



## Does Islamic Work Ethic Influence Employees Innovation Capability?

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### Abstract

Innovation capability is one of the phenomena faced by Sharia Rural Banks in Indonesia. In the era of revolution 4.0, currently the role of human resource cannot be replaced by technological sophistication. The problem that exists in sharia rural banks is not yet available human resources capable of creating innovation products and services that can meet the needs of its customers. So this research is focused on being able to test and analyze the effect of Islamic work ethics, knowledge sharing and empowerment on innovation capabilities. This research is a quantitative study using primary data. The sample in this study were 100 respondents of people's financing bank employees in the city of Semarang. The data collected is tested and analyzed using the Smart PLS program by testing the outer model and inner model. The results of the Smart PLS test show that Islamic work ethics, knowledge sharing and empowerment also have a positive and significant effect on the innovation capabilities.

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### Abstrak

Kapabilitas inovasi menjadi salah satu fenomena yang dihadapi Bank Pembiayaan Rakyat Syariah di Indonesia. Di era revolusi 4.0 sekarang ini peran SDM tidak dapat tergantikan dengan kecanggihan teknologi. Permasalahan yang ada di Bank Pembiayaan Rakyat Syariah hingga kini belum tersedianya SDM yang mampu menciptakan inovasi produk dan juga layanan yang dapat memenuhi kebutuhan nasabahnya. Sehingga penelitian ini difokuskan untuk dapat menguji dan menganalisis pengaruh etika kerja Islam, berbagi pengetahuan dan pemberdayaan terhadap kapabilitas inovasi. Penelitian ini merupakan penelitian kuantitatif dengan menggunakan data primer. Sampel dalam penelitian ini sebanyak 100 responden karyawan Bank Pembiayaan Rakyat Syariah di Semarang. Data yang terkumpul di uji dan di analisis menggunakan program SMART PLS dengan menguji outer model dan juga inner model. Hasil dari pengujian SMART PLS menunjukkan bahwa etika kerja Islam, berbagi pengetahuan dan juga pemberdayaan berpengaruh positif dan signifikan terhadap kapabilitas inovasi.

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## INTRODUCTION

The role of human resources plays an important role in the current era of the industrial revolution 4.0. Employees are the main pillars of the company in carrying out the established operational standards and improving company performance. Competitive advantage and company performance can be achieved through the innovative ability of employees in doing work. Innovation is an important keyword for employees to improve employee performance. Employees who generate lots of ideas, ideas and creativity will drive efficiency and effectiveness in their work which in turn can create a competitive advantage for the company. Several studies have been conducted on the importance of innovation ability and the factors that influence it, including Islamic Work Ethics (Kumar & Rose, 2012): knowledge sharing (Kumaraswamy & Chitale, 2012) and Empowerment (Echebiri, Amundsen, & Engen, 2020).

According to Kumar & Rose (2010) Islamic work ethics has a significant effect on increasing the ability to innovate in the public sector. Islamic work ethics is built on principles; effort, competition, transparency and morally responsible behavior. According to Farrukh, Butt, & Mansori (2015) there is a positive and significant relationship between Islamic work ethics and innovation capabilities. Innovation capabilities can be applied through Islamic work ethic values. This research contradicts the research conducted Cheng & Chen (2013) which states that Islamic work ethics has no influence on innovation capability.

Sharing knowledge is an important factor in increasing the innovation abilities of employees in organizations. According to Kumaraswamy & Chitale (2012) knowledge is defined as one of the intangible assets owned by humans. Knowledge is also considered an unlimited resource that can generate profit. While the research is being conducted Sitko-Lutek, Chuancharoen, Sukpitikul, & Phusavat (2010) concluded that the higher or more employees in the organization who are willing to share knowledge will increase the ability to innovate in the work environment. Kumar & Rose (2012) stated that sharing knowledge can improve an organization's ability to work hard in facing various working conditions. So this proves that knowledge sharing is very dependent on Innovation Capabilities. Meanwhile, according to Zheng, Zhang, & du (2011) innovation capability does not have a significant relationship to knowledge sharing. The results showed that knowledge sharing was influenced by trust and commitment.

Empowerment is also an important factor in increasing innovation capabilities. According to Echebiri et al., (2020) Empowerment has a positive influence on the ability to innovate. Empowerment can affect employee participation in innovation. Employees can feel a psychologically empowered state by giving them the motivation and initiative to use creativity and seek to generate, develop and implement innovative ideas. According to Zhou & Zhang (2017) stated that empowerment has the strongest mediating effect on the relationship between customer participation and employee service innovation. According to Sarkar (2009) empowerment has a negative and insignificant effect on innovation capability. The following is the composition of financing provided by Sharia Rural Banks in the last five years which can be seen in Table 1. As follows:

Table 1. Composition of Financing Provided by Sharia Rural Banks

Contract	2014	2015	2016	2017	2018
Mudharaba	122.467	168.516	156.256	124.497	180.956
Musharaka	567.658	652.316	774.949	776.696	837.915
Murabaha	3.965.543	4.491.697	5.503.764	5.904.751	6.940.379
Salam	16	15	14	0	0
Istishna	12.881	11.135	9.423	21.426	35.387
Ijara	5.179	6.175	6.763	22.316	46.579
Qardh	123.588	123.588	145.865	189.866	185.360
Multi Purpose Financing	311.729	311.729	548.520	857.890	857.890
Total	5.004.909	5.765.171	6.662.556	7.763.398	9.048.467

Source: Statistic OJK (2018).

Based on the statistical data of the Financial Services Authority (OJK) in Table 1. It is known that during 2014-2018 the composition of financing provided by Sharia BPRs has increased but the financing of Mudharabah, Salam, Istishna and Qardh contracts in the last five years has fluctuated (OJK, 2018). This indicates that employees at the Sharia People's Financing Bank have not been able to maximize their ability to explore innovative banking product ideas. Therefore, it is necessary to study the importance of increasing the composition of financing through the ability of employees to innovate.

Several studies have examined the importance of the ability to innovate in increasing company profitability. According to Lau, Yam, & Tang (2010) product innovation can increase the percentage of sales. Companies should also emphasize other innovation capabilities such as resource allocation and strategic planning. For example, to increase the percentage of sales, companies must create more innovative products. YuSheng & Ibrahim (2020) state that companies with a supportive innovation culture and with an innovative mindset will explore profitable and competitive ideas then turn them into profitable business concepts and strategies for long-term growth and profitability. According to Rawwas, Javed, & Iqbal (2018) Islamic work ethic reminds workers of the importance of adhering to the principles of Islamic Work Ethics in their daily activities. Islamic Work Ethics has a positive relationship to innovation capabilities. Malik & Akhtar (2020) state that Islamic Work Ethics has no effect on knowledge sharing and innovation capability. According to Iqbal, Rasheed, Khan, & Siddiqi (2020) innovation is considered a method by which knowledge is acquired and shared to develop and improve products and services. Innovation is considered as a method by which knowledge is acquired and shared to develop and improve products and services.

Meanwhile, according to Ruiz-Jiménez & Fuentes-Fuentes (2013) knowledge is considered an invaluable source of special capacities that are difficult to imitate and accumulate and cannot be transferred easily. Appelbaum, Karasek, Lapointe, & Quelch (2015) state that empowerment can fail even before it starts if employees will not accept new responsibilities. According to Quratulain, Al-Hawari, & Bani-Melhem (2020) when employees believe that organizations emphasize customer service orientation they tend to feel empowered.

## METHOD

This research uses quantitative methods using a questionnaire given to the 100 employees of Sharia Rural Banks in Semarang city. The population in this study all employees of Sharia Rural Banks on Semarang. While the sampling technique used in this study was purposive sampling.

The data collection method in this study is a questionnaire given to employees of Sharia Rural Banks. While the data measurement technique uses a likert scale (likert scale) with a category of numbers 1-5. According to Sekaran (2006) category 1 strongly disagrees, category 2 disagrees, category 3 disagrees, category 4 agrees and category 5 strongly agrees. The data analysis technique used in this study is the Structural Equation Model (SEM). According to Ghozali (2005) Structural Equation Model (SEM) is measured by measuring the outer model and also the inner model. The measurement of the outer model is used to test the validity and reliability.

The validity test is measured by convergent validity and discriminant validity. While the reliability test is measured by composite reliability. Furthermore, the inner model measurement is used to measure the R<sup>2</sup> test and statistical t test. So that the regression equation in this study is as follows:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Information:

Y: Innovation capability.

$\beta_1$ : Islamic work ethic regression coefficient.

$\beta_2$ : Knowledge sharing regression coefficient.

$\beta_3$ : Empowerment regression coefficient.

X<sub>1</sub>: Islamic work ethic.

X<sub>2</sub>: Knowledge Sharing.

X<sub>3</sub>: Empowerment.  
e: Error.

The model above shows that the dependent variable Y is influenced by three dependent variables, namely X<sub>1</sub>, X<sub>2</sub> and X<sub>3</sub>.

## RESULT AND DISCUSSION

### 1. Outer Model Results

Measurement of the outer model, measured by validity and reliability tests. The validity test is measured by convergent validity. While the reliability test is measured by composite reliability. According to Ghazali (2011) indicator is said to be valid if the loading factor value is more than 0.5 or the statistical T value is greater than T table 1.96 ( $\alpha = 5\%$ ). The results of the validity and reliability tests of the Islamic work ethic indicators can be seen in Table 2. As follows:

Table 2. Test Results of Validity and Reliability of Variables Islamic work ethic Indicators

Indicator	Validity Test Convergent Validity			Reliability Test Composite Reliability
	Loading	T-Statistic	Info	
X1.1	0.718	12.178	Valid	0.836
X1.2	0.683	8.979	Valid	
X1.3	0.759	11.299	Valid	
X1.4	0.706	9.909	Valid	
X1.5	0.682	7.310	Valid	

Source: Author (2020).

Based on Table 2, it shows that the convergent validity test, which consists of five Islamic work ethic indicators, has a loading factor value of more than 0.5 and the T statistical value of all indicators is greater than the T table value of 1.96. So that the Islamic work ethic indicator is declared valid. According to Ghazali (2011) indicator is said to be valid if the loading factor value is more than 0.5 or the statistical T value is greater than T table 1.96 ( $\alpha = 5\%$ ). While the results of the composite reliability test, showed satisfactory results, which amounted to 0.836. This means that the Islamic work ethic construct can provide relatively the same results when re-measured on the same subject. The results of the validity and reliability of the knowledge sharing variable indicator can be seen in Table 3. As follows:

Table 3. Test Results of Validity and Reliability of Knowledge sharing Variable Indicators

Indicator	Validity Test Convergent Validity			Reliability Test Composite Reliability
	Loading	T-Statistic	Info	
X2.1	0.647	7.259	Valid	0.846
X2.2	0.755	14.188	Valid	
X2.3	0.739	10.136	Valid	
X2.4	0.620	7.600	Valid	
X2.5	0.845	33.072	Valid	

Source: Author (2020).

Based on Table 3, it shows that the convergent validity test, which consists of five knowledge sharing indicators, has a loading factor value of more than 0.5 and the statistical T value of all indicators is greater than the T table value of 1.96. So that the knowledge sharing indicator is declared valid. According to Ghazali (2011) indicator is said to be valid if the loading factor value is

more than 0.5 or the statistical T value is greater than T table 1.96 ( $\alpha = 5\%$ ). Meanwhile, the results of the composite reliability test showed satisfactory results, namely 0.846. This means that the knowledge sharing construct can provide relatively the same results when re-measured on the same subject. The results of the validity and reliability of the Empowerment variable indicators can be seen in Table 4. As follows:

Table 4. Test Results of Validity and Reliability of Empowerment Variable Indicators

Indicator	Validity Test			Reliability Test
	Convergent Validity			Composite Reliability
	Loading	T-Statistic	Info	
X3.1	0.658	7.414	Valid	0.848
X3.2	0.766	11.135	Valid	
X3.3	0.739	7.919	Valid	
X3.4	0.854	27.617	Valid	
X3.5	0.603	6.492	Valid	

Source: Author (2020).

Based on Table 4, it shows that the convergent validity test, which consists of five Empowerment indicators, has a loading factor value of more than 0.5 and the T statistical value of all indicators is greater than the T table value of 1.96. So that the Empowerment indicator is declared valid. According to Ghazali (2011) indicator is said to be valid if the loading factor value is more than 0.5 or the statistical T value is greater than T table 1.96 ( $\alpha = 5\%$ ). Meanwhile, the results of the composite reliability test showed satisfactory results, namely 0.848. This means that the Empowerment construct can provide relatively the same results when re-measured on the same subject. The results of the validity and reliability of the Innovation capability variable indicators can be seen in Table 5. As follows:

Table 5. Test Results of Validity and Reliability of Innovation capability Variabel Indicators

Indicator	Validity Test			Reliability Test
	Convergent Validity			Composite Reliability
	Loading	T-Statistic	Info	
Y1.1	0.762	15.050	Valid	0.846
Y1.2	0.804	15.621	Valid	
Y1.3	0.673	9.864	Valid	
Y1.4	0.730	10.692	Valid	
Y1.5	0.643	7.640	Valid	

Source: Author (2020).

Based on Table 5, it shows that the convergent validity test, which consists of five Innovation capability indicators, has a loading factor value of more than 0.5 and the statistical T value of all indicators is greater than the T table value of 1.96. So that the indicators of innovation capability are valid. According to Ghazali (2011) indicator is said to be valid if the loading factor value is more than 0.5 or the statistical T value is greater than T table 1.96 ( $\alpha = 5\%$ ). Meanwhile, the composite reliability test showed satisfactory results, namely 0.846. This means that the innovation capability construct can provide relatively the same results when re-measured on the same subject.

## 2. Inner Model Results

The inner model test consists of the t test and R<sup>2</sup> test. The following is a research model which can be seen in Figure 1. As follows:

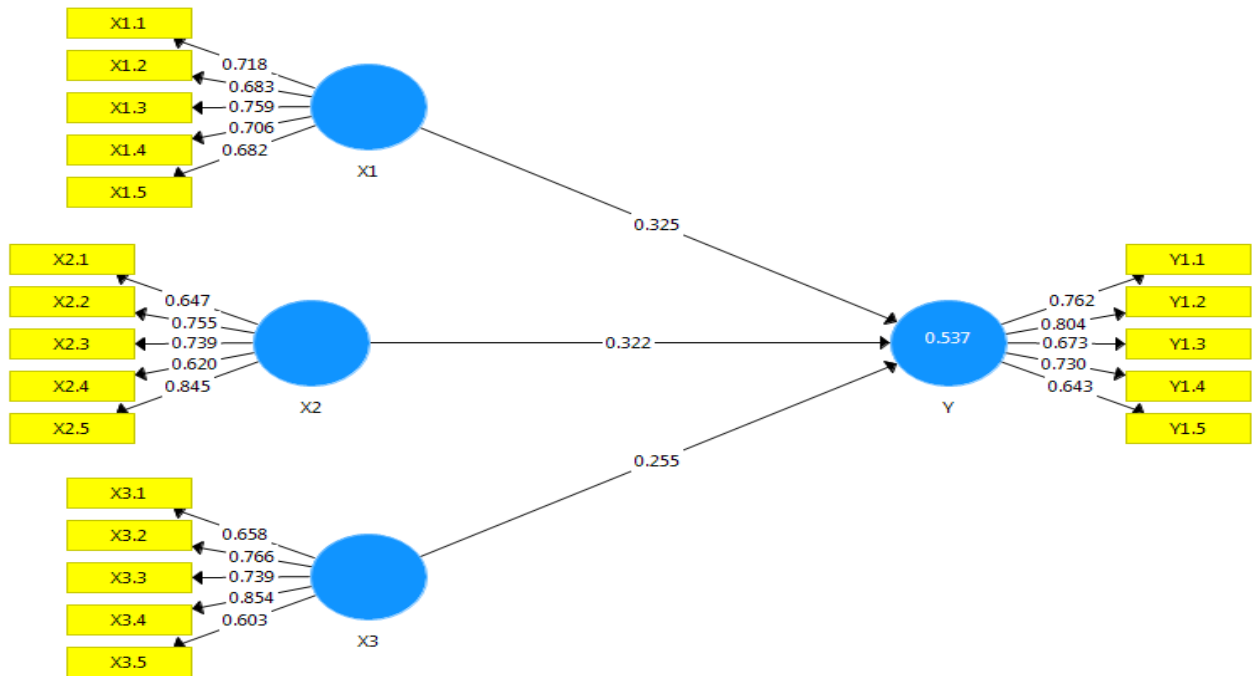


Figure 1. Research Model

Source: Author (2020).

The results of the inner model test can be seen in Table 6. As follows:

Table 6. Inner Model Result

Hypothesis	Original Sampel Estimate	Mean of Subsampel	Standart Deviation	T-Statistic
IWE → Innovation	0.325	0.330	0.071	4.605
KS → Innovation	0.322	0.314	0.106	3.043
Trust → Innovation	0.255	0.272	0.104	2.443

Note:  $t(0.05, 100) = 1.96$ .

The regression equation in this study can be seen as follows:

Regression equation:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

The regression equation can be described as follows:

Innovation capability = 0.325 Islamic work ethic + 0.322 Knowledge sharing + 0.255 Empowerment + e.

## 3. Hypothesis Testing Results

Based on the results of the calculation of the PLS test which tests the effect of Islamic Work Ethics on Innovation Capability, the t statistical test results are 4.605 and t table 1.96. While the estimated coefficient ( $\beta$ ) is 0.325. So it can be concluded that there is a positive and significant influence between the Islamic work ethic variable on the innovation capability variable for the employees of the Sharia Rural Banks. This means that the higher the Islamic work ethic, the higher the innovation capability. So that testing the first hypothesis in this study is accepted.

Based on the results of the PLS test calculations that test the influence of knowledge sharing on innovation capability, the t statistical test results are 3.043 and t table 1.96. While the estimated coefficient ( $\beta$ ) is 0.322. So it can be concluded that there is a positive and significant influence between the Knowledge sharing variable on the innovation capability variable for the employees of the Sharia Rural Banks. This means that the higher the knowledge sharing, the higher the innovation capability. So that the second hypothesis in this study is accepted.

Based on the results of the PLS test calculations that test the influence of empowerment on innovation capability, the t statistical value test results are 2.443 and t table 1.96. While the estimated coefficient ( $\beta$ ) is 0.255. So it can be concluded that there is a positive and significant influence between the empowerment variable on the innovation capability variable for the employees of the Sharia Rural Banks. This means that the higher the empowerment, the higher the innovation capability. So that the third hypothesis in this study is accepted.

#### 4. R<sup>2</sup> Test Results

The R-Square value in this study can be seen in Table 7. As follows:

Table 7. R- Square

Variable	R-Square
Innovation Capability	0.537

*Source: Author (2020).*

Based on Table 7, it shows that the R-Square value of the innovation capability construct is 0.537, which means that Islamic work ethics, knowledge sharing and empowerment are able to explain the variance of innovation capability by 53.7% and the remaining 46.3% is influenced by other factors not examined in this research.

## RESULTS AND DISCUSSION

The results of testing the first hypothesis state that Islamic Work Ethics has a positive and significant effect on the innovation capability of the employees of the Sharia Rural Banks on Semarang. This research is in line with the research conducted by Yousef (2001), Ali & Al-Owaihah (2008), Kumar & Rose (2010), Kumar & Rose (2012), Senturk & Bayirli (2016), Yaghoubi, Teymourzadeh, Bahadori, & Ghardashi (2017), Salin, Ab Manan, Kamaluddin, & Nawawi (2017), Mohammad et al., (2018) which states that Islamic work ethics has a significant influence on innovation capabilities in the public sector in Malaysia, Arab and Kuwait. IWE captures the essence of work ethic in Islam. Work is defined as a compulsory activity and virtue in terms of human needs and the need to build a balance in individual and social life. The Islamic work ethic emphasizes cooperation at work. Hard work is seen as a virtue and people who work harder are very likely to progress in life. On the other hand, not working hard is considered a failure in life. The Islamic work ethic argues that life without work is meaningless.

This research contradicts the research conducted by Sa'ari, Johare, Abdul Manaf, & Baba (2013), Murtaza et al., (2016) which states that IWE has no positive and significant effect on Innovation . So there is still a lack of understanding of how the Islamic work ethic can influence Innovation . When employees have Islamic work ethic values, they will feel satisfied with his job. So that it does not increase the tendency to innovate.

The results of testing the second hypothesis state that knowledge sharing has a positive and significant effect on innovation capability for employees of the Sharia Rural Banks on Semarang. This research is in line with the research conducted by Ganguly, Talukdar, & Chatterjee (2019), Le & Lei (2019) which states that there is a positive relationship between knowledge sharing and innovation capability. Knowledge sharing can increase innovation capabilities. Meanwhile, innovation capability within an organization can be used to create strategies for developing and maintaining knowledge sharing among employees. So that it can provide an increase in the efficiency of creativity and innovation through more efficient decision making. This research also

supports the research conducted Lee (2018), Iqbal, Rasheed, Khan, & Siddiqi (2020) which states that Knowledge sharing has a role to be able to increase the innovation capabilities of an organization. Innovation is defined as a method by which knowledge is acquired, shared and applied to develop and improve products and services. While the research is being conducted Costa & Monteiro (2016) states that innovation capabilities are realized when knowledge is shared between individuals and units. Then apply the importance of creating a Knowledge sharing culture in the organization. The same research also carried out research conducted Lin (2007) which shows that the company's innovation capabilities can be improved through the Knowledge sharing process by providing innovative products to customers.

This study contradicts the research undertaken Zheng et al., (2011) which states that innovation capability does not have a significant relationship to knowledge sharing. The results showed that knowledge sharing was influenced by trust and commitment. While the research is being conducted Zealand & Zealand (2013) argued that sharing knowledge externally exposes companies to the risk of losing core, strategically important knowledge. Sharing knowledge with external parties, there is always the risk of unwanted knowledge overflow. The possibility of leaking knowledge may hinder efforts to share knowledge. Therefore, it can be said that a company faces a serious knowledge-based dilemma in its innovation activities. On the one hand, it is necessary to share externally relevant knowledge in order to be considered as potential recipients of external knowledge, while on the other hand it is necessary to take into account the potential harmful effects of knowledge leakage. Unintentional and intentional knowledge leaks empirically show both have negative effects for companies that share a lot of knowledge externally.

The results of testing the third hypothesis state that empowerment has a positive and significant effect on the Innovation capability of the employees of the Sharia Rural Banks on Semarang. This research is in line with the research conducted by Demircan, (2010) which states that empowerment has a positive and significant effect on innovation capability. Empowerment is focused on management practices designed to empower employees. Empowerment is defined as a process that energizes trust and control in an organization that leads to results such as increased self-efficacy and performance. Sulisty & Siyamtinah (2016) in his study stated that empowerment directly affects innovation ability. Empowerment is a redistribution of power between management and employees in the form of increased responsibility and commitment. Individuals feel empowered when they have sufficient strength to deal with the events, situations or people they are facing. This research is in line with the research conducted Duan, Liu, & Che (2018) which states that motivation and empowerment are able to mediate innovation capabilities.

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## CONCLUSIONS

The results of this study state that the Islamic work ethic, knowledge sharing and empowerment variables have an effect on innovation capability. The three hypotheses in this study are accepted. Yousef (2001), Ali & Al-Owaihyan (2008), Kumar & Rose (2010), Kumar & Rose (2012) in their findings state that Islamic work ethics emphasizes cooperation in work. Hard work is seen as a virtue and people who work harder are likely to progress in life. Employees of the Sharia People's Financing Bank in the city of Semarang have a work ethic to always work hard and dedicate themselves to work. Lin (2007) found that the ability to innovate in companies can be improved through the process of sharing knowledge by providing innovative products to customers. Lee (2018) contributes to knowledge sharing which has a role to be able to increase the ability to innovate.

The results also show that employees at the Islamic People's Financing Bank in the city of Semarang often share knowledge with their colleagues. Meanwhile, Demircan, (2010) further examines empowerment which is focused on management practices to empower employees. Sulistyono & Siyamtinah (2016) suggest that empowerment can affect the ability to innovate.

The results of this study prove that the employees of the Islamic People's Financing Bank in the city of Semarang are often empowered by their superiors. The limitation in this study is that not all Islamic People's Financing Banks provide permission to be the object of research. Therefore, the object of this research can be expanded not only in Islamic People's Financing Banks in the city of Semarang. But the object can be expanded to the Central Java region. Another limitation is that previous research that examines innovation capability is still very few. So that it can be used as a reference for further research.

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