The Influence of Ethical Leadership on Employee Performance Through Employee Engagement

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Abstract: Bali, which is a world tourism destination, has experienced increases in the number of visits by tourists over the years. This development becomes a challenge for tourism business practitioners to be able to compete, specifically in terms of service. This research aims to review the relationship between ethical leadership and employee performance through a mediating variable, namely employee engagement. This research is conducted on Badung Regency, as the area with the largest number of non-starred hotels in Bali, with a total population of 477 hotels and the sample, which consists of non-starred hotel employees, totals up to 120 people. The data is analyzed using the Partial Least Square and the Structural Equation Model (PLS-SEM). Results of this research have shown that the relationship between ethical leadership and employee performance is positive but not significant, thus the role of employee engagement as a full mediator is needed in the relationship between ethical leadership and employee performance.

Keywords: Ethical leadership, employee engagement, employee performance

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I. INTRODUCTION

The increasingly rapid and competitive development in the tourism industry has been greatly influenced by the world economic trend which has been focused largely on the service market (WTTC, 2013). Development in tourism has had positive impacts on various fields, among others are the increase in employment and income of the people (Evita et al., 2012). This is also experienced by Indonesia, in which the tourism sector contributed to the National Gross Domestic Product (GDP) at an amount of 95,45% and 124,99% from the targeted level of labor absorption (Ministry of Tourism Performance Report, 2015).Bali, as a world tourism destination, has greatly felt the increase in number of tourist visits over the years. Based on data from BPS (Statics Indonesia) of Bali Province in 2015, it is stated that the number of tourists who visited Bali has increased from 3.278.598 visitors to 3.766.638 visitors in 2014. This condition is supported by the development in the numbers of non-starred hotels which has almost reached eight times the number of starred hotels. According to Warpani (2007), the hotel sector is one of the sectors that support tourism and has an important role as a service to make tourism activities become more convenient, comfortable, and pleasurable.This growth becomes a challenge for tourism business practitioners to compete specifically in terms of service. Yoon & Suh (2003) assessed that quality of service to customers reflects the performance of employees in the hotel industry. Among the indicators of hotel employee performance is the service towards customers. This is supported by Chong et al. (2013) who stated that the role of employees who are competent and are able to prioritize the organization's interest is an important requirement in providing quality service to customers. Hence, the competitiveness of a hotel can be seen from the human resources, specifically the achievement of employees in performing their tasks and jobs (Evans & Lindsay, 2011).Many factors can affect employee performance. According to Tanner et al. (2010), the ability of leaders to influence the attitude and behavior of underlings is important, as this can prompt them to have better performance. In the condition nowadays, leadership that can show and promote ethic codes in line with the social norms to subordinates is very important (Brown et al., 2005). This kind of leadership is known as ethical leadership, which was introduced by Pikket in 2001. Fulmer (2005) supports the role of ethical leadership by stating that leaders must become an important source of ethical

guide for the employees and at the same time, must be responsible for the moral development of an organization.

Several empirical studies related to the influence of ethical leadership on employee performance has been conducted, among others are the research by Resick et al., 2006; Walumbwa et al., 2009; Zehir & Erdogan, 2011; Sabir et al., 2012. The role of ethical leadership which is able to overcome the challenge in increasing employee performance is conveyed in several studies, namely the research by Brown & Trevino, 2006; Dadhich & Bhal, 2008; Mayer et al., 2009; and Brown & Mitchell, 2010.Ekaningtias (2016) in her research, found that the results are contradictory. She found that in the government office of East Java ethical leadership does not positively influence employee performance. Thus, the relationship between ethical leadership and employee performance requires further research by adding in a mediating variable to reexamine the relationship between ethical leadership and employee performance. The variable examined as a mediating variable is employee engagement.Extent literatures have discussed about engagement and how to develop engaged labors, because it is expected that the increase in employee engagement results in high performance (Harter et al., 2002; Saks, 2006; Bakker & Bal, 2010; Chung & Angeline, 2010; Bakker et al., 2012). Some experts found that there is still a low degree of employee engagement in many countries, such as in the research by Gallup (2013) and Robertson & Birch (2010) which stated that only 13 percent of employees in the whole world are engaged in their job.Based on data from BPS of Bali Province in the year 2015, the non-starred hotels in Bali are mostly in Badung Regency, thus this research is focused on the areas of Badung Regency, Bali.

II. THEORETICAL STUDY

2.1 Ethical Leadership

Pickett (2001) started the initial phase in introducing the model of ethical leadership by examining the relationship between employee belief and observations on their subsequent behavior. Ethical behavior and strong character are important qualities which determines the credibility of a leader in giving meaningful influence (Piccolo et al., 2010). Moreno (2010) recorded that an ethical leader is a person who is consistent between words and actions. In this case, ethical leaders are able to influence their subordinates by consistent behaviors, the right action and moral, and act in conformity with their words.Each type of leader has their own value depending on their respective characteristics (Luthans & Avolio, 2003; Avolio & Gardner, 2005; Brown & Trevin 'o, 2006; and Walumbwa et al., 2008). The core characteristics which stands out from ethical leadership is the leadership that is shown to have moral considerations, moral management, and moral impressions (Brown & Trevin 'o, 2006; Walumbwa et al., 2008). Ethical leadership is mostly related to self actualization, moral relationship, moral perception, and dealing (Gardner et al., 2005; Walumbwa et al., 2008).Ethical leadership is defined as a demonstration of the right normative behavior through personal actions and interpersonal relationship, and to promote those behaviors to subordinates through two-way communications, strengthening, and decision making (Brown et al., 2005). In proposing the theory of ethical leadership, Brown et al. (2005) recommended ethical leadership behavior to play an important role in promoting employee attitude in every stage and behavior. Employees want to have leaders that are honest, credible, respected, and fair (Kouzes & Posner, 2007). Brown et al. (2005) defined ethical leadership as a normative demonstration of the right behavior through personal actions and interpersonal relationship, and to promote this to subordinates through two-way communications, strengthening, and decision making.

2.2 Employee Performance

Prasetya & Kato (2011) defined employee performance as the achievement which is the result of actions and skills of the employee shown in various situations. Employee performance refers to the level of task achievements which reflects how well employees fulfill the requirements of a job (Simamora, 2006). Employee performance is the result or a person's overall level of success over a certain period in performing their tasks, compared to various probabilities, such as work achievement standards, target or aim or criteria which has been determined beforehand and mutually agreed on (Rivai, 2005). Handoko (2006) explained that the definition of employee performance as the final measurement of an employee's achievement in performing their job.According to Pattanayak (2005), employee performance is the behavior resulted in tasks that can be observed and evaluated, in which employee performance is the contribution by an individual in achieving the goals of an organization. Employee performance is merely the result of action patterns in achieving the goals in accordance to some standards.

Employee performance is a real behavior shown by every person as the work achievement of employees in accordance to their role in the company (Rivai, 2005). In this context, Mitchell & Larson (2007) explained that employee performance shows the result of behaviors graded based on some criteria or work achievement standards. Colquitt (2009) defined employee performance as the value contributed by a series of employee behavior, may it be positive or negative, towards achieving the organizational goals.

2.3 Employee Engagement

Employee engagement is the eagerness of the members of an organization towards their job and express themselves physically, cognitively, and emotionally throughout their job (Kahn, 1990; and Albrecht, 2010). Researchers from Perrin's Global Workforce Study (2003) defined employee engagement as the willingness of employees and their ability to continuously contribute towards the success of the company. The feelings of attachment towards the organization is greatly influenced by various factors, namely emotional and rational factors related to the job and overall work experience. Robinson et al. (2004) defined employee engagement as the positive attitude of employees towards the organization which they work for as well as towards the values of the organization, hence in the concept of employee engagement, there is a two-way relationship between employee and the company. Robinson et al. (2004) stated that employee engagement is shown by some behaviors of employees: (1) positive behavior and pride towards the organization; (2) faith on the product/service of the organization; (3) perceptions that the organization makes it possible for employees to do their best; (4) the willingness to behave altruistically (help others) and become a good team player; (5) the willingness to perform beyond expectation. Employee engagement as the degree of people's enjoyment towards their job, have faith in what they work on, and feel the value of importance by performing their job (May et al., 2004). Shuck & Wollard (2010) defined engagement as the individual cognition of employees, emotional, and behavior of employees directed towards results expected by the organization. The next definition conveyed by Suan (2009) that employee engagement is a process in which organization increases commitment and contribution of employees to achieve superior business results. Employee engagement is the tendency of a person to express themselves cognitively, physically, and emotionally in performing a job (Wilson, 2004).

III. METHODOLOGY

This research is conducted on non-starred hotels in Badung Regency, Bali Province, with a total population of 477 hotels. To determine the amount of sample size in this research, the concept by Roscoe, 1975 (in Sekaran, 2006) is used, which states that the determination of sample size in a multivariate research, should have a size of 10 times or more than the number of variables in the research model. Based on this concept, the number of non-starred hotels as research target in Badung, Bali, is 30 hotels (10 x 3 variables). Subsequently, the sample taken is 4 employees from each of these targeted hotels, thus the total number of sample is 120 employees (30 hotels x 4 employees) To examine the variable of ethical leadership, the indicators used are fairness, power sharing, role clarification, people oriented behavior, integrity, ethical guidance, and concern for sustainability. To examine employee engagement, the indicators used are vigor, dedication, and absorption. While for employee performance, the indicators used are task performance, adaptive performance, and contextual performance. Data is analyzed by using descriptive analysis and inferential statistics, namely the Structural Equation Modeling-Partial Least Square (SEM-PLS).

IV. RESEARCH RESULT

This research examines 4 hypothesis, namely H1: Ethical leadership has an influence on employee engagement; H2: Ethical leadership has an influence on employee performance; H3: Employee engagement has an influence on employee performance; and H4: Ethical leadership influences employee performance through employee engagement. The test is conducted in three phases. These phases are: measurement model evaluation (outer model), structural model evaluation (inner model), and significance test. In this research, indicators that form the variables have a reflective characteristics, thus the measurement model evaluation can be done using discriminant validity and composite reliability. The calculation results of discriminant validity in this research is displayed in Table 1..

Table 1. Discriminant validity

	Employee Engagement	Employee Performance	Ethical Leadership
Employee Engagement	0,878		
Employee Performance	0,555	0,758	
Ethical Leadership	0,651	0,450	0,680

Based on Table 1, the calculation results of discriminant validity shows that the square root average of variance extracted (√ AVE) coefficient of each variable is greater than the correlation coefficient between variables in the model, hence it can be said that the indicators in each variable has a good discriminant validity. The √ AVE value of the employee engagement variable is 0,878. This is larger than the correlation coefficient between employee engagement and other variables with values of 0,555; 0,651. The √ AVE value of the employee performance variable is 0,758. This is larger than the correlation coefficient between employee performance and other variables with values of 0,555; 0,450. The √ AVE value of ethical leadership is 0,680

and this is greater than the correlation coefficients between the ethical leadership variable and other variables with values of 0,651; 0,450.Composite Reliability is the measurement of reliability between indicator blocks of each variable. The results of composite reliability is considered good if the value is greater than 0,70. Calculation results of composite reliability is displayed in Table 2.

Table 2 Calculation results of composite reliability

	Composite Reliability
Employee Engagement	0,910
Employee Performance	0,801
Ethical Leadership	0,852

Based on Table 2, the composite reliability calculation results shows that each variable has a composite reliability coefficient with a range between 0,801 – 0,910 (> 0,70). Hence, based on the composite reliability, the indicators that form the variables are reliable.Evaluation of validity and reliability of indicators which form the latent variables through discriminant validity and composite reliability shows that all indicators have fulfilled the criteria of the validity and reliability test, therefore each indicator has been proved to be valid and reliable.Structural model measurement (inner model) is conducted using 2 (two) approaches, namely using the R-Squared (R^2) and Q-Squared Predictive Relevance (Q^2). The calculation of Q^2 utilize the R^2 coefficient. Calculation results of R^2 is shown in Table 3

Table 3. R-Squared

	R-Squared
Employee Engagement	0,424
Employee Performance	0,321

Q Square Predictive Relevance (Q^2) is a measure of how well the observations resulted from the model are. Q Square Predictive Relevance (Q^2) has a range of values between 0 (zero) and 1 (one). The observation using the model is better the closer the value is to 1. The measurement model evaluation (inner model) using the Q Square Predictive Relevance (Q^2) is calculated with the formula as follows.

$$Q^2 = 1 - \{(1 - R^2 y_1)(1 - R^2 y_2)\}$$
$$Q^2 = 1 - \{(1 - 0,424)(1 - 0,321)\}$$
$$Q^2 = 1 - \{(0,576)(0,679)\}$$
$$Q^2 = 1 - 0,391$$
$$Q^2 = 0,609 \ (Q^2 \text{ predictive relevance is very good})$$

The Q-Squared Predictive Relevance (Q^2) test results have shown a value of 0,609 which means that the model results in a good observation, and 60,9% of the relationship between variables can be explained by this model, while the remaining 39,1% is explained by error factors or other factors that are not included in this research model.

Table 4. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Ethical Leadership -> Employee Engagement	0,651	0,658	0,040	16,191	0,000
Ethical Leadership -> Employee Performance	0,153	0,164	0,120	1,281	0,201
Employee Engagement -> Employee Performance	0,455	0,448	0,085	5,319	0,000

4.1). Influence of ethical leadership on employee engagement

Based on Table 4, the path coefficient shows a value of 0,651 with a T-statistics = 16,191 > 1,96. This means the role of ethical leadership has a significant influence on employee engagement. This also means that the test result is significant and shows that the better the ethical leadership, the higher the degree of employee engagement. This condition shows that this research is able to confirm the research conducted by Hartog & Belschak (2012). This research is also in line with the research conducted by Kacmar et al. (2011) which found that there is a positive and significant relationship between ethical leadership and employee engagement. This test result shows that the first hypothesis which states that ethical leadership has an influence on employee engagement is accepted.

4.2). The influence of ethical leadership on employee performance

In accordance with Table 4, it is shown that the role of ethical leadership has a positive but not significant influence on employee performance. The path coefficient shows a value of 0,153 with a T-statistics of 1,281 < 1,96 which means that the test result is not significant. This result indicates that as ethical leadership improves, there is an indirect influence which results in an increase in employee performance.This research is in line with the research by Ekaningtyas (2016) on the government office of East Java which found that ethical leadership does not positively influence employee performance. This research is unable to prove the studies by Walumbwa et al., 2009; Zehir & Erdogan, 2011; Sabir et al., 2012 which have shown that employee performance can be improved if they are lead by an ethical leader. The result of this test shows that the second hypothesis which states that ethical leadership has an influence on employee performance is rejected.

4.3). Influence of employee engagement on employee performance

The role of employee engagement on employee performance in accordance to Table 4, shows a positive and significant influence with a path coefficient of 0,455 and a T-statistics of 5,319 > 1,96. This means that the results of the test is significant. This test result shows that the higher the employee engagement, the higher their performance.This research is able to prove several studies that stated employee engagement can increase employee performance (Bakker & Bal, 2010; Chung & Angeline, 2010; and Bakker et al., 2012). This test result shows that the third hypothesis which states that employee engagement has influence on employee performance is accepted.

4.4). The influence of ethical leadership on employee performance through employee performance

Table 4 shows that the influence of ethical leadership on employee engagement is significant with a path coefficient of 0,651 (a). the influence of employee engagement on employee performance is significant with a path coefficient of 0,455 (b). The influence of ethical leadership on employee performance is not significant with a path coefficient of 0,153 (c). Hair et al. (2010;89) stated that if the direct influences of (a) and (b) are significant, but (c) is not significant, then the mediator is a perfect mediator (full mediation) of the relationship. This means that the influence of ethical leadership on employee performance can only be explained with the presence of the employee engagement variable. Results of this test can be interpreted as the better the ethical leadership, the higher the employee performance would be through the increase in employee engagement. Employee engagement fully mediates the influence of ethical leadership on employee performance. Previous studies also found that employee engagement is able to mediate the relationship between job performance and job resources (Chung & Angeline, 2010), the relationship between perceived support and in-role performance (Rubel & Kee, 2013), the relationship between high performance work practices and job performance (Garg & Sharma, 2015). Among these studies, there are some that have shown employee engagement is capable of becoming a mediating variable.

The statistic analysis results in this research can be used as a basis to accept hypothesis 4 which states that ethical leadership influences employee performance through employee engagement.

V. CONCLUSIONS

A good application of ethical leadership can increase employee engagement. This result shows that the implementation of fairness, power sharing, role clarification, people oriented behavior, integrity, ethical guidance, and concern for sustainability is able to increase vigor, dedication and absorption, resulting in a higher degree of employee engagement.Based on the findings of this research, applying ethical leadership has been proved to be unable to directly increase employee performance. This shows that a good implementation of fairness, power sharing, role clarification, people oriented behavior, integrity, ethical guidance, and concern for sustainability is not the direct determinant to increase task performance, adaptive performance, and contextual performance in employee's performance.Employee engagement can increase employee performance. This indicates that vigor, dedication and absorption of employees have high contributions on the increase in employee performance.

VI. LIMITATIONS

In this research, there are limitations as the sample taken are not representative (represent the population) in terms of the level and type of non-starred hotels (*melati* 1, *melati* 2, *melati* 3, resorts, villas, pavilions, etc.).The respondents in this research are not enough to reflect/ represent all units available in the non-starred hotels, the sample should involve all the units available in the non-starred hotels.

VII. RECOMENDATIONS

Related to the limitations of this research, the next researcher can use research sample from all non-starred hotel classifications throughout Bali by involving all the employee.Leaders of non-starred hotels must realize

that employee performance can be increased by conducting an approach which gives more attention to employees' conditions, be more considerate to the employees' personal needs, and to give more attention on the life development of employees so that employees are more bonded and attached to the company.Leaders of hotels are expected to be able to increase the performance of employees who collaborate, coordinate and communicate well, have the initiative to help solve problems, open to critics, always learn from mistakes, and always prioritize the interest and satisfaction of guests/ clients.

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