THE EFFECT OF ETHICAL LEADERSHIP ON PERFORMANCE WITH GCG AS AN INTERVENING VARIABLE (STUDY ON FERTILIZER DISTRIBUTORS IN INDONESIA)

Achmad Tossin Sutawikara, Padjadjaran University
Sri Mulyani, Universitas Padjadjaran Bandung, Universitas Singaperbangsa Karawang
Yudi Azis, Padjadjaran University
Ida Farida, Padjadjaran University

ABSTRACT

Fertilizer distributors play a very important role in ensuring the productivity of the agricultural and plantation sectors. The accuracy of the highest retail price, guaranteed availability, and completeness of the type and amount of fertilizer by the distributor must get the attention of agricultural and plantation stakeholders. In carrying out its role, fertilizer distributors face various problems related to ethics and governance. This research used descriptive analysis and path analysis statistical method. The data was collected through questionnaires distributed to and returned from 208 fertilizer distributor in Indonesia as the respondents. The results show that ethical leadership has a significant effect on GCG and thus on performance. This study shows that ethical leadership also directly affects performance.

Keywords: Ethical Leadership, GCG, Performance, Fertilizer Distributor

INTRODUCTION

Research Background

GCG is a concept that refers to the process of achieving decision and their implementation that can be accounted for collectively (Mulyani et al., 2018). GCG orders the task assigning, the rights and obligation of the involved parties toward the company, including the shareholders, board of directors, managers, and non-shareholder stakeholder. Yet, the study by Al-ahdal, et al. (2020) finds that GCG elements such as transparency and revelation have negative insignificant impact on company performance. Stakeholder theory explains the interconnected between GCG and performance. Stakeholder theory states that the success of an organization can be valued from the organization ability in creating value-added to all involved parties. Besides, the companies which always strive to fulfill the expectancy of involved parties tend to create more impact on company performance (Donaldson & Preston, 2020). GCG is a mechanism that keeps transparent, accountable, responsible and fair production and distribution to all stakeholders that impact upon company performance. The GCG implementation is supported by ethical leadership are critical factors for the success of GCG in order to improve performance (Harrison & Wicks, 2013).

Trust, value and leaders’ acts are the corporate governance standard and ethical decision making (Banerji, 2014). Ethics in corporate governance refers to company policy in process related to daily operations of the company. The study conducted by Pilkien, Alonderien, Chmieliauskas, Saulius & Müller (2018) states that horizontal leadership power is closely related to governance in a job through trust and control. Chukwujioke (2018) states that there is
a positive relationship between ethical leadership, corporate governance and organizational performance. Even Wu, Huang & Gong (2020) states that ethical leadership and governance planning are important elements in developing artificial intelligence in China.

The importance of studies on the determinant elements becomes more crucial to be done in an object like fertilizer distributor. As one of the critical success factors in the agricultural production process, fertilizer distributor is of special concern in the government sector (Ibrada et al., 2020). BPK RI states that in its fertilizer distribution, there are some things that do not comply with the provisions. According to an auditor, irregularities are found during the distribution of subsidized fertilizer done by PT PSP as the producers until lines IV, which derail from regulation approved by the Ministry of Agriculture. The Ministry of Agriculture Andi Amran Sulaiman has once estimated the loss experienced by farmers due to a syndicate of illegal fertilizer producers and distributors with amount IDR720 billion from 2007 to April 2016 (BKP Legal Information Section, 2017).

Police officers who are also part of the Fertilizer Control Commission have also found irregularities in the distribution of fertilizers. Pidie Police investigators found that there were parties who controlled subsidized fertilizers even though they did not have a business license as a fertilizer distributor or retailer; and subsidized fertilizer retailers who have retailed the subsidized fertilizers at different designated locations (Zulkarnaen, 2019).

Based on the phenomena that have been described, to ensure that the company is doing well, the company must be able to create a system that can increase the efficiency and productivity of the company by eliminating any existing waste. In other words, management must be able to use strategies to maintain or improve its market position. One strategy is to use technology to get better performance. One strategy is to use technology to achieve better performance.

**Identification of Problem**

The identification of the problem in this study is: how big the impact of ethical leadership, towards distributors' performance through the application of GCG simultaneously and partially?

**LITERATURE REVIEW**

**Ethical Leadership**

From an evolutionary perspective, an ethical factor can be the key factor of successful leadership. In an organization, leadership is valued if the leadership functions are carried out based on ethical principles. Ethical leadership will create a more comfortable working environment and vertical-horizontal conflict can be avoided. This is because organizational actors are aware of the existence of guidelines in the form of ethical principles that limit their behavior and actions.

Brown, Treviño & Harrison (2005) define ethical leadership as the demonstration of proper normative behavior through personal acts and interpersonal relationship. The ethical leadership plants, motivates and equip the employees with a sense of responsibility. Ethical leadership practices open communication, clears with its responsibility and clear with expectation on all employees.

Ethical leadership includes the prevalent working environment where the employees feel more spirited in placing their efforts with motivation and commitment (Piccolo et al., cited in Ilyas & Ashaq, 2020). Ethical leadership is defined as principles, beliefs and values, to differentiate right and wrong, which reflects the roots of organizational attitude that form the basis of leader that affects the employees in achieving the organization's goal (Al-sharafi & Rajiani, 2013).
Good Corporate Governance (GCG)

Forum for Corporate Governance in Indonesia (FCGI) defines GCG as a set of regulations that control the relationship among shareholders, company managers, creditors, government, employees, as well as the internal and external parties related with rights and obligations; in other words, a system that controls the company. The purpose of GCG is to create an additional value for all important parties (stakeholders). GCG according to (Sutedi, 2011) is a process and structure used by the core of the corporate (stakeholders, commissioners, supervisors and directors) to elevate the success rate and the company accountability in long term aspect by preserving the stakeholders' interest following the regulations and ethical values. Article 1 Letter KEPMBN No. KEP-117/M-MBU/2002 date 31 July 2002 on the application of GCG on BUMN states that GCG is a process and structure used by the core of BUMN to elevate the success and the accountability by realizing the stakeholder values in long term aspect through preserving the other stakeholders' interest following the regulation and ethical values.

Performance

According to Keban (2008) performance is often defined as the appearance, demonstration or achievement that comes from the job performance or actual performance of the work performance or achievement to be achieved. Upper Echelon Theory in Saragih & Mulyani (2018) says organization performance and strategy can be seen as the reflection of the top management’s conduct. Performance is an important factor in organizational life. Performance is an organizational effort to produce something (Setyaningsih et al., 2020). Steers & Mowday (2004) state that organization performance as the level that shows how far the work implementation can be carried out in order to achieve the goal. Keban (2008) states that performance in an organization is defined as the degree of accomplishment or the level of accomplishment for the company's goal in a continuous cycle.

The Impact of Ethical Leadership towards GCG Implementation

The study conducted by (Khalid, 2014) which tested the relation between ethical leadership, corporate governance and public and private company governance in Pakistan found the positive and significant relationship between ethical leadership and corporate governance in public and private corporations in Pakistan. Chukwujioke (2018) conducted a study on the role of ethical leadership towards corporate governance, corporate social responsibility and organization performance in Nigeria. The study used the primary data taken from a survey on bank employees in Nigeria. Based on double linear regression analysis, the result shows that ethical behavior brings positive and significant impacts on corporate governance.

Ermongkonchai (2010) found that ethical leadership has a positive impact on developing corporate governance. The similar study was done by the company (Kwakye, Yusheng, Ayamba & Osei, 2018) who studied the ethical leadership on corporate governance in Ghana in which the result reveals the active role of ethical leadership on the success of corporate governance in Ghana. The different result found by (Zvavahera & Ndoda, 2014) which showed that ethical leadership has negative impact on GCG implementation.

The Impact of GCG Implementation on Distributor’s Performance

Wang (2014) conducted a study on the relation between corporate governance, management accounting and organization performance in corporate in Southeast Asia. The data gained through questionnaires. Based on the testing result with partial least square method, it is known that corporate governance has a positive and significant impact on organization performance. Besides, the result also reveals that management accounting mediates the relation
between corporate governance and organizational performance. In the context of education, Yudianto, et al., (2021) good university governance has positively and significantly influence on university performance in Indonesia. The Success of information system implementation has a positive effect on the quality of governance and a positive impact on the performance of university organization in West Java (Hayati et al., 2021).

The study done by (Adebayo et al., 2014) was about the relationship between corporate governance and performance on corporate listed in stock exchange in Nigeria. The result showed that corporate governance has a positive and significant impact on performance. Besides, the study was done by Kamau, et al., (2018) showed that corporate governance has a positive and significant impact on organizational financial institute performance in Kenya. However, the contradicting result is found by (Haufe, Muschter, Siegert & Böttcher, 2018) who found that corporate governance harms the performance.

**The Impact of Ethical Leadership on Performance**

Assaed, et al., (2016) states that ethical leadership plays an important role in developing the organization. This is because the leaders consider every plan and business decision, effectiveness and an on-time decision by taking into account the organizational leadership, in wide spectre and in crucial aspect during the business process. So, ethical leadership plays an active role in elevating the organization performance. Fettry in Muktiadjji, et al., (2020) reports a positive influence between business ethics commitment and the quality of financial statements.

Assaed, et al., (2016) studied ethical leadership on organization performance mediates by corporate social responsibilities. The study was done in the banking sector in Pakistan. Random sample technique was used to determine the sample in the study. Significant testing was done to show that ethical leadership has a positive and significant impact on organizational performance. Besides, corporate social responsibilities mediate the relation between ethical leadership and organizational performance. Similarly, an empirical study done by (Mohiuddin & Hossain, 2016) showed the close relationship between ethical leadership and organizational performance.

Based on the explanation above, the theoretical framework is drawn below.

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**FIGURE 1**

THE IMPACT OF INTERNAL AUDIT, ETHICAL LEADERSHIP AND AIS TOWARD GOOD CORPORATE GOVERNANCE AND ITS IMPACT ON FERTILIZER DISTRIBUTOR PERFORMANCE

**Hypothesis**

*Hypothesis 1*: Ethical leadership has a positive impact on GCG implementation.

*Hypothesis 2*: Ethical leadership has a positive impact on distributor performance.

*Hypothesis 3*: Ethical leadership has a positive impact on distributor performance through GCG implementation.
METHOD

Object of the Study

Objects in this study are internal audit, ethical leadership, AIS, GCG implementation and distributor performance.

Operationalization Research Variable

<table>
<thead>
<tr>
<th>Variable</th>
<th>Indicator(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical Leadership (Chukwujioke, 2018)</td>
<td>Fairness, Integrity, Ethical guidance, People oriented, power sharing, Role clarification, Concern for sustainability.</td>
</tr>
<tr>
<td>GCG Implementation - (Uyar, 2017)</td>
<td>Employees know the corporate plan, The goal of organization is clear, Business operations do not depend on a person, Rights for opinion during meeting, Diversity in internal audit member, Clear job description, rights and responsibilities, Every top management has their own success plan, Planning a good meeting agenda, Have a code of conduct, Standard retrieval system, Job description for every position, Have clear and complete meeting minutes, Fair remuneration policy within the corporate, Employees chosen based on objective criterion, Employees’ performances are rated fairly, Employees’ placement is based on job requirement, Performance rating is referred to standard and clear regulation.</td>
</tr>
<tr>
<td>Fertilizer distributor performance -(Wiklund, 1999) -(Stam &amp; Elfring, 2008)</td>
<td>Market share, Profit, Sales growth, Resolutions of agent complaints, Amount and types of fertilizer, Employees growth, Employees competence, Turn over employees</td>
</tr>
</tbody>
</table>

DATA ANALYSIS

After the model is developed theoretically, next the flowchart is arranged which purpose is to test the impact of free variables (independent/exogenous variables) towards the bound variables (dependent/endogenous variables) whether it is in partial or simultaneous impact.
RESULT AND DISCUSSION

Descriptive Analysis

From 208 questionnaires, categorization is done on respondents’ answer based on the score of the answer. The score categorization is done based on maximum and minimum score divided with the preferred number of categories. The respondents' answer for each statement items is categorized into 5 categories such as very good, good, enough, not good, and bad with the calculation below.

- Maximum score index=Highest scale=5
- Minimum score index=Lowest scale=1
- Interval range=[maximum score - minimum score] : 5
  = (5 – 1) : 5
  = 0.8

Below is the calculation result of average scores, deviation standards and relative frequency from each variable:

<table>
<thead>
<tr>
<th>No</th>
<th>Variable</th>
<th>Real score</th>
<th>Analysis of Research Score Variables</th>
<th>Avg score</th>
<th>% Realization</th>
<th>% GAP</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ethical leadership</td>
<td>4913</td>
<td>6240</td>
<td>3.94</td>
<td>78.73</td>
<td>21.27</td>
<td>Good</td>
</tr>
<tr>
<td>2</td>
<td>GCG implementation</td>
<td>12765</td>
<td>3536</td>
<td>3.61</td>
<td>72.2</td>
<td>27.8</td>
<td>Good</td>
</tr>
<tr>
<td>3</td>
<td>Distributor performance</td>
<td>6684</td>
<td>9360</td>
<td>3.57</td>
<td>71.41</td>
<td>28.59</td>
<td>Good</td>
</tr>
</tbody>
</table>

Source: Result of data processing (2020)

Based on table 2, all variables have total score with average criteria is categorized as good.

Analysis of Path Coefficient

![FIGURE 2](CALCULATION RESULT PATH COEFFICIENT (RESULT OF DATA PROCESSING, 2020))

The Impact of Ethical Leadership on GCG

The result of the path coefficient significance test on structural model shows the result of hypothesis about ethical leadership has positive and significant impact toward GCG implementation. This is proved by score $t_{\text{count}}$ variable ethical leadership (4.81) is higher than $t_{\text{table}}$ (1.64). Due to the score of $t_{\text{count}}$ higher than $t_{\text{table}}$, the error rate is 5%. This means that GCG
can be elevated if ethical leadership is elevated.

The Impact of Using Ethical Leadership toward Distributor Performance

The result of the path coefficient significance test on structural model shows the result of hypothesis about ethical leadership has a positive and significant impact on distributor performance. It is proved by the score $t_{\text{count}}$ ethical leadership variable (1.90) higher than $t_{\text{table}}$ (1.64). Thus, the error rate is 5%. This means the more impact given by ethical leadership, the more elevated distributor performance will be.

The Impact of GCG Implementation on Distributor Performance

The result of the path coefficient significance test on structural model shows the result of hypothesis about the GCG implementation has positive and significant impact on distributor performance. It is proved by the score $t_{\text{count}}$ higher than $t_{\text{table}}$, thus, the error rate is 5%.

The Impact of Ethical Leadership on Distributor Performance through GCG Implementation

The result of the path coefficient significance test on structural model shows the result of hypothesis about ethical leadership has positive and significant on distributor performance through GCG implementation. The testing shows the direct and indirect impact. Direct impact of ethical leadership on distributor performance is lower than indirect impact ($0.12 < 0.2896$).

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Table 3
SUMMARY ON PATH COEFFICIENT ESTIMATION AND STATISTICAL TEST

<table>
<thead>
<tr>
<th>Alternative Hypothesis (Ha)</th>
<th>Path (Relations)</th>
<th>t count</th>
<th>Score</th>
<th>Impact</th>
<th>Hypothesis Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(≥1.64)</td>
<td>Direct</td>
<td>Indirect</td>
<td>Total</td>
</tr>
<tr>
<td>H1 KB  GCG</td>
<td>4.81</td>
<td>0.32</td>
<td>-</td>
<td>0.32</td>
<td>Accepted</td>
</tr>
<tr>
<td>H2 KB  KIN</td>
<td>1.90</td>
<td>0.12</td>
<td>-</td>
<td>0.12</td>
<td>Accepted</td>
</tr>
<tr>
<td>H3 GCG  KIN</td>
<td>8.56</td>
<td>0.53</td>
<td>-</td>
<td>0.53</td>
<td>Accepted</td>
</tr>
<tr>
<td>H4 KB  GCG  KIN</td>
<td>0.12</td>
<td>(0.32 x 0.53=0.1696)</td>
<td>0.2896</td>
<td>Accepted</td>
<td></td>
</tr>
</tbody>
</table>

Source: Result of data processing (2020)
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DISCUSSION

The result of hypotheses testing has been done by using a statistical approach. The discussion on those hypotheses can be seen below.

Hypothesis 1

Ethical leadership has a significant impact on GCG implementation. This means the way the distributor stakeholders in handling the collective action from an ethical point of view in the majority and the way to avoid the vandalism by ensuring the correct control in controlling power, authority, and responsibility have been done well. Ethical kindness of leaders has becomes an integrated part in GCG implementation. Leader distributors have become the role model and able to push the application of distributor management system more responsibly. This result supports the previous findings by Keselman (2012) who said ethical leadership has a role in GCG by helping in motivating, increasing work productivity, employees attitude, and giving the self-satisfaction for the employees themselves Khalid (2014) also found out the
positive and significant relationship between ethical leadership and corporate governance in public and private corporations in Pakistan. Further, Chukwujiok (2018) also confirmed the existence of empirical facts from ethical behaviour which has a positive impact on corporate governance.

**Hypothesis 2**

Ethical leadership from distributor has been able to lead and guide the member towards goal and purposes advantageous for the distributors, members, stakeholders, and people. The head of distributors possesses an ethical value such as honest, trustworthy, fair and attentive. The head also practice transparency and involve in open discussion, promote and appreciate the ethical values in his members. The result confirms Assaed, et al., (2016) who found that ethical leadership plays an important role in developing the organization. Along with these findings, the empirical study done by (Mohiuddin & Hossain, 2016) showed that ethical leadership is closely related to performance.

**Hypothesis 3**

Ethical leadership has a significant positive effect on the performance of fertilizer distributors through the implementation of GCG. The results of this study empirically confirm that the ethical leadership of fertilizer distribution through the application of GCG can be the determinant for distributor to achieve the goals and business targets. Distributor leaders who practice ethical behavior as honest, trustworthy, fair and caring people, with the support of governance, have implications for overall distributor performance.

**CONCLUSION AND RECOMMENDATIONS**

**Conclusion**

Based on the phenomena, formulation of the problem, hypothesis, and findings done to the distributors, it can be concluded that:

1) Ethical leadership has a significant impact on GCG implementation because ethical values practiced in the organization will ensure the GCG implementation in a better way. The way the distributor stakeholders handle the collective action from the ethical point of view in the majority and the way they avoid the vandalism by ensuring the correct control in controlling power, authority, and responsibility have been carried out ethically.

2) Ethical leadership has been able to lead and guide the members toward the goal and purposes that will be advantageous to the involved parties because the leader practices the ethical values, transparency, involves in open discussion, promote and appreciate the ethical values among members.

3) Ethical leadership has a significant positive effect on the performance of fertilizer distributors through the implementation of GCG. The results of this study confirm empirically that the ethical leadership of fertilizer distribution through the application of GCG can be the determinant for the fertilizer distributor to achieve its goals and business targets. Practicing ethical values with the support of GCC will have implications for overall distributor performance.

**Limitation of the study**

This study has yet to reveal all variables that impact GCG which affect distributor performance. It is hoped further study is conducted on other variables such as commitment from organization, culture organization, internal control and others so that the distributors’ role can be optimized in ensuring availability, accuracy, and price suitability in supporting the productivity of the national agricultural sector.
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