

## A Study of Ethical Leadership on Organizational Performance with Innovative Employee Performance as Mediator at VOE's Tourism Sector



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**ABSTRACT:** The generate active community participation in village development, a leader's role is needed who can influence the community to change their mindset about how important community participation in development process. Leaders must be role model who have a view of achieving a better future and are able to invite all elements of society to collaborate in improving the economy and prosperity. Village development is greatly influenced by the role of the leader, namely the extent to which the village head plans, mobilizes, motivates, directs, communicates, implements in influencing the community to participate in village development. Apart from that, villages also have the opportunity to develop the community economy, through training and marketing community crafts, developing livestock and fisheries businesses, and developing tourist areas through village-owned enterprise (VOE). The role of the leader is not only limited to directing followers to achieve organizational goals, but the role of the leader is greater because the leader must also be able to touch the psychological aspects of the followers. Ethical leadership can influence employee engagement so that employees who have a positive attitude towards their work which will have an impact on organizational performance, leaders are an important factor in organizations that can influence employee performance, so that it will have an impact on organizational performance.

**KEYWORDS:** Ethical Leadership, Innovative Employee Performance, Organizational Performance

### I. INTRODUCTION

The community can no longer only provide opinions in planning, more than that, the community must also play a great role in improving the economy and improving community welfare. The government is still inward looking (only oriented towards the ranks of the government bureaucracy), so public participation in policy making will only be an empty slogan (Santoso, Hanif, and Gustomy, 2004). Suroso et al. (2014) stated that factors which influence the level of community participation in development include age, education, type of work, income level, length of stay in the village, level of communication, and leadership. The key and main factor needed to improve the quality of human resources is leadership (Pasolong, 2008). This idea proven that without the role of a leader who protects and cares for his subordinates, it will be difficult to get a positive response from the community.

Overall, the SDGs aim to create better human life in social, economic aspects, and in synergy with the environment. Therefore, SDGs have three main pillars, namely human development, socio-economic, and environmental. Furthermore, in this section the author explains the process of integrating SDGs into the national development and regional development policy agenda, but it has not yet reached the village level, while since Law no. 6 of 2014 concerning Villages (Village Law), the village development paradigm is experiencing drastic changes with large resources and potential to support the achievement of SDGs goals. The author believes that mainstreaming village development can contribute 74 percent to achieving the TPB so that the Village SDGs become very important and urgent (Andari, 2021). Yang (2014) proved that ethical leadership influences organizational performance. However, the results of this research still need to be reviewed because to achieve organizational performance, employee innovation performance is needed.

One thing that can be done by village communities is to utilize local economic potential and optimize Village Funds through the formation of companies or business entities. Zheng, Batuo, and Shepherd (2017) stated that improving the local economy with a massive impact requires unique local companies with potential that are managed similar to state-owned enterprises or state-owned

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enterprises. VOE was formed to strengthen the potential of each village. However, the formation of VOE create a problems that must be resolved immediately, because they come from joint venture groups, so employee commitment to the organization is also different. To overcome, the role of leaders must proceed massively in accordance with the demands of existing environmental changes.

One of the business lines of VOE are starting to work on is the tourism sector. The better the management system implemented by an area, the higher the tourist attraction will be (Munir, 2012). Rozak (2012) stated that tourism management includes the construction of facilities and infrastructure, complementary service facilities for tourists, management of tourist objects and attractions, provision of service facilities for local communities to take part in tourism activities, and organizing cultural arts performances as an addition to tourist attractions. Management of facilities and infrastructure as complementary facilities for visitors can be done by repairing roads in tourist areas, and providing directions so that tourists can easily reach tourist areas. Management of tourist attraction objects can be realized by providing objects that are characteristic of the tourist attraction.

Cummings and Worley (2008) stated that organizations began to develop rapidly 50 years ago. Currently, entering Industry 4.0, by using technology in its business model. One very important dimension in the business realm is the emergence of artificial intelligence (Artificial Intelligence) which will have huge social consequences. Ullah et al. (2021) in their research results found that ethical leadership has a fairly dominant influence in improving organizational performance. On the other hand, Imran et al. (2023) stated that ethical leadership is an important factor in facing change so that employees will be more positive in seeing change.

Yang (2014) in his research stated that ethical leaders will be more sensitive and understand the needs of their followers, so that they will be more innovative in their work. Ethical leadership is also characterized by its ability to build conducive communication with its subordinates so that, it important capital in building humans capital in organizations (Email & Email, 2016). Ullah et al. (2021) stated that innovative performance is influenced by the role of ethical leaders, however the research findings are still weak from the results of statistical calculations, so based on these findings it is possible that innovative performance is a mediator in improving organizational performance. Asif et al. (2019) also proved that ethical leaders have an important role in strengthening the affective side of employees, which will later have an impact on organizational performance.

## **II. LITERATURE REVIEW**

### **Ethical Leadership and Organizational Performance**

Leadership style is one of the important factors in increasing employee commitment. Yahaya & Ebrahim (2016) stated that effective leadership is an important determinant in increasing employee commitment. Employees who are committed will perform better in improving employee performance. Haque et al. (2020) in their research found that leaders have quite a big responsibility in increasing employee commitment. They added that affective commitment is the commitment that is most needed because it is related to a person's emotions. Yahaya & Ebrahim (2016) conducted a literature review which revealed that leadership has implications for the affective side of employees. Ethics can also be an interactive aspect, which develops relationships among employees. Employees will have a shared opinion that their managers are open to participating in decision making, communicate with each other and are free from fear that their opinions and suggestions may damage their position and status (Ullah et al., 2021).

Joo et al. (2012) emphasized that leadership style has a strong role in increasing employee commitment. Mwesigwa et al. (2020) explained the importance of a leader's role in fostering psychological awareness of the organization. Ethical leaders will reflect behavior with integrity so that it becomes one of the determinants of improving organizational performance.

*Proposition 1: Ethical leadership will impact to the organizational performance*

### **Ethical Leadership and Innovative Employee Performance**

Ethical leadership can be defined as the manifestation of normatively appropriate behavior through personal actions and interpersonal relationships, and the promotion of such behavior to followers through two-way communication, reinforcement, and decision-making (Ullah et al., 2021). The leaders who tend an ethical leadership style are anticipated to create an environment that improves the attitudes and behavior of their followers (Asif et al., 2019). First, a moral person, a person who follows an ethical style has high moral values which are considered honesty, integrity, trust, motivation and justice (Lu & Guy, 2014). Second, moral leaders, ethical leaders who influence the attitudes of their subordinates through their leadership behavior (Michael and Trevino, 2006).

Yang (2014) stated that ethical leadership is appropriate behavior through personal actions and interpersonal relationships. Ethical leadership was first conceptualized by Brown et al. (2005) as a type of leadership that emphasizes honesty and integrity. The ethical leadership style focuses on a leader's ability to understand individuals and treat them as someone who must be protected. Human capital is two different (yet, interrelated) types of intangible resources, which follow diverse complementary

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ways to influence employees' innovative performance (Ullah et al., 2021). Employees are assets that leaders need to pay attention to so that they show good performance to the organization.

*Proposition 2: Ethical leadership will impact to innovative employee performance*

## Innovative Employee Performance and Organizational Performance

Wang & Wang (2016) stated that organizations norm and value about the knowledge, skills, experience and abilities of their employees, so that this becomes a source of employee innovation which will ultimately have an impact on overall of organizational performance. Wamba-Taguimdje et al. (2020) emphasized that human intelligence is an important factor in achieving organizational success in the form of continuously improving performance.

Lee et al. (2012) in their research revealed that organizational performance depends on sensitivity and concern in optimizing the potential of the organization. The strength of innovation produced by employees will have an impact on organizational performance.

*Proposition 3: Innovative employee performance and organizational performance*

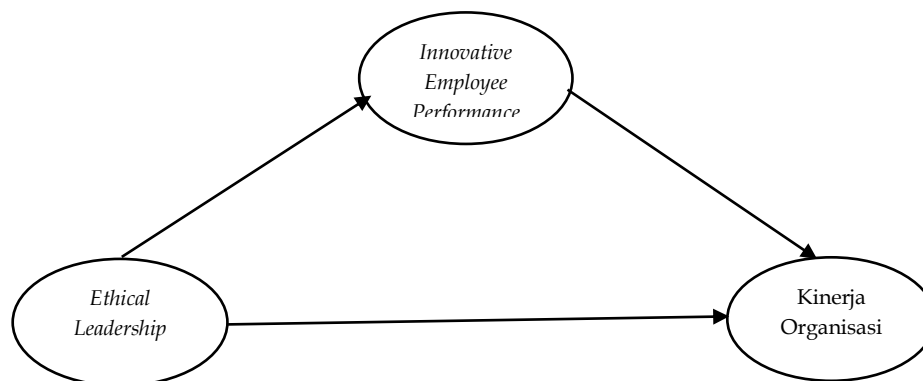
## Ethical Leadership and Organizational Performance: Innovative Employee Performance as Mediating Variable

Ethical leadership is defined as the conduct of appropriate behavior through personal actions and interpersonal relationships (Yang, 2014). Ethical leadership was first conceptualized by Brown et al. (2005) as a type of leadership that emphasizes honesty and integrity. Ethical leadership is seen as a leadership style that is needed today, because the ethical leadership style emphasizes ethics which have the principle of honesty and integrity of a leader.

Lu & Guy (2014) stated that ethical leadership refers to the quality of guidance and example provided by workers' superiors. Leaders provide guidance to their followers so that they will be more innovative in carrying out their work. Employees who are appreciated and guided by leaders will provide positive feedback to the organization. Email & Email (2016) & Ullah et al. (2021) revealed that ethical leadership is characterized by employees' communication skills with their followers, so that followers feel appreciated by their superiors. Good communication between leaders and subordinates will make subordinates more innovative in their work and will ultimately improve organizational performance.

*Proposition 4: Ethical leadership and organizational performance: innovative employee performance as mediating variable*

A framework for thinking is a chart prepared on the basis of a combination of theory, facts, observations and literature review which will later be used as a guideline in research. The thinking framework explains the relationship between the variables studied.



**Figure 1. Conceptual Framework**

## III. DISCUSSION

Business performance is a multidimensional concept, where financial and non-financial dimensions are two factors that need to be considered (Christen et al., 2006). Entrepreneurial-oriented businesses can discover and exploit new market opportunities (Keh et al., 2007). Other studies have used various financial measures such as cash flow, return on assets, and return on equity to assess business performance. Several studies suggest a combination of financial and non-financial dimensions to obtain a more comprehensive evaluation of business performance. Non-financial indicators include perceived market share, perceived sales growth, customer satisfaction, brand loyalty and equity (Slater and Narver, 1995; Lumpkin and Dess, 1996).

Employee innovative performance is an indispensable innovative ability for distinct competitive advantage and business success. Existing research and literature have advocated that business employees play a key role in generating and promoting innovation activities, as they offer a wide range of networks, knowledge, and experience. Although there is some disagreement about how innovative performance is defined, through consensus in the text, it can be defined as a new concept of sustainable

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products, which is incorporated into the process (Hunter and Cushenbery, 2011). It consists of three basic stages, all of which are dynamic and iterative (Janssen, 2003). These stages are: (1) Idea generation (2) Idea promotion (3) Idea implementation. A worker can also appreciate the efforts made by the company in the form of employee innovative performance (Ullah et al., 2021). This means that employees who have positive performance within the organization will have an impact on organizational performance. It can be interpreted that organizational performance is the result of the innovative performance of employees in the organization.

Studies on ethical leadership come with qualitative insights to find out its facets and characteristics; such as justice, trust, caring behavior and honesty (Imran et al., 2023). Ethical leadership has characteristics that emphasize the attitude of a leader which is demonstrated by attitudes of justice, professionalism and integrity. Leaders who have integrity will be assessed as leaders who have a strong influence on their subordinates so that their subordinates feel cared for and appreciated by their leaders.

In the idea generation phase, a business leader needs to support a safe atmosphere for employees to offer new concepts and new thinking and offer employees the resources to do so efficiently (Huang et al., 2016; Hunter and Cushenbery, 2011). Additionally, providing an environment for idea generation also requires business managers to ensure that the idea generation stage does not go beyond the process of idea promotion, evaluation and idea implementation. At this stage, ethical managers should support some ideas, while ignoring other ideas and putting the affirmed ideas into production (Hunter and Cushenbery, 2011). Instead of encouraging idea generation, business leaders should move efforts from the generation of new ideas toward refining applicable ideas for progress toward goals and ultimately implementation. On the other hand, the impact of negative emotions will make employees withdraw from the organization and can reduce the level of trust in the organization (Kiefer, 2005).

Imran et al. (2023) state that ethical leadership refers to a leadership style that can be defined as "demonstration of normatively appropriate behavior through personal actions and interpersonal relationships through two-way communication, reinforcement, and decision making. Employees are given full attention through communication and interaction Good relations between leaders and subordinates will make subordinates feel respected and not pressured to be in the organization, so that employees will show good performance and will also be more innovative.

### **IV. CONCLUSION AND IMPLICATION**

Based on the results of the discussion, it can be concluded that ethical leadership has a significant impact on increasing employee innovative performance. Thus, innovative employees will have an impact on overall organizational performance. This means that ethical leadership has an indirect role in improving organizational performance through employee innovative performance.

The practical implication is that organizations need ethical leaders because managing human resources requires leaders who have ethical thoughts and attitudes. Ethical leaders will have an impact on organizational performance and the future sustainability of the organization.

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