II UZBEK-INDONESIAN JOINT INTERNATIONAL CONFERENCE

Economics And Management Towards Nation Character Development

SEPTEMBER 2012
II UZBEK-INDONESIAN JOINT INTERNATIONAL CONFERENCE

Economics and Management Towards Nation Character Development

September 2012

- Economic science, education and formation of human capital
- Social policy and labor market
- World economy and development of national economic system
- Financial system and financial and credit institutes
Edited by: prof. Dr. E.S. Margianti, S.E. MM, Rector of Gunadarma University

prof. Dr. Kalandar Abdurakhmanov – director of Branch of Federal State Budget Educational Establishment of Higher Professional Education “Russian Economic University after G.V. Plekhanov” in Tashkent

“II Uzbek-Indonesian Joint International Conference”
Economics and Management Towards
Nation Character Development
Tashkent-Jakarta, 2012
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Publisher Branch of Federal State Budget Educational Establishment of Higher Professional Education “Russian Economic University after G.V. Plekhanov” in Tashkent (Uzbekistan) Gunadarma University (Indonesia)
FOREWORD

Dear participants of international conference!

On behalf of staff and students of the branch of Russian economic university after G.V. Plekhanov in Tashkent allow me to greet all the participants of the international conference and express gratitude to the rector of Gunadarma University professor E. Margianti for participation in this event.

Representatives of Indonesia have been to the Branch many times. A large-scale "Uzbekistan-Indonesia" culture forum was organized and held at our university. Regular meetings with students of our university is an indicator of importance of such events in deepening and developing bilateral cooperation between Uzbekistan and Indonesia in various areas, in particular in education sphere. These aspects were the basic theme of negotiations with the Branch authorities during the visit of Ambassador of Indonesia in Uzbekistan. During his visit Extraordinary and Plenipotentiary Ambassador of Indonesia in Uzbekistan Mr. Mohamad Asruchin made a report on the issues of economy development of Indonesia for the students of the Branch. It is very important for the university to expand outlook of our students.

Meetings of such level, certainly, help to learn more about the country, its culture and history, and especially national economy. During the meeting students of Branch asked the Ambassador of Indonesia a lot of different questions on education system, opportunity of training in universities of the country, organization of joint seminars, symposiums and discussions of projects and programs representing mutual interest and student's exchange programs as well.

The delegation of Gunadarma University headed by the rector of university prof. E. Margianti visited the Branch several times. Gunadarma University specializes in the sphere of information technologies. There are 1300 teachers in the University. The university has partner programs with universities of the USA, France, England and etc. University consists of twelve departments in the capital city Djakarta and it takes the fifth place according to the rating in Indonesia. Gunadarma University was founded in 1981 and successfully functions in the sphere of education and scientific and research works. During the meetings there also signed Cooperation agreement between Gunadarma University and the Branch of REU after G.V. Plekhanov in Tashkent.

The given agreement provides bilateral cooperation between two universities in sphere of carrying out the research works which represent a mutual interest, short-term exchange of teachers and scientists for implementing scientific researches, consultations promoting scientific personnel education, organization of joint seminars, symposiums and discussions of projects and programs representing a mutual interest and students' exchange as well.

Within the limits of the given agreement the delegation of the Branch of Russian economic university after G.V. Plekhanov in Tashkent visited Indonesia in October, 2011 and took part in the work of Uzbek-Indonesian joint international conference organized by Gunadarma University. Extraordinary and Plenipotentiary Ambassador of Uzbekistan in Indonesia in Uzbekistan Mr. Shavkat Djamalov took part and made a report at the conference.

While visiting Indonesia we admire this country and its hospitable people every time. Gunadarma University and its staff impressed us greatly; it is a great honor for us to be partners of one of the largest and well-known universities of Indonesia.

In 2012 Russian economic university celebrated its 105 anniversary from the date of its foundation. During its activity the University trained more 150 thousand highly qualified specialists, about 2300 specialists are from Tashkent Branch in the Tashkent Branch. They work successfully in Russia, Uzbekistan and in the countries of the near and far abroad. Achieving high results in various spheres of activities, the graduates of the University rank the leading positions in politics and economy, business and science, continue renowned teaching traditions at the universities of Russia and abroad. We do our best for our students to do well in studying.

At the University training is conducted on 22 educational programs of higher professional education, three sets of programs of additional professional education. We have made contracts on students' exchange and cooperation on programs of double and triple diploma with the higher educational institutions of 17 countries of the far and near abroad. High level of education in our University is known far of Russia boundaries. For more than 105 years of its existence REU after G.V. Plekhanov has always been famous for its teaching staff. For the period of its functioning the Branch in Tashkent has steadily ranked the place on the market of educational services of the Republic of Uzbekistan. Hundreds of applicants annually compete for the right to study in our Branch.

On September, 21-22 In the Branch of Russian economic university after G.V. Plekhanov in Tashkent there conducted II Uzbek-Indonesian joint international conference Economics and Management Towards Nation Character Development jointly with Gunadarma University and with the support of Embassy of Indonesia in Uzbekistan. The collection of theses of participants' reports has been published on the basis of research materials of leading and young scientists, who have perspective views on innovative development of national economy at the beginning of the conference. Conference, its total documents and recommendations become a practical basis of consolidation of our universities with the purpose of development of higher education.

I wish all the participants fruitful and constructive work.

Director of the Branch of "Russian Economic university after G.V. Plekhanov" in Tashkent,
Doctor of economic sciences, professor Kalandar Abdurakhmanov
FOREWORD

First of all, I am honourer and pleased to present my foreword for the Proceedings of "II Uzbek-Indonesian Joint International Conference on Economics and Management Towards Nation Character Development".

This conference was obviously became the culmination of the vision, dedication and the cooperation of Gunadarma University, Jakarta, Indonesia and Branch of Russian Economic University after G.V.Plekanov in Tashkent, Uzbekistan. The conference is planned to be held alternately in Indonesia and Uzbekistan in the time series. The first conference of October 18-19, 2011 has been organized in Jakarta, Indonesia is the first event in this plan series.

"II Uzbek-Indonesian Joint International Conference on Economics and Management Towards Nation Character Development" that will be held in Branch of Russian Economic University after G.V.Plekanov in Tashkent, Uzbekistan on September 21-22, 2012 as the next steps of the collaboration and cooperation as well others occasion in the future, I believe will bring us to be closer in some aspects.

In the first conference has been presented 38 papers which cover a broad spectrum topics of economics and management towards nation character development. These papers captured the spirit of the Conference and reflect its major focus and objectives. The articles provide an overview of critical research issues reflecting on past achievements and future challenges, while for the second conference, Gunadarma University will send a full team delegation of Economic Faculty included Rector, and Vice Rector IV of Collaboration and Cooperation , Dean of Economic Faculty, Head of Department and Center as well Head of Departments and senior researchers from Diponegoro University, Semarang to convey the research articles and paper covering many aspects of insightful, inspirational messages, scholarly analysis of critical policy, programs issues of economics and management as well as experienced-based notes for practice. I believe that can provided a significant contribution to the development of knowledge in this interested area.

In this special occassion, I'd like to take this opportunity to expressed my gratitude and thanks to all people who made this first conference the success as it was. Firstly, allowed me to give my special appreciation and gratitude to leaders of Branch of Russian Economic University after G.V.Plekanov in Tashkent, Uzbekistan in their trust to Gunadarma University in building cooperation for mutual benefit. I took this opportunity to make a ballance situation of inviting Rector of Branch of Russian Economic University after G.V.Plekanov in Tashkent, Uzbekistan, Prof Dr Abdurakhmanov K. Kh to become Honorary Profesor in Gunadarma University, Jakarta, Indonesia as well I was in Branch of Russian Economic University after G.V.Plekanov in Tashkent.

I encourage the continuation and development of cooperation programs and services which serve to strengthen economics and management in both countries and the relationships between Branch of Russian Economic University after G.V.Plekanov in Tashkent, Uzbekistan and Gunadarma University, Jakarta, Indonesia.

In this occasion, please allowed me also to express my appreciation and gratitude to all of the organizing team including scientific committee, program chairs, session chairs, and others, for their commitment, effort and dedication in undertaking their own task to bring the success of this conference.

Finally, I owe our gratitude to all the conference participants for their contributions to the intellectual discourse during the conference and for the overall success of it. The conference would not have been successful without the support and active contribution from all participants.

As closing remarks, Let's say thanks to the Lord Almighty God for all His blessing on us.

Prof. Dr. E.S. Margianti, S.E. MM
Rector of Gunadarma University
ACKNOWLEDGMENTS
PART I

We would like to acknowledge these following names for contributing their paper(s) in "II Uzbek-Indonesian Joint International Conference Economics and Management Towards Nation Character Development":

Adi Kuswanto
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Dijoko Sudarsono
Donny Erlangga
Dwi Asih Haryanti
E. Susy Subendra
Emy Haryatmi
Eri Prasetyo Wirbo
Emny Pratiwi
Fenni Agustina
Hawasi
Hendro Firmawan
Herry Sussanto
Ichwan Suyudi
Imam Subaweh
Iman Murtono Soenhadji
Indah Susilowati
Irni Ristika Sari
Julius Nursyamsi
Maulana Ali
Misdiyono
Nur Menni Aquariza
Pandam Rukmi Wulandari
Renny Nurainy
Ruswandi Tahir
Samuel David Lee
Sri Nawang Sari
Sri Supadmini
Susilowati
Teddy Oswari
Titi Nugraheni
Toto Sugiharto
Vivi Octaviani
Waridin

ACKNOWLEDGMENTS
PART II

Abbas Shermukhamedov
Akmalhkon Mamakhanov
Akmoral Balakhanova
Alexandr Bedrintsev
Aliasgar Suvankulov
Alsu Enikeeva
Anvar Usmanov
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Bakchodir Shamsuddinov
Bahtiyor Islamov
Bakchodir Umurzakov
Boymurod Ulashov
Bobur Shermukhamedov
Boris Ogonyants
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Dilfuza Sultanova
Dilorom Almatova
Dilshod Tairov
Dilshoda Maksudova
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Kalandar Abdurakhmanov
Kamola Mavlanova
Khamid Abduramanov
Khayot Mukhidinov
Khusrudin Muratov
Luiza Alieva
Lyudmila Shibarshova
Mahbuba Aliyeva
Mahfuzi Alikutova
Mastura Allayarova
Mehrinia Mameva
Munira Isokhujaeva
Nargiza Shayusupova
Nazar Khakimov
Nodira Zokirova
Nozim Nazarov
Olim Abdurakhmanov
Omonulokhon Akhmedov
Oybek Shermukhamedov
Rajmjon Imamov
Rimma Badamova
Rustam Yuldashev
Saidahror Gulyamov
Sanjar Goyipnazarov
Sanjar Tairov
Sardor Kasymov
Shahlo Abdullaeva
Shakhozha Rakhmatullaeva
Shavkat Dzhahalov
Shavkat Zaynutdinov
Shukhrat Yuldashev
Tamara Aglamova
Ulugbek Shermukhamedov
Umida Mukhidinova
Vineri Gubzallova
Zafar Shakarov
Zahid Fayziev

Thank you for participating in our conference
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The results of this study only represent the four variables into the mechanisms of IT governance because of constraints in the development of questionnaire indicators.

Conclusions and suggestion

Conclusion

This study sought to examine empirically the individual IT governance mechanisms that influence the overall effectiveness of IT governance within an organisation by examined the influences of the following IT governance mechanisms on the overall effectiveness of IT governance: culture of compliance, involvement of top management in IT, and IT risk management.

In particular, this study found robust empirical evidence that (1) the involvement of top management in IT is positively correlated with the overall effectiveness of IT governance, and (2) the existence of IT risk management support greatly enhances the overall effectiveness of IT governance.

Suggestion

Instead the company used in this sample consistently implement IT Governance. Involvement of top management be improved to get better results in the application of IT Governance. In order to produce a good IT Governance is expected to improve the company's compliance culture.

References


DIRECT AND INDIRECT INFLUENCE OF EMOTIONAL SPIRITUAL QUOTIENT ON JOB PERFORMANCE IN DIFFICULT SITUATION

Anita Wasutiningsih
Gunadarma University, Indonesia

Abstract

The aim of this study is to analysis direct influence of emotional spiritual quotient on job performance and also indirect influence through adversity quotient® and motivation. Data were collected from 70 general managers and managers of real estate firms in Indonesia. Partial Least Square was performed to analyze the data. Results of the study indicated that influence of Emotional Spiritual Quotient through Adversity Quotient® and motivation on job performance is greater than direct influence. In other words, someone who has a high Emotional Spiritual Quotient will have the ability to cope and survive in difficult situations and then have the motivation to produce good performance.

Keywords: adversity quotient®, difficult situation, emotional spiritual quotient, motivation, job performance

Background

Although the situation and condition of internal/external company do not support, but each company certainly remain hopeful that their employees are capable of producing optimal performance. Many of factors that enable a person is able to have a good performance, otherwise a lot of factors also that enable someone’s achievement is hampered. According to Troena and Zagladi (2004), emotions exhausting (fatigue) due to workload is one of the factors that affect performance. Performing job optimally in normal and conducive circumstances is an ordinary phenomenon. However, it could be regarded as an extraordinary phenomenon when optimal job performance is achieved under difficult circumstances.

Refer to job performance theory, job performance is predicted by at least two predictors which are motivation and ability (Porter and Lawler, 1968 and Locke, Mento and Katcher, 1978). Therefore, in addition to be highly motivated, employees are required to have the ability to overcome various problems and difficulties, especially in difficult circumstances.

To perform optimally in tight competition and various constraints company requires employees have capability to overcome those constraints. Studies aiming at determining factors that affect performance are required to find out the answer to the question regarding factors that can enhance or affect performance. The importance of conducting research to identify determinants of job performance is in accordance with Schein (1994) who argued that understanding human nature is difficult. Whenever we make generalization, there are always found more important phenomenon which weakens the previous theories.

Until 1995, the majority of opinion regarding success factors are still fixed on the intellectual intelligence (i.e., intelligence quotient—IQ). Goleman (1996), based on his study, concluded that psychologists agree that IQ was only supports about 20 percent of the factors that determine success. The remaining 80 percent, meanwhile, comes from other factors including emotional intelligence (i.e., emotional quotient—EQ). EQ describes the ability, capacity, skill to receive, assess, and to manage emotions both own emotion, emotion of others, and emotion of groups.

In line with Goleman, Ashkanasy (2002) reviewed in his article about the role of emotion in an organization. Ashkanasy (2000) stated that managers should be able to understand the emotional impact of the employee's job, able to create a positive and friendly emotional climate because the company is a place where employees come not only to work.
Stoltz (2000) reformulates Goleman’s findings through his research results and claims that Adversity Quotient® (AQ®) is the most important factor for success. AQ® according to Stoltz, may explain the ability to perform optimally even under difficult circumstances. While IQ only explains the ability to develop the mind without the development of social skill and emotional intelligence as measured by the EQ, (AQ®) complements factors that cannot be explained by both IQ and EQ, is able to explain why people are able to survive in the face of difficult circumstances.

Similarly, Langvardt (2007), who also proves that employees who are tough (resilience) are more capable of making changes in conjunction with organizational transformation in the face of economic turbulence. Results of these tests can be used as empirical evidence that shows that individuals who are capable of producing high job performance are individuals who have high ability at the level of more difficult achievement.

In addition to IQ, EQ, SQ, and AQ®, Agustian (2001) offered a new concept to complement the previous intelligence measure namely emotional and spiritual quotient (ESQ). He proposed a concept that combines emotional intelligence and spiritual intelligence. According to Agustian, the attributes of Allah (Allmighty God), that Al Mattin (The Firm One) and Al Qawiy (The Strongest One) are sources of AQ®.

Based on theories and results of previous surveys, Agustian (2001) reviewed the importance of intelligence combination between emotion and spiritual. ESQ serves as sources of motivation and strengths to success since those who have high ESQ have the ability to develop their vision and missions. Additionally, ESQ has the capability to form principles of leadership. ESQ is actually a model of a systematic mechanism for managing the three dimensions of people: body, mind, and soul.

The objective of this study was to analyze direct and indirect influence—through Adversity Quotient® and motivation—of Emotional and Spiritual Quotient on job performance.

Research method

According to Sekaran (2000), population in this study is purposively because it has certain characteristics. Fifty six managers and fourteen general managers of real estate companies within Jakarta, Bogor, Depok, Tangerang, and Bekasi (i.e. 70 respondents), which were randomly selected using simple random sampling techniques, were used as subject of the study. Data regarding variables understudy including Adversity Quotient® (AQ®), Emotional Spiritual Quotient (ESQ), motivation, and job performance were gathered from respondents using valid and reliable questionnaires, which were sent to more than 100 managers and/or general managers of real estate companies within the study areas.

Online questionnaire (AQ Profile®), which personally obtained from PeakLearning website, was used to measure AQ®. Based on total scores of the questionnaire, Stoltz (2000) categorizes AQ® of an individual into three groups. High AQ® is described as climbers, medium AQ® as campers, and low AQ® as quitters. AQ® includes the following indicators: Control, Origin and Ownership, Reach and Endurance which were called CO2RE.

Control dimension measures one’s ability to control circumstances that cause difficulties. Origin and Ownership dimension measures one’s ability to identify causes of difficulties and to admit consequences of those difficulties. Reach dimension measures the ability to recognize effect of difficulties on one’s life. Individual who have high score in Reach dimension will not allow difficulties affect any aspects of his/her life. Those who have low score in this dimension will lost his/her spirit, happiness, and peacefulness when facing difficulties or failures. Endurance dimension measure the ability of an individual to survive in difficult situation and in dealing with hard circumstances. Those who have low score in this dimension assumed that difficulties and/or causes of these difficulties will last long. The number of questions to measure score of each dimensions are 16 items, so that the whole question totaled 64 items. Answers to these questions consist of five bipolar points.

Agustian (2001) proposed a measure called the Barometer of Heart Sounds that imitates characteristics of Almighty God (Allah) that is Asmaul Husna. Number of questions regarding ESQ is 99. These questions act as Barometer of Sound of Heart based on Asmaul Husna which is developed by Agustian (2001). Answers to these questions consist of four scales (i.e., 0, 1, 2, and 3).

Questionnaires, which were used in this study, were developed based on Wijono’s which were initially developed by Elias and Yaakub (1999). Questionnaires for measuring motivation indicators were in accordance with McClelland, i.e. need for achievement (n-Ach), need for affiliation (n-Aff), and need for power (n-Pow). Answers to these questions consist of five Likert scales.

Job performance questionnaires were developed for this research based on questionnaires that have been implemented by Kaban (2010) in a number of studies. Job performance indicators consist of personality, work habit, and leadership. In this present study leadership indicators were developed with additional variables such as sportiveness, fairness, patience, responsibility, and resilience. Answers to these questions consist of five Likert scales.

Partial Least Squares (PLS) structural modeling—one of the techniques for estimating path coefficients in Structural Equation Modeling (SEM) having small to medium sample size were performed to analyze data (Chin, 2000). Partial Least Square (PLS) version 2.0 was used to analyze data in accordance with sample size.

Result and discussion

Values of AVE (average variance extracted), Composite Reliability, R Square and Cronbach’s

<table>
<thead>
<tr>
<th>Variables</th>
<th>AVE 1</th>
<th>CR²</th>
<th>R-square</th>
<th>CA²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adversity Quotient®</td>
<td>0.763</td>
<td>0.941</td>
<td>0.179</td>
<td>0.920</td>
</tr>
<tr>
<td>Emotional Spiritual Quotient</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
<td>1.000</td>
</tr>
<tr>
<td>Motivation</td>
<td>0.613</td>
<td>0.981</td>
<td>0.294</td>
<td>0.979</td>
</tr>
<tr>
<td>Job Performance</td>
<td>0.537</td>
<td>0.945</td>
<td>0.357</td>
<td>0.938</td>
</tr>
</tbody>
</table>

Note: 1. AVE: Average Variance Extracted
2. CR: Composite Reliability
3. Cronbach’s Alpha

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Alpha are presented in Table 1. The AVE value above 0.5 indicates that discriminant validity value is adequate. Composite Reliability and Cronbach’s Alpha higher than 0.7 indicate that variables understudy are reliable.

Coefficients and significances between the variables were obtained through the process of bootstrapping using PLS. Output of the analysis is depicted in Figure 1.

Predictive relevance is tested by formula Stone-Geisser $Q^2 = 1 - (1 - R^2)$ Adversity Quotient® (1- $R^2$ Motivation) (1- $R^2$ Job Performance) = 1 - (1 - 0.179) (1 - 0.294) (1 - 0.357) = 0.622. Value of $Q^2 > 0$ indicates that model has predictive relevance.

The influence of Emotional Spiritual Quotient, AQ® and motivation together on job performance in accordance with R-square value of 0.357 may imply that the influence of these variables on job performance is 35.7% which is depicted in the following Figure 1. The existence of Emotional Intelligence-Spiritual, AQ® and motivation influence on performance indicated model is moderate ($R^2 > 0.33$) in the structural model (Chin, 1998). In addition to these three variables, there is the possible influence of other variables that have not been investigated in this study to complement the variability of 64.3%. Based on the R-square value of the findings in this study can be explained that ESQ, AQ® and motivation influenced job performance is moderately.

Coefficients of path 0.179 as presented in Figure 1. shows the positive relation between Emotional Spiritual Quotient and job performance. It can be explained that the high of Managers and/or General Managers then it will increase job performance. Refer to Agustian (2001), able to understand the nature of God through best names (Asmaul Husna) and apply it in life effect positively on job performance. When obstacles or high competitions occur, and according to theory or human knowledge it is difficult getting a solution, as if little chance of succeeding, but for people who are able to understand the values of ESQ which is the imitation of God will be able to have good performance.

Influence of ESQ on AQ® in line with Agustian (2001), that Adversity Quotient® a part of the Emotional Spiritual Quotient. Based on coefficients of path 0.423 as presented in Figure 1, can be explained that the high Emotional Spiritual Quotient of Managers and/or General Managers then it will increase scores AQ®. Ability to deal with difficult situations described AQ® in accordance with the message of Al Mutin (The Firm One) and Al Qawiy (The Strongest One). When the Intelligence of emotions-Spiritual high it will affect someone's strength/toughness even though the situation is unfavorable. Refer to Agustian (2001), have the ability to understand/imitate the nature of God as measured by a Barometer of Sound of Heart will affect someone in the face of difficult situations as described AQ®. If according to Stoltz (2000, 2008) someone who is able to survive and able to pass through difficult situations described as a climbers (Climbers) then according to Agustian (2001), both of the natures are the source of the spiritual power of the climbers.

Based on coefficient value retrieved from analysis was using PLS, direct influence of Emotional Spiritual Quotient on job performance is 0.179.

Indirect influence of Emotional Spiritual Quotient through AQ® and motivation is calculated as follow:

- (Emotional Spiritual Quotient $\rightarrow$ Adversity Quotient®) (Adversity Quotient® $\rightarrow$ Job Performance) = 0.423 x 0.216 = 0.091
- (Emotional Spiritual Quotient $\rightarrow$ Adversity Quotient®) (Adversity Quotient® $\rightarrow$ Motivation) (Motivation $\rightarrow$ Job Performance) = 0.423 x 0.529 x 0.359 = 0.08
- (Emotional Spiritual Quotient $\rightarrow$ Motivation) (Motivation $\rightarrow$ Job Performance) = 0.030 x 0.359 = 0.011

Total of indirect influence value is 0.091 + 0.08 + 0.011 = 0.182.

Furthermore, based on the above calculation revealed that the influence of ESQ indirectly on job performance through Adversity Quotient® and motivation greater than direct influence. Result proves that the existence of the Adversity Quotient® and motivation increases the influence of the ESQ on performance. This result explains that a person who has a high ESQ will have the ability to cope and survive in difficult situations (Agustian, 2001) and then have the motivation to produce good performance (Stoltz, 2000).

Conclusion and suggestion

Emotional Spiritual Quotient (ESQ) was found influences job performance through Adversity Quotient® and motivation more than direct influence Emotional Spiritual Quotient on job performance. This indicates that ESQ, Adversity Quotient®, motivation play an important role on job performance, especially in difficult circumstances. Through this study can be concluded that in the difficult situation of someone who has a high ESQ will improve his ability to cope with and survive in the difficult situation and then have a high motivation to perform well.
The research had some limitations that will need to be addressed in future research. Advance research needs to be done to strengthen the evidence of influence of ESQ on AQ8, motivation and performance, due to the use of questionnaires ESQ on previous research has not been done.

References

INTERACTIVE LEARNING STUDIES IN BANKING RISK MANAGEMENT

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Abstract
The problems in higher education can be minimized by utilization of information and communication technologies. E-learning concept is learning system based on information and communication networking which is applied in higher education. The aims of study are to find out effectiveness and successive of e-learning application to achieve effectiveness and successive in learning process, and to know the supporting institutions role which support effectiveness and successive in e-learning application.

The advantage of this research is e-learning system of knowledge development process which is not only in class but also in every where, in which the teacher can give the lesson in one way with computer and networking assistance and the student should be more active in learning process. They can communicate in anytime and everywhere by used online access. This system is not only improving student’s knowledge but also helping teacher’s task in learning process, because in this system, the teacher functions can be taken over by computer program which known as agent.

E-electronic Web studies is the strengthening of risk management learning, theory, analysis problems, and research which have been conducted to help effectiveness and successive of virtual teaching continuously by discussion and understanding of study case. This application produces learning content such as teaching materials, text, presentation impressions, videos, forums, glossaries, questionnaires and tasks for students.

Keywords: e-learning, risk management, interactive, learning

Background
The problems in higher education can be minimized by utilization of information and communication technologies, likewise education discrepancy which happened among in village and town, credit exchanges, development and teaching ability and others. E-learning concept is learning system based on information and communication networking which is applied in higher education.

One of the teaching materials that will explore is Risk Management subject. Bank as a company keep balancing of risk and result characteristic should apply risk management in counting large profit which is not separated from high risks such as credit risk, market risk, operational risk, liquidity risk, legal risk, reputation risk, strategic risk and compliance risk. Bank for International Settlements (Based Committee on Banking Supervision, 2000) explained credit risk as potential loan bank or counterparty will fail in obligations repayment. Credit risk related to loan and securities in bank’s balance sheet are the highest risk which should be faced by commercial bank. Credit risk is the major causing of bank failure in the last year. Credit risk is the most significant risk which should be faced by bank management (Fraser et., al. 2001; Angerer 2004).

Credit risk management is combination of identification activity, measurement, selection of response, controlling and supervision to the credit risk. Modelling of credit risk management activities and ease of running application is needed creation of the simple anticipatory model, but it give reflection of credit risk controlling in each borrower by quality management of banking operations. That model is expected to be implemented by banks in assessing the controlling level and understanding the factors that causing high levels of credit risk from each potential borrower.

According to senior researcher Directorate of Banking Research and Regulation of Bank Indonesia (Agusman, 2007), Indonesian bankers tend to avoid risk (risk averse) as a result of the credit distribution is still limited to the sectors of consumption and demand in the real sector, it supposed to be charged provisions lack caution if credit distributed in risk of loss condition. This policy resulted in allegation of inflict a financial loss state and punishment which frighten the bankers in taking of lending decisions. The Bank is actually company that keep risks balancing and results characteristics. In strategic management, alternatives to get profit, high risk in bank management can not be avoided. Success or failure of the banking industry is heavily related to their ability to manage risk. Bank faces several sources of risk including credit risk, market risk, operational risk, liquidity risk, reputation risk and legal risk.

The Basel Committee on Bank Supervision (Basel Committee, 2000) describes the credit risk as potential loan bank or counterparty will fail in obligations repayment under the agreed terms. Credit risk related to loan and securities in bank's balance sheet and the highest risk should be faced by commercial banks. Credit risk is the major causing of bank failures in the last year. Credit risk is the most significant risk which should be faced by bank management (Fraser et al., 2001).

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