The effect of ethical leadership on good corporate governance and work effectiveness

Robertus M. B. Gunawan¹, Widodo Widodo²
¹Master of Hospital Management Department – Executive Education Center – Pelita Harapan University, Tangerang, Indonesia
²Department of Social Science Education, Universitas Indraprasta PGRI, Jakarta, Indonesia

Article Info
Article history:
Received May 12th, 2023
Revised May 28th, 2023
Accepted Jun 26th, 2023

Keyword:
Ethical leadership,
Good Corporate Governance,
Work effectiveness

ABSTRACT
Work effectiveness greatly determines organizational performance, so its existence needs serious attention. Therefore, this study aims to investigate the effect of ethical leadership on work effectiveness mediated by good corporate governance (GCG). The participants comprised 434 employees in Indonesia's consumer goods, finance, trade, services, and investment industry across Jakarta, West Java, and Banten. Data collection was carried out using a Likert scale questionnaire. Data analysis uses path analysis supported by descriptive and correlational analysis. The result indicated that ethical leadership directly affects GCG and work effectiveness, GCG directly affects work effectiveness, and ethical leadership indirectly affects work effectiveness mediated by GCG. The evidence confirms a new empirical model as a novelty regarding the effect of ethical leadership on employee work effectiveness mediated by GCG. This model can be used as material for exciting discussions among academics and researchers by considering several important issues relevant to this research results' limitations.

© 2023 The Authors. Published by IICET. This is an open access article under the CC BY-NC-SA license (https://creativecommons.org/licenses/by-nc-sa/4.0)

Corresponding Author:
Widodo Widodo,
Universitas Indraprasta PGRI
Email: widmag@gmail.com

Introduction
Work effectiveness greatly determines organizational performance (Alkaf et al., 2021). However, in reality, there are still many employees who need help to work effectively, including employees in companies in Indonesia, particularly in the consumer goods industry, finance, trade, services, and investment sectors. Effectiveness is the capability of producing a desired result or the ability to produce desired output (Mathis et al., 2017), or achieving various targets determined on time by using specific resources allocated to carry out certain activities (Alkaf et al., 2021), including the realization of achievement by planning, measuring the success of the policy, and controlling operational activities (Schermerhorn & Bachrach, 2020). Meanwhile, work effectiveness is the ability to choose the right goal in achieving a certain goal or results to emphasize effects or results without paying attention to the sacrifices that the results need to provide (Alkaf et al., 2021). Work effectiveness can measure through several indicators, among others, empowerment, efficacy, ability to develop, ability to collaborate, coordination, integration, obedience, validation, and reliability (Alkaf et al., 2021; Mathis et al., 2017; Meianto et al., 2022; Mustafa et al., 2017). Several previous studies have shown that work effectiveness is influenced by ethical leadership (Adeoye, 2021; Aubé et al., 2021; Theriou et al., 2020) and GCG (Kanya, 2021). However, other studies indicated inconsistent results. For example, Sari et al. (2022) study indicated that ethical leadership...
has no significant effect on effectiveness as an indicator of job performance. This condition produces a research gap that requires scientific clarification through research. Based on this urgency, this study aims to clarify it and find new things (novelty) with the GCG mediation mechanism.

**Ethical Leadership and Work Effectiveness**

Ethical leadership refers to the appearance of leaders with principles, beliefs, and values that reflect correct organizational behavior to inspire and stimulate employees to achieve organizational goals optimally (Al-Sharafi & Rajiani, 2013). Ethical leadership, with its normative implications, can encourage employee behavior that positively contributes to organizational outcomes (Adnan et al., 2020). In addition, ethical leadership also promotes critical guidance for employees to follow emerging moral cues voluntarily. Moreover, ethical leaders support and encourage the integration of moral principles, thereby leading to integrity, fairness, and employee empowerment. The positive consequence is strengthening employees' attributes, which can affect their cognition and satisfaction (Guo, 2022). Ethical leadership has several specific characteristics, including having faith, fairness, and trustworthiness, promoting moral behavior to subordinates, providing ethical guidance, clearly communicating ethical standards, and providing a sense of accountability for ethical and unethical behavior (Brown et al., 2005; Munandar, 2017). With these characteristics, ethical leaders encouraging and making their followers more meaningful at work (Den Hartog, 2015). It also inspire discretionary behavior, primarily organizational citizenship behavior (Fu et al., 2020). Moreover, ethical leadership affecting employees' motivation and innovation (Amirudin & Nugroho, 2022), creativity (Esguerra, 2022), innovative work behavior (Wen et al., 2021), and trust (Etuwole et al., 2022). Other studies prove that ethical leadership impacts followers' knowledge sharing (Saeed et al., 2022), employee well-being (Agarwal et al., 2022), job satisfaction (Guo, 2022), and job performance (Abdullah et al., 2022; Oniku et al., 2022). It indicates that ethical leadership is a key factor for employees and company. However, in this study, the focus is on the relationship between ethical leadership and work effectiveness. Based on a literature search, previous research focusing on the effect of ethical leadership on work effectiveness is limited and is even hard to find. Nevertheless, similar studies are relatively easy to find. For example, the research results by Juharni & Congge (2021) show that leadership significantly affect work effectiveness. Then, studies by (Harlofida, 2018) indicate that leadership style has an impact on increasing work effectiveness. In addition, Theriou et al. (2020) claim that ethical leadership influences leadership effectiveness. Furthermore, ethical leadership is also related to organizational effectiveness (Adeoye, 2021; İşik, 2020), business effectiveness (Paharia & Singh, 2018), and board effectiveness (Aubé et al., 2021). Accordingly, it can promote the first hypothesis (H):

\[ H_1: \text{Ethical leadership has a positive and significant direct effect on work effectiveness.} \]

**GCG and Work Effectiveness**

Corporate governance is a system of rules, practices, and processes specifically designed to direct and control a company. The orientation balances the interests of all company stakeholders, such as shareholders, investors, management, suppliers, customers, government, and society. GCG provides a framework for achieving company goals, covering almost all management areas, from action plans, internal controls, and performance measurement, to company disclosures (Mwangi, 2020). For Brigham & Daves (2018), GCG is a set of laws, rules, and procedures that affect company operations and decisions made by managers. It includes processes and structures implemented by the company to inform, direct, manage, and monitor the organization's activities to achieve its objectives (Hey, 2017). If the company applies GCG principles properly and with discipline, it can improve company performance and long-term economic value for investors and stakeholders. GCG is basically an effort to build trust, accountability, and transparency as well as maintain information disclosure that bridges the information gap for directors and stakeholders to help resolve agency problems and encourage increased company performance (Magbagbeola, 2015). Therefore, GCG can measure via five parameters: transparency, accountability, responsibility, independence, and fairness (Svard, 2017). A prior study indicated that board size as an indicator of GCG positively influences organizational performance (Khan et al., 2019), and it relates to banks' profitability and stability (Kafidipe et al., 2021). However, studies on the relationship between GCG and employee work effectiveness still need to be found. So far, a similar study was only carried out by (Kanya, 2021), which proves that GCG significantly affects production effectiveness. Hence, very urgent and exciting to investigate the effect of GCG on work effectiveness. Based on the urgency, it can formulate the second hypothesis:

\[ H_2: \text{GCG has a positive and significant direct effect on work effectiveness.} \]

**Ethical Leadership and GCG**

In addition to influencing work effectiveness, GCG is also influenced by ethical leadership. Scholars claims that ethical leadership significantly influence GCG (Chukwujioke, 2018; Mulyadi, 2021; Sutawikara et al., 2021). Besides, Sugianingrat (2021) also demonstrated that leadership is relates to GCG. It confirms that ethical leadership is an antecedent for GCG. That is, leadership that is oriented towards promoting and actualizing
ethical and moral values will tend to encourage the creation of transparency, accountability, responsibility, independence, and fairness in the company, thus enabling the company to prosper for all its stakeholders. Thus, it can following the third hypothesis:

\( H_3: \) Ethical leadership has a positive and significant direct effect on GCG.

**Mediating Role of GCG**

So far, no research has been found that specifically investigates the effect of ethical leadership on work effectiveness with GCG mediation. However, previous research results prove that ethical leadership influences GCG (Mulyadi, 2021), and GCG affects work effectiveness (Kanya, 2021). These two studies show that GCG can be positioned as a mediator variable whose function is to mediate the indirect relationship between ethical leadership and work effectiveness. This condition triggers further research to clarify and justify the GCG position scientifically. Based on the urgency, it can be hypothesized:

\( H_3: \) Ethical leadership has a positive and significant indirect effect on employee work effectiveness mediated by GCG.

**Methods**

**Participants**

The research participants as a sample consisted of 434 employees in the consumer goods industry, finance, trade, services, and investment across three provinces, namely Jakarta, West Java, and Banten. They were determined by accidental sampling based on their availability and willingness to fill out a complete questionnaire without receiving any compensation during the study (Widodo, 2019) by giving consent for the data provided for use as research data and scientific publications. The majority of them were gender female (53.69%), ages 20 – 25 years (55.76%), senior high school (50.23%), unmarried status (64.29%), job experience < 5 years (60.83%), and contract employment status have exact total (50%).

**Procedure and Materials**

This research uses a quantitative approach with a survey method. Using a Likert scale, a questionnaire was employed to collect data with five options: strongly disagree/never (score = 1), disagree/rarely (score = 2), neutral/sometimes (score = 3), agree/often (score = 4) and strongly agree/always (score =5). Questionnaire was constructed by researchers based on theoretical dimensions or indicators of the experts and designed in Google Forms and shared via the WhatsApp application. The ethical leadership indicators include having faith, fairness, trustworthiness, promoting moral behavior, providing ethical guidance, clearly communicating ethical standards, and providing a sense of accountability (Brown et al., 2005; Munandar, 2017). For GCG indicators: transparency, accountability, responsibility, independence, and fairness (Svárd, 2017). Finally, work effectiveness indicators: empowerment, efficacy, ability to develop, ability to collaborate, coordination, integration, validation, and reliability (Alkaf et al., 2021; Mathis et al., 2017; Meianto et al., 2022; Mustafa et al., 2017). Ethical leadership consists of 14 items, for example, “the leader encourages subordinates to work according to the divine values that are believed,” “leaders uphold the promises that have been made,” and “leaders continuously remind the importance of ethical standards at work.” It has a corrected item-total correlation coefficient (CI-TCC) = .388 to .666 and an alpha coefficient (AC) = .800. GCG consists of ten items, including “information regarding the actual condition of the company is easily accessible,” “employees are accountable for tasks openly,” and “employees adhere to the principles of prudence in carrying out their duties.” It has CI-TCC = .377 to .741, and AC = .765. Finally, the work effectiveness consists of nine items, for instance, “I make the most of organizational resources,” “I collaborate with co-workers intensively, and “I can calculate work completion accurately.” It has CI-TCC = .414 to .796, and AC = .846. All items have CI-TCC > .361, and all variables have AC = .70; therefore, it is valid and reliable as a research instrument (Widodo, 2019).

**Data Analysis**

The data analysis was conducted by path analysis supported by descriptive and correlational analysis. The descriptive analysis describes the condition of each research variable, while correlational analysis finds the relationship between variables. SPSS version 22 was performed descriptive and correlational analysis, while Lisrel version 8.80 for path analysis.

**Results and Discussion**

As summarized in Table 1, the descriptive analysis result shows that work effectiveness has a mean score of 4.19 and a standard deviation (SD) of 0.86. Further, the mean score of ethical leadership is 3.87, and SD = 1.14. Meanwhile, GCG’s mean score = 4.01 and SD = 1.02. Overall, the mean score for all variables is higher than SD’s score, indicating good data. The correlational analysis result indicated the correlation coefficient from

---

**Journal homepage**: https://jurnal.iicet.org/index.php/jppi
The effect of ethical leadership on good corporate governance and ... 905

lowest to highest are ethical leadership and GCG = 0.516, ethical leadership and work effectiveness = 0.529, and GCG and work effectiveness = 0.621. The relationship between GCG and work effectiveness is strongest than others.

<table>
<thead>
<tr>
<th>Table 1. Descriptive and Correlational Analysis Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variables</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>1. Ethical leadership</td>
</tr>
<tr>
<td>2. GCG</td>
</tr>
<tr>
<td>3. Work effectiveness</td>
</tr>
</tbody>
</table>

**p < .01

The path analysis results are presented in Table 2 and Figure 1. All hypotheses are supported (significant) at p < .01. In detail, ethical leadership has a positive and significant direct effect on GCG (γ=0.47) and work effectiveness (γ=0.31). It means that improving ethical leadership practices will encourage an increase in GCG and employee work effectiveness. Ethical leadership is proven to contribute more to GCG than work effectiveness. Meanwhile, GCG has a positive and significant direct effect on work effectiveness (β=0.37). With these results, ethical leadership indirectly has a positive and significant effect on work effectiveness mediated by GCG (β=0.17). It shows the vital role of GCG in mediating the impact of ethical leadership on work effectiveness.

<table>
<thead>
<tr>
<th>Table 2. Path Analysis Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis</td>
</tr>
<tr>
<td>H1: Ethical leadership and work effectiveness</td>
</tr>
<tr>
<td>H2: GCG and work effectiveness</td>
</tr>
<tr>
<td>H3: Ethical leadership and GCG</td>
</tr>
<tr>
<td>H4: Ethical leadership and work effectiveness mediated by GCG</td>
</tr>
</tbody>
</table>

**p < .01

In general, this study found that ethical leadership directly affects GCG and work effectiveness, GCG has a significant direct effect on work effectiveness, and ethical leadership has an indirect effect on work effectiveness mediated by GCG. These findings indicate specific new empirical findings the role of GCG in mediating the effect of ethical leadership on employee work effectiveness. Regarding the significant effect of ethical leadership on GCG, confirming the results of previous research conducted by, among others, Sutawikara et al. (2021) and (Mulyadi, 2021). It shows that ethical leadership is an essential determinant of GCG. Under such conditions, ethical leadership can assist in the realization of good corporate governance, thereby encouraging increased firm’s profitability, stability, and performance (Khan et al., 2019), which in turn can ensure the fulfillment of the interests of better corporate stakeholders.

Further, the significant influence of ethical leadership on work effectiveness, it specifically proves that there is a causal relationship between ethical leadership and employee work effectiveness. It is similar to prior studies.

Journal homepage: https://jurnal.iicet.org/index.php/jppi
by (Adeoye, 2021; Aubé et al., 2021; Işık, 2020; Juharni & Congge, 2021; Theriou et al., 2020). These findings conclusively show that a leader's excellent and intense ethical leadership practices can spur work effectiveness among employees. As a consequence, leaders need to intensely use and implement ethical leadership indicators in their total leadership practices, such as having faith, fairness, and trustworthiness, promoting moral behavior to subordinates, providing ethical guidance, clearly communicating ethical standards, and providing a sense of accountability for ethical and unethical behavior (Brown et al., 2005; Munandar, 2017).

In addition, this study also reveals that GCG has a significant effect on work effectiveness. It suggests that GCG is a crucial predictor of work effectiveness. Thus, if the company applies the principles of transparency, accountability, responsibility, independence, and fairness, it will trigger employee work effectiveness. This finding is in line with Kanya (2021) study, which proves that GCG affects production effectiveness. However, more than that, it also confirms the relatively recent specific findings that GCG is proven to have a significant influence on employee work effectiveness.

Finally, this study shows the significant role of GCG in mediating the effect of ethical leadership on employee work effectiveness. Apart from strengthening the findings of the direct effect of ethical leadership on GCG and GCG on employee work effectiveness and confirming previous studies, these findings also confirm a new empirical model regarding the effect of ethical leadership on employee work effectiveness through GCG. These findings show the vitality of GCG in mediating the influence of ethical leadership on employee work effectiveness so that efforts to increase employee work effectiveness through improving ethical leadership will be better if supported by a more intense, strict, and correct application of GCG principles.

This study found that ethical leadership influences employee work effectiveness, directly or indirectly mediated by GCG. Furthermore, it provides managerial consequences that work effectiveness can be increased through ethical leadership and GCG. Thus, company leaders at various levels need to apply ethical leadership and GCG principles in a better and more sustainable way to help improve employee work effectiveness. Efforts in this direction can be pursued by adopting the findings of this study, especially ethical leadership and GCG indicators which have been empirically proven to affect employee effectiveness. In addition, company leaders also need to issue accelerating policies that can specifically support improving ethical leadership practices and the application of GCG principles.

**Conclusion**

Work effectiveness greatly determines organizational performance, so its existence needs serious attention, for example, through an investigation into the influence of ethical leadership on employee work effectiveness mediated by GCG. This study found that ethical leadership directly affects GCG and work effectiveness, GCG directly affects work effectiveness, and ethical leadership indirectly affects work effectiveness mediated by GCG. The evidence confirms a new empirical model as a novelty regarding the effect of ethical leadership on employee work effectiveness mediated by GCG. It provides a scientific contribution to the field of management science, especially those related to leadership, human resource management, and organizational behavior. In addition, it can be used as input to improve employee work effectiveness through the perspective of ethical leadership with GCG mediation without ignoring some of the limitations of the research results that require improvement through further research. For example, this study uses only a single source (employees), so it will be comprehensive if other sources are added, such as leaders/managers. In addition, this study only uses relatively limited theoretical indicators that can still enrich. Finally, the research area is also limited to the consumer goods, finance, trade, services, and investment industries, which are still very likely to be expanded. Likewise, the research sample is also relatively limited, which is still possible to be enriched by expanding the location and industrial sectors.

**References**


The effect of ethical leadership on good corporate governance and ...


---

**Journal homepage**: https://jurnal.iicet.org/index.php/jppi


