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Ethical Behavior as a Core Dimension of Entrepreneurial Leadership: Evidence from Bali's Village Credit Institutions

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Abstract

This research seeks to explore how ethical conduct and entrepreneurial leadership influence the enhancement of organizational performance. The study was carried out within the management of Lembaga Perkreditan Desa (LPD) across Bali. In 2016, there were 1433 LPD units in Bali; however, 177 were inactive, leaving 1256 operational units across nine districts/cities. Sampling was determined using the Slovin formula with 9% precision, resulting in 34 sampled LPDs. The selection of samples within each district or city employed a stratified proportional random sampling technique. Respondents included LPD leaders, secretaries, and treasurers from each sampled unit, yielding a total of 102 participants. Data were gathered through interviews using structured questionnaires and processed with the SmartPLS 3.0 software. Findings indicate that ethical behavior forms an integral aspect of entrepreneurial leadership and significantly enhances LPD performance. The integration of ethical conduct with entrepreneurial leadership was shown to substantially strengthen organizational outcomes, underscoring the critical role of ethical entrepreneurial leadership in effective management.

Keywords: Ethical behavior, Entrepreneurial leadership, Ethical entrepreneurial leadership, Organizational performance

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Introduction

Lembaga Perkreditan Desa (LPD) refers to financial institutions rooted in Bali's customary village systems. These entities support rural economic growth and contribute to maintaining social, cultural, customary, and religious activities at the village level. Over time, the role of LPDs as financial intermediaries—mobilizing and channeling community funds—has expanded considerably. Growth was notably observed between 2011 and 2016, reflected in their assets, deposits, and lending services. Total assets grew from 1.7 trillion in 2011 to 15.5 trillion in 2016. Savings and time deposits rose from 7.2 trillion to 12.9 trillion, while loans increased from 6 trillion to 12.1 trillion within the same period.

Despite this progress, the 2016 LPD accountability report revealed a high non-performing loan (NPL) rate averaging over 7%, whereas the regulatory threshold for safe NPL levels is 5%. This discrepancy indicates that rising public trust has not been matched by improved financial performance.

Interviews with several administrators disclosed that some credit approvals violated standard procedures—for example, loans were issued to individuals who did not meet qualification requirements. Proper creditworthiness assessments are typically based on the 5-C criteria (character, capacity, capital, collateral, condition) and 7-P principles (personality, party, purpose, prospect, payment, profitability, and protection) [1, 2]. Neglecting these standards has contributed to the elevated NPL levels, reflecting an ethical lapse in management.

According to Kuratko [3], effective leadership requires not only an entrepreneurial mindset but also ethical behavior. Ethics are essential when making decisions that impact business continuity. Hence, aligning business and ethical principles is vital



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for ensuring strong organizational performance. Udo *et al.* [4] emphasizes that entrepreneurial leadership fosters a robust organizational culture, particularly one grounded in ethics.

Ethical management strengthens public confidence and sustains organizational growth. Research by Hijal-Moghrabi *et al.* [5] shows that ethical practices within an organization positively influence its performance. Similarly, Ebitu & Beredugo [6] observed that ethical governance reduces the likelihood of internal disputes. Other scholars—Kehinde [7]; Khademfar & Amiri [8]; Agboola & Epetimehin [9] Madanchian *et al.* [10]; Khan *et al.* [11]—have likewise demonstrated that ethical management enhances organizational outcomes. However, contrasting findings exist, as some studies (e.g., Kim & Thapa [12]; Rantelangi *et al.* [13]) argue that leadership does not always have a direct effect on performance.

Given these perspectives, this research emphasizes the need to assess the impact of ethical entrepreneurial leadership on organizational performance. The concept represents a new approach, as most prior studies have examined leadership style, entrepreneurial leadership, or ethical leadership separately, rather than integrating them.

Theory, previous studies, and research hypotheses

Entrepreneurial leadership

Entrepreneurial leadership represents a leadership style designed to manage and respond to uncertainty within the business environment [14-16]. Kuratko [3] describes entrepreneurial leadership as the leader's ability to define and execute a clear vision, maintain adaptability, apply strategic thinking, and collaborate effectively to drive transformative change for the organization's future. This leadership approach is applicable across diverse business settings.

According to Sajjadi *et al.* [17], entrepreneurial leadership involves the capacity to delegate authority, foster accountability among employees, make and implement decisions, and encourage autonomy. Leaders who exhibit entrepreneurial traits and competencies embody the foundation of entrepreneurial leadership. Developing this mindset requires effective strategic resource management, which enhances creative and innovative capabilities that, in turn, improve overall organizational outcomes.

In various scholarly works, entrepreneurial leadership is conceptualized through three main dimensions: proactiveness, innovativeness, and risk-taking [15, 18]. Proactiveness refers to a leader's ability to anticipate and adapt to environmental shifts that influence institutional operations. Innovativeness denotes the leader's skill in applying creativity to solve problems and identify opportunities, inspiring employees to perform productively. Risk-taking reflects the leader's readiness to accept calculated risks within organizational activities.

These attributes are crucial for business advancement. Organizations that adapt to changing environments, consistently introduce quality products aligned with market demands, and remain resilient in the face of potential failures tend to experience sustainable growth. Crant [19] emphasized that proactive behavior is a key determinant of organizational achievement, while Thomas *et al.* [20] highlighted that leaders demonstrating proactive behavior are more effective in dynamic contexts. Prior studies [21-23] confirmed that proactive employee behavior significantly improves business outcomes. Similarly, empirical findings from Ashad *et al.* [21], Odumeru [24], Mafini [25], Tajudin *et al.* [26], Karakas *et al.* [27], and Soetantyo & Ardiyanti [28] demonstrated that innovativeness has a strong influence on organizational performance. Moreover, Ashad *et al.* [21] found that risk-taking behavior positively and significantly impacts organizational results.

Based on this literature, the study formulates the following hypotheses:

Hypothesis 1: Proactiveness positively and significantly influences LPD performance.

Hypothesis 2: Innovativeness positively and significantly influences LPD performance.

Hypothesis 3: Risk-taking positively and significantly influences LPD performance.

Ethical behavior

Entrepreneurial actions are often associated with pursuing high profits, sometimes at the cost of ethical considerations. The unethical conduct of entrepreneurial leaders represents the "dark side" of entrepreneurship. This risk can be mitigated when leaders, serving as behavioral role models for subordinates, consistently demonstrate ethical conduct. Kuratko [3] notes that unethical leaders often encourage dishonesty among their employees. Similarly, Harrison *et al.* [14] argue that a leader's success in managing an organization is strongly determined by the ethical values they uphold.

Copeland [29] asserts that leaders must possess sound moral and ethical principles since they serve as behavioral examples for their followers. Leaders with strong moral ethics tend to gain respect, and their guidance is more likely to be followed by subordinates. Consequently, organizations led by ethical leaders typically exhibit high levels of employee integrity and loyalty.

Several scholars define ethical leaders as those who are honest, trustworthy, fair, responsible, and caring [30]. In research by Ketut *et al.* [31], ethical dimensions include transparency, stakeholder concern, accountability, loyalty, and adherence to regulations. Leaders who exhibit these attributes tend to motivate employees toward higher performance, thus enhancing overall organizational outcomes. Empirical studies [8, 32, 33] have confirmed that ethical leadership exerts a significant positive influence on organizational performance.

Accordingly, the following hypothesis is proposed:

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

Materials and Methods

This research was implemented across 34 LPD units, selected proportionally from each district/city in accordance with their respective health levels. The total sample size was determined using the Slovin formula with a 9% precision level, resulting in 34 LPDs. The sample distribution per category and district/city was determined through stratified proportional random sampling, as displayed in **Table 1**.

For each selected LPD, three respondents—the chairman, secretary, and treasurer—were purposively chosen, yielding 102 respondents in total. Data were collected through structured interviews based on a predesigned questionnaire, and subsequently analyzed using the SmartPLS 3.0 program.

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

No.	Regency/City	Population				Total Population	Sampled LPDs				Total Sample
		1	2	3	4		1	2	3	4	
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	Jembrana	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	1,257	26	5	3	–	34

Source: Processed Data, 2020

Remarks: 1 = Healthy, 2 = Fairly Healthy, 3 = Less Healthy, 4 = Unhealthy

Results and Discussion

Validity and reliability

The assessment of validity and reliability in this study was carried out using the SmartPLS 3.0 software, and the summarized findings are presented in **Table 2**. All measurement indicators for the analyzed constructs showed outer loading values above 0.5, indicating strong validity. Moreover, the Cronbach's alpha coefficients, which all exceeded 0.70, confirmed that every construct used in the model achieved internal consistency and reliability.

Table 2. Outcomes of Validity and Reliability Testing

Construct	Dimension	Indicator	Outer Loading	Cronbach's α	
Entrepreneurial Leadership	Proactiveness	Responsiveness	0.806	0.828	
		New Products	0.659		
		New Services	0.589		
	Innovativeness	New Administration System	0.905		
		Competition	0.871		
		Product Development	0.700		0.805
		System Development	0.822		
	Past Services	0.715			
	Risk-Taking	Risk Analysis	0.739		
	Dare to Act	0.879			
Exploitation of Opportunities	0.783				
Ethical Behavior	Transparency		0.812	0.833	
	Attention to Stakeholders		0.660		
	To Be Responsible		0.872		
	Faithfulness		0.784		
	Discipline		0.828		
Organizational Performance	Productivity		0.817	0.744	
	Profitability		0.857		
	Growth		0.645		
	Stability		0.772		
	Image		0.785		

Model fit and accuracy

The model's explanatory accuracy was determined using R-Square (R^2) and Goodness of Fit (GoF) indices. Based on processed results, the R^2 value was 0.889, signifying that 88.9% of the variation in organizational performance can be attributed to the combined influence of entrepreneurial leadership and ethical behavior. Following Cohen's [34] standard, this represents a high explanatory power. The GoF index, calculated using the equation $\sqrt{(A.com \times A.R^2)}$, yielded a score of 0.7196, which according to Akter *et al.* [35], also reflects a strong overall model fit.

Hypothesis testing

Data analysis and hypothesis evaluation were performed using SmartPLS 3.0, with visual and tabular summaries shown in **Figure 1** and **Table 3**. The path coefficient between proactiveness and organizational performance was 0.176, with a p-value of 0.000, confirming a significant positive impact. The path from innovativeness to organizational performance recorded a coefficient of 0.212 and a p-value of 0.002, indicating a statistically meaningful relationship.

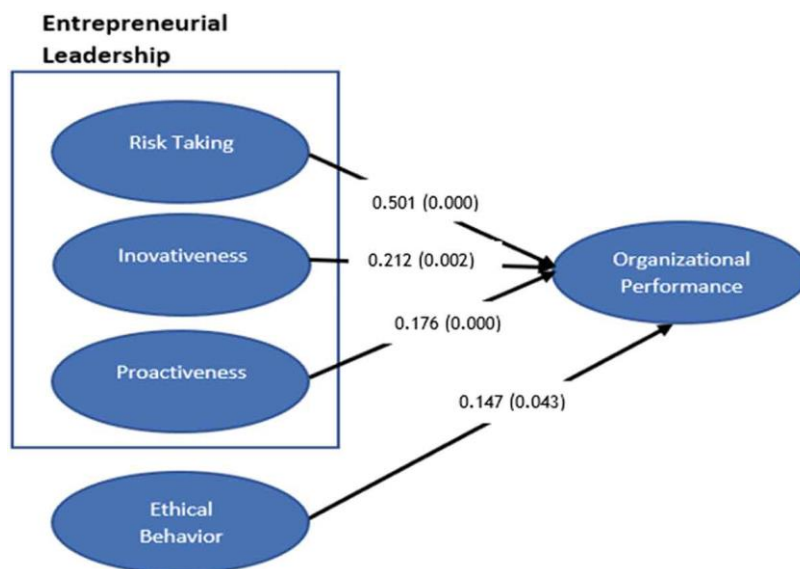


Figure 1. Output from SmartPLS 3.0 Data Processing

Table 3. Path Coefficients of Entrepreneurial Leadership and Ethical Behavior on Organizational Performance

Independent Variable	Dimension	Dependent Variable	Path Coefficient (β)	p-value	Significance
Entrepreneurial Leadership	Proactiveness	Organizational Performance	0.176	0.000	Significant
	Innovativeness	Organizational Performance	0.212	0.002	Significant
	Risk-Taking	Organizational Performance	0.501	0.000	Significant
Ethical Behavior	—	Organizational Performance	0.147	0.043	Significant

Source: Processed Data, 2020

In the same manner, the risk-taking path yielded a coefficient of 0.501 with a p-value of 0.000, demonstrating a substantial positive relationship with performance. These findings collectively confirm that proactiveness, innovativeness, and risk-taking each exert significant positive effects on LPD performance—thus, Hypotheses 1, 2, and 3 are accepted. Among these variables, risk-taking made the greatest contribution, followed by innovativeness and proactiveness.

This outcome highlights the importance of leaders' capability to foresee and manage potential risks. An effective leader must approach innovation and proactive behavior with awareness of associated uncertainties and formulate preventive strategies. Prior studies support this view: Oni [22], Ashad *et al.* [21], and Wambugu *et al.* [23] demonstrated that employee proactivity enhances business success, while Odumeru [24], Mafini [25], Tajudin *et al.* [26], Djampangau *et al.* (2018), and Soentanto & Ardiyanti [28] confirmed the influence of innovativeness on organizational results. Ashad *et al.* [21] also verified the positive effect of risk-taking behavior.

For ethical behavior, **Table 3** shows a path coefficient of 0.147 with a p-value of 0.043 (<0.05), implying a significant positive impact on performance. Therefore, Hypothesis 4 is also supported. The findings imply that ethical leadership strengthens the organization's public credibility and supports sustainable success. These observations are consistent with Khademfar & Amiri [8], Butt *et al.* [32], and Chukwujiokwe & Akbin (2018).

Conclusion

The results of hypothesis testing reveal that both the entrepreneurial leadership dimensions—proactiveness, innovativeness, and risk-taking—and ethical behavior significantly improve LPD performance in Bali Province. In essence, when leaders strengthen entrepreneurial practices alongside ethical conduct, overall performance increases, particularly in terms of productivity, profitability, institutional stability, and public image. However, given the study's limited sample size, geographical scope, and number of variables, the findings should be interpreted with caution and validated through further research.

It can be inferred that risk-taking contributes most strongly to performance outcomes, highlighting the importance of predictive and preventive leadership skills. Although the direct impact of ethical behavior is comparatively modest, it plays a crucial role in maintaining public confidence and ensuring organizational legitimacy. Therefore, both entrepreneurial and ethical leadership aspects must be cultivated simultaneously to sustain long-term growth and credibility.

Theoretical and managerial contributions

While previous literature typically treats entrepreneurial leadership, ethical leadership, and general leadership styles as separate frameworks, this study integrates them into a single construct referred to as ethical entrepreneurial leadership. Empirical evidence from this research confirms that ethical behavior significantly contributes to overall organizational performance. The integration of entrepreneurial and ethical principles enhances not only operational effectiveness but also long-term organizational resilience, suggesting that implementing ethical entrepreneurial leadership can ensure better performance and sustainability.

Limitations and future research directions

The present study assessed entrepreneurial leadership (proactiveness, innovativeness, and risk-taking) and ethical behavior independently. Future research should combine these elements into a unified framework, termed Ethical Entrepreneurial Leadership (EEL), which would include all four dimensions—proactiveness, innovativeness, risk-taking, and ethical conduct. Further empirical investigation is necessary to validate this integrated model and explore its impact across broader organizational contexts.

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