The Role of Ethical Leadership towards Employee Productivity of Medium Enterprises: An Indonesia Experience

Sudarmawan Samidi and Cut Sjahrifa

Sekolah Tinggi Manajemen Ipmi, Jakarta, Indonesia

Keywords: Ethical Leadership, Employee Productivity, Medium Enterprises, Business Ethics, Workplace.

Abstract: This study explores the role of ethical leadership and its impact on employee productivity of medium enterprises (MEs) in Jakarta, Indonesia. Ethical leadership (EL) is a behaviour conducted and decisions made by organizational leaders that are legal and align with moral standards and those that impose processes and structures that promote ethical conduct by followers. It's undoubtedly true that employee productivity is an important factor to the success of every firm. As proven by lots of companies that the successful one goes to those that give priority to productivity over revenues and profits of the company. This study uses personal interview with the selected leaders of MEs in Jakarta, Indonesia. The Corporate leaders argued that they believed ethical leadership is characterized by integrity, sincerity, honesty, trustworthiness, good communication skills, discipline, and fairness which contribute to increase employee productivity in the workplace. Ethical leadership could bring significant employee loyalty and satisfaction, trust and work engagement, and eliminate immoral behaviour. Furthermore, it could create sustainability of the enterprises themselves. In conclusion, applying ethical leadership is important and highly recommended to all the enterprises in their business practices.

1 INTRODUCTION

Nowadays, immorality in leadership has become one of the main concerns in managerial misconduct within organizations. In the study conducted by Wesley et al., (2011), it showed that the most significant ethical issues to organizations are bribery, corruption, and facilitation payments, whistle blowing/speaking up and discrimination, harassment or bullying. For instance, Texaco in 1996 made a $176 million settlement for racial discrimination; Mitsubishi Motor Corporation settled $34 million in 1998 after a government investigation of pervasive sexual harassment and Louisana – Pacific Corporation paid a fine of $37 million in 1998 for the customer and environmental fraud among other unethical practices.

Ethical leaders are thought to be receptive and open, possess traditional leadership traits such integrity, honesty, and trustworthiness. Ethical leadership includes transactional leader behaviours such as setting ethical standards and holding followers accountable for ethical conduct (Trevino et al., 2003). Hundreds of cases regarding unethical deeds in a workplace have a direct relation to the productivity of the employees of the related company.

The previous study has been the negative impact of supervisor's destructive personality to employee's behaviour and emotional stability (Schaubroeck et al., 2007). Brown and Mitchell (2010) also mentioned how unethical leadership can lead to ineffectiveness on organization functionality. The ineffectiveness includes the absence of employees and the decrease in productivity rate. Not only that, as leaders are role models to their followers, unethical leadership can also influence the employee in their way of thinking. In addition, Ünal et al., (2012) mentioned that the unethical practices in the company can shape the employees to also behave the same way. This can result in more employee theft and sabotage.

According to 1 Green, D. (2010), the insights of identifying a leader's unethical behaviour, includes harming others to make more profit, asking his subordinates to do unethical deeds for his benefit, being inconsiderate with the impact of the decision he made to the stakeholders, discriminating and lying to the employees, leading to bad behaviour, take advantage of others, taking personal credit for

group accomplishments, and not supporting his employee's growth. Such action is totally unhealthy for a company, as it will create a distraction to the employee's work, destroy the working culture and environment, resulting in employee turnover and encouraging theft within the company.

Due to this harmful effect which we believe can trigger the fall of a company, it is truly important to further give information on how and what kind of ethical leadership should be applied, instead of unethical leadership. Also, we should find out why ethical leadership should be applied in order to prevent the fall of a company. Therefore, this study aims to reveal the key factors of ethical leadership within the current leaders of Indonesian companies and prove the correlation between ethical leadership and employee's productivity. The study gives qualitative information on how and what kind of ethical leadership works in increasing the employee's productivity. The information is mostly earned based on the interview with six informants from various industries. The interview will provide useful insights on how ethical leadership can enhance the productivity of the employees.

The main objective of this study is to prove that ethical leadership is impactful towards increasing an employee's productivity in a workplace. So, the company will consider how important ethical leadership should be implemented in order to enhance employee's job performance as well. Not only that, this study will show the kinds of ethical leadership that should be applied regarding the employee's productivity. In addition, the study aims to encourage people especially the leaders who have a responsibility to stabilize employee performance.

2 LITERATURE REVIEW

2.1 The Concept of Ethical Leadership

Leadership was defined by Drucker, P. (1974) as lifting a person's vision to high sights, the raising of a person's performance to a higher standard, the building of a personality beyond its normal limitations. In another word, it is an act of motivating and leading employees to achieve the organizational goals at the same time monitoring and educating the subordinates in order for them to grow. Meanwhile, ethics comes from the Greek word *"ethos"* which means custom or character.

In the past, the main goal of leadership has been to increase production/productivity and profits. However, in the 21st Century, this view has begun to

slowly diminish as more organizational development and human resources experts assert that leaders also have the responsibility for ensuring standards of moral and ethical conduct. Good leadership then refers not only to competence but to ethics that transform organizations and people's lives. Therefore, ethical leadership is coming into a community among different people.

Ethical leadership is a leadership that is directed by respect for ethical values. It is related to concepts such as trust, honesty, justice, respecting others, encouraging initiative and willingness to serve. Ethical leaders are also defined to be people-oriented, and aware of how their decisions impact others. Therefore, the implementation of ethical leadership uses power and authority to serve for the greater good. Meaning, they create win-win solutions for employees and organization.

Further characteristics of ethical leaders include inspiring, stimulating, and other visionary behaviours that make up transformational leadership. Ethical leaders also coach a group of people in gaining a sense of personal and professional competence that allows them to excel while being more resilient, loyal, and profitable.

We look up at leaders to lead on ethics and take responsibility for either good or bad outcome. Leaders who lead ethically are role models for those people through communicating about the importance of the ethical standards. As described previously, ethical leadership has been generated to cause a host of positive outcomes.

Ethical leadership makes ethics clear and consistent through the common standard and model appropriate behaviour. In making ethical leadership, we require ethical leaders. If a leader is ethical, it indirectly affects the ethical practices that are carried out throughout organization and influence employees. Ethical leadership must be focused on how leaders leverage this power in the decisions they make, actions they engage in and ways they influence others. Leaders are responsible for influencing followers to perform actions, complete tasks, and behave in certain manners.

According to G. Yukl (2006), the criteria relevant for judging the ethical behaviour of a leader include individual values, conscious intentions, freedom of choice, stage of moral development, types of influence used, and use of ethical as well as unethical behaviour.

Table 1: The Criteria of Ethical Leadership and Unethical Leadership.

The Ethical Leadership	The Unethical Leadership
Humble	Arrogant and self-serving
Concerned for the greater good	Excessively promotes self-interest
Honest and straightforward	Practice deception
Fulfils commitments	Breaches agreements
Takes responsibility	Shifts blame to others
Shows respect for each individual	Diminish others' dignity
Encourages and develops others	Neglects follower's development
Serves others	Withholds support and help
Shows courage to stand up for what is right	Lack courage to confront unjust acts

Source: Modified from G. A. Yukl & Yukl, (2002)

Besides those characteristics of ethical leadership and unethical leadership, here are five values that are crucial for ethical leadership (Peale and Blanchard, 1996:

- Pride: Ethical leaders demonstrate healthy pride, not vanity, as the dividing line between them is thin due to strong ego tendency in human beings
- Patience: In the process of implementing strategies that enable an organization to reach its goals, a leader is faced with obstacles from the internal and external environment.
- Prudence: Prudence is a virtue that refers to exercising sound judgment in practical affairs. It is considered as the measure of moral virtues as it provides a model of ethically good actions.
- Persistence: It refers to leader's striving for goals and his continuing quest to take all the necessary steps to achieve them, even if they involve sacrifice and personal risk. Persistence lies in trying to overcome the "practice" of justifying unethical conducts when one feels overwhelmed by mounting pressures, because of a sense of duty to others.
- Perspective: It is understood as the capacity to perceive what is truly important in any given situation.

Not only that, ethical leadership must be applied from the top. Because it creates an environment in which lower-level ethical leaders can flourish, ethical leadership at the supervisory level has a huge impact on followers' attitudes and behaviour. Influence skills help leaders get colleagues on board for change of initiatives, access resources, guide teams, develop shared goals, reduce resistance, encourage teamwork beyond functional boundaries, win support from those with competing agendas, empower others and sell ideas to the boss.

When leaders harness the power of influence, they create a shared sense of responsibility, improve communications, encounter fewer problems with change-implementation, discover more innovation and creativity, experience less attrition and less resistance while gaining access to more information for better decision making (Hendricks and Payne, 2007; Waldman et al., 2004; Kurmet et al., 2010; Jaussi and Dionne, 2004; Kaufman, 2011; Dion, 2012; Perrin, 2012).

2.2 Employee Productivity

According to Mayer et al., (2009) and Walumbwa and Schaubroeck (2009), ethical leadership is also associated with more helpful behaviour from employees, probably because ethical leaders' model helpful behaviour. Ethical leadership also reduces unethical behaviour in followers (Mayer et al., 2009; Mayer et al., 2012). On the other hand, an employee's productivity is what measures an organization's performance and is often used to assess the efficiency of the workers. It is defined as the ability of an employee to utilize his resources in order to finish their assigned task in an efficient and effective way with a maximum satisfaction from both the employer and customer.

Productivity is evaluated through monitoring the output of an employee in a specific period of time compared with the average productivity score of the rest of employees that are doing a similar job. Employee's productivity is crucial in a company because the success of the company is deeply influenced by the productivity of its workforce.

Productivity is even believed to be more important than the company's profit and revenue. This is because the profit is related to the end outcome of a company, while productivity is more into the increase or decrease in efficiency and effectiveness of the company's business policies and processes. The more successful firm is usually the company which prioritizes productivity over the profit and revenue. By focusing on the productivity, a firm can increase and utilize its human resource capacities. This is why a productivity level of a company serves as a factor to measure the success or failure of the company.

Moral leaders who help employees to be more focused on the process of doing their task helps the employee to reduce some of the stress. Ethical leaders are described as more caring about employee' best interest and thus want to see them perform well and reach their potential (Brown et al., 2005). A leader must help employees internalize the

organization's underlying values. Moreover, in this case, an employee is attracted to ethical role models who care about them, treat fairly, and set the high ethical standard. A good leader should give impacts to the bottom line. CEOs whose employees gave them high marks for the character had an average return on assets of 9.35% over a two-year period. That's five times as much as what those with low character ratings had (Kiel, 2015).

In the social exchange theory, employees who are in a high-quality relationship with their leader tend to be more effective workers (Sparrowe and Lidden, 1997). As a result, the high-quality relationship can boost individual motivation for high job performance (Chen and Kanfer, 2006). Supporting those arguments, several prior individual and meta analytic studies reported positive relationship between leaders and employee' job performance (Bauer et al., 2006; Gerstner and Day, 1997; Walumba et al., 2009; Walumba et al., 2010; Wang et al., 2005). Meaning, applying standards of ethics through leadership can affect the employee's performances in terms of productivity and make assets grow more than before.

3 RESEARCH METHODOLOGY

The study uses qualitative method through personal interviews with six (6) professional leaders from medium enterprises (MEs) in Jakarta, Indonesia. The use of qualitative method in this study is done to obtain a detailed explanation from the leaders which practiced ethical leadership in their organizations that leads to their employees' higher productivity.

The use of qualitative method through personal interviews is appropriate for the exploratory nature of studies. Miles and Huberman (1994) argued that the qualitative method is appropriate to examine complex and difficult contexts of study because they can put the situations in question into the right perspective. In addition, Marshall and Rossman (1999) recommended the use of qualitative methods to enable researchers to ask more questions in order to explore the context of the study in greater detail.

Further, the qualitative method also encourages the researchers to analyse the complex relationship between ethical leadership and employee's productivity. By asking questions personally, the researchers will get vary of answers that are relevant to the interview questions. There are many techniques to compile data using the qualitative method, such as active or passive participation and observation, personal interview, content analysis on

various documents, and case study (Patton, 2002; Lee, 1999; Creswell, 1998).

This study obtained the results through personal interview that was taken by interviewing six (6) respondents coming from various leadership backgrounds. Moreover, the data will be observed by researchers and the results will be transformed into clear explanations.

4 FINDINGS AND DISCUSSIONS

This part presents the feedback from personal interviews with 6 managers of medium enterprises in Jakarta, Indonesia on the role of ethical leadership into employee productivity at their organizations.

Table 2 summarizes the profile of the informants. The informants were asked questions pertaining to the role of ethical leadership at their organizations and its impact on their employee productivity.

Table 2: Informants' Brief Profile.

Code	Position	Principal Activity
R1	Executive director	Business consulting
R2	Managing director	Manpower outsourcing
R3	Vice President	Corporate banking
R4	General manager	Construction
R5	Managing director	Entertainment
R6	General manager	Tourism

*R: Respondent

R1 pointed out that ethical leadership is a kind of a prototype of a leadership. The basic of leadership is integrity besides being professional. Giving a trust is also important in order to make employees explore their creativity and be responsible to the purpose that has been agreed to at the beginning of the year, which is to achieve the target that has been set.

R2 contended that ethics is about regulation and how people distinguish something good from evil. In a certain condition, a person cannot deny that offering something whenever someone visits a friend is a part of Indonesian culture that we call as a *silaturahmi*. However, another person might also relate the offering as bribery. If a person can create understanding to distinguish good from evil and still have the same perception about this person, then it will be ethical. There's no guideline to be ethical.

R3 believed that in leading a team according to the moral ethics, a leader needs to be focused on leading with moral, integrity, and honesty. R3

believed that if we can't show our moral behaviour, the other things that we did or contributed will be pointless. So, moral and integrity are the main factors to be an ethical leader. Another factor of ethical leadership is being open with subordinates. Next factor is discipline. If a leader is disciplined, it will directly impact to subordinates. It's also important for a leader to guide and educate the team about time management and productivity. In giving a task, a leader should also guide the member using 5W1H (who, what, where, when, why, how). Make sure they have understood the job description and the importance of discipline. Letting them explore means giving trust but at the same time building a good culture in a team and workplace.

R4 define ethics as every aspect that's not against the universal moral standard. Simply, when it is not something bad and is aligned with what people think is morally accepted, and then it is called ethical. R4 also emphasized that the things people need to remember in running an ethical leadership are that a leader works for the organization, not for himself, the boss, or the shareholders. In addition, R4 mentioned that ethics is important for a leader because it is something right to do. The main factor that he categorized as ethical leadership is being trustworthy.

R5 stated that to implement an ethical attitude through leadership, there are three factors supporting that implementation. Those are ethics, attitudes, and behaviour.

R6 chooses fairness, honesty, simplicity, and caring as the factors needed to remember in running an ethical leadership. All those factors are very substantial, but the most significant factor is fairness.

From the feedback of the six (6) leaders who are also our informants, it was proven that ethical leadership was essential to the employee's productivity. Table 3 summarizes the informants' feedback into key values that are the essential characters of ethical leadership, namely integrity, punctuality, communication, trustworthiness, honesty, good relationship, appreciation, and fairness.

Table 3: Summary of Informants' Feedback.

Code	Main Points	Key Values
R1	Productivity comes from a leader who acts as a parents, teacher and best friends and giving a guideline through each different role	Integrity
R2	Understanding is the primary factor that makes employees have the willingness to be productive in working a task.	Punctuality
R3	Being open and having a good relationship with subordinates are needed in order to get positive result as higher as expected.	Communication
R4	Once an employee starts trusting their leader, they will make more initiatives in doing their task.	Being trustworthy
R5	The good relationship gives a sense of belonging to the employee and appreciation motivates an employee to be more innovative and creative.	Honesty, good relationship, appreciation
R6	Fairness is giving the employee the same opportunity to express their ideas and making some progress. Evaluation and motivation are also crucial to improve employee's productivity.	Fairness

In other words, the application of ethical leadership into organizations that reinforce good human and organization governance for the sake of improving productivity in a company. The informants all believed that their ethical leadership directly relates to the productivity of their employees.

5 CONCLUSION

The study found that the most important aspects of ethical leadership are integrity, punctuality, communication, trustworthy, honesty, good relationship, appreciation, and fairness. Ethics is something right and are based on the universal moral standard. There is no measure of whether something is ethical or not. However, once something unethical was done, people will immediately notice it. Ethical leadership makes ethics clear and consistent through the common standard and appropriate behaviour. In making ethical leadership, we require ethical leaders. If a leader is ethical, it indirectly affects the ethical practices that are carried out throughout organization and influence employees.

The impact of ethical leadership into organizations is significantly important to increase the employee productivity and sustain the life of a company. The ethical leadership increases the employee's productivity, in which the employee becomes more creative, initiative, innovative, focused, determined, honest, discipline, and

punctual. With ethics applied to the company's leadership, this will create ethical behaviour as the company's culture. Hence, this will increase employee's satisfaction, trust and work engagement, lessen the probability of dishonesty within the company, and increase the productivity of the employee.

We emphasize for the next researchers that have a similar topic to deeply search about the importance of ethical leadership towards job performance itself. This study only explains about the productivity which means it is too narrow compared to job performance. Hence, regarding our findings, we suggest the next researcher explore the correlation between ethical leadership and job performance.

REFERENCES

Bauer, T. N., Erdogan, B., Liden, R. C., & Wayne, S. J., 2006. A longitudinal study of the moderating role of extraversion: Leader–member exchange, performance, and turnover during new executive development. *Journal of Applied Psychology, 91, 298–310.*

Brown, M. E. & Mitchell, M. S., 2010. Ethical and unethical leadership: Exploring new avenues for future research. *Business Ethics Quarterly, 20, 583–616.*

Brown, M. E., Trevino, L. K., & Harrison, D. A., 2005. Ethical leadership: A social learning perspective for construct development and testing. *Organizational Behavior and Human Decision Processes, 97, 117–134.*

Chen, G., & Kanfer, R., 2006. Toward a systems theory of motivated behavior in work teams. *Research in Organizational Behavior, 27, 223–267.*

Cresswell, J., 1998. *Qualitative Inquiry and Research Design: Choosing Among Five Traditions*, Thousand Oaks. CA: Sage.

Drucker, P., 1974. *Management: Tasks, Responsibilities, Practices,* Harper & Row: The University of Michigan.

Gerstner, C. R., & Day, D. V., 1997. Meta-analytic review of leader–member exchange theory: Correlates and construct issues. *Journal of Applied Psychology, 82, 827–844.*

Green, D., 2010. Spotting the Unethical Leader in 2010. Retrieved from http://ezinearticles.com/?Spotting-the-Unethical-Leader-in-2010- &id=3545565. 2

Kaufman, B., 2011. Leadership strategies: build our sphere of influence. *Business Strategy Series, Vol. 12 Issue: 6, pp.315-320.*

Kiel, F., 2015. Measuring the Return on Character. Harvard Business Review Press. Retrieved from https://hbr.org/2015/04/measuring-the-return-on-character

Mayer, D. M, Kuenzi, M., Greenbaum, R., Bardes, M., & Salvador, R., 2009. How low does ethical leadership flow? Test of a trickle-down model. *Organizational Behavior and Human Decision Processes*, 108, 1–13.

Mayer, D. M., Aquino, K., Greenbaum, R. S., & Kuenzi, M., 2012. Who displays ethical leadership and why does it matter? An examination of antecedents and consequences of ethical leadership. *Academy of Management Journal*, 55(1), 151-171.

Patton, M.Q., 2002. *Qualitative Research and Evaluation Methods*, Thousand Oaks. CA: Sage, 3rd edition.

Peale, N., Blanchard, K., 1996. *The Power of Ethical Management,* Vermilion. London.

Schaubroeck, J., Walumbwa, F., Ganster, D.C., & Kepes, S., 2007. Destructive leader traits and the neutralizing influence of an "enriched" job. *The Leadership Quarterly, 18, 236-251.*

Sparrowe, R. T., & Liden, R. C., 1997. Process and structure in leader–member exchange. *Academy of Management Review, 22, 522–552.*

Trevino, L.K., Brown, M. & Hartman, L.P., 2003. A "Qualitative Investigation of Perceived Executive Ethical Leadership: Perceptions from Inside and Outside the Executive Suite". *Human Relations, Vol.56, No.1, pp. 5- 37*

Ünal, A. F., Warren, D. E., Chen, Ch. C., 2012. The normative foundations of unethical supervision in organizations. *Journal of Business Ethics 107, 5–19.*

Walumbwa, F., Cropanzano, R., & Hartnell, C. A., 2009. Organizational justice, voluntary learning behavior, and job performance: A test of the mediating effects of identification and leader–member exchange. *Journal of Organizational Behavior, 30, 1103–1126.*

Walumbwa, F., Schaubroeck, J., 2009. Leader personality traits and employee voice behavior: Mediating roles of ethical leadership and work group psychological safety. *Journal of Applied Psychology, 94, 1275-1286.*

Walumbwa, F., Wang, P., Wang, H., Schaubroeck, J., & Avolio, B.J., 2010. Psychological processes linking authentic leadership to follower behaviors. *Leadership Quarterly, 21, 901-914.*

Wang, H., Law, K. S., Hackett, R. D., Wang, D., & Chen, Z. X., 2005. Leader–member exchange as a mediator of the relationship between transformational leadership and followers' performance and organizational citizenship behavior. *Academy of Management Journal, 48, 420–432.*

Wesley, S., Basran, S., Hayward A. & Harris D., 2011. Corporate Ethics Policies and Programmes: UK and Continental Europe Survey 2010. A Publication of the Institute of Business Ethics Retrieved from http//www.ibe.org.uk

Yukl, G. A., & Yukl, G., 2002. *Leadership in Organizations,* Prentice Hall Upper Saddle River. NJ.

Yukl, G., 2006. *Leadership in Organizations*, Pearson Prentice Hall Upper Saddle River, NJ. New Jersey, 6th edition.