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The 4th International Conference on Entrepreneurship

Literature Review on the Impact of Ethical Leadership on Employee Performance and Engagement

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ABSTRACT

The literature review in this study is to determine how ethical leadership will affect employee performance. Ethical leadership has an understanding that emphasizes ethics, morality, and the integrity of every action to be taken, both in terms of interactions with employees and in making decisions. Leaders who possess ethics, morality, and integrity will set an example of wise behavior that can serve as a foundation for building an organizational culture in accordance with good ethics and norms. This research will use the library method, which involves studying and analyzing information from books, scientific journals, and other scholarly works as supporting materials. From the reviewed journal, one will understand the role of ethical leadership that impacts employee performance and engagement. The results of this study will show that leadership prioritizing ethics will affect employee performance. This is because employees feel respected and valued by their superiors while working, which will increase their work productivity. This finding can also serve as a recommendation for organizations that want to improve employee performance by implementing ethical leadership.

Keywords: *Ethical Leadership*, *Employee Performance*, *Employee Engagement*

INTRODUCTION

Ethical leadership has become a very hot topic to revisit in human resource management, especially regarding its influence on employee performance and engagement. Ethical leadership is a style of leadership that focuses on integrity, transparency, and fair decision-making while considering the organization's benefits and employee welfare. (Israr & Yongqiang, 2017). According to a new study, ethical leadership has a direct impact on improving employee performance. Leaders who uphold integrity and honesty create a work environment that supports productivity. Studies show that employees who work under ethical leaders are more motivated to give their best because they feel valued and respected. (Bedi et al, 2016).

In recent years, ethical leadership has played an important role in building a strong organizational culture and supporting employee engagement. An example of research conducted by Demirtas and Akdogan (2015) shows that ethical leadership directly contributes to the increase in employee commitment, which will impact the overall organizational performance. In addition, ethical leadership also helps reduce opportunistic behavior in the workplace and improves operational efficiency. (Kalshoven et al, 2016)

Employee performance, employee engagement, and ethical leadership have a strong connection to explore how ethics-based and moral leadership can influence the quality of human resources within

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an organization. Ethical leaders not only enhance employee engagement and performance but can also create transparency and a sense of fairness through collaboration among employees. This literature review will evaluate the findings from various studies on ethical leadership that impact the improvement of employee performance and engagement, as well as the overall impact on the organization.

LITERATURE REVIEW

Employee Performance

The productivity of each human resource can be measured through employee performance. According to Adhari (2020), employee performance is the result produced by specific job functions or activities within a certain period, which reflects the quality and quantity of the worker. Each employee has different outcomes when performing tasks based on quality and quantity.

The differences in performance results can be influenced by several factors. According to Keith Davis in Surya Akbar (2018), an employee's performance can be influenced by several factors, as follows: (1) ability factors, (2) motivation factors, (3) organizational factors. Employee performance can run well if employees have the knowledge, skills, and competencies they possess in carrying out tasks, supported by a work environment, organizational structure, and leadership support to provide adequate facilities, so that employees have the motivation to achieve organizational goals. In the end, these three factors form an engagement among employees.

Employee Engagement

Employee engagement refers to the dedication, commitment, and enthusiasm towards work that creates emotional and professional bonds among employees. This attachment will form a work pattern that tends to be positive, creative, and lasts longer within the organization. According to Schaufeli in Farah Almas (2019), employee engagement is a mental condition where each individual must have a positive value related to their work, as well as possessing vigor, dedication, and absorption.

Ethical Leadership

The relationship between performance and employee engagement will be linked through ethical leadership. This is because ethical leadership plays an important role in driving the organization and impacts the improvement of performance and employee engagement. This role can be seen through ethical leaders who possess characteristics such as integrity, care, openness, honesty, altruism, trustworthiness, fairness, and collective motivation, which instill a sense of motivation in employees in making fair and ethical policy decisions. (Brown & Trevino, 2005).

RESEARCH METHOD

The research method used is a literature review that refers to the collection of secondary data from various academic sources. Academic sources, such as scientific journals, books, and relevant research articles. The analysis method used is the descriptive-analytical method. Descriptive-analytical is data collected from academic sources as literature that is integrated to understand the impact of ethical leadership on employee performance and engagement in the organization.

RESULTS AND DISCUSSION

Ethical Leadership Affects Employee Performance

The concept of performance refers to employees who have achieved the targets set by the organization's leaders, which is considered an achievement. Swasto in Sigit Priyo Sembodo (2020), argues that performance is the achievement demonstrated by employees. Employees achieve accomplishments based on the execution of tasks assigned according to the available time, experience, competence, and diligence. Organizations must have a standard to determine employee performance. One way to ensure satisfactory performance, an organization needs performance evaluations conducted continuously based on organizational standards. The performance appraisal system can be used through feedback, where each employee evaluates their colleagues. The function of this feedback is to help employees improve and enhance their performance (Rani, 2015). Not only the performance evaluations conducted among employees that affect performance, but also ethical leadership that can influence performance.

Ethical leadership fosters a relationship between employees and the organization in general, so that employees will have work motivation to perform the tasks and roles assigned by the leader by transmitting the effects of ethical leadership to performance-focused behavior (Gidion, 2022). This is in line with the research conducted by Engelbrecht (2017) that one of the factors influencing employee performance is ethical leadership, which will foster a commitment to work based on trust by making the right and fair decisions for all employees. In addition to improving performance in operational aspects, ethical leadership also encourages creativity and innovation among employees. An ethical leader will create an environment that is free for expressing new ideas or creativity without fear of negative consequences. According to Wang (2022), employees who work in an environment that values honesty and maintains ethics are more likely to be brave in taking risks and exploring innovative solutions.

Ethical leadership directly affects employee performance by creating a safe and comfortable work environment, where employees feel valued and cared for. Ethical leaders tend to demonstrate honesty, integrity, and responsibility in decision-making, which ultimately builds trust between leaders and employees. This trust encourages employees to commit more strongly to the organization and work more productively. A study by Brown, Treviño, and Harrison (2005) shows that ethical leadership is closely related to improved employee performance, where they are more motivated to contribute positively in a transparent and fair environment.

Ethical leadership not only enhances engagement and performance but also impacts employee retention. An ethical environment makes employees feel valued and involved, which can reduce their intention to leave the organization. Ng and Feldman (2015) note that employees who perceive their work environment as ethical are less likely to experience turnover, as they feel more emotionally attached and have strong relationships with their leaders and colleagues.

Ethical Leadership Affects Employee Engagement

Ethical leadership has a significant impact on employee engagement. This can be proven by research conducted by Bedi (2016) which states that employee engagement encompasses enthusiasm, dedication, and commitment of employees to their work influenced by ethical decisions. Based on this, ethical leadership can be defined as a leadership style that emphasizes moral actions, justice, integrity,

and social responsibility to enhance employee engagement. In the end, ethical leadership can create a fair and supportive environment, thereby strengthening employees' self-confidence and motivating them to become more engaged with the organization. This is supported by a study from Wang (2022) which shows that ethical leadership directly increases employee trust in management, a key component of engagement. This high level of trust fosters emotional openness among employees, enabling them to confidently provide feedback to leaders and innovate in their work, which aims to simplify tasks and enhance productivity.

The impact produced is not only an increase in productivity, but ethical leadership will also affect employee engagement, thereby reducing turnover rates and increasing retention. Ng and Feldman (2020) revealed that employees led by leaders who are integrity-driven, uphold ethics, and value employees have a lower intention to leave the organization. Organizations can implement collaboration, creativity, and active participation to achieve the goals envisioned in the company's vision and mission.

Ethical leadership also has an indirect effect on performance through increased employee engagement. Ethical leadership creates a climate of trust that motivates employees to become more engaged in their work. When employees feel that their work environment pays attention to ethical values, they are more likely to be emotionally and professionally engaged in the organization. This is supported by research from Wang, Xu, and Zhang (2022) which found that ethical leadership enhances employee engagement through a sense of trust in management.

CONCLUSION

Based on the data obtained through literature, it can be concluded that ethical leadership has a significant impact on employee performance and engagement. Leaders who adhere firmly to ethics, justice, and transparency create a supportive and inclusive work environment. This will impact the attitude of employees who work and will have an emotional closeness with the organization's leader. This closeness occurs because employees feel valued and respected, which leads to increased motivation and work productivity.

Ethical leadership also plays a role in developing creativity, ideas, and employee motivation, which makes employees loyal and have a strong commitment to the organization they work for. This will impact the reduction of employee turnover and increase retention, making the overall organizational system stronger. Thus, ethical leadership becomes a key element in building a strong, inclusive, collaborative, and productive organizational culture, as well as achieving the company's desired long-term goals through its vision and mission.

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