

# The Birth of Ethical Entrepreneurial Leadership Concept

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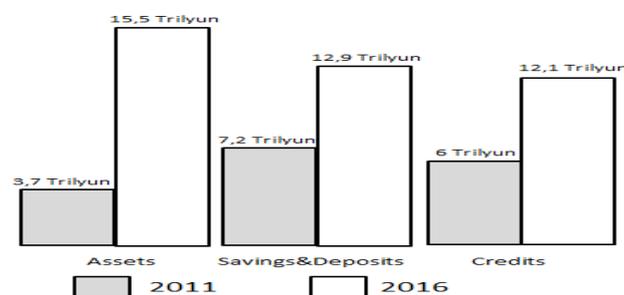
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**Abstract:** - This study aims to examine the role of ethical behavior of an entrepreneurial leader in improving organizational performance. This research was conducted at the management of the *Lembaga Perkreditan Desa* (LPD) in Bali. Based on 2016 data, the number of LPDs in Bali was 1433 units, but 177 units were not operating, so 1256 units spread out in 9 districts / cities. Sampling is based on Slovin formula with 9% precision, so the number of LPDs sampled is 34 units. Determination of LPD samples in each district / city was carried out by stratified proportional random sampling. The research respondents were LPD administrators consisting of heads, secretaries, and treasurers in each LPD sample, so the number of respondents was 102 people. Data retrieval is done through interviews with respondents based on the prepared questionnaire. Furthermore, data processing is carried out with the SmartPLS 3.0 program. The results of the study found that ethical behavior is part of entrepreneurial leadership behavior. Ethical behavior can significantly improve LPD performance. Integrating ethical behavior with entrepreneurial leadership is significantly able to improve organizational performance (LPD), so ethical entrepreneurial leadership is very important in the management of the organization.

**Key-Words:** - Ethic behavior, Entrepreneurial leadership, Ethical entrepreneurial leadership, Organizational performance

## 1 Introduction

*Lembaga Perkreditan Desa* (hereinafter referred to as LPD) are institutions that carry out financial functions based on traditional ties in Bali. This institution plays a role in encouraging the economy of rural communities and supporting social, cultural, customary and religious life in the village. The growth and development of the role of the LPD as an intermediary institution, namely as a collector and distributor of public funds has increased. The increase occurred especially in assets, savings and deposits, and credit services. Graphically, this increase during the period of 2011 to 2016 is shown in Figure 1. Total assets increased from 1.7 trillion in 2011 to 15.5 trillion in 2016. Savings and time deposits increased from 7.2 trillion in 2011 to 12, 9 trillion in 2016. Loans also increased from 6 trillion in 2011 to 12.1 trillion in 2016.



Source: LPLPD Accountability Report (LPLPD Bali Province, 2016)  
Figure 1. Total Assets, Savings and Deposits, Balinese LPD Loans for 2011 and 2016.

However, based on the LPD's 2016 accountability report, the rate of repayment (non-performing loans / NPL) is very high reaching an average of above 7%, in terms of according to banking regulations, the safe limit of the NPL ratio is 5%. This means that increasing public trust is not

in line with the LPD's financial performance. Interviews with a number of LPD administrators revealed that a number of deviations were made by the LPD authorities in granting credit to the public, such as the disbursement of credit to people who were not procedurally eligible for the credit. Procedurally, people who deserve credit are based on 5-C criteria (character, capacity, capital, collateral, condition) and 7-P (personality, party, purpose, prospect, payment, profitability, and protection) [1]; [2]. Ignoring these principles by LPD administrators is one of the causes of the high NPL ratio for LPDs. This is one form of ethical neglect from an administrator in managing the LPD.

According to [3], the success of a leader, besides having an entrepreneurial spirit, must also behave ethically. Ethics becomes important when leaders make decisions related to business continuity. Therefore the relevance of business principles and ethics in leadership is very important in relation to organizational performance. [4] states that entrepreneur leadership is leadership that promotes a strong organizational culture.

## 2. Theoretical and Previous Research

### 2.1. Entrepreneurial Leadership

Entrepreneurial leadership is one of the leadership styles to anticipate uncertainty in the business environment [5]; [6]; [7]. According to [3], entrepreneurial leadership is the ability of leaders to establish, apply vision and maintain flexibility, think strategically, and work with others to make changes to create a better future for the company. Entrepreneurship leadership is suitable to be applied to various types of businesses. According to [8] and [9], entrepreneurial leadership is a leadership style that is able to delegate, build responsible behavior of employees, make and determine decisions, and work freely. [9] explaining leaders with skills and characteristics of entrepreneurship is the main concept for an entrepreneurial leadership. Pola pikir tentang *entrepreneurial leadership* akan tercapai melalui pengembangan pengelolaan sumber daya secara strategik. Pemikiran *entrepreneur* dan kemampuan mengelola sumber daya strategik akan dapat meningkatkan kreativitas serta inovasi yang pada gilirannya berdampak positif terhadap kinerja organisasi.

In a number of references entrepreneurial leadership is described in a number of dimensions namely proactiveness, innovativeness, and risk taking [10]; [11]; [7]. Proactiveness is defined as the leadership's adaptability in responding to environmental changes that will affect the programs of the institution it leads. Power Innovativeness is the ability of leaders to implement creativity in order to solve problems and find opportunities that can provide inspiration for all employees in carrying out

operational activities. Meanwhile, Risk Taking is defined as the courage of the leader to take a risk with mature calculations on the activities of the organization.

These dimensions are very closely related to the progress of a business. Companies that have the ability to adapt to the changes that occur, always try to present quality new products in accordance with market needs, and do not feel afraid of failures that might occur, this can encourage the company to grow better. Proactive behavior according to [12], is an important factor in organizational success. Leaders who have proactive behavior are more successful in facing dynamic environmental situations [13]. The results of the study [14]; [15]; [16] found that employee proactive behavior significantly affected business performance. [15]; [17]; [18]; [19]; [20]; [21]; [22] also found innovativeness had a significant effect on organizational performance. [15] also found that risk taking significantly affected organizational performance. Based on this, the research hypothesis is constructed as follows:

Hypothesis 1: Proactiveness has a significant positive effect on LPD performance

Hypothesis 2: Innovativeness has a significant positive effect on LPD performance

Hypothesis 3: risk taking has a significant positive effect on LPD performance

### 2.2 Ethical Behavioral

Entrepreneurial behavior tends to justify any means to gain big profits, sometimes even less ethical. Unethical behavior of an entrepreneur leader will be the dark side of entrepreneurial behavior (the dark side of entrepreneur). This can be avoided if the leader as a model of behavior in an organization that can be followed by subordinates, must avoid unethical behavior. According to [3], the less ethical leaders tend to cause employees to be dishonest in carrying out their duties. [6] emphasizes, that the success of a leader in leading an organization is influenced by the ethical values that are believed.

According to [23], leaders must have good morality ethics. This is important, because the leader is a model that will be a role model / example in behaving by employees / followers. Leaders who have morality ethics both tend to be respected and each direction is followed by followers / employees. Therefore, organizations led by ethical leaders tend to have employees who have high integrity and loyalty.

A number of references suggest that leaders can be said to be ethical if they are caring, trustworthy, honest, fair and responsible [24]. Whereas in research [25] ethical indicators consist of transparent behavior, attention to stakeholder

interests, responsibility, loyalty, and compliance with applicable regulations. Leaders who have these behaviors are able to encourage employees to perform better, resulting in better business performance. This is evidenced from a number of research results that found that ethical leaders have a significant positive effect on organizational performance, namely [26]; [27]; [28]; [29]. Based on this, the research hypothesis is built, namely:

Hypothesis 4: Ethical behavior has a significant positive effect on LPD performance

### 3. Research Methods

This research was conducted in 34 LPD taken in a proportional manner in each district / city based on the level of LPD health.

Table 1  
 LPD Population and Samples in Bali Province by Regency / City and LPD Health

No	Regency/City	Populations					Samples				
		1	2	3	4	Total	1	2	3	4	Total
1	Denpasar	33	1	1	-	35	1	-	-	-	1
2	Badung	103	16	3	-	122	3	-	-	-	4
3	Buleleng	114	13	12	3	142	3	1	-	-	3
4	Jemberana	59	3	-	-	62	2	-	-	-	2
5	Tabanan	200	27	15	1	243	5	1	1	-	7
6	Gianyar	155	45	29	10	239	4	1	1	-	6
7	Bangli	110	24	14	-	148	3	1	-	-	4
8	Klungkung	85	13	9	1	108	2	-	1	-	3
9	Karangasem	97	47	10	3	157	3	1	-	-	4
Total		956	189	93	18	1257	26	5	3	-	34

Source: Data processed, 2019

Remarks: 1 = healthy, 2 = healthy enough, 3 = less healthy, 4 = unhealthy

The sample is determined based on the Slovin formula with 9% precision so that the number of samples is 34 units. Determination of the number of samples in each category in each district / city is determined by stratified proportional random, then the results are shown as shown in Table 1. The respondents in each LPD sampled were taken purposively three people, namely chairman, secretary and treasurer, so the number of respondents is 102 people. Data / information collection is done through direct interviews based on the prepared questionnaire. Data that has been collected, then conducted an analysis with the SmartPLS 3.0 program.

## 4. Result, Discussion, and Recommendation

### 4.1 Validity and Reliability

Validity and reliability in this study are based on the results of data processing with SmartPLS, the results are shown in Table 2

Table 2  
 Validity and Reliability Test Results

Variables	Dimensions	Indicators	Outer Loading	Cronbach's Alpha
Proactiveness		Responsiveness	0,806	0,828
		New products	0,659	
		New services	0,589	
		New Administration System	0,905	
Entrepreneurial Leadership	Innovativeness	Competition	0,871	0,805
		Product Development	0,700	
Risk Taking		System Development	0,822	0,720
		Fast Services	0,715	
		Risk Analysis	0,739	
		Dare to act	0,879	
Ethical Behavior		Exploitation of Opportunities	0,783	0,833
		Transparency	0,812	
		Attention to stakeholders	0,660	
		To be responsible	0,872	
Organizational Performance		Faithfull	0,784	0,744
		Discipline	0,828	
		Produktivitiy	0,817	
		Profitability	0,857	
		Growth	0,645	
		Stability	0,772	
		Image	0,785	

Source: Data processed, 2019

Table 2 shows that all indicators used as a measure of the research variables indicate the value of outer loading is greater than 0.5 and significant. This means the indicators are valid. Likewise the cronbach's alpha value indicates a value greater than 0.70, meaning that all research variables are reliable.

### 4.2. Accuracy of the Research Model

The accuracy of the model in this study was carried out by analyzing the value of R-Square (R2) and Goodness of Fit (GoF). Based on the results of data processing obtained R2 value of 0.889, this means that 88.9% of organizational performance is influenced by the dimensions of entrepreneurial leadership and ethical behavior. According to Cohen's criteria (1988) this value indicates a strong influence. When viewed from the GoF value calculated based on the GoF formulation =  $\sqrt{(\text{com} \times R2)}$ , the result is 0.7196. Based on the criteria [31], this value is classified as strong.

### 4.3. Hypothesis Testing

Based on data processing with SmartPLS, the results of hypothesis testing are shown in Figure 2 and Table 3. Based on Table 3, it can be seen that the path proactiveness to organizational performance is 0.176 with a p-value of 0.000. This means that proactiveness has a significant positive effect on organizational performance. The value of the innovative path to organizational performance is

0.212 with a p-value of 0.002. This means that innovativeness has a significant positive effect on organizational performance.

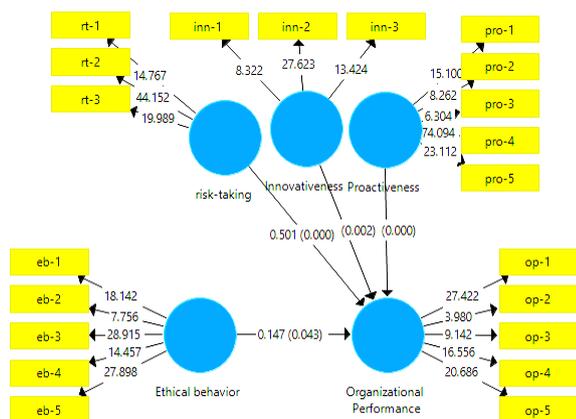


Figure 2. Results of data processing with the SmartPLS 3.0 program

Table 3  
 Entrepreneurial Leadership and Ethical Behavior  
 Dimension Path Coefficient towards Organizational  
 Performance

Independen Variables	Dependen Variable	Path Coefficient	p-value	Ket
Entrepreneurial Leadership	Proactiveness	0,176	0,000	sig
	Innovativeness	0,212	0,002	sig
	Risk Taking	0,501	0,000	sig
Ethical Behavior		0,147	0,0043	sig

Source: Data processed, 2019

Similarly, the path value of risk taking to organizational performance is 0.501 with p-value 0,000, meaning that risk taking has a significant positive effect on organizational performance. Based on the results of these tests, it means that the entrepreneurial leadership dimension consisting of proactiveness, innovativeness, and risk taking has a significant positive effect on organizational performance. Based on these results, hypotheses 1,2 and 3 are accepted.

Likewise the Ethical behavior as shown in Table 3 also shows a significant positive effect on organizational performance. This is indicated by the value of the path of ethical behavior to organizational performance of 0.147 with p-value 0.004 < 0.05. Based on these results, hypothesis 4 is also accepted.

#### 4.5. Recommendation

Based on the study of theory, the results of previous studies, and the results of testing the hypothesis of this study, where the dimensions of entrepreneurship (proactiveness, innovativeness and

risk taking), and ethic behavior showed significant positive results in influencing organizational performance. The results of this study confirm a number of results of previous studies stating that entrepreneurial leadership and its dimensions have a significant positive effect on organizational performance ([14]; [15]; [16]; [15]; [17]; [18]; [19]; [20]; [21]; [22]). Likewise, the ethical behavior of a leader has a significant positive effect on organizational performance ([26]; [27]; [28]; [29]). Integrating entrepreneurial dimensions of leadership with ethic behavior can form a new variable that still needs to be tested, namely Ethical Entrepreneurial Leadership (EEL) which consists of dimensions of proactiveness, innovativeness, risk taking, and ethic behavior.

### 5. Conclusion

Referring to the results of the hypothesis test it can be concluded that the entrepreneurial leadership dimensions (proactiveness, innovativeness, and risk taking) and ethic behavior show a significant positive effect on LPD performance in Bali Province. The meaning is, that increasing entrepreneurial behavior with more ethical behavior, is able to encourage improvement in LPD performance, especially in terms of productivity, profitability, growth, stability, and image of Village Credit Institutions in Bali. However, the results of this study still need to be examined more deeply, given the limitations of the sample, variables, and location of research that is only carried out in the area of Bali.

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