



ISLAMIC WORK ETHIC AND ORGANIZATIONAL  
JUSTICE AS MEDIATORS FOR  
TRANSFORMATIONAL AND TRANSACTIONAL  
LEADERSHIP AND WORK OUTCOMES

BY

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## **ABSTRACT**

The purpose of this study is 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. Specifically, this study 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. Using structural equation modelling (SEM), the model was tested using 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 effect 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 of distributive justice on 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.

## ملخص البحث

هذه الدراسة تهدف إلى اختبار النموذج يتكون من أساليب القيادة التحويلية والقيادة التبادلية، وأخلاقيات العمل الإسلامي والعدالة التنظيمية ، ونتائج العمل في سياق تنظيمية فريدة من مؤسسات التمويل الصغير في إندونيسيا. وهذه الدراسة على وجه التحديد تبحث في دور وساطة من أخلاقيات العمل الإسلامي والعدالة التنظيمية في الربط بين القيادة التحويلية والقيادة التبادلية والرضا الوظيفي والالتزام التنظيمي وسرعة تحول العزم ودورانه. وتتم الدراسة باستخدام نموذج المعادلة الهيكلية (SEM)، وكان نموذج اختبار باستخدام عينة من ٣٧٠ موظفا من ٦٠ مؤسسة التمويل الصغير الإسلامية في جاوة الوسطى ، إندونيسيا. إن الاختبارات التجريبية تشير إلى أن القيادة التحويلية له تأثير كبير على أخلاقيات العمل الإسلامي والعدالة الإجرائية. وكذلك فإن أخلاقيات العمل الإسلامي لها تأثير كبير على أبعاد العدالة التنظيمية الثلاثة. وفضلاً عن ذلك ، والعدالة الإجرائية لها تأثير كبير على كل نتائج العمل الثلاثة ، في حين أن العدالة في التوزيع لها أثر كبير على الالتزام التنظيمي والرضا الوظيفي. ومع ذلك ، فإن هذه الدراسة لم تجد أي أثر مهم للقيادة التبادلية على أخلاقيات العمل الإسلامي ، كما أن الدراسة لم تجد أي أثر كبير في العلاقة بين العدالة في التوزيع وسرعة تحول العزم ودورانه. وعلاوة على ذلك ، كما عثرت الدراسة على آثار غير ذات دلالة إحصائية بين العدالة التفاعلية على كل نتائج العمل وثلاثة. وأخيرا ، فإن الدراسة كشفت على أن هناك أثر في الوساطة لأخلاقيات العمل الإسلامي والعدالة التنظيمية

## APPROVAL PAGE

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*To*

*My beloved parents, Jauhari Adnan and Musyarotun*

*Achmad and Maryatun*

*My Wife, Maria Ulfah, my love*

*My Kids, Chania and Igna*

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## **LIST OF ABBREVIATION**

BMT	Baitul Mal Wat Tamwil
BPRS	Bank Perkreditan Rakyat Syariah / Syariah Rural Banking
CFA	Confirmatory Factor Analysis
IMFI	Islamic Microfinance Institution
IWE	Islamic Work Ethic
MFI	Microfinance Institution
MLQ	Multifactor Leadership Questionnaire
MSME	Micro, Small and Medium Enterprises
SEM	Structural Equation Modelling



## TRANSLITERATIONS

أ	a	ز	z	ق	q
ب	b	س	s	ك	k
ت	t	ش	sh	ل	l
ث	d	ص	Î	م	m
ج	j	ض	Ì	ن	n
ح	Í	ط	Ï	ه	h
خ	kh	ظ	Ð	و	w
د	d	ع	Ñ	ء	'
ذ	dh	غ	gh	ى	y
ر	r	ف	f		

# CHAPTER ONE

## INTRODUCTION

### 1.1 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; Moayedi, 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.

## **1.2 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.

### **1.3 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?

### **1.4 THEORETICAL FRAMEWORK**

The link between transformational and transactional leadership and ethics has an interesting history. Burn (1978) considered morality as a basic foundation of theory of

transformational leadership. He argued that transformational leadership occurs when one or more persons engage with others in such a way that the leaders and followers raise one another to a high level of motivation and morality (Krisnan, 2001).

Moreover, Bass (1985) belief that “authentic” transformational leaders are morally mature, and as such they are likely to display higher ethics. In this way, they will influence their followers to be more ethical and moral individuals (Bass and Steidlmeier, 1999; Barling, Christie and Turner, 2008). In addition, transactional leadership rests on the values found in the process of leadership such as responsibility, fairness, honesty, and keeping promise. Whereas, transformational leadership is concerned with the end-values including liberty, justice and equality (Kanungo, 2001) and with raising followers to highest levels of morality (Van Aswegen, and Engelbrecht, 2009). However, the issue of the relation between leadership and ethics has received less empirical attention (Brown and Trevino, 2006; Barling et al., 2008).

Beside work ethics, the relationship between transformational and transactional leadership and organizational justice has been of great interest to researchers (e.g. Pillai et al., 1999a; Asgari et al., 2008). Specifically, subordinate’s perception about fairness in organization is said to have an impact on opinion about the leader’s capabilities (Pillai et al., 1999a). Leaders who do not give attention to the fairness will sooner or later lose their leadership authority (Tyles and Caine, 1981 in Pillai et al., 1999b). Moreover, Pillai, et al. (1999b) suggested that there are positive relationship between transformational leadership and procedural justice and between transactional leadership and distributive justice.

Likewise, Schminke et al. (1997) argued that the concern of ethics may directly affect organizational members’ perception towards organization and its perceived fairness. In fact, researches, such as, Trevino and Weaver (2001), Schminke

et al. (1997), and Greenberg (1990) also proved these relationships. Trevino and Weaver (2001), for instance, found that employees who perceive injustices in the work place will be looking for an opportunity to improve their own welfare in their own ways. Often times, this is even through unethical conducts, so as to balance the injustice they perceived to have suffered. Moreover, Schminke et al. (1997) found that ethical formalists (process based) were more sensitive to procedural justice issues and on the other hand, ethical utilitarian (outcome based) were more sensitive to distributive justice issues. Therefore, it is clear that there is a close relationship between work ethics and organizational justice.

Furthermore, previous studies have also identified that organizational justice has an important impact on organizational effectiveness, such as, satisfaction, commitment, turnover intent, organizational citizenship behavior, and trust on leadership (e.g. Ortiz, 1999; Pillai et al., 1999b; Masterson, Lewis, Goldman, and Taylor, 2000; Hassan, 2002; Hassan, and Chandaran, 2005; Jahangir, Akbar, and Begum, 2006; Hashim, 2008). As such, perception of an overall organizational justice will encourage workers' decision to have good relationships with the organization (Trevino and Weaver, 2001). Studies have found that the employees tend to be less satisfied and committed when they perceived unfairness in organization (Cropanzano and Greenberg, 1997). As a result, their unfair perception leads to poor performance (Pfeffer and Langton, 1993), turnover and absenteeism (Viswesvaran, and Ones, 2002). Moreover, Aryee, Budhwar, and Chen (2002) found that distributive, procedural, and interactional justice was positively significant to job satisfaction and organizational commitment, but negatively related to turnover intention.

Based on the review above, transformational and transactional leadership have been linked to work outcomes such as job satisfaction, organizational commitment

and turnover intention (Podsakoff, MacKenzie, and Bommer, 1996; Bass and Avolio, 1992; Bass, 1985). Leadership has a significant influence on work ethics in work place, and also work ethic has a close relationship with organizational justice. Moreover, organizational justice also has a significant effect on job satisfaction, organizational commitment and turnover intent. As a result, it is likely that the effects of transformational and transactional leadership on work outcomes are potentially mediated by work ethics and organizational justice (see figure 1.1).

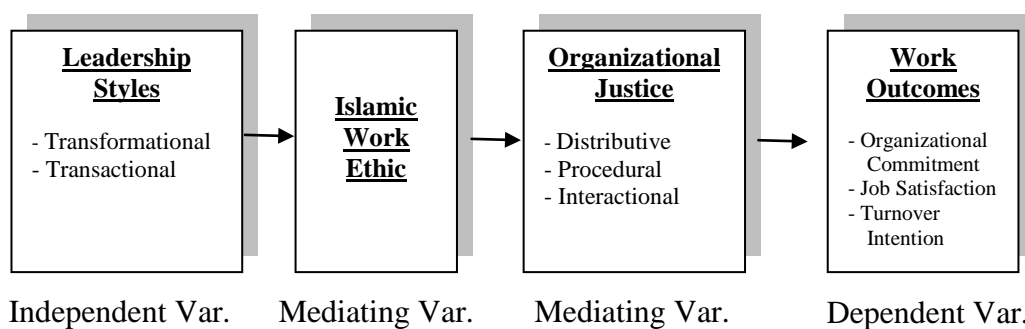


Figure 1.1: Theoretical Framework of the Study

## 1.5 SIGNIFICANCE OF THE STUDY

Work ethics and organizational justice have received a great deal of interest among human resources management and organizational behavior researchers in recent years. This study is, therefore, conducted to enhance our understanding of Islamic work ethic and organizational justice. Furthermore, this study examines transformational and transactional leadership as antecedence of Islamic work ethic and organizational justice, and also, the impact of organizational justice on employees' work outcomes. This study will, therefore, contribute to the knowledge and practice in several ways.

First, this study will enhance our understanding of the antecedents of Islamic work ethic. The result of this study will reveal the importance and impact of transformational and transactional leadership on the enhancement of employees'