

Widyani, Anak Agung Dwi; Landra, Nengah; Sudja, Nengah; Ximenes, Mateus; Sarmawa, I Wayan Gde

Article

The role of ethical behavior and entrepreneurial leadership to improve organizational performance

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*Corresponding author: Anak Agung Dwi Widyani, Management Science, Faculty of Economics and Business, Mahasaraswati University, Denpasar, Bali,-Indonesia.
E-mail: dwiwidyani11973@gmail.com

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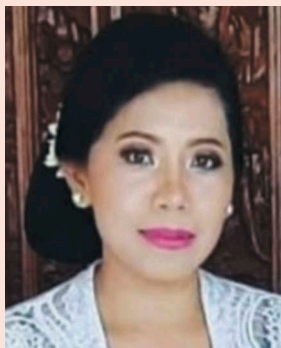
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MANAGEMENT | RESEARCH ARTICLE

The role of ethical behavior and entrepreneurial leadership to improve organizational performance

Anak Agung Dwi Widyani^{1*}, Nengah Landra¹, Nengah Sudja¹, Mateus Ximenes² and I Wayan Gde Sarmawa³

Abstract: This study aims to examine the role of ethical behavior and entrepreneurial leadership in improving organizational performance. This research was conducted at the management of the Lembaga Perkreditan Desa (LPD) in Bali. Based on 2016 data, the number of LPDs in Bali was 1433 units, but 177 units were not operating, so 1256 units spread out in 9 districts/cities. Sampling is based on Slovin formula with 9% precision, so the number of LPDs sampled is 34 units. The determination of LPD samples in each district/city was carried out by stratified proportional random sampling. The research respondents were LPD administrators consisting of heads, secretaries, and treasurers in each LPD sample, so the number of respondents was 102 people. Data retrieval is done through interviews with respondents based on the prepared questionnaire. Furthermore, data processing is carried out with the SmartPLS 3.0 program. The results of the study found that



Anak Agung Dwi Widyani

ABOUT THE AUTHORS

Anak Agung Dwi Widyani is an associate professor of Management Science at the Faculty of Economics and Business Mahasaraswati University, Denpasar (Bali-Indonesia).

Nengah Landra is an associate professor of Management Science at the Faculty of Economics and Business Mahasaraswati University, Denpasar (Bali-Indonesia).

Nengah Sudja is an associate professor in the faculty of economics at the Mahasaraswati University of Economics and Business-Denpasar (Bali-Indonesia). Much research has been carried out relating to human resource management and Micro, Small and Medium Enterprises (MSMEs)

Mateus Ximenes is a senior lecturer at the East Timor Institute of Business (IOB). Currently completing doctoral education (S3) in the Management Science Doctoral Program, Faculty of Economics and Business, Udayana University, Denpasar (Bali-Indonesia, with a concentration in human resource management).

I Wayan Gde Sarmawa, is an associate professor of Economic and Business, Warmadewa University, Denpasar, Bali-Indonesia. The results of research carried out relating to human resource management in small and medium businesses.

PUBLIC INTEREST STATEMENT

A company leader must have ethics in managing the company. Unethical leaders sometimes act arrogantly in achieving company goals. This can have a negative impact on the company in the long run. Therefore, the leader must have an entrepreneurial spirit, must also have good entrepreneurial ethics. Therefore, in order to improve organizational performance well supported, it is necessary to have a leader who has entrepreneurial obligations, as well as ethics.

ethical behavior is part of entrepreneurial leadership behavior. Ethical behavior can significantly improve LPD performance. Integrating ethical behavior with entrepreneurial leadership is significantly able to improve organizational performance (LPD), so ethical entrepreneurial leadership is very important in the management of the organization.

Subjects: Leadership; Entrepreneurship and Small Business Management; Human Resource Management

Keywords: ethical behavior; entrepreneurial leadership; ethical entrepreneurial leadership; organizational performance

1. Introduction

Lembaga Perkreditan Desa (hereinafter referred to as LPD) are institutions that carry out financial functions based on traditional ties in Bali. This institution plays a role in encouraging the economy of rural communities and supporting social, cultural, customary and religious life in the village. The growth and development of the role of the LPD as an intermediary institution, namely as a collector and distributor of public funds has increased. The increase occurred especially in assets, savings and deposits, and credit services. Graphically, this increase during the period of 2011 to 2016. Total assets increased from 1.7 trillion in 2011 to 15.5 trillion in 2016. Savings and time deposits increased from 7.2 trillion in 2011 to 12,9 trillion in 2016. Loans also increased from 6 trillion in 2011 to 12.1 trillion in 2016.

However, based on the LPD's 2016 accountability report, the rate of repayment (non-performing loans/NPL) is very high reaching an average of above 7%, in terms of according to banking regulations, the safe limit of the NPL ratio is 5%. This means that increasing public trust is not in line with the LPD's financial performance.

Interviews with a number of LPD administrators revealed that a number of deviations were made by the LPD authorities in granting credit to the public, such as the disbursement of credit to people who were not procedurally eligible for the credit. Procedurally, people who deserve credit are based on 5-C criteria (character, capacity, capital, collateral, condition) and 7-P (personality, party, purpose, prospect, payment, profitability, and protection) (Anggriawan et al., 2017; Sukma et al., 2015). Ignoring these principles by LPD administrators is one of the causes of the high NPL ratio for LPDs. This is one form of ethical neglect from an administrator in managing the LPD.

According to Kuratko (2007), the success of a leader, besides having an entrepreneurial spirit, must also behave ethically. Ethics becomes important when leaders make decisions related to business continuity. Therefore the relevance of business principles and ethics in leadership is very important in relation to organizational performance. Udo et al. (2017) states that entrepreneur leadership is leadership that promotes a strong organizational culture, especially a strong ethical culture.

Ethical organization management can increase public trust in the organization. In addition, managing organizations that are ethically able to maintain the sustainability of the organization, and perform better Hijal-Moghrabi et al. (2017) states that organizational principles that apply ethical principles affect organizational performance. Ethical organization management will reduce the resolution of complaint (Ebitu & Beredugo, 2015). Kehinde (2010); Khademfar and Amiri (2013); Agboola and Epetimehin (2015), Madanchian et al. (2016), and Khan et al. (2018) also found that organizational management was ethically able to improve organizational performance. Based on this description, the leadership that plays an important role in management, eliminating the ability of entrepreneurs. However, some of this research does not agree on the effect of leadership on organizational performance (Kim & Thapa, 2018; Rantelangi et al., 2017).

Based on this study, it is important to examine entrepreneurial leadership that is ethical in organizational performance. Ethical entrepreneurial leadership is a novelty in this study because at the moment a number of studies only focus on leadership style, entrepreneurial leadership, and ethical leadership.

2. Theory, previous research, research hypothesis

2.1. Entrepreneurial leadership

Entrepreneurial leadership is one of the leadership styles to anticipate uncertainty in the business environment Jagdale and Shankar (2014), Harrison et al. (2018), and Paudel (2019). According to Kuratko (2007), entrepreneurial leadership is the ability of leaders to establish, apply vision and maintain flexibility, think strategically, and work with others to make changes to create a better future for the company. Entrepreneurship leadership is suitable to be applied to various types of businesses. According to Sajjadi et al. (2014), entrepreneurial leadership is a leadership style that is able to delegate, build responsible behavior of employees, make and determine decisions, and work freely. Sajjadi et al. (2014) explaining leaders with skills and characteristics of entrepreneurship is the main concept for an entrepreneurial leadership. The mindset about entrepreneurial leadership will be achieved through the development of strategic resource management. Entrepreneurial thinking and the ability to manage strategic resources will be able to increase creativity and innovation which in turn will have a positive impact on organizational performance.

In a number of references, entrepreneurial leadership is described in a number of dimensions namely proactiveness, innovativeness, and risk-taking Jagdale & Shankar, 2014; Tarabishy & Solomon, 2005). Proactiveness is defined as the leadership's adaptability in responding to environmental changes that will affect the programs of the institution it leads. Power Innovativeness is the ability of leaders to implement creativity in order to solve problems and find opportunities that can provide inspiration for all employees in carrying out operational activities. Meanwhile, Risk Taking is defined as the courage of the leader to take a risk with mature calculations on the activities of the organization.

These dimensions are very closely related to the progress of a business. Companies that have the ability to adapt to the changes that occur, always try to present quality new products in accordance with market needs, and do not feel afraid of failures that might occur, this can encourage the company to grow better. Proactive behavior according to Crant (2000), is an important factor in organizational success. Leaders who have proactive behavior are more successful in facing dynamic environmental situations Thomas et al. (2010) The results of the study Oni (2012); (Ashad et al., 2013; Wambugu et al., 2015) found that employee proactive behavior significantly affected business performance. Ashad et al. (2013), Odumeru (2013), Mafini (2015), Tajudin et al. (2015), and Karakas et al. (2017); Soetantyo and Ardiyanti (2018) also found innovativeness had a significant effect on organizational performance Ashad et al. (2013) also found that risk-taking significantly affected organizational performance. Based on this, the research hypothesis is constructed as follows:

Hypothesis 1: Proactiveness has a significant positive effect on LPD performance

Hypothesis 2: Innovativeness has a significant positive effect on LPD performance

Hypothesis 3: risk-taking has a significant positive effect on LPD performance.

2.2. Ethical behavioral

Entrepreneurial behavior tends to justify any means to gain big profits, sometimes even less ethical. The unethical behavior of an entrepreneur leader will be the dark side of entrepreneurial behavior (the dark side of an entrepreneur). This can be avoided if the leader as a model of behavior in an organization that can be followed by subordinates, must avoid unethical behavior.

According to Kuratko (2007), the less ethical leaders tend to cause employees to be dishonest in carrying out their duties. Harrison et al. (2018) emphasizes, that the success of a leader in leading an organization is influenced by the ethical values that are believed.

According to Copeland (2014), leaders must have good morality ethics. This is important because the leader is a model that will be a role model/example in behaving by employees/followers. Leaders who have morality ethics both tend to be respected and each direction is followed by followers/employees. Therefore, organizations led by ethical leaders tend to have employees who have high integrity and loyalty.

A number of references suggest that leaders can be said to be ethical if they are caring, trustworthy, honest, fair and responsible (Sharif & Scandura, 2014). Whereas in research Ketut et al. (2015) ethical indicators consist of transparent behavior, attention to stakeholder interests, responsibility, loyalty, and compliance with applicable regulations. Leaders who have these behaviors are able to encourage employees to perform better, resulting in better business performance. This is evidenced by a number of research results that found that ethical leaders have a significant positive effect on organizational performance, namely Khademfar and Amiri (2013); Butt et al. (2016); Susmiato and Nurmayanti (2018). Based on this, the research hypothesis is built, namely:

Hypothesis 4: Ethical behavior has a significant positive effect on LPD performance

3. Research method

This research was conducted in 34 LPD taken in a proportional manner in each district/city based on the level of LPD health.

The sample is determined based on the Slovin formula with 9% precision so that the number of samples is 34 units. Determination of the number of samples in each category in each district/city is determined by stratified proportional random, then the results are shown as shown in Table 1. The respondents in each LPD sampled were taken purposively three people, namely chairman, secretary, and treasurer, so the number of respondents is 102 people. Data/information collection is done through direct interviews based on the prepared questionnaire. Data that has been collected then conducted an analysis with the SmartPLS 3.0 program.

4. Result and discussion

4.1. Validity and reliability

Validity and reliability in this study are based on the results of data processing with SmartPLS 3.0, the results are shown in Table 2. Table 2 shows that all indicators used as a measure of the research variables indicate the value of outer loading is greater than 0.5 and significant. This means the indicators are valid. Likewise, the Cronbach's alpha value indicates a value greater than 0.70, meaning that all research variables are reliable

4.2. Accuracy of the research model

The accuracy of the model in this study was carried out by analyzing the value of R-Square (R^2) and Goodness of Fit (GoF). Based on the results of data processing obtained R^2 value of 0.889, this means that 88.9% of organizational performance is influenced by the dimensions of entrepreneurial leadership and ethical behavior. According to Cohen's criteria (Cohen, 1988), this value indicates a strong influence. When viewed from the GoF value calculated based on the GoF formulation = $\sqrt{A.com \times A.R^2}$, the result is 0.7196. Based on the criteria (Akter et al., 2011), this value is classified as strong.

4.3. Hypothesis testing

Based on data processing with SmartPLS 3.0, the results of hypothesis testing are shown in Figure 1 and Table 3. Based on Table 3, it can be seen that the path proactiveness to organizational

Table 1. LPD population and samples in Bali Province by regency/city and LPD health

No	Regency/ City	Population				Total	Samples				Total	
		1	2	3	4		1	2	3	4		
1	Denpasar	33	1	1		35				1	1	
2	Badung	103	16	3		122					4	
3	Buleleng	114	13	12	3	142			1		3	
4	Jembrana	59	3			62					2	
5	Tabanan	200	27	15	1	243			1	1	7	
6	Gianyar	155	45	29	10	239			1	1	6	
7	Bangli	110	24	14		148			1		4	
8	Klungkung	85	13	9	1	108				1	3	
9	Karangasem	97	47	10	3	157			1		4	
	Total	956	189	93	18	1257			26	5	3	34

Source: Data processed, 2020 Remarks: 1 = healthy, 2 = healthy enough, 3 = less healthy, 4 = unhealthy

Table 2. Validity and reliability test results

Variables	Dimension	Indicators	Outer Loading	Cronbach's Alpha
Entrepreneurial Leadership	Proactiveness	Responsiveness	0.806	0.828
		New Products	0.659	
		New Services	0.589	
		New Administration System	0.905	
		Competition	0.871	
	Innovativeness	Product Development	0.700	0.805
		System Development	0.822	
		Past Services	0.715	
	Risk-Taking	Risk Analysis	0.739	0.720
		Dare to Act	0.879	
Exploitation of Opportunities		0.783		
Ethical Behavior	Transparency	0.812	0.833	
	Attention to Stakeholders	0.660		
	To Be Responsible	0.872		
	Faithfull	0.784		
	Discipline	0.828		
Organizational Performance	Productivity	0.817	0.744	
	Profitability	0.857		
	Growth	0.645		
	Stability	0.772		
	Image	0.785		

Source: Data processed, 2020

performance is 0.176 with a p-value of 0.000. This means that proactiveness has a significant positive effect on organizational performance. The value of the innovative path to organizational performance is 0.212 with a p-value of 0.002. This means that innovativeness has a significant positive effect on organizational performance.

Similarly, the path value of risk-taking to organizational performance is 0.501 with p-value 0,000, meaning that risk-taking has a significant positive effect on organizational performance. Based on the results of these tests, it means that the entrepreneurial leadership dimension consisting of proactiveness, innovativeness, and risk-taking has a significant positive effect on organizational performance. Based on these results, hypotheses 1,2 and 3 are accepted. Risk-taking gives the biggest contribution, then followed by innovativeness, and proactiveness. These results illustrate that the success of leaders in managing organizations is largely determined by the ability of leaders to predict and anticipate risk. Innovative and proactive behavior of a leader should always consider the risks that might occur and prepare solutions to those risks. A number of previous research results that support the results of this study, such as Oni (2012); (Ashad et al., 2013); (Wambugu et al., 2015) found that employee proactive behavior significantly affected business performance. Ashad et al. (2014); Odumeru (2013), Mafini (2015), and Tajudin et al. (2015); Djampagau et al. (2018); Soetantyo and Ardiyanti (2018) also found innovativeness had a significant effect on organizational performance. Ashad et al. (2013) also found that risk-taking significantly affected organizational performance.

Figure 1. Results of data processing with the SmartPLS 3.0 program.

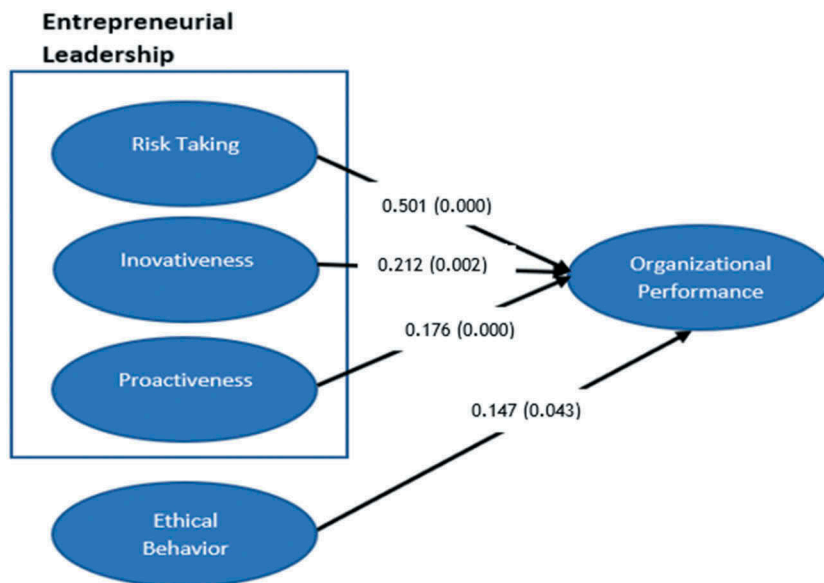


Table 3. Entrepreneurial leadership and ethical behavior dimension path coefficient towards organizational performance

Independent Variables		Dependent Variable	Path Coefficient	p-value	Remark
Entrepreneurial Leadership	Proactiveness	Organizational Performance	0.176	0.000	sig
	Innovativeness		0.212	0.002	sig
	Risk-Taking		0.501	0.000	sig
Ethical Behavior	0.147		0.043	sig	

Source: Data processed, 2020

Likewise, the Ethical behavior as shown in Table 3 also shows a significant positive effect on organizational performance. This is indicated by the value of the path of ethical behavior to organizational performance of 0.147 with p-value $0.043 < 0.05$. Based on these results, hypothesis 4 is also accepted. The ethical behavior of a leader supports the organization’s long-term success. This is related to increasingly good public trust in the organization. The results of this study are in line with a number of previous research findings, namely Khademfar and Amiri (2013); Butt et al. (2016); Chukwujioko and Akbin (2018).

5. Conclusion and recommendation

Referring to the results of the hypothesis test it can be concluded that the entrepreneurial leadership dimensions (proactiveness, innovativeness, and risk-taking) and ethical behavior show a significant positive effect on LPD performance in Bali Province. The meaning is, that increasing entrepreneurial behavior with more ethical behavior, is able to encourage improvement in LPD performance, especially in terms of productivity, profitability, growth, stability, and image of Village Credit Institutions in Bali. However, the results of this study still need to be examined more deeply, given the limitations of the sample, variables, and location of research that is only carried out in the area of Bali.

The results of this study found that the dimensions of entrepreneurial leadership consisting of proactiveness, innovativeness, and risk-taking and ethical behavior showed a significant positive effect on organizational performance. Risk-taking provides the largest contribution from other dimensions of entrepreneurial leadership, therefore it is important to improve the ability of leaders

to predict risks and prepare solutions to risks that might occur. Although ethical behavior contributes not too much, it is very important in maintaining public confidence in the organization. Therefore it needs to be maintained and improved. In addition to having an entrepreneurial leadership, organizational leaders also need to apply ethical behavior in order to continue to gain public trust in the long run.

6. Theoretical and managerial contribution

Generally in a number of literatures and researches the general leadership style, entrepreneurial leadership, and ethical leadership are presented. However, in this study collaborating the concepts of entrepreneurial leadership and ethical leadership in one unit into ethical entrepreneurial leadership. Empirically, this research found that ethical behavior contributes significantly to organizational performance. The combination of entrepreneurial leadership and ethical behavior (ethical entrepreneurial leadership) contributes significantly to organizational performance. Therefore, in terms of management, the application of ethical entrepreneurial leadership, in addition to being able to improve organizational performance, is expected to contribute to business sustainability in the longer term.

7. Limitation and future research

This study still examines separately between entrepreneurial leadership which consists of the dimensions of proactiveness, innovation, and risk-taking on the one hand, and ethics on the other. Integrating entrepreneurial dimensions of leadership with ethical behavior can form a new variable that still needs to be tested, namely Ethical Entrepreneurial Leadership (EEL) which consists of dimensions of proactiveness, innovativeness, risk-taking, and ethical behavior.

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Author details

Anak Agung Dwi Widyani¹

E-mail: dwiwidyani11973@gmail.com

Nengah Landra¹

E-mail: nengah_landra@gmail.com

Nengah Sudja¹

E-mail: nengahsudja_58@gmail.com

Mateus Ximenes²

E-mail: mateusximenes27@gmail.com

I Wayan Gde Sarmawa³

E-mail: wayangdesarmawa@gmail.com

¹ Faculty of Economics and Business, Mahasaraswati University in Denpasar, Denpasar, Bali, Indonesia.

² Department of Economics and Business, Institute of Business (IOB), Timor Leste.

³ Faculty of Economics and Business, Warmadewa University in Denpasar, Denpasar, Bali, Indonesia.

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