

The Role of Organizational Ethical Culture Moderating the Influence of Leadership Style and the Effectiveness of Internal Control System Implementation on Government Employee Performance

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ABSTRACT

This research aim to investigate the influence of leadership style and the effectiveness of the control system on the performance of government employees, while considering organizational ethical culture as a moderating variable. Quantitative approach, causal associative, path analysis model to assess variable relationships. The primary objective is to discern the direct and indirect effects of independent variables (exogenous) on the dependent variable (endogenous). Data analyzed using Partial Least Squares (PLS) with SMART PLS software, including outer and inner model testing. Research finds organizational ethical culture significantly influences and moderates leadership style's influence on employee performance. Leadership style, internal control system effectiveness don't significantly influence employee performance. Organizational ethical culture doesn't moderate this influence significantly.

Keywords: leadership style; internal control system; employee performance; organizational ethical culture

INTRODUCTION

Human resources represent a crucial aspect in enhancing organizational performance. Success in an organisation cannot be separated from the role of its management members, (Newland, 2012). Employee's performance significance in public sector organizations can't be overstated, as it plays a pivotal role in enhancing organizational performance. Employee performance is a key indicator of employee quality, reflecting the accomplishment, success, and productivity of individuals or organizations over a specified timeframe regarding their tasks (Manansal, 2014). Employee performance in the organisation can be divided into two, namely in-role performance and extra-role performance. (Sulistyowati, 2014). In-role performance shows the ability of employees to carry out work according to their job description. Meanwhile, extra- role performance is employee performance shown by behaviour that exceeds their work (Sulistyowati, 2014). Employee performance can be represented by job satisfaction and employee work performance. Both cannot be separated from the influence of the leadership style applied by a leader in the organisation (Sarita & Agustia, 2009). (Sarita & Agustia, 2009). Furthermore, the effective implementation of the internal control system within the organization plays a role in structuring a transparent and regulated workflow aimed at accomplishing organizational objectives. According to (Osei *et al.*, 2022) monitoring activities and proper separation of authority can support employee productivity and performance.

Leadership varies across organizations, guiding people to achieve objectives, ensuring employee compliance. (Marlina *et al.*, 2021). The role of leaders in improving organisational performance is very important. The leader's role includes developing and improving employee competencies in an organisation. (Alamanda *et al.*, 2022). In addition, a leader also has a role in evaluating and assessing the achievement of employee performance in achieving organisational goals. (Sarita & Agustia, 2009). The leader's leadership style is believed to impact employee performance and organizational goals.

PP Number 6 of 2008 governs the public sector's integrated internal control system, ensuring objectives, efficiency, reporting, protection, and compliance (Sudaryati & Mohamed, 2017). According to (Osei *et al.*, 2022) Internal control that can provide adequate assurance about the clarity of the roles and responsibilities of employee so as not to cause misunderstanding between employees and disrupt the existing workflow. Supervise operations, implement controls for successful organizational monitoring and management..(Ramadhan *et al.*, 2020).

Organizational culture shapes an entity, influences behavior through control and direction (Marlina *et al.*, 2021). In addition, organisational culture is part of corporate governance, the better the organisational culture can support the implementation of good governance. (Osei *et al.*, 2022).. A properly managed organisational culture and an appropriate leadership style will provide room for improved employee performance. (Kustiani, 2021). The applied leadership style is a means of motivating and guiding employee under it in a directed and sustainable manner for the progress of an organisation. (Marlina *et al.*, 2021).

Previous research on leadership style on employee performance shows significant results such as those conducted by (Alamanda *et al.*, 2022; Andreani & Petrik, 2016; Rozi *et al.*, 2019). Leadership style impacts employee performance improvement in organizations significantly. However, the application of inappropriate leadership styles such as research results (AlFlayyeh & Alghamdi, 2023) which states that the application of the laissez faire leadership style has no significant effect on employee performance. The results of this research are in line with the results of research (Yanti *et al.*, 2022) which states that employee performance is not significantly influenced by the applied leadership style.

Research on the effectiveness of the implementation of the internal control system on employee performance conducted by (Ramadhan *et al.*, 2020) showed significant results. Monitoring and authority division enhance employee performance through internal control system implementation. However, the results of this research are not the same as the research results (Osei *et al.*, 2022) which states that control effectiveness does not have a significant effect on employee performance.

Prior inconclusive research motivates this study, which uniquely explores organizational ethical culture as a moderating factor in leadership's impact on employee performance through internal control. Researchers consider the use of this variable, referring to the relationship between organisational ethical culture and the leadership style applied by leaders in an organisation. Leaders have an important role in determining the moral quality of the organisation because leaders are role models for all members under their authority. (Marlina *et al.*, 2021).. The ethics of a leader are very important because they have an influence on whether or not operations can run in a balanced manner (Sudaryati *et al.*, 2021).

Based on the description above, the problem formulation of this research can be determined:

1. Does leadership style affect employee performance?
2. Does the effectiveness of the internal control system affect employee performance?
3. Does organisational ethical culture affect employee performance?
4. Does organisational ethical culture moderate the effect of leadership style on employee performance?
5. Does organisational ethical culture moderate the effect of internal control system effectiveness on employee performance?

This research offers theoretical and practical advantages by providing empirical evidence on organizational ethical culture's moderating role in leadership and internal control system effectiveness on government employee performance. Practical benefit: offering insights for decision-makers and policy improvement in government organizations.

The conceptual framework and hypothesis proposed by this research are presented in Figure 1.

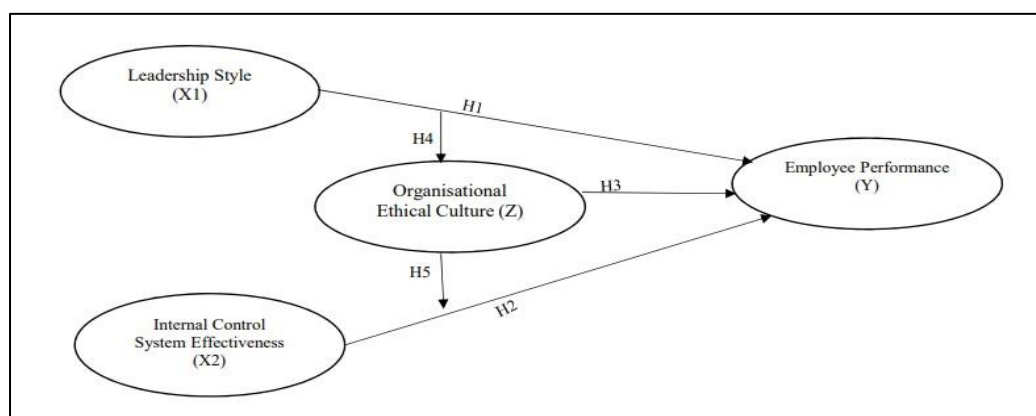


Figure 1 Conceptual Framework

Proposed hypothesis:

- H1 : Leadership style has a positive effect on employee performance
- H2 : The effectiveness of the internal control system affects employee performance
- H3 : Organisational ethical culture has a positive effect on employee performance
- H4 : Organisational ethical culture moderates the effect of leadership style on employee performance
- H5 : Organisational ethical culture moderates the effect of control system effectiveness internal to employee performance

Employee performance in this study pertains to Civil Servants (PNS), reflecting individual task execution driven by skills, experience, and commitment. (Rozi *et al.*, 2019). The indicators for assessing the performance of civil servants in this research are based on the Circular issued by the Head of the State Personnel Agency, Number 1/SE/I/2022, which outlines the Procedures for Performance Assessment of Civil Servants in 2021. This assessment consists of six components: service orientation, integrity, commitment, discipline, cooperation, and leadership. However, in this research, only five components are utilized, specifically integrity, commitment, discipline, cooperation, and leadership. This decision is made with the consideration that not all public sector organizations are involved in service-oriented activities. Briefly presented in table 1.

Table 1 Employee Performance Indicators

No.	Dimensions	Code	Indicators
1.	Integrity	IK1	Employees prioritise integrity in the performance of duties
2.	Commitment	IK2	Employees are highly dedicated to achieving organisational goals
3.	Discipline	IK3	Employees comply with existing regulations
4.	Cooperation	IK4	Employees are able to create a collaborative environment
5.	Leadership	IK5	Leaders are able to motivate employees to achieve organisational goals

This research utilizes Hersey's Situational Leadership Theory, which adjusts leadership styles based on members' readiness levels (Wijaya *et al.*, 2018). There are 4 (four) dimensions in this theory, namely telling (for employee with low ability), selling (low to medium employee ability), participating (medium to high employee ability) and delegating (high employee ability). However, this research only uses 1 (one) dimension, namely participating with the consideration that this dimension has the characteristics of intensive 2 (two) direction communication and the leader does not provide many detailed explanations regarding the implementation of tasks because the characteristics of employee in this dimension are medium to high. These dimensions are used in determining indicators in the leadership style variable, briefly presented in table 2.

Table 2 Leadership Style Indicators

No.	Dimensions	Code	Indicators
1.	Participating	GK1	Leaders direct and supervise the implementation of tasks by implementing two way communication

Effectiveness of internal control aligns with Government Regulation Number 6 of 2008 on Government Internal Control Systems. The internal control system under this regulation consists of five components: control environment, risk assessment, control activities, information and communication, and monitoring. These components serve as the basis for assessing effectiveness, summarized in Table 3.

Table 3 Indicators of Internal Control System Effectiveness

No.	Dimensions	Code	Indicators
1.	Control Environment	IC1	Clear segregation of duties
2.	Risk Assessment	IC2	The organisation has conducted regular risk evaluations
3.	Control Activities	IC3	The organisation's operating procedures are adequately established
4.	Information and Communication	IC4	There is adequate information media
5.	Monitoring	IC5	There are regular employee performance evaluations

Organizational ethical culture is a shared culture that promotes prevailing ethical values and guides all stakeholders in ethical decision-making (Apriliawati & Suardana, 2016). Indicators of organisational ethical culture refer to 5 (five) indicators developed by (Hunt *et al.*, 1989). (Hunt *et al.*, 1989) consisting of ethical awareness, tolerance for uncertainty, acceptance of risk, transparency, equality and justice. Nevertheless, this research utilizes only three indicators, specifically ethical awareness, tolerance for uncertainty, and equality and fairness. The decision considers that transparency and risk acceptance are addressed by internal control system components, particularly risk assessment and communication. Indicators are summarized in Table 4.

Table 4 Indicators of Organisational Ethical Culture

No.	Dimensions	Code	Indicators
1.	Awareness of ethics	EC1	Every employee places the application of the code of ethics as a top priority when faced with uncertainty.
2.	Tolerance of insecurity	EC2	Every employee provides zero tolerance for ethical violations with all the consequences that exist
3.	Equality and justice	EC3	Leaders give rewards objectively
		EC4	Leaders give punishment for violations fairly

METHOD

The research methodology used is causal associative, exploring the impact of exogenous variables on endogenous ones and other influencing factors. The research's population consists of all civil servants across Indonesia. This research employs purposive sampling, where samples are chosen based on the researcher's expertise and judgment for representation. According to Fraenkel and Wallen in (Ginting & Situmorang, 2008) the minimum sample size for quantitative research is 50 research subjects. Thus the sample in this research totalled 58 respondents.

The data analysis technique used path analysis, which begins with the outer model test and continues with the inner model test by setting a significance value 0.05. The test uses the SMART PLS application (Ringle *et al.*, 2015). This research uses primary data in the form a questionnaire. The type of questionnaire used is a closed questionnaire. Closed questionnaires are respondents given a choice of answers that have been provided by the researcher (Ginting & Situmorang, 2015).

Operational Definition of Variables

1. Employee performance in this research is the performance of Civil Servants (PNS) referring to SE Kepala BKN Number 1/SE/I/2022 concerning about Procedures for Performance Assessment of Civil Servants. The indicator determining component used consists of 5 (five) components, integrity, commitment, discipline, cooperation, and leadership;
2. Leadership style is a situational leadership style developed by Hersey. There are 4 (four) dimensions in this theory, namely telling (for employee with low ability), selling (low to medium employee ability), participating (medium to high employee ability) and delegating (high employee ability). The dimension used as an indicator determinant in this variable is participating;
3. The effectiveness of the internal control system implementation in this research is defined in accordance with PP Number 6 of 2008 concerning about Government Internal Control Systems. The internal control system includes five components: control environment, risk assessment, control activities, information communication, and monitoring;
4. Organisational ethical culture is a culture that can be accepted by all individuals in an organisation by accepting existing ethical values. Organisational ethical culture refers to several indicators developed by (Hunt *et al.*, 1989) consisting of ethical awareness, tolerance for uncertainty, equality and justice.

RESULTS AND DISCUSSION

Reliability and Validity Test

At this stage, to test the goodness of fit of the outer model, the value of construct reliability, validity and discriminant validity is an important indicator to pay attention to. The results of this test are measured based on the loading factor value (outer loading) of the construct indicator. The following reliability and validity test results are presented in table 5.

Table 5. Construct reliability and validity

Variables	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
X1	1,00	1,00	1,00	1,00
X2	0,89	0,89	0,92	0,69
Y	0,87	0,89	0,90	0,65
Z	0,82	0,85	0,87	0,64
Z->X1->Y	1,00	1,00	1,00	1,00
Z->X2->Y	1,00	1,00	1,00	1,00

Source: Research Results Processed with Smart PLS version 3, 2023

Based on table 5, the Cronbach Alpha value and the Average Variance Extracted (AVE) value of all variables is in accordance with the minimum reference for the reliability and validity of the data construct. The Cronbach Alpha value reference is $>0,70$ and the Average Variance Extracted (AVE) value reference is $>0,50$ (Hair *et al.*, 2014).

Model Fit Test

The model fit test aims to evaluate the model used in this research is suitable for observation. Furthermore, the model fit value is presented in table 6.

Table 6. Model Fit

Criteria	Saturated Model	Estimated Model
SRMR	0,09	0,09

Source: Research results processed with Smart PLS version 3, 2023

Based on table 6, the SRMR (standardised root mean square residual) value is 0.09, while the value recommended is $<0,10$ for model fit quality (Hu & Bentler, 1999). The SRMR value of 0.09 is still within the acceptable range and still indicates a relatively good fit between the model and the data.

R Square Test

The R square test aims to explain how much the exogenous variables in the research model are able to explain the endogenous variables (Hair *et al.*, 2014). Meanwhile, R square adjusted (R^2 adjusted) is used to take into account the number of variables in the research model. Furthermore, the value of R^2 is presented in table 7.

Table 7. R^2 Value of Endogenous Variables

Variables	R Square	R Square Adjusted
Employee Performance (Y)	0,37	0,31

Source: Research results processed with Smart PLS version 3, 2023

Referring to table 7, the R-squared (R²) value is 0.37, which is equivalent to 37% and 63% of the variance is attributed to unexamined variables not included in this research model. Consequently, the exogenous variables examined in this research namely, leadership style (X1), the effectiveness of the internal control system implementation (X2), and the moderating variable of organizational ethical culture (Z) can account for only 37% of the variance in the endogenous variable, employee performance (Y).

Hypothesis Testing

The bootstrapping process in SmartPLS software is carried out for hypothesis testing. The results of the bootstrapping can be seen in figure 2.

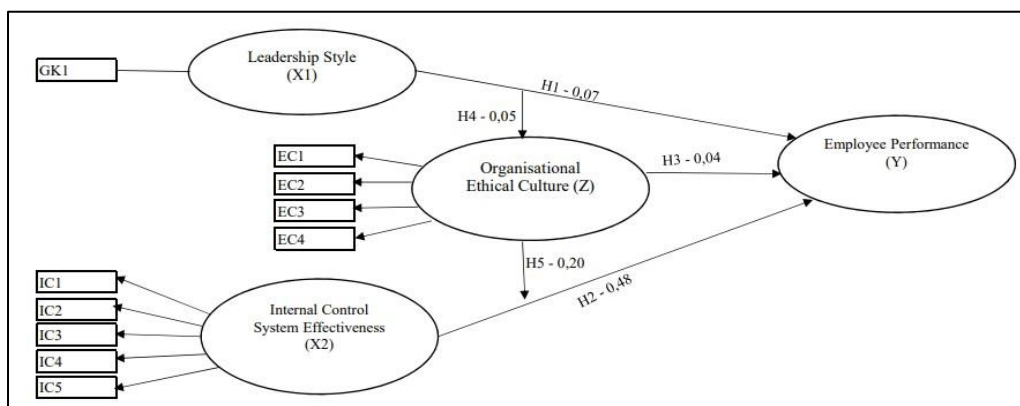


Figure 2 Hypothesis Testing Result

Based on figure 2, it can be seen that the p value of the effect of each exogenous variable and moderating variable on endogenous variables with a significance value 0.05. In summary, the results of hypothesis testing are presented in table 8.

Table 8. Summary Results of Hypothesis Testing

Variables	P Values	Description
X1 → Y	0,07	H1 rejected
X2 → Y	0,48	H2 rejected
Z → Y	0,04	H3 accepted
Z → X1 → Y	0,05	H4 accepted
Z → X2 → Y	0,20	H5 rejected

Source: Processed Data Results, 2023

To assess the effect size of the relationship between variables can be seen from the F-Square value. F-Square values of 0.02 to 0.15 are categorised as small while values of less than 0.02 can be ignored or considered no effect (Hair *et al.*, 2014). The F-Square value is presented in table 9.

Table 9. Summary Results of F Square Testing

Variables	F Square	Effect
Organisational Culture (Z)	0,07	Small
Effectiveness of SPI Implementation (X2)	0,01	-
Leadership Style (X1)	0,06	Small
Z->X1->Y	0,08	Small
Z->X2->Y	0,04	Small

Processed Data Results, 2023

DISCUSSION

Based on Figure 2, it shows the results of the first hypothesis testing, which is H1 being rejected with a p-value of 0.06. This result is in line with the findings of the study by (AlFlayyeh & Alghamdi, 2023) which state that leadership style does not have a significant influence on employee performance. This occurs because the participatory leadership style is not applied throughout government agencies. Secondly, H2 is rejected with a p-value of 0.49, and this result is due to variations in the implementation of risk management within each government agency. This outcome aligns with the findings of the study by (Osei *et al.*, 2022) which indicate that the effectiveness of control does not have a significant impact on employee performance. Thirdly, H3 is accepted with a p-value of 0.04. Organizational ethical culture significantly influences employee performance because the majority of government employees have adhered to ethical values in line with the ethical value system enforced in the agencies where they work. The research findings align with the study by (Dewi & Mastra. I Made, 2016). Fourthly, H4 is accepted with a p-value of 0.05, indicating that the moderating influence of organizational ethical culture is proven to strengthen the effect of leadership style on employee performance. These results occur because the application of values by leaders can inspire their members to implement these ethical values in carrying out their tasks effectively. This is in line with the statement by (Marlina *et al.*, 2021) that leader serve as role models for all members under their authority. Lastly, H5 is rejected with a p-value of 0.21, which means that the moderating influence of organizational ethical culture is not proven to strengthen the effect of the effectiveness of internal control system implementation on employee performance. This occurs because the policies regarding the mechanism of reward employees in each institution vary. For example, the provision of rewards for employee performance in the Ministry of Law and Human Rights is based on the leader's decisions in the form of policies to ensure equitable implementation (Meyrina, 2017).

The limitation of this study is the sample size, which consisted of 58 respondents. Therefore, it is insufficient to represent the entire population of government employees in Indonesia. A suggestion for future research is to increase the sample size to better reflect the population of government employees in Indonesia. Additionally, incorporating other indicator variables in subsequent studies is recommended.

CONCLUSIONS

From the discussion in each chapter, it can be concluded that leadership style and the effectiveness of internal control system implementation do not have a significant influence on employee performance. However, for the variable of organizational ethical culture, it has a significant influence on employee performance. Furthermore, the moderating effect of organizational ethical culture is proven to strengthen the influence of leadership style on employee performance. On the other hand, the moderating effect of organizational ethical culture is not proven to strengthen the influence of the effectiveness of internal control system implementation on employee performance.

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