BMTs which are registered with the association, the samples of BMTs were selected through three stages; the first stage is resident determination. Since Central Java is divided into six residencies, therefore the research area were divided into six areas. The second stage is regency determination. As each residency consists of many regencies, the regency selection is needed. The selection of regency is based on: the initial data which was provided by BMT association, and the number of BMTs which are still active and have employees of at least five staff. As result, 17 regencies are selected from six residents. Third stage is the determination of BMTs sample which is based on the suggestion and information from the BMT association administrator with regards to the possibility of becoming the respondents in this study as well as to meet its requirements. There are around 164 IMFIs in 17 regencies in Central Java Indonesia (see table 3.3).

The next step was to select the appropriate sampling method. Although several types of sampling techniques exist, this study used the purposive sampling which is a non-probability sample that conforms to certain criteria (Cooper and Schindler, 2001). This method was appropriate to this study since it met some criteria needed to become a sample. The sample criteria used in this study were: the managers under assessment should

have been in their position for more than one year and the staff must also have a length of service for not less than one year. The criteria were used in order to give a valid assessment since the leaders have used their style of management for more than one year and their subordinates might also have sufficient experience with their leaders.

Table: Number of BMTs in 17 Regencies

No.	Regencies	Number of BMTs
1	Semarang	11
2	Ungaran	19
3	Salatiga	3
4	Demak	4
5	Kudus	7
6	Pati	9
7	Rembang	13
8	Jepara	8
9	Karanganyar	6
10	Sukoharjo	13
11	Klaten	19
12	Pekalongan	10
13	Batang	7
14	Grobogan	8
15	Blora	7
16	Boyalali	12
17	Kendal	8

Source: Asosiasi BMT (2008)

In the fourth stage, the researcher determined the sample size for this study. The sample size influences the estimation technique to be adopted, because it provides a basis for the estimation of sampling error (Hair et al., 2006). As a rule of thumb for structural equation modeling, the appropriate sample has a ratio of 5 respondents per estimated parameter (Hair et al.,

2006). As this study has 60 estimated parameters, the sample size must be at least 300 respondents. However, the researcher distributed 550 questionnaires to guarantee that the response rate met the minimum requirement of the sample size. The last step is executing the sampling process which will be discussed in the data collection section.

2. Operational Definition

a. Transformational leadership

This study uses the concept of transformational leadership as explained by Bass (1985). Transformational leadership is a process by which leaders motivate subordinates to do more than they are originally expected to do. Leaders do so by raising subordinates' awareness of the importance of the value of the outcome, getting subordinates to transcend self-interests for the sake of the organization and expanding subordinates' portfolio of needs and wants (Bass, 1985). Transformational leaders possess and display four key characteristics as follows: (1) Idealized influence/charisma: leaders are admired as role models who emphasize on trust and ethics, generate pride, loyalty and alignment around a shared purpose (Bass and Avolio, 1992), (2) Inspirational motivation: leaders articulate an appealing vision of the future, challenge followers with high standards, talk optimistically and with enthusiasm, and provide encouragement and meaning for what needs to be done (Bass and Avolio, 1992), (3) Intellectual stimulation: leaders question old assumptions, traditions, and beliefs. They stimulate new perspectives and methodologies in others and encourage the expression of ideas and reasons (Bass and Avolio, 1992). (4) Individual consideration: leaders deal with subordinates as individuals by considering their individual needs, abilities, and aspirations. This is done by listening attentively, by furthering their professional development, and by advising and coaching them appropriately (Bass and Avolio, 1992).

b. Transactional leadership

Transactional leadership is defined as a leader-follower relationship based on a series of exchanges and bargains between leaders and followers (Bass, 1985). The leaders give subordinates something that they want (such as salary or bonus) in exchange for something that the leaders desire (such as productivity or goal attainment) (Bass and Avolio, 1992). Transactional leaders possess and display three key characteristics which consist of the following ingredients: (1) Contingent reward: leaders who have an agreement with the followers on what the followers need to do to be rewarded or to avoid punishment (Bass, 1985). (2) Management by exception: leaders tend to stand by and apply corrective measures only after the divergence from standards has occurred and their tasks are making a correction (Bass, 1985). (3) Laissez-faire: leaders involve very little leadership initiatives because both the workers and subordinates are at liberty to run on their own with a small degree of interaction from the leader. The indicators of the laissez-faire style would be: avoid making decision, abdicate responsibility, refuse to take sides in a dispute, and show lack of interest in what is going on (Bass and Avolio, 1992).

c. Islamic work ethic

Islamic work ethic is a set of moral principles that distinguish what is right from what is wrong based on the *Qur'an* and *Hadist* in the work place (Beekun, 1997). The Islamic work ethic emphasizes on cooperation of the work and consultation which are seen as means of overcoming obstacles and avoiding mistakes. The Islamic work ethic stresses on creative work as a source of happiness and accomplishment satisfaction. Hard work is seen as a virtue and those who work hard are more likely to get ahead in life. Both the Islamic work ethic and the Protestant work ethic place considerable emphasis on hard work, commitment, and dedication to work, work creativity, avoidance of unethical

method of wealth accumulation, cooperation and competitiveness at the work place (Yousef, 2001).

d. Distributive justice

Distributive justice refers to fairness in the distribution of rewards in an organization and relates to individual outcomes, such as, salary, benefits, and pay rises, etc. Distributive justice theory suggests that the individuals will evaluate the resource allocations with respect to one of the three main distributive rules: i) equity, ii) equality, and iii) need (Cropanzano et al., 2007).

e. Procedural justice

Procedural justice refers to fairness in the formal organizational policies and procedures used to determine the organizational outcomes. Procedural justice relates to method, mechanism, and processes used to determine the outcome, and it is determined by: how much influence or input one has in the decision making process?, how much respect is paid to a person during decision making process?, whether decision is based on job related criteria, and whether feedback provided is timely (Folger and Cropanzano, 1998).

f. Interactional justice

Interactional justice refers to the interpersonal treatment that employees receive from their supervisors in implementing the organization's policy and procedures. The perceptions of interactional justice are influenced by factors that go beyond the formal procedures used to arrive at the outcomes. Interpersonal treatment that an individual receives during the implementation of procedures affects the individual's perception of the organizational justice as well. Positive interactional justice perceptions can also be fostered when the individuals are treated with courtesy, dignity and respect (Bies and Moag, 1986).

g. Organizational commitment

Organizational commitment is the measure of the employee strength of the identification and involvement in the goals and values of an organization and willingness to work hard for maintaining a sense of belonging or membership in an organization (Robbins, 2002). There are three important factors in an organizational commitment: commitment to compliance (instrumental involvement for specific extrinsic reward), internalization (involvement predicted on congruence between individual and organization values) and identification (attachment based on a desire for affiliation with the organization and (Mayer and Allen, 1997).

h. Job satisfaction

Job satisfaction is a positive emotional state resulting from the perception of a job as fulfilling or allowing the fulfillment of one's important job values, providing these values are compatible with the needs (Thierry, 1998). This study has evaluated the general perception of satisfaction towards the organization.

i. Turnover intention

Turnover intention is an individual own estimated probability that he or she is permanently leaving the organization at some point in the near future (Jenner and Taylor, 2000). The conceptual definition for turnover intention is the relative strength of the individual's intent to leave the organization. In this study, it is operationally defined by three single indicators: 1) thinking of quitting, 2) intent to search, and 3) intent to quit.

3. Instrumentation

Eight survey instruments were used in the study in order to achieve the research objective. These scales were used to measure the key variables included in the study, namely; transformational leadership, transactional leadership, Islamic work ethic, distributive justice, procedural justice, interactional justice, employees' organizational commitment, job satisfaction,

and turnover intention (see appendix a). All scales used a five-point scale, ranging from 1 (strongly disagree) to 5 (strongly agree). A discussion of each instrument follows next.

a. Multifactor Leadership Questionnaire Scale

Bass (1985) developed an instrument to measure the extent to which leaders demonstrate behavior associated with the transformational and transactional leadership. The resulting instrument, the Multifactor Leadership Questionnaire (MLQ), was conceptually developed and empirically validated to reflect the complementary dimensions of transformational and transactional leadership with sub-scales to further differentiate leadership behavior (Bass, 1985). The MLQ has undergone several revisions. These have been done in an attempt to address matters on psychometric properties (Avolio et al., 1995). The MLQ is the most widely used measure of transformational leadership behaviors. The study participants will be asked to describe the leadership behaviors. The latest MLQ is Form 6S which consists of 21-items.

The MLQ includes questions that measure four factors: (a) attributed idealized influence/ charisma, (b) inspirational motivation, (c) intellectual stimulation, and (d) individual consideration, all of which are for Transformational leadership. The question for Transactional leadership measuring attributes consists of: (a) contingency reward, (b) management by exception, and (c) *liaises-faire*.

The factor attributed to idealized influence or charisma is measured by three items, for example: "My supervisor makes me feel good to be around him." Inspirational motivation is measured by three items, including, "My supervisor expresses in a few simple words what I could and should do". Intellectual stimulation is measured by three items, such as: "My supervisor enables me to think about old problem in a new way". Individual

consideration is measured by three items, including, "My supervisor help me develop myself."

The transactional factor includes contingent reward measured by three items, for example, "My supervisor tells me what to do if I want to be rewarded for my work." Management by exception is measured by three items including, "As long as things are working, my supervisor does not try to change anything." Laissez-faire is measured by three items, including, "My supervisor asks no more of me than what is absolutely essential."

Through extensive examination of this instrument, the developers ascertained the reliabilities of the total items and for each leadership factor scale ranging from .74 to .94 (Bass and Avolio, 1995).

b. Islamic Work Ethic Scale

This is measured using an instrument developed by Ali (1992). This instrument consists of 17 items (short version). Examples of these items include: i) laziness is a vice, ii) dedication to work is a virtue, and iii) justice and generosity in the work place, are necessary conditions for the welfare of the society etc. This short version has already been applied in several Muslim countries, such as, Saudi Arabia, UEA, Kuwait, and the results are relatively high. The Cronbach's alpha of this scale is 0.85 (Ali, 2005).

c. Distributive Justice Scale

Perception of distributive justice was measured by using a distributive justice index developed by Niehoff and Moorman (1993). This index is used to measure respondent perceptions of the fairness of the rewards that they receive for their contributions to their organizations. This five-item scale measures the degree to which rewards received by employees are perceived to be related to performance inputs. Each item asks for the degree to which the respondent believes that he or she is fairly rewarded on the basis

of some comparison with the responsibilities, training, reward, and performance measurement. For example: my work schedule is fair; I think that my level of pay is fair. This scale has reported reliabilities above .90.

d. Procedural Justice Scale

Employees' perceptions of procedural justice was measured using a five-item procedural justice scale developed by Niehoff and Moorman (1993). This scale measures the respondents' perceptions of the fairness of the formal procedure in their organizations. For example: Job decisions are made by my supervisor in an unbiased manner. This scale has reported reliabilities above .90.

e. Interaction Justice Scale

This scale used three items taken from Folger and Konovsky (1989) which measure global perception of interactional fairness. For example: My supervisor showed a real interest in trying to be fair. The Cronbach's alpha of this scale is 0.89.

f. Organizational Commitment Scale

This was a three-items shorter version of the organizational commitment questioners (OCQ) developed by Mowday et al. (1979) and revised by Bozeman and Perrewew (2001) and also used by Luna-Arocas and Camp (2008). The coefficient alpha has reported consistently high ranging from 0.82 to 0.93.

g. Job satisfaction Scale

Job satisfaction was measured by using the three-item scale of Hackman and Oldham's (1976) overall job satisfaction scale. Examples of items included are: "generally speaking, I am very satisfied with my job", and, "I am generally satisfied with the feeling of worthwhile accomplishment I get from doing this job." This scale was also used by Luna-Arocas and Camp (2008). Cronbach's alphas are 0.89 in the U.S. sample and 0.73 in the Chinese sample.

h. Turnover Intention Scale

Turnover intention was measured by a three-item scale adapted from Hom and Griffeth (1991) and also used by Luna-Arocas, and Camp (2008). For example: "I am considering of taking another job". The turnover intention scale was developed as a part of the Michigan organization assessment Questioner (Cammann, Fichman, Jenkins and Klesh, 1979). They reported that internal consistency for the scale was 0.83.

4. Pilot study

A pilot study was conducted to determine the clarity and readability of the questionnaire and to test the internal reliability of the measures. Prior to gathering data for the research, a pilot study was necessary for content validation (Cooper and Schindler, 2003). The pilot test allowed the participants to provide feedback on the survey questions, content, reliability, and understanding of the instrument (Cooper and Schindler, 2003). Reliability will ensure that survey instrument can be used on different respondents and in different times and locations.

The questionnaires were distributed to 60 employees of ten Islamic microfinance institutions (called BMTs) in Demak regency, Central Java, Indonesia. The study used self-administered questioners as the data collection technique. Of the sixty questioners that were distributed, fifty three were returned (response rate 88 percent), but only forty nine were complete and can be used in further analysis. The demographic statistics for the employees are described in table 3.4 below.

Table: Demographic Characteristics of Pilot Test

Characteristics	Frequency	Percentage
Gender		
• Male	24	49
• Female	25	51
Total	49	100
Education		
• Junior High School	0	0
• High School	14	29
• College	18	37
• Undergraduate	17	33
• Postgraduate	0	0
Total	49	100
Age		
• 25 years – Below	12	24
• 26-30 years	20	40
• 31-35	15	30
• 36-40	2	6
• 40- above	0	0
Total	49	100
Length of Employment		
• 1 year and below	0	0
• 2 – 4 years	11	22
• 5 – 7 years	18	37
• 8 – 10 years	5	10
• 11 – above	5	10
Total	49	100

Tests of internal consistency (Crombach's alpha) were conducted to assess the reliability of each the scales used. All of the measures included in the questionnaire showed adequate levels of the internal consistency reliability. The Crombach's alpha ranged from 0.6 for the laissez-faire to 0.945 for turnover

intention. Table 4.5 reports the descriptive statistics for the measures used including the mean, standard deviation, and internal consistency reliabilities for each measure.

Table: Descriptive Statistics and Reliability Estimates
for Pilot Test

No	Variable	Mean	SD	Alpha
1	Transformational Leadership			
	Idealized influence (charisma)			.728
	• CHR1	3.61	.86	
	• CHR2	3.81	.85	
	• CHR3	3.77	.62	
	Inspirational motivation			.725
	• IM1	4.02	.56	
	• IM2	3.97	.56	
	• IM3	3.93	.52	
	Intellectual stimulation			.763
	• IS1	4.00	.68	
	• IS2	3.92	.61	
	• IS3	3.88	.63	
	Individual consideration			.732
	• IC1	3.88	.69	
	• IC2	3.47	.94	
	• IC3	3.39	.88	

2 Transactional Leadership		
Contingent Reward		.782
• CR1	3.88	.70
• CR2	4.00	.91
• CR3	4.04	.88
Management-by-Exception		.640
• MBE1	3.79	.70
• MBE2	.3.40	.91
• MBE3	3.75	.87
Laissez-faire		.606
• LF1	3.61	.99
• LF2	2.24	1.23
• LF3	3.39	.90
3 Islamic Work Ethic		
		.674
• IWE1	4.75	.66
• IWE2	4.41	.50
• IWE3	4.59	.50
• IWE4	4.63	.49
• IWE5	3.73	.64
• IWE6	4.67	.52
• IWE7	4.28	.58
• IWE8	3.71	1.09
• IWE9	4.94	.24
• IWE10	3.65	.72
• IWE11	3.89	.65
• IWE12	4.08	.73
• IWE13	4.27	.45
• IWE14	4.39	.49
• IWE15	3.67	.80
• IWE16	4.39	.49
• IWE17	4.00	.93

4	Distributive Justice		.837
	• DJ1	3.88	.53
	• DJ2	3.87	.60
	• DJ3	3.65	.60
	• DJ4	3.65	.66
	• DJ5	3.90	.59
5	Procedural Justice		.681
	• PJ1	3.18	.83
	• PJ2	3.92	.84
	• PJ3	4.00	.73
	• PJ4	4.08	.61
	• PJ5	4.24	.52
6	Interactional Justice		.793
	• IJ1	4.06	.56
	• IJ2	3.98	.56
	• IJ3	3.98	.56
7	Organizational Commitment		.750
	• OC1	4.37	.52
	• OC2	4.22	.65
	• OC3	4.67	.85
8	Job Satisfaction		.726
	• JS1	3.69	.77
	• JS2	4.04	.73
	• JS3	3.88	.83
9	Turnover Intention		.945
	• TI1	2.02	.80
	• TI2	2.22	.80
	• TI3	2.04	.84

Because of the low internal consistency, some items were modified to improve the understanding of the respondents. The result of the statistical analysis for the pilot study is included in Appendix B.

5. Data Collection

Data for this study was collected in a variety of ways in an effort to ensure that the credibility of the information was maintained when added to the body of knowledge. Prior to the data collection, a letter clarifying the relevant purpose, importance and the potential benefits of the study had been sent earlier to the head of IMFIs Association in order to get the secondary data and the support for a primary data collection. However, insufficient data related to IMFIs were available as there were only few IMFIs which were active in the association. Moreover, members of the association did not submit regular reports to the association regarding their assets, credits, members, staff, etc. As a result, the researcher only got the list of BMT members of association and their addresses.

Based on the list given by the BMTs, the researcher liaised with the managers of each BMT to request for their approval for using their staff for participation in the study. Once the eligible Islamic microfinance were selected, a letter and a bundle of questionnaire were sent to each manager who had agreed to participate in the study, summarizing the goals of the study and requesting them to distribute the questioners to the staffs who indicated a willingness to participate. In some regency, especially, in the remote areas covering a distance of more than 100 km, such as, Surakarta and Pekalongan regencies, the researcher looked for the assistance from the BMT staffs who were willing to assist in the distribution and collection of the questionnaires.

6. Data Analysis

The data were analyzed by using descriptive statistics, such as, percentages, frequencies to present the main characteristic of the sample and its mean, standard deviation and correlation between the variables. In this study, the measurement methodology and the hypothesized testing were assessed by using the structural equation modeling (SEM). SEM is a modeling

technique that can handle a large number of endogenous and exogenous variables, as well as the latent variables. A confirmatory analysis was adopted, rather than the exploratory method, because the model was to be constructed upon another model in terms of a system having a unidirectional effect of one variable on another (Hair et al., 2006).

This technique is different from other multivariate technique because SEM is very useful when one dependent variable becomes an independent variable in the relationship string. For example, in this research, the Islamic work ethic is treated as initial dependent variable in relation with the leadership which in turn becomes an independent variable in terms of the influence on the distributive and procedural justice.

There are some reasons why SEM is more preferable than other methods of statistical analysis and the reasons of its recent popularity. Firstly, the researchers were becoming more aware of the need to use multiple observed variables to better understand the area of scientific inquiry (Hair et al., 2006). Secondly, the former methods of analyses are based on the observed measurements only, while the latter can incorporate the SEM procedure for both the unobserved and the observed variables (Byrne, 2005). SEM techniques therefore have become the preferred method for confirming theoretical models utilizing a quantitative approach (Hair et al., 2006).

There are two processes in the SEM. Firstly, test of the measurement model means the establishment of the relationship between the observable and unobservable variables. Secondly, test of the structure model. It is the relationship among the unobserved latent variables. It describes which latent variables directly or indirectly influence changes in the values of the latent variables in the model (Byrne, 2005).

These model test procedures are primarily used to determine the goodness-of-fit between the samples data and the hypothetical model. The structure of the hypothetical model is

applied on the sample data and then tested as to how well the observed data can fit into this structure. In this study, SEM is conducting using AMOS 7.0 for computing the maximum likelihood of the probability of occurrence

Hair et al. (2006) identified seven stages in the structural equation modeling as enumerated below:

1. Developing a theoretically based model,
2. Constructing a network path diagram of causal relationship,
3. Converting the network path diagram into a set of measurement and structural models,
4. Choosing the input matrix type and estimating the proposed model,
5. Assessing the identification of the structural model,
6. Evaluation of the goodness-of-fit criteria, and
7. Interpreting and, if justified, modifying the model.

The first stage of SEM is to develop a model based upon the theoretical causal relationships presented in developing the hypothesis. The six concepts being evaluated in this investigation are: leadership style, Islamic work ethic, organizational justice, organizational commitment, job satisfaction and turnover intention.

The second stage involves the construction of the path diagram. A path diagram demonstrates the predictive relationships and the associative relationships between the concept and the other potential indicator. In the diagram, each independent and dependent construct is shown in a circle, and arrows are used to represent the theorized relationship. Straight arrow demonstrates the predicted impact of an independent variable on a dependent variable (Hair et al., 2006). In this study, the diagram is as shown in the research model.

In stage three, the researcher converted the path model into a series of measurement model. A confirmatory factor analysis (CFA) was performed. CFA is a multivariate statistical devise whose primary purpose is to define the underlying structure of data matrix (Hair et al., 2006). The technique was used to confirm the association between the observed measurement and the latent variables. In this study, CFA was used to test five concepts, namely: transformational leadership, transactional leadership, Islamic work ethic, organizational justice and work outcomes.

The fourth stage involved choosing the input matrix type and estimating the proposed model. Unlike other multivariate methodologies, SEM utilized the data from variance-covariance or correlation matrixes rather than the direct data. SEM focused on the patterns of relationship of respondents rather than individual respondents. Typically, the covariance matrix data is preferred if theory testing was involved in the study. The correlation matrix data was acceptable if the focus of the research was on the patterns of relationships rather than the theory testing (Hair et al., 2006).

The next stage is the assessment of the identification of the structural model. Identification of the model can be accomplished through either the order or the rank condition. To fulfill the order condition, the model must have the degree of freedom greater than zero. In SEM, degree of freedom is calculated as the difference between the number of covariance and the actual number of coefficients in the proposed model (Hair et al., 2006).

The sixth stage is the evaluation of the goodness-of-fit criteria for the model. The goodness-of-fit is the degree to which the input matrix is predicted by the estimated model. Overall model fit is measured by: a) absolute fit measures, b) incremental fit measure, and c) parsimonious fit measure. A coefficient of determination (R-square) is the measure of goodness-of-fit for the overall equation (Hair et al., 2006).

The last stage is the interpretation and the modification of the model. The researcher can interpret the result that shows in the SEM output. Moreover, there are also some suggestions to modify the model which calls for model respecification. This modification of the theoretical model is to address the inappropriate parameters or to generate a new competing model to compare with the existing model (Hair et al., 2006).

The relative strength of the effect was tested through several fit indices. The fit of the measurement model and structural model were analyzed through the fit indices obtained from the output of the AMOS 7 analysis. The purpose of the criterion is to determine to what degree the hypothesized relationships are identical to the observed data (Kline, 2005). The method of maximum likelihood was specified for estimating the structural equation model. There are three different types of indices: i) absolute indices, ii) relative indices, and iii) adjusted indices.

Absolute indices are assessed on the basis of how well a priori model can reproduce the sample data. The absolute indices include:

- a. Chi-square statistics (χ^2/df) (CMIN/DF in AMOS output). The chi-square can be better understood as “a badness of fit” measure in that finding significance means the given model’s covariance structure is significantly different from the observed covariance matrix. There is no clear-cut guideline for the ratio of chi-square, but a ratio of less than 3 is considered to be a good fit or an acceptable fit and less than 2 indicates an excellent model fit (Kline, 2005).
- b. Root Mean Square Residual (RMR). The RMR is the average of the residuals between the observed and the predicted matrices (Hair et al., 2006). As the RMR of zero indicates a perfect fit, the smaller the RMR value the better it will be (Kline, 2005).

- c. Goodness of Fit (GFI). The GFI indicates the degree to which the overall model predicts the observed correlation matrix. The GFI has an absolute interpretation because it deals only with the proposed research model (Kline, 2005). The value of this index ranges from 0 (poor fit) to 1 (perfect fit). Higher values indicate better fit, but a value greater than 0.90 is desirable (Hair et al., 2006).
- d. Root Mean Square Error of Approximation (RMSEA). The RMSEA is the discrepancy (the average of the residuals between the observed and estimated matrices) per degree of freedom. RMSEA is recommended with a relatively larger sample size as the discrepancy is measured in terms of the population size (Hair et al., 2006). The value of RMSEA 0.8 or less indicates a good-fit the model.

Relative fit indices consist of:

- a. Tucker-Lewis Index (TLI). The TLI is a combination of measure of parsimony into a comparative index between the proposed and null model. The range for TLI lies between 0 and 1. A value of 0.90 or greater is recommended (Hair et al., 2006).
- b. Comparative Fit Index (CFI). The CFI is a relative comparison of the researchers' proposed model to the null model. This index value ranges from 0 to 1.0, and the value of 0.80 indicates that the relative overall fit of the researcher's model is 80 percent better than that of the null model. The recommended value is 0.90 or greater (Kline, 2005).

However, Hair et al. (2006: 752) suggested that the investigator was to use three to four absolute and incremental fit indices rather than reporting all the indices because of occurrence of redundancy among them. A model reporting the chi-square statistics (χ^2), degree of freedom, RMSEA and CFI are considered

sufficient in providing unique information to evaluate a model (Hair et al., 2006).

Results

1. Sample Characteristics

Employees of sixty organizations of Islamic microfinance in the Central Java, Indonesia participated in this study. A total of 550 fulltime employees were requested to complete the questionnaires of which 419 were returned (response rate of 76.2 percent). A total of 49 respondents were removed, 30 due to not-fulfillment of the requirement to be used as samples and 19 due to excessive missing data. Therefore, the final sample size was 370 respondents.

Table 4.1 presents the demographic characteristic of the respondents. The participants were asked to provide brief information regarding their gender, age, education level, work experience, and also their manager’s tenure in the current position.

Table: Demographic Characteristics of Respondents

Demographic Variables	Frequency	Percentage
Gender		
• Male	192	52 %
• Female	178	48 %
Total	370	100%
Age		
• 18-24	96	26 %
• 25-29	139	37 %
• 30-34	77	21%
• 35-39	43	12 %
• 40 – above	15	4 %
Total	370	100%

Education Level

• Junior high school	4	1%
• Senior high school	121	33%
• Diploma	104	28%
• Undergraduate	137	37%
• Postgraduate	4	1%
Total	370	100%

Length of Employment (years)

• 1- 4	223	60%
• 5 – 9	118	32%
• 10- above	29	8%
Total	370	100%

Length of Managerial Tenure (years)

• 1 - 4	132	36%
• 5 – 9	83	22%
• 10- above	155	42%
Total	370	100%

The majority of respondents were males (192 or 52%). Less than half of the participants were female (178 or 48%). The respondents were classified into five age categories. The age range indicated that 96 (26%) were 18-24 years old, 139 (37%) were 25-29 years old, 77 (21%) were 30-34 years old, 43 (12%) were 35-39 years old, and 15 (4%) were 40 years and above. The respondents were also classified into five educational categories. The distribution consisted of: 4 (1%) junior high school, 121 (31%) senior high school, 104 (28%) college diplomas, 137 (37%) undergraduates, and 4 (1%) postgraduates respectively.

Regarding the length of employment, 223 respondents (60%) had been with their present institutions between 1 and 4 years, 118 respondents (32%) between 5 and 9 years. Only 29 respondents (8%) had been more than ten years with their current organizations. With regard to length of managerial tenure in the current position: 42 percent (155 respondents) indicated

that they had been managers for more than ten years in their current organization. Only 83 respondents (22%) indicated that they were between 5 and 9 years in their managerial positions.

2. Data Assessment

Hair, Black, Babin, Anderson, and Tathan (2006) suggested the need for a data assessment before conducting structural equation modeling analysis was quite necessary. The first data assessment is the missing data. Missing data is a serious problem in data analysis, especially when the number of missing data is high or the pattern of missing data is not random (Tabachnick and Fidell, 2001). This is because missing data can have a significant impact on any analysis, especially on multivariate analysis (Hair et al., 2006). To handle missing data, this study adopted a twofold process: analysis of the number of variables with missing data for each case, and analysis of the patterns of missing data.

Using SPSS, the result showed that the number of variables that had missing value for each case was counted. The nineteen cases were identified as missing ten percent and above of the data, then such cases were excluded from the analysis. For the missing data, less than five percent was handled using average score as suggested by Hair et al. (2006).

The next data assessment is normality. SEM assumes multivariate normal distribution for the observed variables. Before the start of SEM analysis, multivariate normality was required by maximum likelihood estimation, which was the most widely used method (Kline, 2005). It assumes that each of the individual variables is normally distributed. The multivariate normality assumption can be tested through the examination of skewness and kurtosis of the univariate variable (McDonald and Ho, 2002). Kline (2005) identified that a skewness value greater than 3.0 and kurtosis value greater than 10.0 represented a violation of multivariate non normality. Table below presents a normality testing for every variable of this study.

Table: Normality Testing

Variable	Skewness (< 3.0)	Kurtosis (< 10.0)	Degree of Nonnormality
Charismatic/ Idealized influence	-.813	1.688	Mild
Inspirational motivation	-1.563	4.406	Mild
Intellectual stimulation	-.872	1.840	Mild
Individual consideration	-1.046	2.228	Mild
Contingency reward	-1.027	2.613	Mild
Management by exception	-.367	.912	Mild
Laissez-faire	-.164	.421	Mild
Islamic work ethic	-.177	.179	Mild
Distributive justice	-.853	1.260	Mild
Procedural justice	-.827	2.479	Mild
Interactional justice	-.359	1.040	Mild
Organizational commitment	-.271	.299	Mild
Job satisfaction	-.739	1.227	Mild
Turnover intention	.565	.157	Mild

The table above shows that no variables that have value of skewness greater than 3 and kurtosis greater than 10. Thus the entire variables are close to normal distribution.

The next data assessment is sample size. All the studies on SEM agreed that a large sample size was critical in the estimation and interpretation of SEM since larger samples produced much less sampling error than smaller samples (Hair et al., 2006; Kline, 2005). However, there was no absolute guideline in the literature about how large a sample size should be. Some experts suggest a minimum sample size of 100, desirably 200 (Hair et al., 2006). Moreover, the following general rules were widely used: a minimum ratio of five respondents for each estimated parameter,

with ratio of 10:1 as more appropriate, and 20:1 as desirable (Hair et al., 2006). However, Tabachnick and Fidell (2001) argue that a ratio of 5: 1 would be adequate in most cases.

In this study, the sample size of the study was 370. First of all, this met the general recommendation of a sample size of 100-200. Secondly, based on the guideline for ratio of cases per parameter, this study had about six respondents for each estimated parameter since there were 60 parameters in the measurement model. The approximate ratio of 6:1 met the minimum ratio of 5:1. Therefore, the sample size in this study was sufficient for SEM analysis.

3. Reliability and Correlations

Table 4.3 reports the means, standard deviations and reliability for the measurements used in the present study. Reliability refers to the extent to which a scale produces consistent results if the measurements are repeated a number of times. Hair et al. (2006: 137) defined reliability as “an assessment of the degree of consistency between multiple measurements of the variables”. Reliability is often measured using cronbach alpha as an indicator of internal consistency among the items.

Table: Descriptive Statistics and Reliability Analysis

No.	Variable	Mean	SD	Alpha
1	Transformational Leadership			
	Idealized influence (charisma)			.77
	• CHR1	3.8811	.7152	
	• CHR2	3.9081	.6845	
	• CHR3	3.7568	.6709	
	Inspirational motivation			.87
	• IM1	3.8784	.6534	
	• IM2	3.7919	.6646	
	• IM3	3.7405	.6648	
	Intellectual stimulation			.86
	• IS1	3.7838	.7448	
	• IS2	3.7405	.7082	
	• IS3	3.7162	.7530	
	Individual consideration			.87
	• IC1	3.9081	.6962	
	• IC2	3.6622	.7700	
	• IC3	3.5270	.8930	
2	Transactional Leadership			
	Contingent Reward			.88
	• CR1	3.7162	.7984	
	• CR2	3.7541	.7732	
	• CR3	3.8000	.7046	
	Management-by-Exception			.74
	• MBE1	3.5270	.8930	
	• MBE2	3.7405	.7082	
	• MBE3	3.8000	.7046	
	Laissez-faire			.66
	• LF1	3.3595	.8822	
	• LF2	2.2622	1.0089	
	• LF3	3.2946	.9149	

3	Islamic Work Ethic		.77
	• IWE1	4.6568	.5968
	• IWE2	4.3054	.5947
	• IWE3	4.5243	.5161
	• IWE4	4.4838	.5899
	• IWE5	3.8432	.7702
	• IWE6	4.4838	.5899
	• IWE7	4.1757	.7464
	• IWE8	3.7892	.9564
	• IWE9	4.4054	1.0244
	• IWE10	3.5730	.8688
	• IWE11	3.8243	.6281
	• IWE12	4.0946	.7017
	• IWE13	4.0757	.7097
	• IWE14	4.2189	.7086
	• IWE15	3.8162	.8858
	• IWE16	4.1757	.7679
	• IWE17	3.8811	.9294
4	Distributive Justice		.89
	• DJ1	3.8378	.7330
	• DJ2	3.7270	.7954
	• DJ3	3.7568	.7140
	• DJ4	3.7162	.7601
	• DJ5	3.8514	.6351
5	Procedural Justice		.76
	• PJ1	3.3378	.8692
	• PJ2	3.8000	.6969
	• PJ3	3.8811	.7152
	• PJ4	3.9081	.6845
	• PJ5	4.0027	.6269
6	Interactional Justice		.74
	• IJ1	3.9135	.6359
	• IJ2	3.8676	.6387
	• IJ3	3.8108	.6600

7	Organizational Commitment		.86
	• OC1	4.3946	.5568
	• OC2	4.2054	.6384
	• OC3	4.3595	.5731
8	Job Satisfaction		.74
	• JS1	3.6459	.8109
	• JS2	3.9324	.6774
	• JS3	3.7973	.8028
9	Turnover Intention		.89
	• TI1	1.9946	.8804
	• TI2	2.1216	.8354
	• TI3	1.9162	.8779

All the variables showed adequate internal consistency reliability. The lowest internal consistency ranges from 0.66 for laissez-faire to 0.89 for distributive justice and turnover intention.

Table 4.4 depicts the correlation among the variables in this study. As a rule of thumb, studies have reported that the coefficients of inter-item correlation should be greater than 0.3 and lower than 0.8 to avoid multicollinearity. In this study almost all results achieved the cut-off value, only a few variables have values below 0.3.

Table: Correlation between variables

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Charismatic	1.0												
2. Inspirational motivation	.634**	1.00											
3. Intellectual Stimulation	.537**	.731**	1.00										
4. Individual Consideration	.591**	.667**	.665**	1.00									
5. Contingent Reward	.498**	.624**	.629**	.608**	1.00								
6. Management by Except	.513**	.530**	.530**	.501**	.625**	1.00							
7. Laissez-Faire	.141**	.009	.042	.116**	.008	.055	1.00						
8. Islamic Work Ethic	.265**	.208**	.249**	.282**	.185**	.170**	.053	1.00					
9. Distributive Justice	.458**	.498**	.485**	.413**	.464**	.435**	.026	.175**	1.00				
10. Procedural Justice	.525**	.591**	.610**	.537**	.549**	.510**	.037	.258**	.569**	1.00			
11. Interactional Justice	.542**	.520**	.515**	.492**	.440**	.468**	.064	.136**	.554**	.618**	1.00		
12. Organizational Justice	.329**	.272**	.249**	.255**	.296**	.355**	.073	.268**	.387**	.365**	.340**	1.00	
13. Job Satisfaction	.383**	.388**	.378**	.346**	.362**	.340**	.053	.293**	.388**	.353**	.377**	.409**	1.00
14. Turnover Intention	-.301**	-.213**	-.195**	-.170**	-.174**	-.234**	.103*	-.074	-.167**	-.211**	-.137**	-.245**	-.134**

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

Table above reports correlation coefficients which described the strength of the correlation among variables. Most of the correlation coefficients were statistically significant ($p < 0.01$), except correlation between laissez-faire and ten variables and also relation between IWE and turnover intention.

4. Structural Equation Modeling

Structural equation modelling (SEM) is an extension of the general linear model (GLM) which was used to test the causal effect among the main construct of the hypothesized model (Byrne, 2005; Kline, 2005; McDonald and Ho, 2002). Accordingly, the SEM process consists of two steps: testing the measurement model through confirmatory factor analysis and, testing the structural model (Bollen, 1989; Byrne, 2005; Kline, 2005; McDonald and Ho, 2002). Hair et al. (2006) recommended that the measurement model be evaluated before constructing the structural model.

a. Measurement Model

The main purpose of a measurement model is to describe how well the observed indicators serve as measurement instrument for the latent variables (Kline, 2005). It means that the measurement model depicts the link between the latent variables and the observed measures. The test of measurement model was conducted using the confirmatory factor analysis (CFA).

CFA is used to provide a confirmatory test of the measurement theory in which the key relationship between observed variables and a latent variable is to estimate this relationship (Hair et al., 2006). Hair et al. (2006) suggested that even with well-established scales, the researcher must still confirm the validity and unidimensionality of the constructs because unresolved problems at this stage can affect the entire analysis.

The fit of each measurement model was determined by several goodness-of-fit statistics including: Chi-square, Root Mean Square Error of Approximation (RMSEA), Tucker-Lewis

Index (TLI), Goodness-of-fit Index (GFI) and Comparative Fit Index (CFI).

Chi-square statistic is the most common fit index. It tests for the absolute model fit by measuring how much the implied covariance differs from sample covariance, but it has two problems, namely: first, it is sensitive to the sample size. The larger the sample size, the more likely a type II error is committed. Another problem is that the more complex the model, the more likely the chi-square statistic will indicate a good fit. When the model is just identified, the chi-square statistic will indicate a perfect fit (Byrne, 2005).

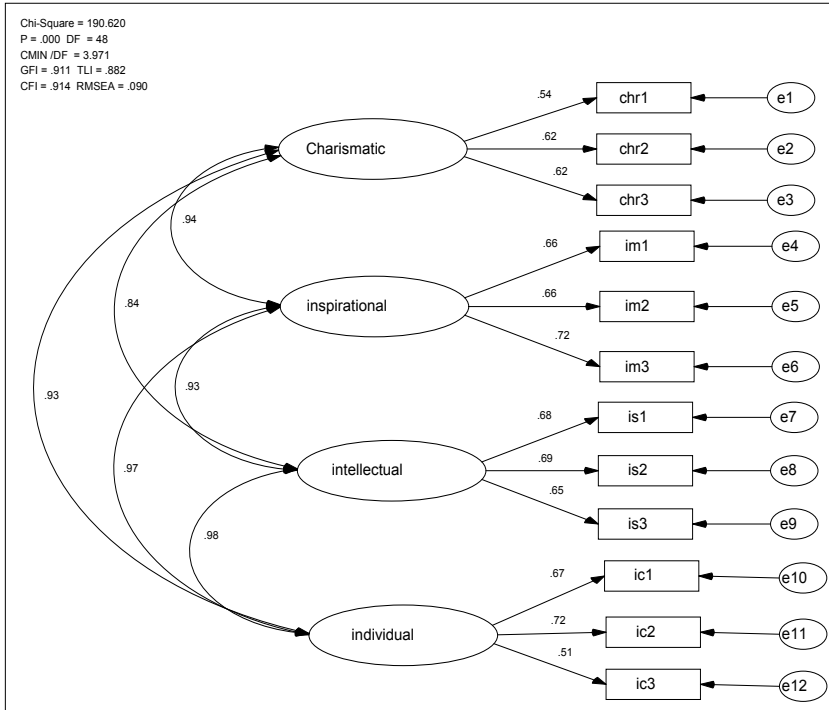
These problems were dealt with by using other types of complementary fit indices. RMSEA is a measure of discrepancy per degree of freedom in which measures the error of approximation in the population and represents how well this sample data fits into the population matrix. General guidelines suggest that RMSEA should be less than 0.08 (Byrne, 2005). The GFI (goodness of fit index) is a measure of the relative amount of variance and covariance in the sample and the rule of thumb suggests that GFI should be greater than 0.09. The CFI (comparative fit index) is a measure of the complete covariance in the data, a value greater than .90 indicating an acceptable fit to the data (Byrne, 2005).

b. CFA of Transformation Leadership

The original measurement model of a transformational leadership was a four-factor model comprising twelve indicators with each factor consisting of three items. The initial measurement estimation of the transformational leadership model did not fit well into the sample data ($\chi^2 = 190.62$; TLI = .882; RMSEA = .09). Although the GFI and CFI values met the threshold of more than .90, other fit measures, such as chi-square / degree of freedom ratio (χ^2/df), Tucker-Lewis index (TLI) and Normed fit Index (NFI) indicated a poor fit, and thus, some modifications

in the initial measurement model were needed to improve the fit model.

Figure 1 : The Initial Measurement Model of Transformational Leadership



The modification of the initial model was based on the values of loading factor and modification indices in AMOS 7 output. The result of values of factor loading is shown in the figure 4.1. Hair et al. (2006) suggested that factor loading of 0.5 or greater was considered as measuring its designed factor, because there were no values of loading factors lower than 0.5, thus, no items were removed from the model.

Moreover, based on the result of modification indices in AMOS output, there were four inter-correlations among the errors in the model which had higher values in modification indices. Correlation between errors: chr1 and is1 (MI = 24.458), chr1 and im2 (MI = 20.092), is1 and ic1 (MI = 20.317), and chr3

and im3 (MI = 19.805). These connections reduced the chi-square and hence increased the indices. This inter-correlation was supported methodologically through the use of AMOS, and theoretically because the elements of measurement errors were correlated. After modification of the measurement model, (see figure 4.2), most of the goodness-of-fit indices using the four dimensions of transformational leadership were satisfied based on the recommended threshold ($\chi^2/df = 2.738$; GFI = .948; TLI = .931; CFI = .954 and RMSEA = .069). The results of model fit indicated that the modified CFA model of transformational leadership fit with sample data.

Figure 2 : The Modification Measurement Model of Transformational Leadership

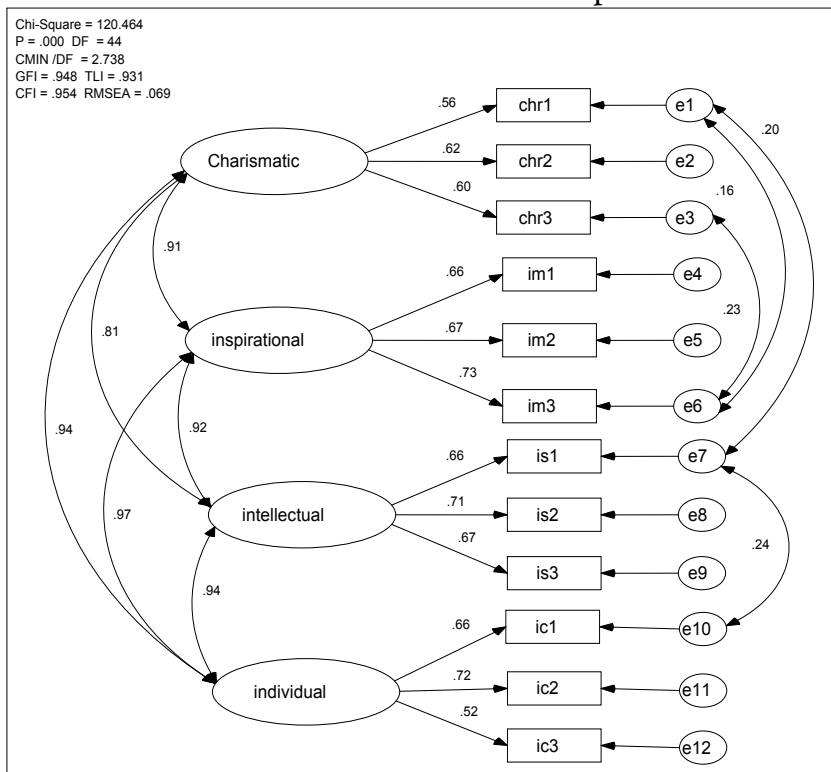


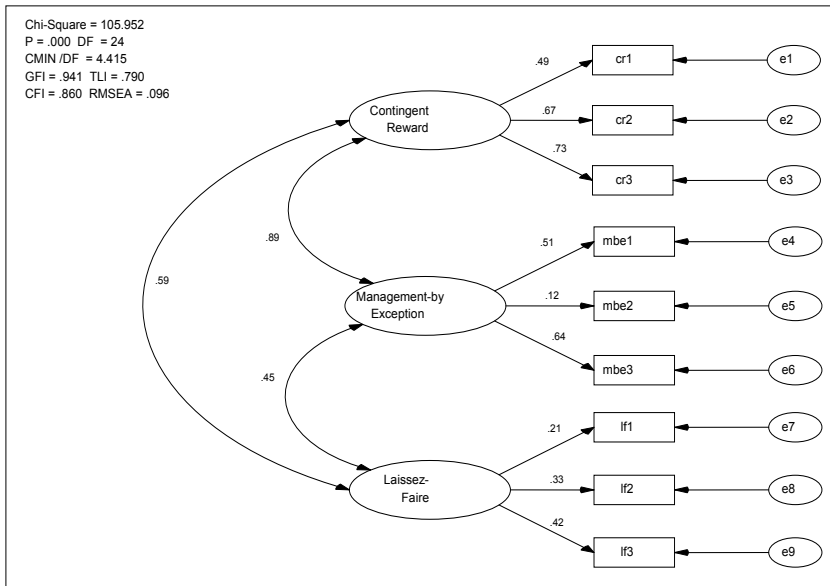
Table: The Result of CFA for Transformational Leadership

Goodness-of-fit statistics	Initial Model	Modification Model	Fit Values
Chi-square test (χ^2)	190.620	120.464	Lower better
Degree of Freedom (df)	48	44	
Chi-square / degree of freedom ratio (χ^2/df)	3.971	2.738	< 3
Goodness of fit index (GFI)	.911	.948	>.90
Root mean square error of approximation (RMSEA)	.09	.069	<.08
Tucker-Lewis index (TLI)	.882	.931	>.90
Normed fit Index (NFI)	.889	.930	>.90
Comparative fit Index (CFI)	.914	.954	>.90

c. CFA of Transactional Leadership

The original model of transactional leadership was a three-factor model comprising nine items where each factor consisted of three items. However, the initial measurement estimation of the transactional leadership model did not fit well (Figure 4.3). The chi-square value of 105.952 with 24 degrees of freedom was statistically significant at $p < .01$. The other fit statistics indicated that the model was not acceptable ($\chi^2/\text{df} = 4.415$; GFI = .941; TLI = .790; CFI = .860 and RMSEA = .096).

Figure 3: The Initial Measurement Model of Transactional Leadership



Due to the fact that most goodness-of-fit indices did not conform to the thresholds, some modifications in the initial measurement model were needed to improve the model fit. Firstly, according to standardized regression weights analysis (factor loading), the five item values were lower than 0.50, which meant these items were short of convergent validity. For this reason, the items cr1, mbe2, lf1, lf2, and lf3 were deleted from the initial model. Because all of items of laissez-faire factor had a low loading factor, thus, this factor was deleted from further analysis. The revised measurement model had excellent data fit of ($\chi^2/\text{df} = 1.607$; GFI = .998; TLI = .989; CFI = .998 and RMSEA = .041). The results of model fit indicated that the modified CFA model of transactional leadership fitted well with the sample data. Figure 4.4 and table 4.6 below show the final result of the confirmatory factor analysis for transactional leadership.

Figure 4: Modification of Measurement Model of Transactional Leadership

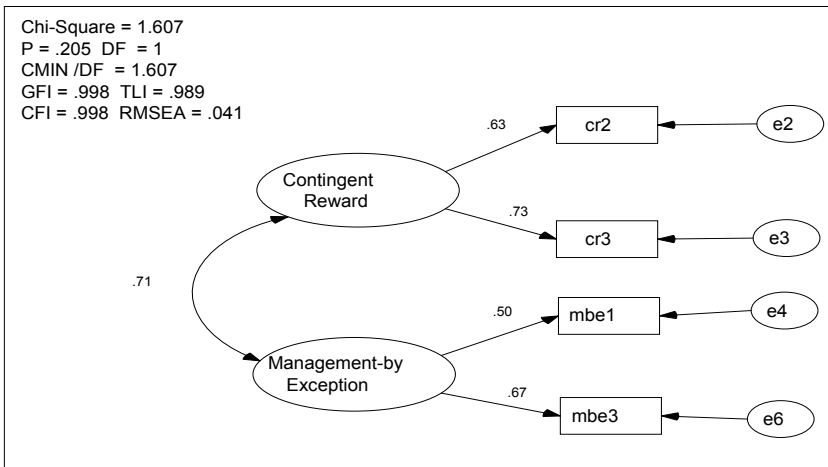


Table: The Result of CFA for Transactional Leadership

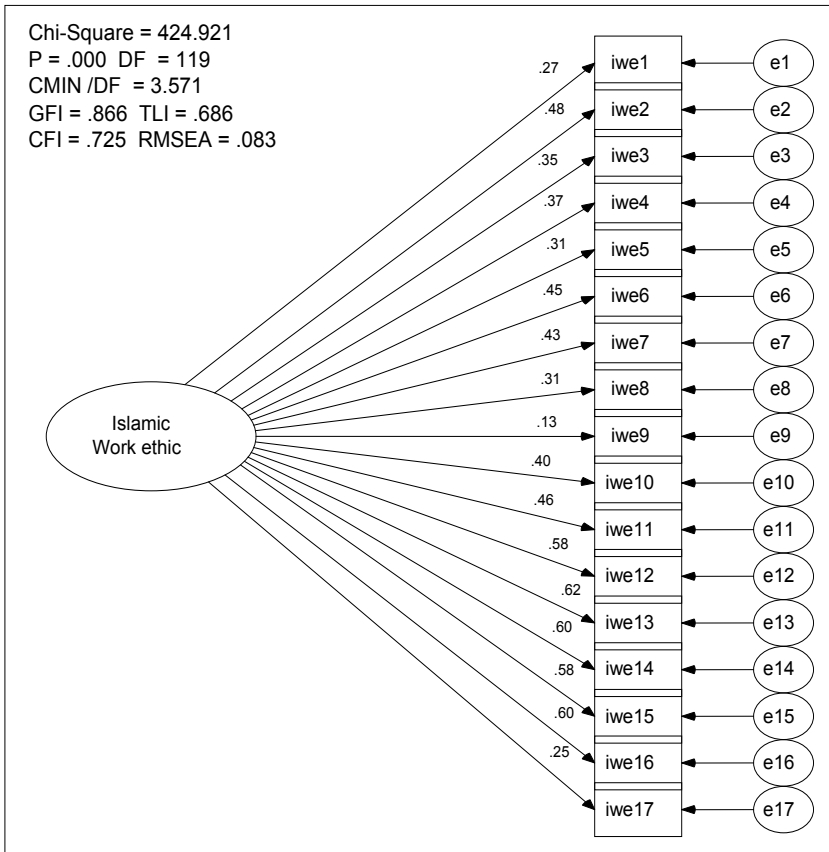
Goodness-of-fit statistics	Initial Model	Modification Model	Fit Values
Chi-square test (χ^2)	105.952	1.607	Less
Degree of Freedom (df)	24	1	better
Chi-square / degree of freedom ratio (χ^2/df)	4.415	1.607	<3
Goodness of fit index (GFI)	.941	.998	>.90
Root mean square error of approximation (RMSEA)	.096	.041	<.08
Tucker-Lewis index (TLI)	.790	.989	>.90
Comparative fit Index (CFI)	.860	.998	>.90

d. CFA of Islamic Work Ethic

The original model of IWE was a single factor model comprising seventeen items. The initial measurement estimation of the IWE model did not fit well. The chi-square value of 424.92 with 119 degrees of freedom was statistically significant at $p > 0.01$. The other fit statistics indicated that the model was not acceptable (CMIN/DF = 3.571; GFI = .866; TLI = .686; CFI

= .725; RMSEA = .083). Thus, the initial measurement model needed to be modified according to the value of the loading factor and recommended the modification index on AMOS 7 output.

Figure 5: The Initial Measurement Model of Islamic Work Ethic



The first modification was based on factor loading due to the low factor loadings less than 0.5: such as, items iwe1 (.27), iwe2 (.48), iwe3 (.38), iwe4 (.37), iwe5 (.43), iwe6 (.45), iwe7 (.43), iwe8 (.31), iwe9 (.13), iwe10 (.40), iwe11 (.46), iwe17 (.25) which were deleted. Moreover, based on the results of the modification indices in AMOS output, there were two inter-correlations among the errors in the model which had higher

values in modification indices, such as, correlations between error iwe15 and iwe16 (MI = 11.109) and between error iwe13 and iwe16 (MI = 9.804). These connections reduced the chi-square and hence increased the indices. These inter-correlation were supported methodologically through the use AMOS and theoretically as well because the elements of measurement errors were correlated.

After modification, the revised measurement model had excellent data fit ($\chi^2/df = 1.449$; GFI = .998; TLI = 1.012; CFI = 1.0 and RMSEA = 0). The results of model fit indicated that the modified CFA model of IWE fitted well with the sample data. Figure 4.6 and table 4.7 below show the final result of the confirmatory factor analysis for IWE.

Figure 6 : Modification of Measurement Model of Islamic Work Ethic

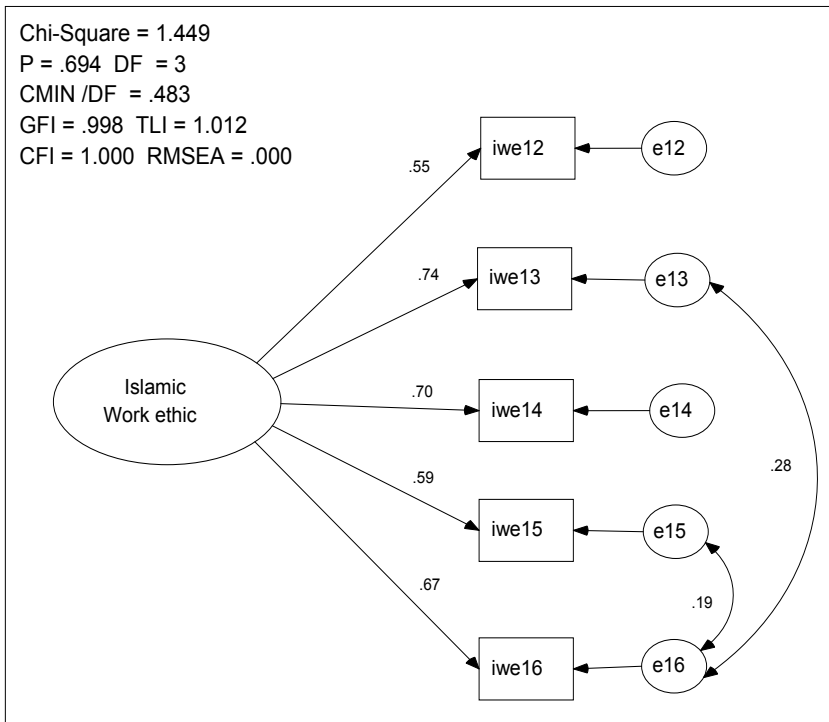


Table: The Result of CFA for Islamic Work ethic

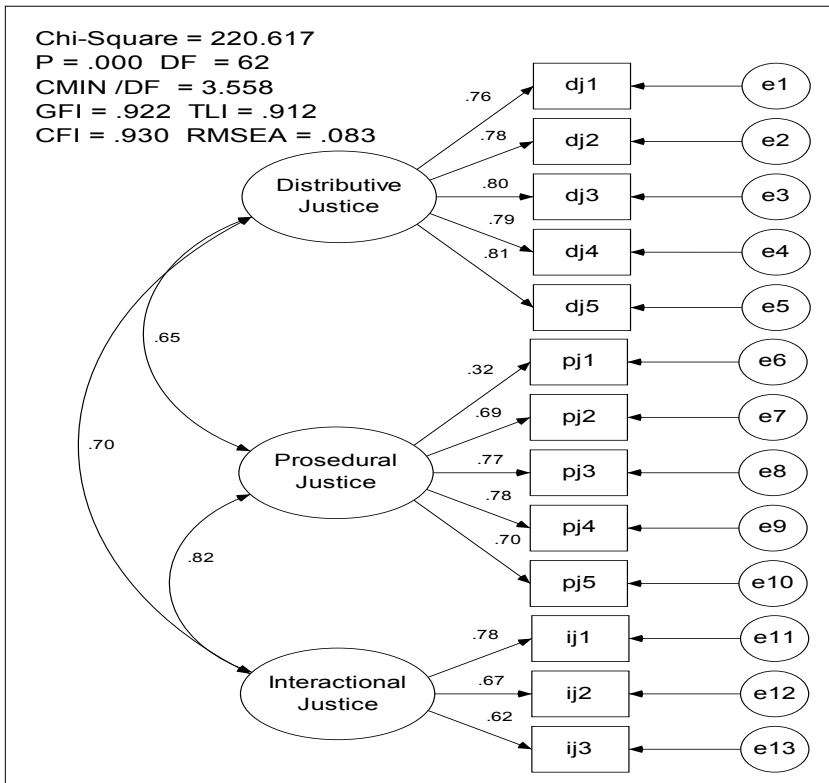
Goodness-of-fit statistics	Initial Model	Modification Model	Fit Values
Chi-square test (χ^2)	424.921	1.449	Less better
Degree of Freedom (df)	119	3	
Chi-square / degree of freedom ratio (χ^2/df)	3.571	.483	<3
Goodness of fit index (GFI)	.866	.998	>.90
Root mean square error of approximation (RMSEA)	.083	0	<.08
Tucker-Lewis index (TLI)	.686	1.012	>.90
Comparative fit Index (CFI)	.725	1.00	>.90

e. CFA of Organizational Justice

Organizational justice was measured by three dimensions: distributive justice, procedural justice and interactional justice. The CFA of organizational justice was conducted simultaneously due to the limited items of interactional justice. The original model of distributive justice was a single factor model comprising five indicators. For procedural justice, the original measurement model was single factor comprising five indicators and interactional justice had single factor with three indicators.

The initial measurement estimation of organizational justice model did not fit well. The chi-square value of 220.62 with 62 degrees of freedom was statistically significant at $p < .01$. The other fit statistics indicated that the model was not acceptable ($\chi^2/df = 3.558$; GFI = .922; TLI = .912; CFI = .930 and RMSEA = .083). Thus, some modifications in the initial model were needed to improve the model fit.

Figure 7: The Initial Measurement Model of Organizational Justice



The modification of the initial model was based on the values of loading factors and modification indices in AMOS output. The result of value of factor loading is shown in the figure above. Only one item (pj1 = .32), had a loading factor lower than 0.5, thus, the item was removed from the model. Moreover, based on the result of modification indices in AMOS output, there were six inter-correlations among the errors in the model which had higher values in modification indices. Correlations between errors ij2 and ij3 (MI = 24.477), dj2 and dj5 (MI = 16.527), dj1 and dj2 (MI = 13.420), dj3 and dj5 (MI = 11.446), dj1 and dj4 (MI = 10.417) and pj2 and pj3 (MI = 19.805) had reduced the chi-square and, hence, increased the indices. These inter-correlations

were supported methodologically through the use AMOS and theoretically as well because the elements of measurement errors were correlated.

The result of the modification measurement model is shown in figure above. Most of the goodness-of-fit indices using the three dimension of organizational justice were satisfied with the recommended threshold ($\chi^2/df = 2.635$; GFI = .952; TLI = .952; CFI = .967 and RMSEA = .067). The results of model fit indicated that the modified CFA model of organizational justice fit well with sample data.

Figure 8: Modification of Measurement Model of Organizational Justice

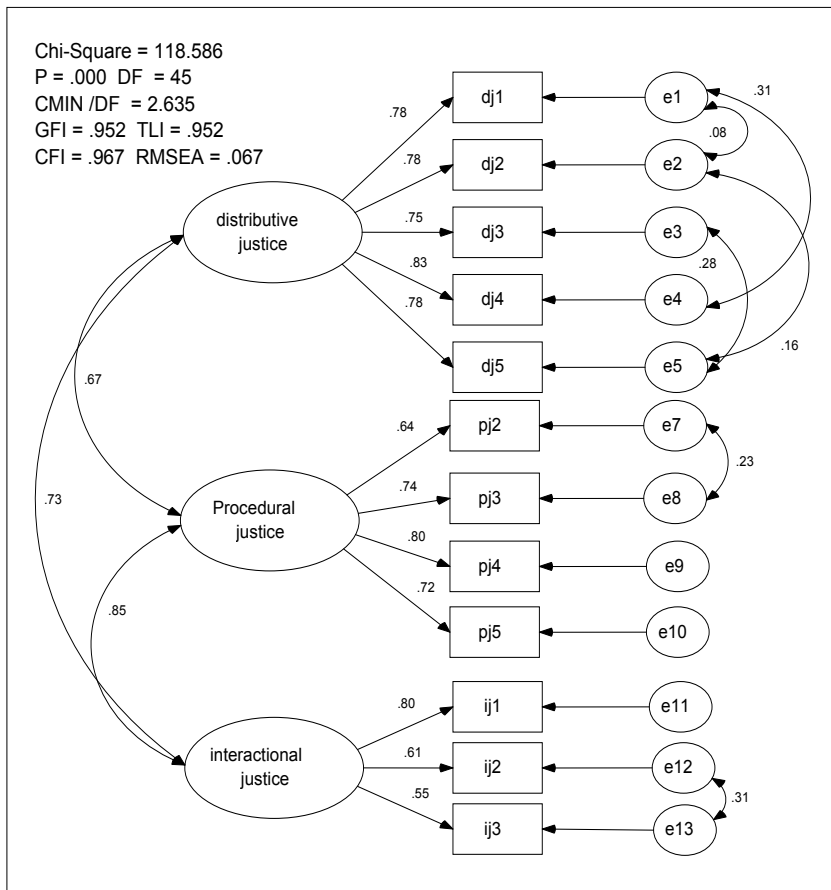


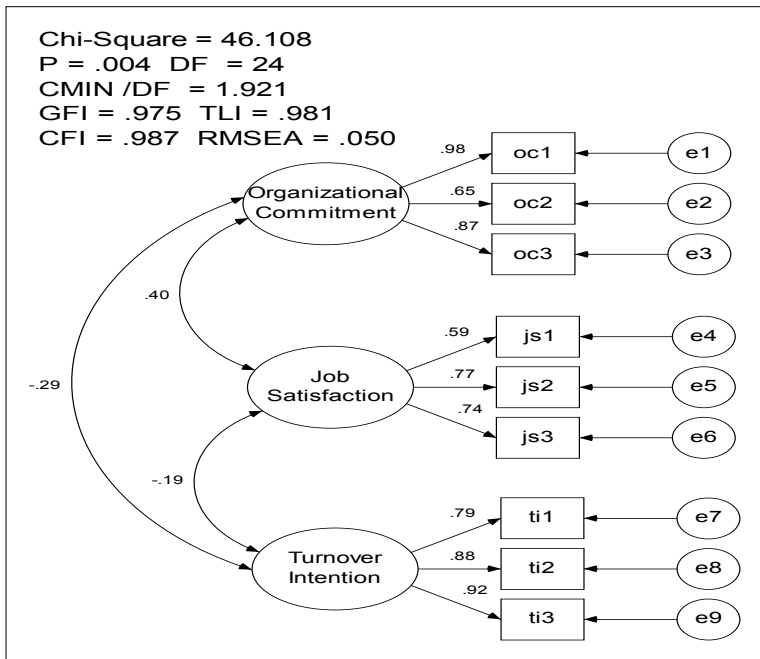
Table: The Result of CFA for Organizational Justice

Goodness-of-fit statistics	Initial model	Modification model	Fit Values
Chi-square test (χ^2)	220.617	118.586	Less
Degree of Freedom (df)	62	45	better
Chi-square / degree of freedom ratio (χ^2/df)	3.558	2.635	<3
Goodness of fit index (GFI)	.922	.952	>.90
Root mean square error of approximation (RMSEA)	.083	.067	<.08
Tucker-Lewis index (TLI)	.912	.952	>.90
Normed fit Index (NFI)	.906	.948	>.90
Comparative fit Index (CFI)	.930	.967	>.90

f. CFA of Organizational Commitment, Job satisfaction and Turnover Intention

The CFA of work outcomes in this study (organizational commitment, job satisfaction and turnover intention) were conducted simultaneously due to the limited number of items for every factor. The original measurement model of organizational commitment was a single factor model comprising three indicators. The original measurement model of job satisfaction was a single factor model comprising three indicators while the turnover intention was a single factor comprising three indicators.

The initial measurement estimation of organizational commitment, job satisfaction and turnover intention model did fit well. The result reports in figure and table below. The chi-square value of 46.1 with 24 degrees of freedom was not statistically significant. The other fit statistics indicated that the model was acceptable ($\chi^2/df = 1.921$; GFI = .975; TLI = .981; CFI = .987 and RMSEA = .050). Therefore, the overall measurement model was accepted.

Figure 9: The Initial of Measurement Model of Work Outcomes**Table:** The Result of CFA for Work Outcomes

Goodness-of-fit statistics	Initial Model	Fit Values
Chi-square test (χ^2)	46.108	Less better
Degree of Freedom (df)	24	
Chi-square / degree of freedom ratio (χ^2/df)	1.921	<3
Goodness of fit index (GFI)	.976	>.90
Root mean square error of approximation (RMSEA)	.050	<.08
Tucker-Lewis index (TLI)	.981	>.90
Normed fit Index (NFI)	.974	>.90
Comparative fit Index (CFI)	.987	>.90

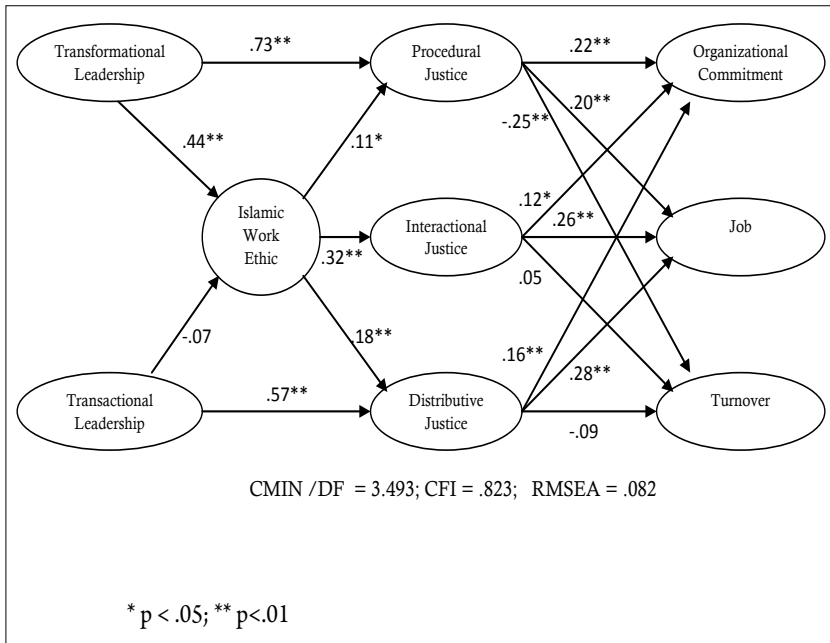
5. Structural Model

A structural model analysis specifies how the latent variables are related to each other (Hair et al., 2006; Byrne, 2005). They were used to test hypothesized relations between the variables under this study which had proposed that the structural model was to be used to investigate the relationship between nine latent constructs, namely: transformational leadership, transactional leadership, IWE, procedural justice, interactional justice, distributive justice, organizational commitment, job satisfaction, and turnover intention.

This study tested the structural model with AMOS 7, this program had provided various indices, such as, a) estimate, b) regression weight, c) modification indices, d) direct and indirect effects, e) total effects etc (Arbuckle, 2005). These indices were calculated to reflect the measure of fit between the hypothesized model and the observed data.

a. The Initial Theoretical Model

Figure and table below present the results of structural model based on the theoretical framework. It depicts all of standardized path coefficients had relations between latent variables in the theory.

Figure 10 : Structural Analysis of Initial Theoretical Model**Table: Regression Weights of Initial Theoretical Model**

			Estimate	S.E.	C.R.	P
Islamic Work Ethic	<---	Transformational Leadership	.183	.029	6.386	***
Islamic Work Ethic	<---	Transactional Leadership	-.040	.039	-1.038	.299
Procedural justice	<---	Transformational Leadership	.282	.030	9.415	***
Procedural justice	<---	Islamic work ethic	.106	.051	2.055	.040
Interactional Justice	<---	Islamic work ethic	.288	.064	4.470	***
Distributive Justice	<---	Islamic work ethic	.186	.058	3.216	.001
Distributive Justice	<---	Transactional Leadership	.356	.043	8.336	***

			Estimate	S.E.	C.R.	P
Organizational Commitment	<---	Procedural justice	.249	.066	3.768	***
Job Satisfaction	<---	Procedural justice	.206	.066	3.122	.002
Turnover Intention	<---	Procedural justice	-.376	.093	-4.056	***
Organizational Commitment	<---	Interactional Justice	.149	.071	2.109	.035
Job Satisfaction	<---	Interactional Justice	.277	.074	3.720	***
Turnover Intention	<---	Interactional Justice	.080	.096	.828	.408
Organizational Commitment	<---	Distributive Justice	.167	.057	2.914	.004
Job Satisfaction	<---	Distributive Justice	.256	.060	4.257	***
Turnover Intention	<---	Distributive Justice	-.122	.078	-1.548	.122

Arbuckle (2005) explained the columns shown in table above as follows:

- Estimate: the estimates of the covariance
- S.E: approximate standard error
- C.R : critical ratio (the value is the parameter estimate divided by an estimate of its standard error)
- P value gives the approximate two-tailed probability for critical ratios.

The AMOS result showed that the values of eleven path coefficients proved to be statistically significant at $p < 0.01$, two path coefficients significant at $p < 0.05$ and three path coefficients were not significant. The chi-square of the theoretical model was 1564 with 448 degrees of freedom significant at $p < .001$. The other fit data were not acceptable ($\chi^2/df = 3.493$; CFI = .823 and RMSEA = .082) (also see appendix C). Therefore, the theoretical

model did not achieve an acceptable fit into the data which required some modifications in the initial theoretical model.

b. The Revised Model

There may be a difference between hypothesized theoretical model and the sample data. In order to achieve better fitting model, the specification must be supported by strong substantive and empirical evidence (Joreskog, 1993). Based on the AMOS 7 output, the result indicated that the theoretical model was a poor fit to the data. Therefore, it was obvious that some modifications in specification were needed in order to determine a model that better represented the sample data.

To improve the fit of a structural model to the data, AMOS 7.0, provided the modification index (MI), suggesting possible model building or model trimming through adding and/or deleting path among estimated parameters in a model (Arbuckle, 2005). This index calculated the decrease in χ^2 of the model if a certain parameter initially set to zero was set free with another parameter (Byrne, 2005). Modification indices suggested that several measurement errors were allowed to be correlated. However, the model improvement caused by the addition of this correlation may mask a true underlying model structure (Anderson and Gerbing, 1988). However, the modification using MI for model improvement must be done carefully and with theoretical justification (Kline, 2005).

Based on the result of AMOS output, there was some evidence of misfit in the model. There was some modification that needed to be done: Firstly, the output of modification indices at covariance table indicated that the correlation between transformational leadership and transactional leadership was (MI=211.480), where these connections were allowed to reduce the chi-square and hence increased the indices (0.853). In a theoretical context, this correlation would be rational. According to Bass (1985) transformational leadership when combined

with transactional leadership would produce satisfactory effects on the followers' satisfaction and performance. Furthermore, he explained that transformational leadership did not replace transactional leadership but a leader could have both and not exactly separated (Bass, 1985). Thus, this correlation supported the assumption theoretically. Therefore, the revised model would include an estimation of correlation between the transformational leadership and the transactional leadership.

Secondly, the modification indices from the initial model suggested that the three-pair correlations between the residual variance be allowed. The revision on the model produced correlations among the "d2" (residual of the construct procedural justice), the "d3" (residual of the construct of interactional justice) and the "d4" (residual of the construct of distributive justice) based on the modification index. Residual of procedural justice, distributive justice and interactional justice were allowed to correlate with each other. From a theoretical point of view, this makes sense because the concept of organizational justice is correlated to procedural, interactional, and distributive justices. According to Rupp and Cropanzano (1989) different dimensions of organizational justice that tapped on different aspects of fairness that share similarity, associated residuals among procedural, interactional and distributive justice were estimated. As it has been clearly demonstrated in the past research, three components of organizational justice (distributive, procedural and interactional) tend to be highly correlated (Moorman, 1991).

Thirdly, modification index suggested there were inter-correlations among the errors in the model which had higher values in the modification indices. These connections were allowed to reduce the chi-square and hence increased the indices. The error variance were correlated, such as: (a) one pair in transformational leadership: between error variance e1 and e3 (charism and intellect); (b) two pairs in IWE construct: between the error variance e8 and e9 (iwe13 and iwe14) and also

e10 and e11 (iwe and 16), (c) one pair in the procedural justice construct between: e12 and e13 (pj2 and pj3), (d) three pairs in the distributive justice construct between: e19 and e20 (dj1 and dj2), e20 and e23 (dj2 and dj5), and e22 and e23 (dj4 and dj5). This correlation is theoretically acceptable since this connection is still in the same construct. Each of the correlation based on the modification index was expected to bring down the value of chi-square more than 10.00, ranging from 10.42 to 34.52.

Figure 11 : Structural Analysis of Revised Model

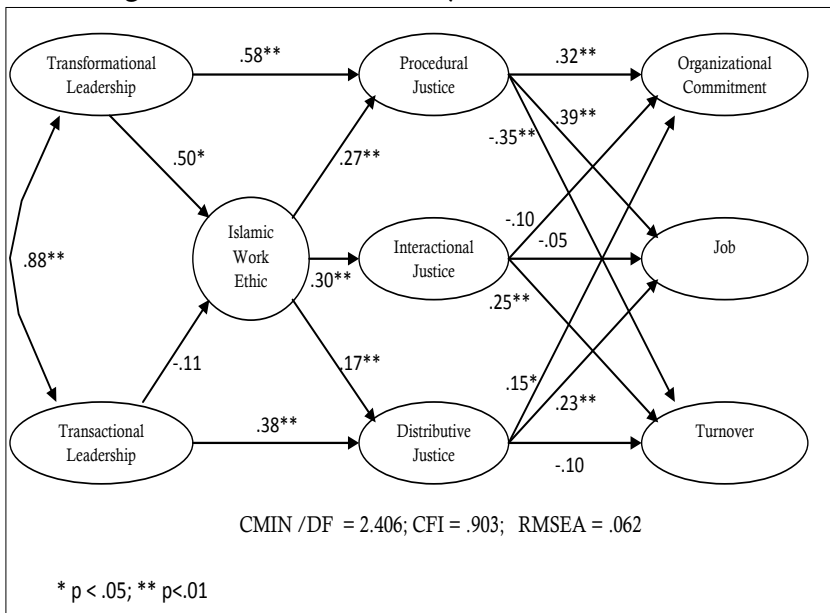


Table: Regression Weights of Revised Model

			Estimate	S.E.	C.R.	P
Islamic Work Ethic	<---	Transformational Leadership	.567	.222	2.550	.011
Islamic Work Ethic	<---	Transactional Leadership	-.136	.241	-.564	.573

			Estimate	S.E.	C.R.	P
Procedural justice	<---	Transformational Leadership	.538	.067	8.005	***
Procedural justice	<---	Islamic Work Ethic	.220	.056	3.957	***
Interactional Justice	<---	Islamic Work Ethic	.267	.069	3.901	***
Distributive Justice	<---	Islamic Work Ethic	.171	.069	2.473	.013
Distributive Justice	<---	Transactional Leadership	.491	.077	6.379	***
Organizational Commitment	<---	Procedural justice	.452	.119	3.809	***
Job Satisfaction	<---	Interactional Justice	-.059	.101	-.589	.556
Turnover Intention	<---	Interactional Justice	.407	.145	2.801	.005
Turnover Intention	<---	Distributive Justice	-.147	.111	-1.321	.186
Turnover Intention	<---	Procedural justice	-.632	.166	-3.809	***
Job Satisfaction	<---	Distributive Justice	.230	.082	2.811	.005
Job Satisfaction	<---	Procedural justice	.496	.124	4.001	***
Organizational Commitment	<---	Distributive Justice	.170	.081	2.102	.036
Organizational Commitment	<---	Interactional Justice	-.121	.103	-1.178	.239

After modification of the theoretical model, most of the goodness-of-fit indices were satisfied with the recommended threshold ($\chi^2/df = 2.41$; CFI = .903 and RMSEA = .062) based

on Kline (2005) (see appendix D). The table below demonstrated that the revised model with additional correlation paths provided a better fit to the data than the initial model.

Table: Comparison of fit indexes between Initial Theoretical and Revised model

Index	χ^2	DF	χ^2/DF	CFI	RMSEA
Cut-off point			< 3	>.90	<.08
Theoretical Model	1564.6	448	3.49	.823	.082
Revised Model	1051.4	437	2.41	.903	.062

Furthermore, the Amos 7 analyzed the direct, indirect and total effects to explain how exogenous variables influenced endogenous variables. The direct effects measured the influence of the independent variables on the dependent variables in the absence of any mediation. The indirect effects represented the portions of the relationship between the independent and dependent variables that were mediated by at least one mediator. Total effects were the sum of the direct and indirect effects (Kline, 2005). Furthermore, latent variables are hypothetical construct derived from other observed indicators in a causal full model. The analyses of direct, indirect, and total effects for each construct are presented in the table below.

Table: Direct, indirect and total effect of Revised Model

Variable	IWE	PJ	IJ	DJ	OC	JS	TI
Transformational Leadership							
• Direct effect	.498	.579	-	-	-	-	-
• Indirect effect	-	.134	.147	.082	.229	.291	-.220
• Total Effect	.498	.713	.147	.082	.229	.291	-.220

Transactional Leadership

• Direct effect	-.110	-	-	.384	-	-	-
• Indirect effect	-	-.030	-.033	-.018	.050	.074	-.035
• Total Effect	-.110	-.030	-.033	.366	.050	.074	-.035

Islamic Work Ethic (IWE)

• Direct effect	-	.270	.296	.165	-	-	-
• Indirect effect	-	-	-	-	.084	.129	-.037
• Total Effect	-	.270	.296	.165	.084	.129	-.037

Procedural Justice (PJ)

• Direct effect	-	-	-	-	.322	.393	-.347
• Indirect effect	-	-	-	-	-	-	-
• Total Effect	-	-	-	-	.322	.393	-.347

Interactional Justice (IJ)

• Direct effect	-	-	-	-	-.096	-.052	.248
• Indirect effect	-	-	-	-	-	-	-
• Total Effect	-	-	-	-	-.096	-.052	.248

Distributive Justice (DJ)

• Direct effect	-	-	-	-	.154	.231	-.103
• Indirect effect	-	-	-	-	-	-	-
• Total Effect	-	-	-	-	.154	.231	-.103

6. Hypotheses Testing

The hypotheses were tested by using structural model of AMOS 7. A structural model test was conducted to test the overall causal model, and to specify the direct and indirect effect of exogenous variables on the indigenous variables.

a. Leadership and Islamic Work Ethic

Hypothesis 1: Transformational leadership will be positively related to Islamic work ethic.

Hypothesis 1 investigated the relation between transformational leadership and IWE. The result of AMOS 7 analysis showed the relation between transformational leadership and IWE. This is presented in figure 4.11 and table 4.11. The data showed that the standard path coefficients of 0.50 were significant at $p < 0.05$ which supported the hypothesis. The result showed that the majority of respondents indicated that the more transformational a leader behavior was, the more the impact on employees' perception of IWE. The results was consistent with Schminke et al. (2002) and Crocker (2004) who found transformational leadership had positive impact on individual ethics in work.

Hypothesis 2: Transactional leadership will be positively related to Islamic work ethic.

Hypothesis 2 proposed the relationship between transactional leadership and IWE. As indicated by AMOS that the result of the standardized path coefficient of this relationship of -0.11 was not significant. Thus, the hypothesis was not supported by the data. This result might suggest that increasing the behavior of leader in the transactional terms would not have any effect on Islamic ethics in the work place. This finding was not in line with Schminke et al. (2002), on the other hand, it was consistent with Crocker (2004) who found no significant relation between transactional leadership and work ethics.

b. Islamic Work Ethic and Organizational Justice

Hypothesis 3: Islamic work ethic will be positively related to procedural justice.

Hypothesis 3 predicted the relationship between IWE and procedural justice. The data showed that IWE had positively significant relationship to procedural justice as the standardized part coefficient of 0.27 was significant at $p < 0.001$ which supported hypothesis 3. That is, favorable perception of IWE was associated with increasing employee perception of quality of

procedural justice. This finding is consistent with Schminke et al. (1997) and Trevino and Weaver (2001).

Hypothesis 4: Islamic work ethic will be positively related to interactional justice.

Hypothesis 4 predicted the relationship between IWE and interactional justice. The figure 4.11 and table 4.11 showed that the IWE was correlated with the interactional justice. The standard path coefficient of 0.30 was significant at $p < .001$. Thus, hypothesis 4 was strongly supported in which case the finding indicated that the favorable perception of the IWE was associated with a feeling of fairness of interaction. This finding is consistent with those of Schminke et al. (1997) and Trevino and Weaver (2001).

Hypothesis 5: Islamic work ethic will be positively related to distributive justice.

Hypothesis 5 proposed the relationship between the IWE and distributive Justice. As shown in the table above, the standard path coefficient of 0.17 was significant at $p < 0.05$. Thus, the hypothesis was supported demonstrating that increased perception of IWE would increase a feeling of fairness of distribution of resources in the organization. This finding is consistent with those of Schminke et al. (1997) and Trevino and Weaver (2001).

c. Leadership and Organizational Justice

Hypothesis 6: Transformational leadership will be positively related to procedural justice.

Hypothesis 6 proposed the relationship between transformational leadership and procedural justice. The result of AMOS 7 analysis showed the relationship between transformational leadership and procedural justice as presented in table above. The data showed that the standardized path coefficient of 0.58 was significant at $p < .001$. Thus, the hypothesis 6 was supported by the data. This suggests that the more the

leadership has the quality of transformational behavior, the more the perception of fairness procedure in the organization will increase. The support of this hypothesis is consistent with the work conducted by Pillai et al. (1999a; 1999b) and Asgari et al. (2008), who found that transformational leadership was significantly related to the employee's perception of procedural fairness.

Hypothesis 7: Transactional leadership will be positively related to distributive justice.

Hypothesis 7 indicated the relationship between transactional leadership and distributive justice. The data showed that the standardized path coefficient of 0.38 was significant at $p < 0.001$. Thus, the hypothesis 7 was supported by the relevant data. The result showed that the majority of respondents indicated that the more the transactional leadership quality being displayed, such as monetary exchange behavior, the more the perception of fairness procedure in organization would increase. This finding is in-line with those of Pillai et al. (1999a; 1999b) and Asgari et al. (2008) in that the role of transactional leadership as contingency reward is positively related to distributive justice.

d. Organizational Justice and Work Outcomes

Hypothesis 8a: Procedural justice will be positively related to organizational commitment.

Hypothesis 8a tested the relationship between the procedural justice and the organizational commitment. The data showed that procedural justice related significantly to organizational commitment. The standardized path coefficient of 0.32 was significant at $p < 0.01$. Thus, the hypothesis 8a was supported. Procedural justice has a significantly positive direct effect on organizational commitment. The finding is consistent with the study conducted by Lee (2000), Aryee et al. (2002), Hassan and Chandaran (2005), who found positive impact of procedural justice to organizational commitment.

Hypothesis 8b: Procedural justice will be positively related to job satisfaction.

Hypothesis 8b investigated the relationship between procedural justice and job satisfaction. The standardized path coefficient of 0.39 was significant at $p < 0.01$. Thus, the hypothesis 8b was supported by the data. Procedural justice has a significantly positive direct effect on job satisfaction. The result showed that the majority of respondents indicated that employee's perception on procedural fairness will impact on employee satisfaction towards their job. This result is supported by the study conducted by Lee (2000), Aryee et al. (2002), Hassan and Chandaran (2005), and Hashim (2008) who found positive impact of procedural justice on job satisfaction.

Hypothesis 8c: Procedural justice will be negatively related to turnover intention.

Hypothesis 8c tested the relationship between procedural justice and turnover intention. The data showed that the standardized path coefficient of -0.35 was significant at $p < 0.01$. Thus, hypothesis 8c was supported by the data. Procedural justice has a significantly negative direct effect on turnover intention. This finding may suggest the impact of the procedural fairness to decrease the employee's intention to leave the organization. This finding is supported the study conducted by Lee (2000), Aryee et al. (2002), and Hassan and Chandaran (2005), who found negative impact of procedural justice to turnover intention.

Hypothesis 9a: Interactional justice will be positively related to organizational commitment.

Hypothesis 9a tested the relationship between interactional justice and organizational commitment. The data showed that procedural justice was not significantly related with organizational commitment. The standardized path coefficient of -0.10 was not significant. Thus, the hypothesis 9a was not supported. The result showed that the majority of respondents

indicated that the fairness in interaction would have no effect on their commitment towards organization. This result is in contrast with the study conducted by Aryee et al. (2002) who found positive impact of interactional justice on commitment.

Hypothesis 9b: Interactional justice will be positively related to job satisfaction.

Hypothesis 9b investigated the relationship between interactional justice and job satisfaction. The standardized path coefficient of -0.05 was not significant. Unexpectedly, the result revealed a negative relationship between interactional justice and job satisfaction. Therefore, the hypothesis was not supported by the data. This finding is contrary to the study conducted by Aryee et al. (2002) and Hassan and Chandaran (2005) who found positive impact of interactional justice on job satisfaction.

Hypothesis 9c: Interactional justice will be positively related negatively related to turnover intention.

Hypothesis 9c stated the relationship between interactional justice and turnover intention. The data showed that the standardized path coefficient of 0.25 was significant at $p < 0.05$. This finding was contrary with the hypothesis of this study. Thus, the hypothesis 9c was not supported. This finding is opposite to the study conducted by Aryee et al. (2002) and Hassan and Chandaran (2005) who found negative significant impact of interactional justice on turnover intention.

Hypothesis 10a: Distributive justice will be positively related to organizational commitment.

Hypothesis 10a was tested to establish whether distributive justice would be positively related to organizational commitment. The data showed that procedural justice correlated significantly with organizational commitment. The standardized

path coefficient of 0.15 was significant at $p < 0.05$. Thus, the hypothesis was supported. Distributive justice has a significantly positive direct effect on organizational commitment. This finding suggests that the fairness in resources allocations will affect the commitment towards organization. This result was supported by the study conducted by Lee (2000), Aryee et al. (2002) and Hassan and Chandaran (2005), who found positive impact of distributive justice on organizational commitment.

Hypothesis 10b: Distributive justice will be positively related to job satisfaction.

Hypothesis 10b investigated whether the relationship between distributive justice and job satisfaction was positively related. The standardized path a coefficient of 0.23 was significant at $p < 0.01$. Thus, the hypothesis was supported by the data. Distributive justice has a significantly positive direct effect on job satisfaction. The result showed that the majority of respondents indicated that the fairness in resources allocations would influence the employees' satisfaction towards their job. This result is supported by the study conducted by Lee (2000), Aryee et al. (2002), Hassan and Chandaran (2005), and Hashim (2008), who found positive impact of distributive justice on job satisfaction.

Hypothesis 10c: Distributive justice will be negatively related to turnover intention.

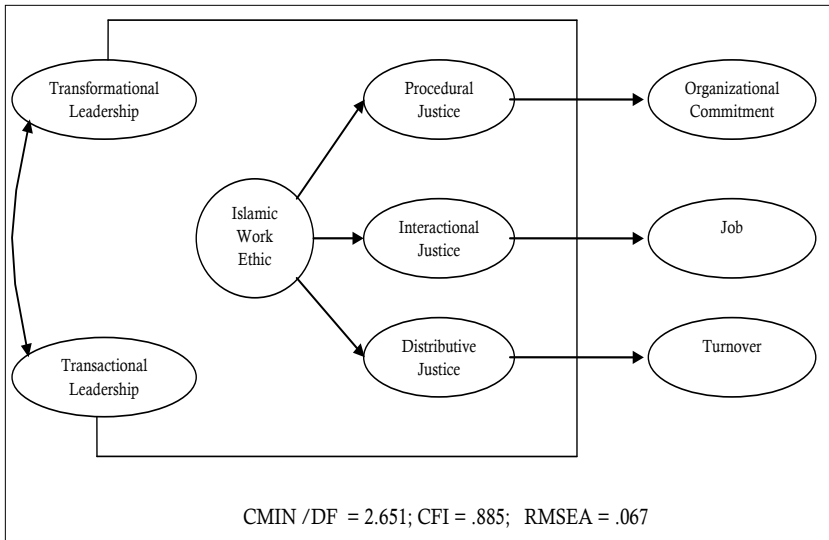
Hypothesis 10c investigated the relationship between distributive justice and turnover intention. The data showed that the standardized path coefficient of -0.10 was not significant. Thus, the hypothesis was not supported by the data. This finding suggests that the fairness in resources allocations will not affect the employees' turnover intention. This result is contrary to the finding from the study conducted by Lee (2000), Aryee et al. (2002), and Hassan and Chandaran (2005), who found negative significant impact of distributive justice on turnover intention.

e. The Mediating Effect of Islamic Work Ethic and Organizational Justice

Mediation is said to occur when the effects of one variable on another can be accounted for by other variable (Baron and Kenny, 1986). To test this hypothesis this study compared two models. These are the models which includes the mediating variables and that which did not include the mediating variables through chi-square differences.

Hypothesis 11: The Islamic work ethic and organizational justice mediate the relationship between transformational and transactional leadership and job satisfaction, organizational commitment and turnover intention.

Hypothesis 11 posited that the relationship between transformational and transactional leadership and work outcomes would be mediated by IWE and organizational justice. In testing this hypothesis, this study compared the model which was fully mediated in the revised model, and the model which did not include the mediating process. In the unmediated model, four direct paths were deleted, these are paths connecting transformational leadership to IWE and procedural justice, and also that connecting transactional leadership with IWE and distributive justice.

Figure 12 : The Unmediated Model

The chi-square value for the model, that included the mediating effect of IWE and organizational justice was 1051 with 437 degrees of freedom and was significant at $p < 0.001$. The other fit data were ($\chi^2/\text{df} = 2.4$; CFI = 0.903 and RMSEA = 0.062), corporately, the chi-square for the model that did not include the mediating effect was 1153 with 435 degrees of freedom, was significant at $p < .001$. The other fit data were ($\chi^2/\text{df} = 2.651$; CFI = .886 and RMSEA = .067) (see appendix E). The difference in the chi-square between the two models was 102 with 2 degrees of freedom. This change was quite significant. It means that the difference between two models indicates that the additional four paths from transformational leadership to IWE and procedural justice and from transactional leadership to IWE and distributive justice contribute significant explanatory power. As a result, it was revealed that the mediating effects of IWE and organizational justice were supported.

Table: Comparison of fit indexes between Mediated and Unmediated model

Index	χ^2	DF	χ^2/DF	CFI	RMSEA
Cut-off point			< 3	>.90	<.08
Unmediated Model	1153.2	435	2.65	.886	.067
Mediated Model	1051.4	437	2.41	.903	.062

In addition, based on the goodness-of-fit test, the result of the mediated model was better than the unmediated model since the CFI of former fulfilled the requirements of fit to the data (.93). This suggests that the additional paths in the mediated model provides additional explanatory power since there are some improvements in the chi-square especially, and also in others goodness-of-fit indices generally. Table above presents the summary of the hypotheses testing and results of the study.

Table: Summary of Hypothesis Testing

	Hypothesis	Result
H1	Transformational leadership will be positively related to Islamic work ethic	Supported
H2	Transactional leadership will be positively related to and Islamic work ethic	Not Supported
H3	Islamic work ethic will be positively related to procedural justice.	Supported
H4	Islamic work ethic will be positively related to interactional justice	Supported
H5	Islamic work ethic will be positively related to distributive justice	Supported
H6	Transformational leadership will be positively related to procedural justice.	Supported

H7	Transactional leadership will be positively related to distributive justice.	Supported
H8a	Procedural justice will be positively related to organizational commitment	Supported
H8b	Procedural justice will be positively related to job satisfaction	Supported
H8c	Procedural justice will be negatively related to turnover intention	Supported
H9a	Interactional justice will be positively related to organizational commitment	Not Supported
H9b	Interactional justice will be positively related to job satisfaction	Not Supported
H9c	Interactional justice will be positively related negatively related to turnover intention	Not Supported
H10a	Distributive justice will be positively related to organizational commitment	Supported
H10b	Distributive justice will be positively related to job satisfaction	Supported
H10c	Distributive justice will be negatively related to turnover intention	Not Supported
H11	Islamic work ethic and organizational justice mediate the relationship among transformational and transactional leadership and job satisfaction, organizational commitment and turnover intention	Supported

7. Alternative Model

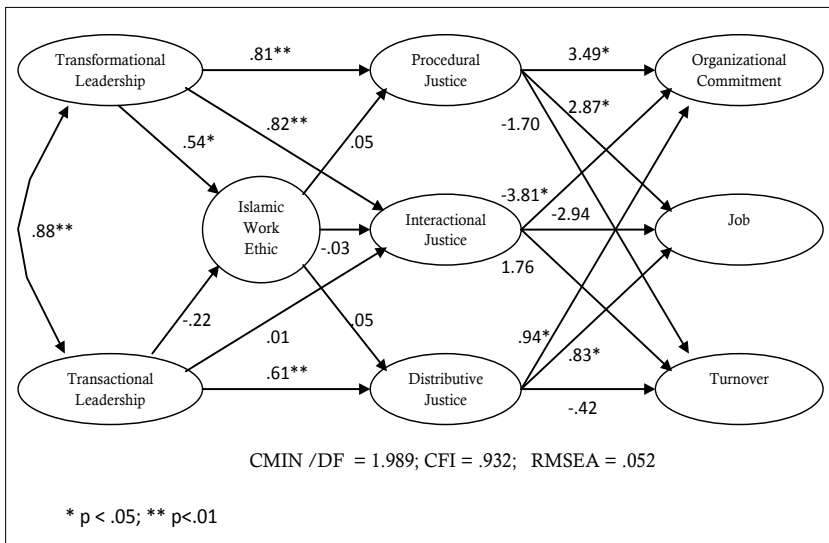
There may be a difference between the hypothesized model and the sample data, thus, it needs some alternative models which best fit to the data. In order to achieve better fitting models, the specification must be supported by a strong substantive and empirical rationale (Joreskog, 1993; Chen, Bollen, Paxton, Curran, and Kirby, 2001). Based on this logic and empirical rationale, the model was subsequently re-specified after modification. AMOS 7 provides adequate information from goodness-of-fit and modification indices. The chi-square (χ^2) value approximates the degrees of freedom, and represents good fit in the theoretical models of AMOS. If there is a large χ^2 value, it indicates a need to modify the model in order to fit the sample data better (Chen et al., 2001).

Comparing the revised model against the alternative models allows an assessment of the one which best fits the data (Anderson, and Gerbing, 1988). Based on the result of modification indices in AMOS output, there are some alternatives and some modifications that need to be done.

In the first of alternative model 1, two direct paths are added from transformational and transactional leadership to interactional justice based on the suggestion on modification index of regression weight. The large modification indices (69.9) are associated with χ^2 change (.434) which represents a path from transformational leadership to interactional justice and a path from transactional leadership to interactional justice (MI= 62.0; χ^2 change: .458). This incorporated path may be reasonable in the model based on the theoretical context, since transformational leadership has a dimension on individual consideration and inspirational motivation which will affect the fairness in treating employees. Furthermore, transactional leadership with contingency reward will award compensation fairly based on the employee's performance. According to Colquitt (2001) people perceive interactional justice when others treat them with dignity

and respect and refrain from inappropriate remark or question and provide them with adequate and honest explanations on decision making procedure to make good decisions. In addition, employee's perception towards organizational leader will be affected by treating the individual respectfully (Cropanzano, et al., 2007). Thus, the theory supports that the transformational and transactional leadership can influence interactional justice. Therefore, the alternative model 1 will include an estimation of the path from transformational and transactional leadership to interactional justice.

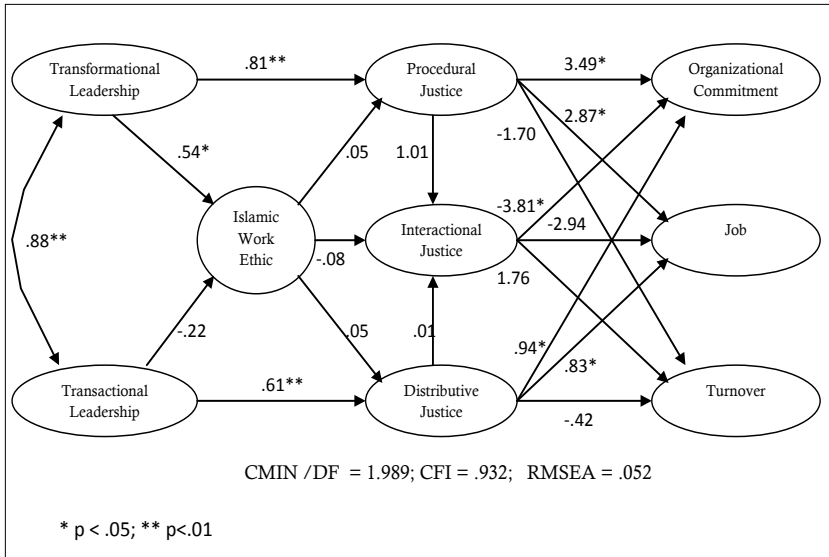
Figure 13 : The Alternative model 1



The AMOS 7 result shows the chi-square of the theoretical model is 865.1 with 435 degrees of freedom which is significant at $p < 0.001$. The other fit data shows acceptable ($\chi^2/df = 1.989$; CFI = 0.932 and RMSEA = 0.052) (see appendix f). Therefore, the theoretical model achieves an acceptable fit to the data. However, the result shows that the values of nine path coefficients are not significant from which only three path coefficients proves to be statistically significant at $p < 0.01$, and the balance six path coefficients are significant at $p < 0.05$.

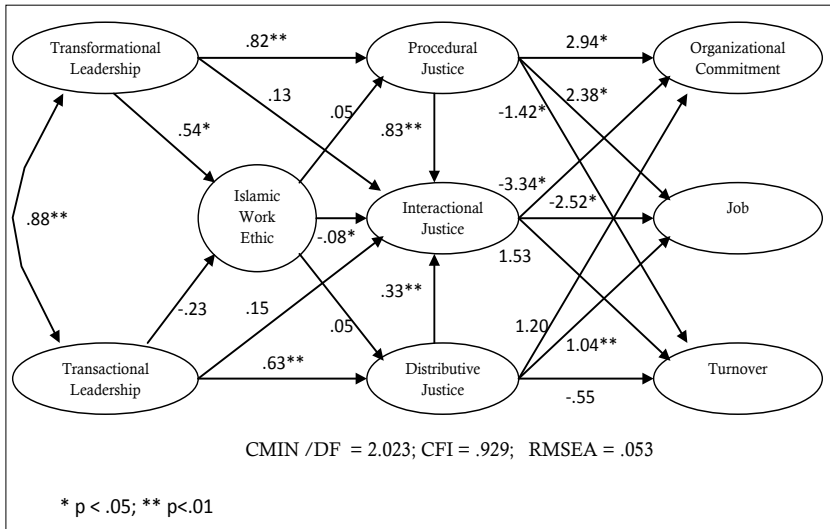
In alternative model 2 , two direct paths are added from procedural justice to interactional justice and from distributive justice to interactional justice which suggests modification of indices. Based on regression weight on modification indices, the part from procedural justice to interactional justice has large modification index of (MI=24.8, χ^2 change= 0.288). Since the procedural justice is related to the issue of fairness and hence the issues related with method, mechanism, and processes are used to determine the outcome (Folger and Cropanzano, 1998). Moreover, as the interactional justice is related to the treating of individual during implementing procedure, in this case it is reasonable to incorporate it in the path. Furthermore, Bies and Moag (1986) argue that interpersonal treatment that an individual receives during the implementation of procedures affects the individual's perception towards fairness in the organization. Furthermore, regression weight on modification indices indicates that the path from the distributive justice to interactional justice has a large modification index (86.379). In the theoretical context, the additional path from distributive justice to interactional justice into the model would be reasonable; since distributive justice refers to perceived fairness in allocation of resources where as interactional justice refers to the individual treatment during resource distributions. Bies and Moag (1986) argue that perceptions of fairness can be fostered when the individuals are treated with courtesy, dignity and respect during resource allocations. Thus, the theoretical study supports the perception that distributive justice can influence the perception on interactional fairness. Therefore, the modification model will include two paths, that is, from distributive justice to interactional justice and from procedural justice to interactional justice.

Figure : The Alternative Model 2



The AMOS result shows that the values of the three path coefficients prove to be statistically significant at $p < 0.01$, five path coefficients are significant at $p < 0.05$ and the rest of the path coefficients are not significant. The chi-square of the theoretical model is 865.1 with 435 degrees of freedom significant at $p < .001$. The other fit data show acceptable values ($\chi^2/df = 1.989$; CFI = .932 and RMSEA = .052) (see appendix g). Therefore, the theoretical model does achieve an acceptable fit to the data.

In the third alternative model, the additional path of alternative model 1 and alternative model 2 are combined. Four direct paths are added to the revised model. Two direct paths are added to transformational and transactional leadership to interactional justice. Also, two direct paths are added to procedural justice to interactional justice and also to distributive justice to interactional justice which suggest modification in the indices. Therefore, the alternative model 3 will include four additional paths.

Figure: The Alternative Model 3**Table: Comparison of Fit Indexes among the Models**

Index	χ^2	DF	χ^2/DF	CFI	RMSEA
Cut-off point			< 3	> .90	< .08
Initial Model	1564.6	448	3.49	.823	.082
Revised Model	1051.4	437	2.41	.903	.062
Alternative Model 1	865.1	435	1.99	.932	.052
Alternative Model 2	865.1	435	1.99	.932	.052
Alternative Model 3	882.2	436	2.023	.929	.053

Overall, the revised model shows better fit to the data than any of the alternative models. The results of the comparisons between the revised model and the alternative models are as shown in table above.

Chapter 7

DISCUSSION AND CONCLUSION

Introduction

The purpose of this study was to test the model consisting of leadership, Islamic work ethic (IWE), organizational justice and work outcomes. This is in a unique organizational context of Islamic microfinance institutions in Central Java, Indonesia. In addition, this study also investigated the possible mediation of IWE and organizational justice. This is between the relationship of transformational and transactional leadership with the multiple work outcome variables of organizational commitment, job satisfaction and turnover intention.

The participants were full-time staff employees in the 60 microfinance institutions in Central Java, Indonesia. From the 550 questionnaires distributed, 419 were returned (response rate 76.2 percent). However, only responses from 370 participants could be used for further analysis. The final sample consisted of 192 (52%) males and 179 (48%) females. The participants' average age was 28 years; and they had worked in their organizations on an average of 4.3 years. Also, they had been reporting to their current manager on an average of 7.2 years. In terms of educational attainment, 37% of participants were degree holders and 33% were graduates from senior high schools.

This study utilized SPSS 11.5 tool for testing the descriptive statistics, such as: mean, standard deviation, correlation and reliability test. For testing the hypotheses, this study used Structural Equation Modeling (SEM) tool of AMOS 7.0. This tool was also used to analyze the theoretical model and to recommend the new model based on the data collected.

The following research questions were investigated in this study:

1. What is the relationship between the transformational and transactional leadership and Islamic work ethic?
2. What is the relationship between Islamic work ethic and organizational justice?
3. What is the relationship between transformational and transactional leadership and organizational justice?
4. What is the relationship between organizational justice and job satisfaction, organizational commitment and turnover intention?
5. Do Islamic work ethic and organizational justice mediate the relationship of transformational and transactional leadership with job satisfaction, organizational commitment and turnover intention?

The first part of this chapter presents a discussion of the finding of this study, followed by the implication derived from the findings. Finally, this chapter presents the conclusion, recommendation, the limitations and suggestions for future research.

Discussion of the Findings

The discussion of the results of the study is organized in a way to answer the research questions and to compare the findings with the existing theory.

Question 1: *What is the relationship between transformational and transactional leadership, and Islamic work ethic?*

The first question was to investigate the direct effect of transformational and transactional leadership on IWE. This is hypothesized in this study as H1 and H2. The results of the study revealed that transformational leadership was a positive predictor of IWE, as hypothesized. The results of the structural equation modeling indicated that transformational leadership explained more than 50 percent of the variance in IWE. The finding of this study suggests that transformational leadership predicts the IWE behavior among the staff members in Islamic microfinance institution. Furthermore, the result indicates that the greater the leader's use of the transformational style of leadership, the more positive is the influence on the employees' IWE. Therefore, it may be that the employees have developed a perception of the quality of transformational leadership in their supervisor-subordinate relationship while at the same time they also exhibit commendable IWE behavior in the organization.

In support of the theory of postulating a relationship between transformational leadership and ethical behavior of followers (Bass and Steidlmeier, 1999; Brown and Trevino, 2006), the results of this study favorably compare with the existing literature. This is in regard to the fact that transformational leadership has a positive impact on the ethical behavior in the organization (Marshall et al., 2002; Crocker, 2004; Keller, 2007; Aswegen and Engelbrecht, 2009). For instance, Crocker (2004) found that work ethics would increase more for the individuals working with leaders who often used the transformational style of leadership. Recently, studies conducted by Aswegen and Engelbrecht (2009) used 203 employees from medium to large companies in Africa. They found that transformational leadership has a positive effect on the dimensions of ethics in organization.

Furthermore, since this study was conducted in an Islamic organization, the leaders as Muslims are expected to articulate the Islamic values in their leadership behavior. This should have an influence on the subordinates. Thus, the Muslim subordinates of the transformational leader behaved in support of the leader's vision and mission of the Islamic organization. Generally, such behavior, when repeatedly demonstrated would be followed by a supportive attitude on the behavior that was suitable to the Islamic values. The combination of behavior and attitude shown by their leaders, as role model, would produce an improved employee's IWE.

Burns (1978) and Bass (1985) theorized that a transformational leadership behavior, such as, mentoring and coaching were effective. This is because they went beyond an economic exchange-based relationship between the leader and the follower towards a more psychological approach to leadership. According to Bass (1985) transformational leaders are perceived by their subordinates as being charismatic, inspiring, intellectually challenging and sensitive to the individual employees' concern.

In addition, this quality of Islamic ethical behavior possessed by a leader is reinforced in the four key factors that drive success for a transformational leader: charisma (idealized influence), inspirational motivation, intellectual stimulation and individual consideration (Bass, 1985; Aswegen and Engelbrecht, 2009). Idealized influence or charisma is the component of transformational leadership that determines the values and ethics that promote the follower's desire to be identified with their leaders. That is, leaders who have high ethics level will serve as strong role models which in turn will inculcate a high standard of moral conduct in their subordinates (Avolio and Bass, 2002). The transformational leader promotes ethical and morally uplifting policies and procedure in the organization (Bass and Steidlmeir, 1999).

Inspirational motivation stems from a leader's ability and willingness to communicate and inspire high expectations to the followers (Bass and Stedlmier, 1999). The inspiration may cause followers to believe in and act upon the leaders articulated vision. Since subordinates of a transformational leader behave in support of the leader's vision, such behavior when exhibited repeatedly would be accompanied by an attitudinal change to support the behavior. The combined behavior and attitude will produce an improved employees' work ethics.

The transformational leader intellectually stimulates the employees. This is by maintaining an open environment that the question about the organization including ethical conduct are warmly welcome (Bass and Stedlmier, 1999). Intellectual stimulation implies a cognitive relationship between the leader and the follower that attains a higher level of awareness and consciousness. Particularly, the leader is able to challenge the old beliefs and value systems to propel his followers towards the organization's vision. Finally, individual consideration by a leader reflects a caring attitude and a genuine interest in developing each follower uniquely. Achievement in any one of these factors is a tall order to ensure the foundation of successful transformational leaders. Leaders who possess within themselves principled judgment, exemplary character, and high moral values will eventually develop the same attributes among their followers (Northouse, 2009), especially, in an Islamic organization of this study. Yulk (2006) proposed that transformational leadership style might elevate subordinate self-esteem, which would subsequently elevate the level of work ethics. This elevated self-esteem could also explain the increased work ethics performance observed among the subjects under study.

In contrast to the above findings, the transactional leadership is not significant as a predictor of IWE (H2). In other words, the transactional leadership style is not predictive on the IWE. This finding is consistent with studies conducted by

Cooker (2004), Aswegen and Engelbrecht (2009), and Toor and Ofori (2009), which found that only the transformational style of leadership to be related to ethics on the work place. For example: Toor and Ofori (2009) conducted study in Singapore, they found that transactional leadership is not connected with ethics on leadership. The current results also support Bass and Avolio's (1996) assertions. They found that transactional leadership style could not change attitudes because any behavior change was based on rewards which allowed the original attitude to remain unchanged. Transactional leadership is more compliance-based where the leader employs corrective transactions to gain the desired level of compliance. The contingent or dependent reward behavior is goal setting which rewards followers when the goals are achieved. The transactional leadership style is certainly necessary and relevant given the pertinent situations and personalities prevailing thereupon. This is an ordinary finding since not many studies have examined the relationship between transactional leadership and ethical behavior of the subordinates. Moreover, the finding is in line with the Crocker (2004) study, who found that work ethics was not related to the level of transactional leadership style used.

The mixed findings of the relationship between the transformational and the transactional leadership and the IWE need some elaborative and exploratory explanations. Firstly, all dimensions of the transformational leadership were statistically related to the IWE (see table 4.4). As can be shown in the correlation matrix between the four dimensions of transformational leadership and IWE, it was clearly demonstrated that all of the four dimensions had significant associations with the IWE.

Secondly, since the work ethics in the Islamic context supported the employees' performance to purify the appropriate intentions and hard work, etc., and the transactional leadership, on the other hand, is acting based on the economic exchange.

As a result, the effect of transactional leadership on IWE was understandably not significant.

Thirdly, the typical transactional leadership was illustrated by Burns (1978) as one who exhibited the behavior that was based on an agreed-upon exchange or business transaction. This is not the type of manager who was seeking to develop inspiration or encouragement of the employees' higher work ethics performance. In contrast, typical behaviors of the transformational leader are different. He/she seeks to create an inspired and developed employee to whom the transference of higher levels of motivation towards future career situations can be accomplished. The transactional leader is one who places more emphasis on an exchange process, wherein the followers are rewarded for performing the roles that accomplish the agreed-upon objective. As a result, transformational leadership is more predictive of the IWE compare to transactional leadership. Thus, this finding can be elucidated by saying that a transformational leadership appears to be a motivating predictor of the IWE but not the transactional leadership.

Question 2: *What is the relationship between Islamic work ethic and organizational justice?*

The SEM findings showed that across all examinations, there was a consistently significant effect of IWE on the three dimensions of organizational justice: procedural, interactional and distributive. This indicates that the IWE plays a significant role in predicting the organizational justice.

The significant effect of the IWE on procedural, interactional and distributive justice shown by SEM analysis was as expected. This is because the values of the regression path of (0.27), (0.30), and (0.17) were significant. The positive findings among these variables are supported by the study conducted by Trevino and Weaver (2001), Schminke et al. (1997) and Lau and Wong (2009). For example: Trevino and Weaver (2001) found that there was a strong relationship between the perceived general

fair treatment and the related ethical outcomes. Furthermore, this study also found that a broad spectrum of unethical actions were significantly lower if the employees believed that their organization generally treated them fairly. Recently, a study conducted by Lau and Wong (2009) used 123 companies in Hong Kong, they found that ethical climates in work place have influence on distributive and procedural justice norm.

Ethics research concerns individuals and how their beliefs influence their perception through the organization. Next, research on justice is concerned with the situation which influences on the individual's perception towards the organization (Schminke et al., 1997). An important tenet of the IWE is to stress justice and generosity in the workplace, and to view the engagement in economic activities as an obligation (Yousef, 2000). The IWE regards employment as a source of means of promoting personal growth and self-respect (Yousef, 2001). These are incorporated in the process of decision making, distributing resources and also appreciating the contributions or a display of gratitude. As a result, a healthy feeling of fairness in the organization is developed and entrenched. Furthermore, the IWE emphasizes on the avoidance of unscrupulous competitiveness and unethical methods of wealth accumulation and dishonest dealings at the workplace (Yousef, 2000). This will subsequently have a profound effect on the fairness in the organization. Thus, the underlying principle is that the IWE has a positive impact on the organizational justice.

In summary, the hypothesized effect of IWE on the organizational justice is very impressive. The findings suggest that the IWE is an important predictor of procedural, interactional and distributive justice.

Question 3: *What is the relationship between transformational and transactional leadership and organizational justice?*

Hypotheses 6 and 7 were tested with regards to the above relationship. The first tested whether the transformational leadership has a direct influence on the procedural justice. The second tested whether the transactional leadership has a direct influence on the distributive justice. Concerning the effect of the transformational leadership on the procedural justice, the finding showed the regression path as significant at (0.58, $p < 0.001$), thus the hypothesis was supported. Furthermore, the effect of transactional leadership on distributive justice was significant (0.38; $p < 0.001$), as the result, the hypothesis 7 was also supported.

The result of this study supports the previous research on the impact of the quality of the supervisor–subordinate relationship based on the fairness perception of the subordinates (Padsakoff et al., 1990; Pillai et al., 1999a, 1999b; and Asgari et al., 2008). According to Tatum et al. (2003) there is an intimate relationship between the leadership style and the organizational justice patterns. Transformational leader is the charismatic and intelligent person who has a vision and inspires others as well as taking care of the needs and wellbeing of the followers. Moreover, he always has an open mind and a responsive attribute (Tatum et al., 2003). Pillai and Williams (1996) found that transformational leadership was related to procedural justice and transactional leadership to distributive justice (in Pillai et al., 1999a). Niehoff and Moorman (1996) found that the articulation and modeling of the leader's vision contributed to a culture of justification orientation among the employees. This is because it communicated with the policies of the organization. Procedural justice also provides group members with process control over decisions and promotes group solidarity over the long term. Moreover, this «group-value» model of procedural justice emphasizes group welfare which is the central concern of the transformational leaders (Pillai et al., 1999a).

According to Bass (1985), transactional leaders focus on the material and economic exchange to influence their followers' behaviors. Under this leadership, employees are more likely to be concerned with the fairness of distribution rather than fairness of procedures. This is because their relationships with their leaders are based on the outcomes that they (the leaders) receive in exchange of the employees' efforts (Pillai, et al., 1999). Thus, the role of a transactional leadership, as a contingency reward giver in exchange of good performance, is positively related to a distributive justice.

In a recent study, Asgari et al. (2008) explored the relationship between transformational leadership behaviors, and organizational justice using 162 employees in five ministries in Malaysia. They found positive and direct relationship between transformational and transactional leadership behaviors and organizational justice (distributive, procedural, and interactional justice).

In summary, the hypothesized effect of transformational leadership on procedural justice and transactional leadership on distributive justice are impressive. The finding suggests that the transformational leadership acts as an important predictor of the procedural justice while the transactional leadership is an important predictor of the distributive justice.

Question 4: *What is the relationship between organizational justice and job satisfaction, organizational commitment and turnover intention?*

The result of this study reveals that procedural justice has a direct positive influence on the organizational commitment and job satisfaction and is negatively related to the turnover intentions, as hypothesized. Procedural justice has a significant direct positive effect on the organizational commitment at (0.32, $p < .001$) and job satisfaction at (0.39, $P < 0.001$) and is negatively significant to the turnover intention at (-0.35, $p < 0.001$). Thus, this finding supports the hypothesis.

In addition, employees may compare whether the decision processes and mechanisms and the consequences of these decisions are fair or otherwise. They make comparison between themselves and their co-workers with regards to their organizational rewards. These comparisons are more likely to influence their assessment of the fairness in the procedure of the decision making in their organization (Ngo et al., 2003), which in turn affects their level of job satisfaction, organizational commitment and turnover intention.

The result of this study supports previous research conducted by Folger and Konovsky, (1989), Lee (2000), Hassan (2002), Aryee, Budhwar, and Chen (2002), Robinson (2004), Hassan and Chandaran, (2005), Yusuf and Shamsuri (2006); Hashim (2008), Abu Elanain, (2010), and etc. For example, in a study conducted in Malaysia by Hassan and Chandaran (2005), they found that procedural and distributive justices were positively related to job satisfaction and organizational commitment and negatively related to turnover intention. In addition, Aryee et al. (2002) studied on the relationship between the three dimensions of organizational justice (distributive, procedural, and interactional) and work outcomes (Job satisfaction, organizational commitment and turnover intention). This study revealed that all of the three dimensions of organizational justice were positively related to job satisfaction and organizational commitment and negatively related to turnover intention. Furthermore, employees were more receptive on decisions that resulted from fair procedures than with decisions that result from unfair processes.

On the contrary with the above findings, the interactional justice has no effect on the organizational commitment and job satisfaction and is positively related to turnover intention. It was surprising that interactional justice had no significant effect on the organizational commitment and job satisfaction since most of the earlier researches found that those variables were closely

related. Moreover, interactional justice is positively associated with turnover intention.

There are several possible explanations of why interactional justice and work outcomes fail to demonstrate significant relationships in this study. Firstly, the staff in a microfinance institution spends most of their time with the customers outside the office, both for collecting the installment or distributing the credit. There may be various types of behavioral treatments they received from the customers, such as, some are polite, rude, delaying payment and so forth. As a result, it may affect the employees' perception towards the interaction of fairness in the organization. Secondly, the possible explanation is the work load. In a microfinance institution, usually, the manager always pressures the employees to meet the weekly and monthly target, and it may affect the relation between managers and staff in the microfinance institution.

Another possible explanation of the non-significant results is that the respondents are employees in the microfinance institution which primarily employs only a few people who often have to work outside their office. It is possible that these types of positions do not attract interactional fairness. Of course, many alternative explanations are possible and further research would have to be conducted in order to clarify these potential issues.

Furthermore, this study hypothesized that distributive justice has a direct positive influence on organizational commitment and job satisfaction, and it is negatively related to the turnover intention. This study found significant direct effect on the distributive justice on organizational commitment (.15; $p < .05$) and job satisfaction (.35; $p < .001$). On the other hand, the effect on the turnover intention was not so significant.

Moreover, employees may compare the adequacy of the rewards they receive to their expectation or to a standard reference. As a result, if the employees feel satisfied with the outcome they will improve their commitment towards the organization and be

more satisfied with their jobs. However, if they feel discontented with what they receive to meet their expectation, they will more likely quit (Folger and Konovsky, 1989).

In conclusion, the hypothesized effect of organizational justice on work outcomes are quite impressive. Nine hypotheses were tested with regards to this relationship. Five of the hypothesis tested were significant, whereas four hypothesis were not significant.

Question 5: *Do Islamic work ethic and organizational justice mediate the relationship of transformational and transactional leadership with job satisfaction, organizational commitment and turnover intention?*

The final hypothesis of this study tested the role of the IWE and organizational justice as mediating variables of transformational and transactional leadership and the work outcomes. As hypothesized, empirical evidence provide support that the comparison of chi-square between the mediated models, and unmediated showed slightly significant difference. Thus, the hypothesis was partially supported.

This hypothesis was not fully supported. This is because since the effect of transactional leadership on IWE was not significant and also the effect of interactional justice on work outcomes were not significant. However, generally, the mediating roles of IWE and organizational justice in this model have significant effects on the whole model.

As noted previously, transformational leadership has a significant influence on work ethics in the work place (Krisnan, 2001; Bass and Stedlmeier, 1999; Croker, 2004; Schminke et al., 2002; Aswegen and Engelbrecht, 2009) and also some researchers also found positive effect of work ethic on organizational justice (see Greenberg, 1990; Schminke et al., 1997; Trevino and Weaver, 2001). Moreover, the organizational

justice also has a significant effect on job satisfaction, organizational commitment and turnover intention. As a result, it is likely that the effect of transformational and transactional leadership to the work outcomes is partially mediated by work ethics and organizational justice.

There are also several other pertinent findings through this hypothesis. Firstly, in order to increase the effect of leadership style, the manager should emphasize on transformational style. This is because only transformational leadership has significant effect on IWE. Secondly, the significant linkage between the IWE and the organizational justice indicates that employees' perceptions of fair treatment by the organization are affected by the employees' ethical conduct based on the Islamic values. Thus, a manager should develop Islamic values as a basis of ethical conduct. This will influence the feeling of fairness among the employees. Studying factors that will enhance work outcomes, such as, IWE and organizational justice, will benefit the leader in an organization as a result of which it will improve the organizational performance.

To sum up, the finding of this study reveals that the role of the IWE and the organizational justice as mediators to the relationship between the leadership style and work outcomes are favourably accepted.

Implications of the Study

The finding of the present study has implications to the theoretical and practical contributions to the literature on leadership, ethics, justice and work outcomes. The contributions are presented below.

1. Implications of the study on theory

The results of the present study have added to the body of knowledge of the organizational behavior in some prominent aspects. Firstly, this research has certainly provided evidence

which supports the theory of transformational leadership. The result demonstrates that the effects of transformational leadership on IWE and procedural justice are clearly significant. The positive effect of transformational style on IWE and organizational justice provides good contributions to the literature as the previous research does not include those variables. This study extends the body of research by including leadership style as a predictor of IWE.

Secondly, this study represents the theoretical or empirical research regarding the antecedent and consequences of IWE. There have been a few empirical researches on IWE, especially the relationship between leadership style and justice in organization. As expected, this study reveals the important impact of Islamic ethical behavior on employee's perception of fairness which can be distributive, procedural and interactional justice. Thus, this study provides a basis for further researches in using IWE in relation with transformational and transactional leadership and Justice in the organization.

Thirdly, the result of this study shows that IWE, procedural justice and distributive justice mediate the relationship between transformational leadership and work outcomes (organizational commitment, job satisfaction and turnover intention). In other words, that transformational leadership affects work outcomes directly and indirectly through improving IWE and fairness in organization.

2. Implications of the study on practice

The findings of this study provide a number of practical implications for Islamic microfinance institution, especially in the Central Java context. Firstly, employees who perceived higher level of transformational style of leadership reported higher level of IWE. This suggests that managers should encourage using transformational style of leadership, such as, empowering the followers (intellectual stimulation), encouraging employees to be

more proactive and appreciating employees' hard work (individual consideration). This will positively affect the employee's hard working behavior, creativity and other praiseworthy components of IWE. Since transformational leadership can be trained (Bass, 1990), training managers to be transformational leaders should be the top priority of Islamic microfinance institution. In addition, the Islamic microfinance institution should scrutinize candidates for managers' post vacancies on the basis of their potential to be transformational leaders.

Secondly, the result shows that employee's perception towards the transformational influence on the fairness of procedure on decision making, directly demonstrates the positive effect of transactional leadership style on distributive justice.

Thirdly, based on this study, it is recommended that managers must learn to cultivate their employee's feelings of fairness by using the transformational leadership style. This is besides learning how to treat the employees when explaining the procedure of distributing resources which will immensely benefit the whole organizations.

Fourthly, since this study was conducted in the Islamic microfinance institution, the finding enables the managers to gain an insight into their leadership style on fairness in organization and Islamic ethical behavior. This will ultimately produce significant effect on their subordinates as well as on their organizational performance.

Recommendations

From the finding as manifestly established above, it is recommended that the Islamic microfinance institution should consider establishing a leadership development program, such program should emphasize on the transformational leadership style. This is so, that the benefit can be channeled into improving the Islamic ethics of employees and the feelings of fairness in the organization can be highly invigorated. It will

also lead to improvement in the subordinates' job satisfaction and decrease of the employees' intention to search for jobs in other organizations.

The finding can be used by the managers in the Islamic microfinance industry. This is in particular regards gaining informative insight on the employees' fairness perceptions with some guidelines on methods to establish attitudinal justice. This is needed in order to draw the positive attitudinal and behavioral response from employees. The employees' motivational aspiration should be maintained as it is quite important to affect procedural fairness for the employees by the manager. As such, the managers should emphasize on the fairness in the procedure of decision making in their daily operation of work.

The significance of the study for leadership was to consider the role of IWE on feeling of fairness among the employees. Leaders acknowledge the importance of implementing faith-based values in their work practices on a regular basis. This will improve the feeling of fairness in the organization. The research study may guide leaders in the development of building leadership models by incorporating Islamic principles in their daily activities.

Limitations and Suggestions For Future Research

As with all empirical research, this study also has limitation. First, transformational and transactional leadership were measured only from the subordinate's perspective. Future research should assess the variables from both the leaders' and the members' perspective. This is important to obtain a more objective measure of construct and to examine whether the followers' feeling about the leader is same as those of their superiors.

The second limitation is in terms of geographic scope. Since the participants were only from 60 microfinance institutions and solely within the Central Java province. The expansion of institutions and in the various provinces in Indonesia may provide similar or different result. The next, related to the response biases

which may have influenced study results. Although the subjects were measured confidentially, since the study assessed employee work attitudes and behaviors as well as leader's behavior and these assessments were conducted at the work site, self evaluation may have been faulty. Assessing research participant in a neutral location might reduce this problem by removing the inference that the employer was involved in the research.

Fourth, the study focused only on three outcomes (organizational commitment, job satisfaction and turnover intention). There are some other variables that might be included in the study. For example: organizational performance, organizational citizenship behavior, employee engagement, etc. It would be more complete to present the result of leadership style effects and mediating role of IWE and organizational justice within organization. Consequently, future studies could include those variables, so they can offer better explanation and understanding of the effect leadership in organization.

Moreover, the design for this study was cross-sectional, not longitudinal. Cross-sectional data are not adequate to make inferences of causality or reverse causality among the investigated variables. Thus, a longitudinal research design would provide additional and stronger support for the effects tested in this study. Sixth, the results of CFA on IWE construct showed that out of 17 items, 12 items have low loading factor (loading value below 0.5). It thus implies that these items do not truly reflect their latent construct (IWE). Therefore, in any future research, it should be refined to get better result.

Seventh, the IWE scale used in this study measured only the individual respondent's perception on their personal ethic. Rather this should have taken cognizance of their perception on the effect of IWE on the organizational level or Islamic ethic climate in the work place. Lastly, this study used the short versions of the organizational commitment scale, the job satisfaction scale, and the turnover intention scale (each three items).

Although those scales have been shown to be reliable and valid in past research, these three constructs are complex, and a more comprehensive approach to their assessment may yield richer and more interesting findings. Using long version is suggested for future research.

Conclusions

The purpose of this study was to test the model consisting of transformational and transactional leadership, Islamic work ethic, organizational justice, and work outcomes in a unique organizational context of microfinance institutions in Indonesia. Furthermore, this study also examined the mediating role of Islamic work ethic and organizational justice in linking transformational and transactional leadership and job satisfaction, organizational commitment and turnover intention.

The study used a sample of 370 employees from 60 institutions of Islamic microfinance in Central Java, Indonesia. The empirical tests indicated that transformational leadership has a significant effect on Islamic work ethic and procedural justice. Also, Islamic work ethic has significant impact on three dimensions of organizational justice. Furthermore, procedural justice has significant effect on all the three work outcomes, while distributive justice has significant impact on organizational commitment and job satisfaction. However, the study did not find any significant effect of transactional leadership on Islamic work ethic as well as distributive justice to turnover intention. Moreover, non-significant effects were also found between interactional justice on all three work outcomes. Finally, the finding indicated the mediating role of Islamic work ethic and organizational justice.

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