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Ida Ayu Putu Widani Sugianingrat, Sapta Rini Widyawati, Carla Alexandra de Jesus da Costa, Mateus Ximenes, Salustiano Dos Reis Piedade, Wayan Gede Sarmawa,

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The employee engagement and OCB as mediating on employee performance

The employee engagement and OCB

Ida Ayu Putu Widani Sugianingrat
University of Hindu Indonesia, Bali, Indonesia

Sapta Rini Widyawati
Mahasaraswati University of Denpasar, Bali, Indonesia

Carla Alexandra de Jesus da Costa
Dili Institute of Technology, Dili, Timor-Leste

Mateus Ximenes
East Timor Institute of Business, Dili, Timor-Leste

Salustiano Dos Reis Piedade
Dili Institute of Technology, Dili, Timor-Leste, and

Wayan Gede Sarmawa
University of Warmadewa, Bali, Indonesia

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Abstract

Purpose – The purpose of this paper is to examine the effect of ethical leadership on employee performance, with the employee engagement and organizational citizenship behavior (OCB) as mediating variables.

Design/methodology/approach – The design of this study was to ascertain the predictive generalizations truth of the theory. The population in this study was all employees of non-star hotels in Sarbagita area of Bali.

Findings – First, ethical leadership does not have a significant effect on employee performance, where the increase in leadership value is not able to provide a significant improvement in the performance of non-star hotel employees in the Sarbagita area of Bali. Second, employee engagement is able to mediate ethical leadership in improving employee performance. Third, the OCB will be able to play a role in mediating the influence of ethical leadership on employee performance if it passes the mediating role of employee engagement first.

Originality/value – The inconsistencies of the previous study results provide evidence and opportunities for this study to review by including mediating variables on ethical leadership and employee performance relationship. The studied variable as a mediating variable is employee engagement. In addition to employee engagement, this study also included the OCB variable as a mediating variable. Several previous studies have identified the influence of ethical leadership, employee engagement and OCB in improving employee performance in separate research models, so there is still a gap for further research.

Keywords OCB, Employee performance, Ethical leadership, Employee engagement

Paper type Research paper

1. Introduction

Economy development in the twenty-first century triggers structural transformation with a shift in growth and contribution from the primary economic sector (agricultural sector) to the tertiary sector (service sector) (Sukamara *et al.*, 2017). The service sector is the support for the economic growth of a country which becomes the largest sector with the fastest growth globally and contributes greatly to employment (Lashmi and Kumar, 2012). These changes have a positive impact on the tourism industry which experiences rapid development and increasingly competitive (WTTC, 2013). This condition also affects the continued increase development of world tourism in six decades (1950–2010). Moreover, international tourist visits in 2030 are predicted to double from 2010 (World Tourism Organization, 2013).

The development of the tourism industry positively impacts the national economy, encourages employment and raises public incomes (Evita *et al.*, 2012). In Indonesia, the



tourism sector is the strength for national economic growth. Performance Accountability Report of the Ministry of Tourism of 2016 revealed that tourism contributed significantly to the Indonesian economy with IDR500.19 trillion (4.03 percent of the national gross domestic product (GDP)) contribution to the national GDP in 2016. This achievement was 80.6 percent of the prearranged target. In addition, the tourism sector also contributed to the national employment of 12m people, i.e. 102 percent of the planned target. Thus, the tourism sector can be regarded as an effective sector to answer the need of an economic added-value increase in tackling poverty (pro-poor) and creating employment (pro-job).

These conditions also occur in the tourism sector in Bali, which is famous for its natural and cultural tourism, and also experiences a fairly rapid development. It can be seen from the increase of 6.24 percent tourists visiting Bali from 3,766,638 people to 4,001,835 people (BPS Provinsi Bali, 2016 (Statistics Indonesia, *Badan Pusat Statistik*)). This condition becomes a challenge for the tourism actors to provide excellence and international standard services to compete with other tourism actors.

The hospitality sub-sector is one of the supporting tourism with the important role as a service facility to make tourism becomes easy, comfortable, safe and fun (Warpani and Warpani, 2007). The number of star and non-star hotels in Bali fluctuates with the total of non-star hotels still six times more than the total of star hotels (BPS Provinsi Bali, 2016). However, hotel occupancy rate, one of the hotel's own performance indicators (Tajeddini and Trueman, 2012), shows that non-star hotel occupancy rates are 50 percent lower than star-rated hotels (BPS Provinsi Bali, 2016). Furthermore, the number of non-star hotels tended to decline in the last three years, from 1,816 in 2013, to 1,801 in 2014 and to 1,798 in 2015 (BPS Provinsi Bali, 2016). The declining number of non-star hotels is supposedly caused by some problems related to management problems and the inability to compete with other hotels that have much better and modern management. Some of the problematic non-star hotels have poor performance. Facing an increasingly competitive environment requires non-star hotel businessperson to develop strategies to survive in an increasingly competitive situation. One possible strategy is a service strategy. Satisfactory service is the main issue that makes that the hotel business remains attractive to tourists.

Based on data from BPS Provinsi Bali (2016), non-star hotels dominantly operate in Sarbagita area, i.e. Denpasar, Badung, Gianyar and Tabanan. These four areas constitute the development of tourism strategic areas, so supporting tourism facilities and infrastructure will grow and develop well in those four areas (Bali Provincial Regulation No. 16, 2009). Tourism development is absolutely supported by facilities and infrastructure, one of which is the hotel, so this research focuses on hotels located in Sarbagita area of Bali.

The results of preliminary observations conducted on ten non-star hotels in Badung Regency and Denpasar City showed that the performance of non-star hotels is less promising in which some of the non-star hotels provide very monotonous services without any services development and differentiation that enable this business to survive in increasingly fierce competition.

Customer satisfaction is one of the benchmarks of employee performance appraisal. The survey results on a number of hotel customers showed that they complained about the professionalism and quality of services provided by non-star hotel employees in Sarbagita area of Bali. The main complaint was related to the readiness and speed of employees in providing services to customers. In addition, employee creativity was also considered very low when handling customer complaints, where employees did not respond quickly to problems complained by customers. This reflects the minimal performance of non-star hotel employees in Sarbagita area of Bali. This condition can affect the low hotel performance because the performance of the organization (hotel) is determined by the performance of the employees (Kingir and Mesci, 2010).

As stated by Evans and Lindsay (2011), the values of a hotel lie in its human resources, particularly the employee performance in executing their duties and work. Kiruja and

Mukuru (2013) also stated that the success of the organization in achieving strategic objectives is highly dependent on the level of individual performance.

One of the factors affecting the employee performance is leadership. According to Bass *et al.* (2003), Locander *et al.* (2002) and Yammarino *et al.* (1993), the important factor determining employee performance and organizational adaptation ability to change is leadership. Leadership portrays the relationship between leaders and subordinates and how leaders direct their subordinates in achieving organizational goals (Yammarino *et al.*, 1993; Locander *et al.*, 2002).

Based on the above background, the purpose of the study is to examine the effect of ethical leadership on employee performance, with the employee engagement and organizational citizenship behavior (OCB) as mediating variables.

2. Previous research and research gap

According to Zohar (2005), a leader should act with high motivation and good spiritual change to run a good leadership model. The role of leadership in improving employee performance cannot be separated from the culture in each region. A number of studies related to ethical leadership and its impact on employee performance have been undertaken by several researchers. Many of them found a positive relationship between the two variables (Resick *et al.*, 2006; Walumbwa and Schaubroeck, 2009; Zehir and Erdogan, 2011; Sabir *et al.*, 2012). This suggests that the ethical leadership applied by a leader addresses emerging problems in improving employee performance (Brown and Treviño, 2006; Dadhich and Bhal, 2008; Mayer *et al.*, 2009; Brown and Mitchell, 2010). But on the other hand, Ekaningtias (2016) found a different result that ethical leadership has no positive effect on employee performance at government offices in East Java.

The inconsistencies of the study results provide evidence and opportunities for this study to review by including mediating variables on ethical leadership and employee performance relationship. The studied variable as a mediating variable is employee engagement. Employee engagement is a different and unique behavior of the members of the organization related to their respective roles (Saks, 2006). According to Kahn (1990), engagement is viewed as the utilization of the organization members for their job roles. Engagement is seen as a person who expresses him/herself physically, cognitively and emotionally during the performance. Wagner and Harter (2006) added that the engaged employees consistently prove to be more productive, profitable and less likely to leave their employers or companies.

In recent years, a number of strands of literature have been discussed about engagement and how to generate engaged workers, as employee engagement increases are able to predict high performance (Harter *et al.*, 2002; Richman, 2006; Saks, 2006; Bakker and Bal, 2010; Chung and Angeline, 2010; Bakker *et al.*, 2012). Some empirical studies show that employee engagement can improve employee performance, profitability, customer satisfaction, retention of employees and organizational success (Bates, 2004; Baumruk, 2004; Richman, 2006). Employee engagement is one of the key determinants that drive employee performance to a high level (Macey *et al.*, 2009; Mone and London, 2010), as well as being able to predict the work result, success and performance of the organization (Saks, 2006; Macey *et al.*, 2009).

However, some experts find the low employee engagement in many countries. Research results from Robertson and Birch (2010) and Gallup (2013) revealed that only 13 percent of employees worldwide are engaged in their work. A number of studies suggest that employees with no sense of engagement to the company tend to be skeptical of any initiative or communication the company offers, and of course, this condition is potentially contagious to other employees (Perrin, 2003; Ellis and Sorensen, 2007; Dermovsek, 2008).

Besides affecting employee performance, employee engagement can also be influenced by ethical leadership. According to McBain (2007), the high/low level of employee engagement depends on the leadership. This is also supported by research conducted by Walumbwa and Schaubroeck (2009) that ethical leadership affects employee engagement.

Various studies from Harter *et al.* (2002), Richman (2006), Saks (2006), Suan (2009), Bakker and Bal (2010), Chung and Angeline (2010) and Bakker *et al.* (2012) found that employee engagement can affect employee performance. In conditions where there is a relationship between ethical leadership and employee engagement or between employee engagement and employee performance, employee engagement has the potential to mediate ethical leadership and employee performance relationship.

In addition to employee engagement, this study also included the OCB variable as a mediating variable. OCB variables in a number of studies could act as mediator. Baron and Kenny (1986) explain that ethical leadership influences OCB, and on the other hand, OCB affects employee performance, so in such position, OCB can act as mediator. Findings that reveal the influence of ethical leadership on OCB are the results of research from Michael and Linda (2006), Kim and Leung (2007), Cyril and Girindra (2009), Polat (2009), Kacmar *et al.* (2011) and Silke (2012), which state that ethical leadership influences OCB.

Related to several leadership factors, employees need ethical leadership in their organizations that refer to leaders with the characteristic of responsibility, trust, equity, morality, respect and awareness of human rights and equality. With these characteristics, employees will trust their leaders and feel secure (Shukurat, 2012). Employees will volunteer to work to support their organizations (Silke, 2012) and promote a strong and responsible work environment (Michael, 2005).

In the hotel organization, only a few employees have OCB because each employee has a fairly strict job description, causing low OCB behavior. The low OCB is assumed to be the cause of low employee performance at the hotel. A number of studies have found that OCB affects employee performance. Chien (2003) in his research found that OCB positively affects the individual, group and organizational performance. Bachrach *et al.* (2006) and Azmi (2010) also state that OCB has a significant effect on performance. Research from Podsakoff *et al.* (2000), Suumenda and Arup (2007), Luthans (2011), Gholamreza *et al.* (2013) and Kilinc and Ulusoy (2014) also proved a significant positive relationship between OCB and employee performance.

Furthermore, the relationship between employee engagement and OCB is shown by several studies such as Ahmed *et al.* (2012), Rurkkhum and Bartlett (2012), Sridhar and Thiruvenkadam (2014), George and Joseph (2015), Owor (2016) and Latha and Deepa (2017).

Based on the existing studies, conceptually, there is no research that integrates the relationship between ethical leadership, employee engagement and OCB on employee performance in one research model. Several previous studies have identified the influence of ethical leadership, employee engagement and OCB in improving employee performance in separate research models, so there is still a gap for further research.

This study uses the gap to describe the role of employee engagement and OCB in mediating ethical leadership and employee performance relationship in a number of non-star hotels in Sarbagita area of Bali. The role of employee engagement and OCB involved as a mediator is intended to illustrate an explanatory alternative to the effect of ethical leadership on employee performance.

The next gap is in the presence of the two mediating variables involved in this study, i.e. employee engagement and OCB. The researcher will examine the linkages of the two mediators to each other. In some studies, such as Daniel *et al.* (2015), Yıldız (2016) and Vartanian *et al.* (2016), the result shows that the mediating variable can be more than one serialized variable.

3. Theoretical framework and hypothesis development

The success of an organization in achieving the strategic goals depends greatly on the performance of the employees. Leaders as role models become an important source of ethical guidance for employees and, at the same time, must be responsible for the moral development of an organization. Consequently, the ethical and moral conducts of leaders are increasingly needed.

The effect of ethical leadership on employee performance is shown from the results of research conducted by Zehir and Erdogan (2011), Rehman (2011), Resick *et al.* (2011) and Obicci (2015). Further research results of Walumbwa and Schaubroeck (2009), Men (2015) and Khuong and Dung (2015) concluded that ethical leadership influences employee engagement. Meanwhile, the study linking ethical leadership with OCB is from Piccolo *et al.* (2010), Yates (2014), Poohongthong *et al.* (2014) and Mo and Shi (2017).

Previous research results also indicate the effect of employee engagement on OCB, as summarized by Ahmed *et al.* (2012) and Rurkkhum and Kenneth (2012). Employee engagement also has an effect on employee performance, as shown by Bagyo (2013), Anitha (2014) and Bedarkar and Pandita (2014).

Other results also showed that OCB has an effect on employee performance. This is indicated by the results of research conducted by Chow (2009), Markose and Jayachandran (2009), Chiang and Hsieh (2012), Sriboonlue and Jindarat (2013), Maharani *et al.* (2013) and Kilinc and Ulusoy (2014).

Based on the previous framework and research results, ethical leadership can influence employee engagement, OCB and employee performance. On the other hand, employee engagement and OCB may also affect employee performance. Based on this, a conceptual framework is developed as shown in Figure 1.

The relationship between ethical leadership and employee engagement was found in Leung (2008), De Hoogh and Den Hartog (2008), Mayer *et al.* (2009), Piccolo *et al.* (2010) and Kacmar *et al.* (2011), which affirms that there is a positive relationship between ethical leadership and employee engagement.

Research studies proving that employee engagement can improve employee performance, profitability, customer satisfaction, retention of employees and success for organizations are Bates (2004), Baumruk (2004) and Richman (2006). The existence of partial relation on each ethical leadership and employee engagement relationship and employee engagement and employee performance relationship shows that employee engagement can be a mediating variable between ethical leadership and employee performance. Based on this, a research hypothesis can be formulated, i.e.:

H1. Employee engagement is able to mediate the ethical leadership and employee performance relationship.

Ethical leadership influences OCB according to several studies such as Cyril and Girindra (2009), Michael and Linda (2006) and Silke (2012). Furthermore, some research confirms that OCB enables to improve employee performance, as shown by Podsakoff *et al.* (2000), Gholamreza *et al.* (2013), Luthans (2011), Kilinc and Ulusoy (2014) and Suumenda and Arup

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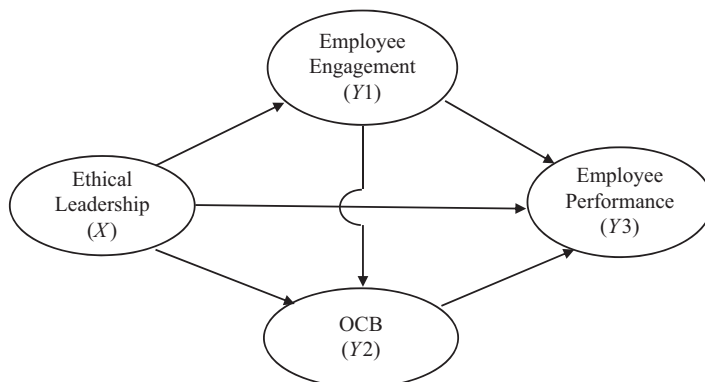


Figure 1.
Conceptual framework
of the research

(2007). With regard to a number of research results showing a partial relationship on each variable that is ethical leadership with OCB and OCB with employee performance, it indicates that OCB is able to be a mediating variable between ethical leadership and employee performance. Therefore, a hypothesis can be drawn, i.e.:

H2. OCB is able to mediate ethical leadership and employee performance relationship.

The positive relationship of ethical leadership and employee engagement was found in various studies, such as Leung (2008), De Hoogh and Den Hartog (2008), Mayer *et al.* (2009), Piccolo *et al.* (2010) and Kacmar *et al.* (2011). Other studies that showed that employee engagement can improve employee performance, profitability, customer satisfaction, retention of employees and success for organizations are Bates (2004), Baumruk (2004) and Richman (2006). The existence of partial relation on each ethical leadership and employee engagement relationship and employee engagement and employee performance relationship shows that employee engagement has potential to be a mediating variable between ethical leadership and employee performance. Furthermore, ethical leadership influences OCB according to several studies from Michael and Linda (2006), Cyril and Girindra (2009) and Silke (2012). A number of research results assert that OCB is able to improve employee performance, including the results of research conducted by Podsakoff *et al.* (2000), Suumenda and Arup (2007), Luthans (2011), Gholamreza *et al.* (2013) and Kilinc and Ulusoy (2014). The results of research conducted by Daniel *et al.* (2015), Yıldız *et al.* and Vartanian *et al.* (2016) concluded that the mediating variables could be more than one serial or multiple variables, so the role of employee engagement and OCB serially mediate can be used. Based on the assumption of previous research, a research hypothesis can be formulated, i.e.:

H3. Employee engagement and OCB are able to mediate ethical leadership and employee performance relationship.

4. Design and method

The design of this study was quantitative by testing the theory built on a number of variables, measured by numbers and analyzed by statistical procedures, to ascertain the predictive generalizations truth of the theory (Creswell, 2010). The location chosen for this research was non-star hotel in Sarbagita area of Bali, with non-star hotel employees as the object of research. The reason for the non-star hotel selection was because the rapid growth of non-star hotels was not followed by the high occupancy rate of the hotel and the declining number of non-star hotels within the period from 2013 to 2015. The selection of Sarbagita area was done because the region was strategic in tourism development and, according to the number of hotels in Bali, became a fairly rapid growth dominant area.

The population in this study was all employees of non-star hotels in Sarbagita area of Bali. Given the limited information on the number of employees in each non-star hotel in Sarbagita area of Bali, the determination of the number of samples used the Roscoe concept, 1975 (in Sekaran, 2006) which stated that to determine the number of samples in a multivariate study, the sample size should be at least ten times or greater than the number of variables in the research model. Based on this concept, the number of samples in non-star hotel in Sarbagita area of Bali was 120 people (this number obtained from the sample size needed was 30 times the number of variables, and this study used 4 variables). Of the 120 people, 3 employees from each hotel were chosen as respondents. It was intended to minimize the deviation of respondent's evaluation on the statement items in the questionnaire. Thus, the number of target hotel was 40 units (120 persons divided by 3 employees each). The data collection was conducted from July to the beginning of November 2017. The number of questionnaires distributed was 120 questionnaires and all questionnaires were filled and collected completely. Furthermore, data from the results of the questionnaire were tabulated and analyzed with the determined stages.

The operational definitions of the variables as the limitations of the variables used in the research model are: ethical leadership is defined as a leadership reflecting the moral values, which become the role models for the employees. According to Hendler (2011) and Kalshoven *et al.* (2011), the reflected moral values refer to the seven dimensions, i.e. fairness, power sharing, role clarification, people-oriented behavior, integrity, ethical guidance and concern for sustainability; employee engagement is the employee's emotional relationship depicted with a positive attitude in accordance with the organization's values and goals, illustrated by measurement referring to Schaufeli and Bakker (2003) and Balakrishnan *et al.* (2013), i.e. vigor, dedication and absorption; OCB is the behavior of employees who are willing to do work outside the job description and do not expect rewards for the work. The measurement of OCB variables in this study refers to Organ (1988) and Chiang and Hsieh (2012), i.e. altruism, sportsmanship, courtesy, conscientiousness and civic virtue; and employee performance is the employee work results which contribute and are related to the type of work performed to achieve organizational goals effectively and efficiently. Measurement of employee performance variable refers to Koopmans (2014) and Pradhan and Jena (2017) which consists of three dimensions, i.e. task performance, adaptive performance and contextual performance.

The analysis method used was partial least square (Solimun *et al.*, 2017).

PLS utilized in this study was Warp-PLS. It was chosen based on the following reasons: PLS is a general method used to estimate path models utilizing latent variables and multiple indicators. The model in this study was built using one exogenous latent variable: ethical leadership, as well as three endogenous latent variables: employee engagement, OCB and employee performance; and PLS is capable to handle reflective and formative research model. This research model's variables were reflective.

The inferential analysis stage consisted of several steps: evaluating the measurement model (outer model) to determine the validity and reliability of indicators that form each latent variable; evaluating the structural model (inner model) to determine model accuracy; hypothesis assessment; and mediation assessment.

Furthermore, the PLS-based structural equation modeling steps are described as follows: first, evaluation of measurement model or outer model: outer models with reflective indicators were evaluated through convergent validity, discriminant validity of latent construct forming indicators, composite reliability, and Cronbach's α for the indicator block (Chin, 1998; Ghazali, 2008). The first outer model test in this study is convergent validity testing. The indicator is valid if it has a loading value above 0.5 and the t -statistics value is above 1.96.

The following step was to assess discriminant validity. Another method for assessing discriminant validity is to compare the square root of the average variance extracted (AVE) for each construct possessing a correlation between constructs in the model. The model possesses sufficient discriminant validity if the AVE root for each construct is greater than the correlation between the construct. Solimun and Fernandes (2017) recommend that AVE values must be greater than 0.50. Composite reliability and Cronbach's α form indicator blocks that measure constructs. The guidelines used to assess construct reliability in this study are composite reliability values and Cronbach's α values which must be greater than 0.70. On the other hand, testing the discriminant validity used a cross-validation approach, where the highest loading value is owned by each variable.

Second, evaluation of structural models or inner models: evaluation of the structural model or inner model (goodness of fit (GoF)) aims to predict the relationship between latent variables. Inner model is evaluated by determining the percentage of variance based on the Q^2 predictive relevance for each endogenous latent variable as the predictive power of the structural model. Changes in the R^2 value can be used to explain the effect of certain exogenous latent variables on endogenous latent variables, whether they have a substantive influence or not. R^2 values obtained were 0.75, 0.50 and 0.25, respectively. It can be

concluded that the model is strong, moderate or weak. The results of PLS R^2 represent the amount of variance from the construct described by the model.

In addition, to determining the magnitude of the R^2 value, SEM-PLS model evaluation could be conducted utilizing Q^2 predictive relevance for the structural model developed by Stone (1974) and Greisser (1975). It measures how well the observation value is produced by the model and parameter estimation. The value $Q^2 > 0.5$ indicates that the model has predictive relevance; on the contrary, the $Q^2 < 0.5$ value indicates that the model lacks predictive relevance. Should the Q^2 approaches 1, the better the model would be. The Q^2 is equivalent to the coefficient of total determination in path analysis.

This study also uses the GoF to determine the accuracy of the research model. GoF values range from 0 to 1. Values approaching 1 indicate that the model has a good accuracy level. Likewise, on the contrary, if the value approaches 0, the model has bad accuracy level.

Third, hypotheses assessment: hypothesis assessment was conducted using p -statistics (p -value) test. The p -value < 0.05 means that the test is significant. On the other hand, if p -value > 0.05 , it means that the test is insignificant. Should the outer loading be significant, it would indicate that the indicator could be used as a measure of latent variables. Should the inner model be significant, it can be interpreted that there is a significant effect of the latent variable to another latent variable.

Fourth, mediation assessment: in order to determine the indirect effects occurring between variables, a mediation model was assessed. This examination in principle was to examine and intervene mediating variables, whether it was fully mediated, partially mediated or not mediating variables. Assessment method Sobel-based mediation test variables used in this study was in accordance with Hair *et al.* (2010, p. 89) criteria which are described as follows (see Figure 2):

- (1) If a, b and c are significant but the direct coefficient value is $c < b$, then it is partial mediation.
- (2) If a and b are significant, but c is not significant, then it is full mediation.
- (3) If a is significant, b is significant and c is also significant, but the coefficient value is $c = b$, it is not mediation.
- (4) If a or b or both are insignificant, it is not mediation.

5. Analysis results

Characteristics of respondents

This study took 120 non-star hotel employees in Sarbagita area of Bali as the respondents. Table I presents the characteristics of respondents in detail. Based on the information in this table, it can be seen that the respondents of non-star hotel employees are dominated by men, i.e. 83 people (69.17 percent) and the remaining 37 people (30.83 percent) are women. This suggests that most jobs in hotels require the man's dominant physical abilities, but it does not exclude that woman's roles have been considered although the number was half the number of man employees.

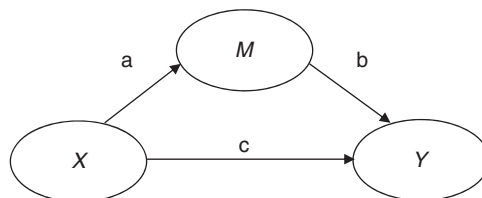


Figure 2.
Theoretical role
of mediation

The employee engagement and OCB

| Characteristics | Total | Percentage |
|-------------------------------------|-------|------------|
| <i>Gender</i> | | |
| Male | 83 | 69.17 |
| Female | 37 | 30.83 |
| Total | 120 | 100.00 |
| <i>Age (years)</i> | | |
| 25–30 | 48 | 40.00 |
| > 30–35 | 31 | 25.83 |
| > 35–40 | 26 | 21.67 |
| > 40 | 15 | 12.50 |
| Total | 120 | 100.00 |
| <i>Education</i> | | |
| Senior high school/equivalent | 88 | 73.34 |
| Diploma | 22 | 18.33 |
| University | 10 | 8.33 |
| Total | 120 | 100.00 |
| <i>Period of employment (years)</i> | | |
| 1–5 | 74 | 61.67 |
| > 5–10 | 24 | 20.00 |
| > 10–15 | 11 | 9.17 |
| > 15 | 11 | 9.17 |
| Total | 120 | 100.00 |

Table I.
Characteristics of respondents

With regard to the age of employees, it is dominated by employees with age range 25–30 years of 40 percent, followed by age range > 30–35 years of 25.83 percent, age range > 35–40 years of 21.67 percent and age range > 40 years of 12.50 percent. This shows that the age of employees in non-star hotels is mostly at a very productive age, in which they are in a condition in determining the development of their career.

Furthermore, as seen from the level of education, most respondents have senior high school/equivalent education of 73.34 percent, diploma graduates of 18.33 percent and university graduates of only 8.33 percent. This condition indicates that employment in a non-star hotel requires more technical skill sufficiently obtained at senior high school/ equivalent level.

Related to the period of employment, the period of employment is dominated by the period of employment 1–5 years of 61.67 percent, the period of employment > 5–10 years of 20.00 percent, the period of employment > 10–15 years of 9.17 percent and the period of employment > 15 years of 9.17 percent. This suggests that with this period of employment, non-star hotel employees show a relatively low level of work attachment to the hotel.

Instrument validity and reliability

Discriminant validity is another way of measuring the validity of an indicator in a variable. It was done by comparing the square root of AVE ($\sqrt{\text{AVE}}$) coefficient of each latent variable with the correlation coefficient among other latent variables in the model. If the square root of AVE ($\sqrt{\text{AVE}}$) coefficient is greater than the correlation coefficient between variables in the model, then the indicators in the variable have good discriminant validity. Recommended AVE value must be greater than 0.50. Table II presents the result of discriminant validity calculation in this research.

Based on Table II, the results of discriminant validity calculations show that the square root of AVE ($\sqrt{\text{AVE}}$) coefficient of each variable is greater than the correlation coefficient between the variables in the model. It can be concluded that the indicators in the variable

have good discriminant validity. This means that the value of \sqrt{AVE} for ethical leadership variable of 0.710 is greater than the correlation coefficient between ethical leadership variables with other variables, i.e. 0.609, 0.519 and 0.423. The square root of AVE for employee engagement variable of 0.778 is greater than the correlation coefficient value of employee engagement with other variables of 0.695 and 0.531. The square root of AVE for OCB variable is 0.746 bigger than OCB value correlation coefficient of 0.536.

Subsequent testing used cross-validation as presented in Table III. The highest value of each indicator is higher than the loading value for other variables (e.g. $X1.1$ has the highest loading on variable $X1$, and the loading value is smaller for other variables).

Composite reliability and Cronbach's α are inter-block indicator reliability measurement of the variables form it. The result of composite reliability and Cronbach's α is considered good if it has a value greater than 0.70. Table IV presents the results of composite reliability and Cronbach's α measurements with SmartPLS 3.0 program.

Table II.
Calculation result of discriminant validity

| Variables | AVE | \sqrt{AVE} | X | Correlation coefficient | | |
|---------------------------|-------|--------------|-------|-------------------------|-------|-------|
| | | | | Y1 | Y2 | Y3 |
| Ethical leadership (X) | 0.504 | 0.7099 | 0.710 | | | |
| Employee engagement (Y1) | 0.606 | 0.7785 | 0.609 | 0.778 | | |
| OCB (Y2) | 0.557 | 0.7463 | 0.519 | 0.695 | 0.746 | |
| Employee performance (Y3) | 0.508 | 0.7127 | 0.423 | 0.531 | 0.536 | 0.713 |

Table III.
Cross-loading

| Dimension/indicators | Variables | | | | |
|----------------------|-----------|-------|-------|-------|--|
| | X1 | Y1 | Y2 | Y3 | |
| $X1.1$ | 0.770 | 0.158 | 0.171 | 0.168 | |
| $X1.2$ | 0.781 | 0.198 | 0.152 | 0.166 | |
| $X1.3$ | 0.820 | 0.155 | 0.189 | 0.174 | |
| $X1.4$ | 0.783 | 0.157 | 0.169 | 0.162 | |
| $X1.5$ | 0.801 | 0.163 | 0.192 | 0.184 | |
| $X1.6$ | 0.727 | 0.197 | 0.195 | 0.197 | |
| $X1.7$ | 0.671 | 0.192 | 0.172 | 0.181 | |
| $Y1.1$ | 0.169 | 0.662 | 0.191 | 0.151 | |
| $Y1.2$ | 0.162 | 0.751 | 0.195 | 0.157 | |
| $Y1.3$ | 0.179 | 0.746 | 0.156 | 0.196 | |
| $Y2.1$ | 0.178 | 0.175 | 0.798 | 0.173 | |
| $Y2.2$ | 0.184 | 0.169 | 0.832 | 0.165 | |
| $Y2.3$ | 0.180 | 0.178 | 0.779 | 0.181 | |
| $Y2.4$ | 0.162 | 0.184 | 0.711 | 0.168 | |
| $Y2.5$ | 0.182 | 0.198 | 0.631 | 0.193 | |
| $Y3.1$ | 0.153 | 0.189 | 0.197 | 0.589 | |
| $Y3.2$ | 0.156 | 0.179 | 0.198 | 0.560 | |
| $Y3.3$ | 0.183 | 0.164 | 0.196 | 0.824 | |

Table IV.
Calculation results of composite reliability and Cronbach's α

| Variables | Composite reliability | Cronbach's α |
|---------------------------|-----------------------|---------------------|
| Ethical leadership (X) | 0.925 | 0.912 |
| Employee engagement (Y1) | 0.955 | 0.949 |
| OCB (Y2) | 0.930 | 0.917 |
| Employee performance (Y3) | 0.930 | 0.919 |

Based on Table IV, the calculation results of composite reliability and Cronbach's α show that each variable has composite reliability coefficient value ranging from 0.925 to 0.955 (> 0.70). Therefore, based on composite reliability, the indicators forming the research variables are reliable. Cronbach's α coefficient in this table shows the values ranging from 0.912 to 0.949 (> 0.70). Therefore, based on Cronbach's α conditions, the indicators forming research variables are reliable.

The employee engagement and OCB

Evaluation of structural model

Evaluation of structural model (inner model) was completed with three approaches, i.e. R^2 , Q^2 predictive relevance and GoF. The calculation of Q^2 used the R^2 coefficient, whereas the calculation of GoF used R^2 and communality. The calculation result of Q^2 predictive relevance shows the value of 0.792, which means the model shows very good observation, in which 79.2 percent relationship between variables can be explained by the model, while the rest (20.8 percent) is error factor or another factor not included in the research model.

Hypothesis testing

Hypothesis testing in this research was conducted by considering the result of PLS calculation shown in Figure 3. The numbers in parentheses show p -value, where the p -value < 0.05 indicates a significant relationship. The results of the analysis are seen from six indirect influences. There are two insignificant effects, i.e. the effect of ethical leadership on OCB and ethical leadership on employee performance.

Tests of indirect effect between ethical leadership on employee performance variables through employee engagement and OCB can be seen in Table V. It shows that the effect of ethical leadership on employee engagement is significant with the coefficient path of 0.609 (a). The effect of employee engagement on employee performance is significant with the coefficient path of 0.252 (b). The effect of ethical leadership on employee performance is not significant with the coefficient path of 0.113 (c).

The effect testing of ethical leadership variable on employee performance through employee engagement and ethical leadership influence on employee performance through OCB shows three relationships of variables that are influenced indirectly according to the results presented in Table VI, with the following explanation.

Hair *et al.* (2010, p. 89) state that if (a) and (b) direct effects are significant, but (c) is not significant, it means full mediation which means that the influence of ethical leadership on employee performance can be explained only by the presence of employee engagement variable. The results of this test can give a sense that the better the ethical leadership is, the better the employee performance will be through the higher employee engagement of the employees.

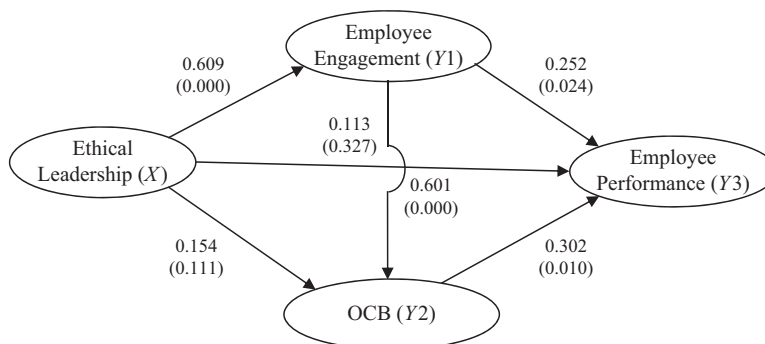


Figure 3.
Results of direct effect testing

Employee engagement fully mediates the influence of ethical leadership on employee performance. The results of the statistical analysis can be used as a basis for this study to accept the hypothesis which states that ethical leadership affects employee performance through employee engagement.

Table VI shows that the effect of ethical leadership on OCB is not significant with the path coefficient of 0.154 (a). The influence of OCB on employee performance is significant with the path coefficient of 0.302 (b). The influence of ethical leadership on employee performance is not significant with the path coefficient of 0.113 (c).

Hair *et al.* (2010, p. 89) state that if the (a) and (c) direct effects are not significant, then it means no mediation which means that the influence of ethical leadership on employee performance cannot be explained by the presence of OCB variable. OCB is unable to mediate the effect of ethical leadership on employee performance. The results of the statistical analysis can be used as a basis for this study to reject the hypothesis which states that ethical leadership affects employee performance through OCB.

Table V shows that the influence of ethical leadership on employee engagement is significant with the path coefficient of 0.609 (a). The influence of employee engagement on OCB is significant with the path coefficient of 0.601 (b). The influence of ethical leadership on OCB is not significant with the path coefficient of 0.154 (c).

Hair *et al.* (2010, p. 89) state that if (a) and (b) direct effects are significant, but (c) is not significant, then it means full mediation which means that the influence of ethical leadership on employee performance can be explained only by the presence of employee engagement and OCB variables. The results of this test show that the better the ethical leadership is, the better the employee performance will be through the higher employee engagement and OCB employees. Employee engagement and OCB

Table V.
Indirect effect of ethical leadership (X) on employee performance (Y3) through employee engagement (Y1) and OCB (Y2)

| Model | Path coefficient | p-value | Remark | Information |
|-----------|------------------|---------|------------------------|--|
| (a) X→Y1 | 0.609 | 0.001 | Significant (level 1%) | a, b are significant while c is not significant = full mediation |
| (b) Y1→Y3 | 0.252 | 0.024 | Significant (level 5%) | |
| (c) X→Y3 | 0.113 | 0.327 | Not significant | |
| (a) X→Y2 | 0.154 | 0.111 | Not significant | a and c are not significant = no mediation |
| (b) Y2→Y3 | 0.302 | 0.010 | Significant (level 5%) | |
| (c) X→Y3 | 0.113 | 0.327 | Not significant | |
| (a) X→Y1 | 0.609 | 0.001 | Significant (level 1%) | a, b are significant while c is not significant = full mediation |
| (b) Y1→Y2 | 0.601 | 0.001 | Significant (level 1%) | |
| (c) X→Y2 | 0.154 | 0.111 | Not significant | |

Notes: p-value < 0.01 is significant with the 1 percent level of significance; p-value < 0.05 is significant with the 5 percent level of significance; p-value > 0.05 is not significant

Table VI.
Indirect effects of ethical leadership (X), employee engagement (Y1), OCB (Y2), on employee performance (Y3)

| Influence between variables | Path coefficient | p-value | Sig. (5%) | Information |
|--|------------------|---------|-----------|-----------------|
| X (ethical leadership)→Y1 (employee engagement)→Y3 (employee performance) | 0.154 | 0.027 | 0.05 | Significant |
| X (ethical leadership)→Y2 (OCB)→Y3 (employee performance) | 0.046 | 0.212 | 0.05 | Not significant |
| X (ethical leadership)→Y1 (employee engagement)→Y2 (OCB)→Y3 (employee performance) | 0.110 | 0.022 | 0.05 | Significant |

fully mediate the influence of ethical leadership on employee performance. The results of the statistical analysis can be used as a basis for this study to accept the hypothesis which states that ethical leadership affects employee performance through employee engagement and OCB.

6. Discussion

Employee engagement's role in mediating ethical leadership and employee performance relationship

The results of the test indicate that the hypothesis which states that ethical leadership has a significant positive effect on employee performance in non-star hotels in the Sarbagita area Bali is rejected. The relationship of ethical leadership on employee engagement was found in Leung (2008), De Hoogh and Den Hartog (2008), Mayer *et al.* (2009), Piccolo *et al.* (2010) and Kacmar *et al.* (2011), which state that there is a positive relationship between ethical leadership and employee engagement.

Research studies that prove that employee engagement can improve employee performance, profitability, customer satisfaction, retentions of employees and success for the organization include Bates (2004), Baumruk (2004) and Richman (2006). The existence of partial relation on each ethical leadership and employee engagement relationship and employee engagement and employee performance relationship shows that employee engagement has potential to be a mediating variable between ethical leadership and employee performance.

OCB's role in mediating ethical leadership and employee performance relationship

The results of the test indicate that the hypothesis which states that ethical leadership has a significant positive effect on employee performance at non-star hotel in Sarbagita area Bali is rejected. Ethical leadership influences OCB according to several studies such as Michael and Linda (2006), Cyril and Girindra (2009) and Silke (2012). Furthermore, many studies mentioned that OCB is also able to improve employee performance such as research from Podsakoff *et al.* (2000), Suumenda and Arup (2007), Luthans (2011), Gholamreza *et al.* (2013) and Kilinc and Ulusoy (2014). The results of model testing prove that ethical leadership owned by hotel managers is not able to increase OCB of the employees. The existence of this insignificant partial relationship indicates that OCB is automatically unable to mediate the relationship between ethical leadership and employee performance.

Employee engagement and OCB roles in mediating ethical leadership and employee performance relationship

From the relationship between ethical leadership and employee engagement, it can be seen that ethical leadership has a significant positive effect on employee engagement. This indicates that the better the ethics of non-star hotel managers perceived by employees are, the higher the sense of engagement/attachment of employees will be to non-star hotel they work at. Furthermore, the relationship between employee engagements and OCB shows that employee engagement has a significant positive effect on OCB in non-star hotel in Sarbagita area of Bali. This indicates that the higher employee engagement owned by non-star hotel employees is, the higher the OCB behavior of employees will be for non-star hotels they work at. The next test results show that OCB relationship has a significant positive effect on employee performance in non-star hotel in Sarbagita area of Bali. This indicates that the higher the OCB owned by non-star hotel employees is, the better the performance of non-star hotel employees will be.

Research conducted by Daniel *et al.* (2015), Yıldız *et al.* (2016) and Vartanian *et al.* (2016) explains that the number of mediating variables can be more than one serialized variable, so this study is able to prove that employee engagement and OCB jointly mediate ethical leadership with employee performance relationship in series.

7. Research findings, implications, limitations and recommendations

Research findings

First, ethical leadership does not have a significant effect on employee performance, where the increase in leadership value is not able to provide a significant improvement in the performance of non-star hotel employees in the Sarbagita area of Bali. This can happen because the employee performance has been running in such a way without requiring the role of ethical leadership value. Meanwhile, employee leadership patterns have become their own practice with the implementation of engagement and OCB so that without the need to be advised or supervised by the leader, the employees with the fixed practice automatically carry out their obligations. Second, employee engagement is able to mediate ethical leadership in improving employee performance. This is because the value of leadership related to fairness, power-sharing, role clarification, people-oriented behavior, integrity, ethical guidance and concern for sustainability when fully mediated by the value of vigor, dedication and absorption are seen as capable determining variable to improve the performance of non-star hotel employees in the Sarbagita area of Bali. Third, the OCB will be able to play a role in mediating the influence of ethical leadership on employee performance if it passes the mediating role of employee engagement first. This is a finding on the condition of employees in non-star hotels, where the role of ethical leadership will be able to improve employee performance when employees have a high sense of engaged first, then affect employees to implement OCB behavior and finally both mediation roles are able to improve the performance of non-star hotel employees in the Sarbagita area of Bali.

Research implications

The results of this study have provided findings in accordance with the constructs used in the discussion. On the basis of all these items, some theoretical implications of the results of research can be proposed. The integration of the four variables of ethical leadership, employee engagement, OCB and employee performance prove that achievement of employee performance improvement must be based on improved ethical leadership in influencing employee engagement first to encourage OCB improvement. This condition is because the strengthening of OCB in the employee performance improvement is determined by the role of ethical leadership to encourage employee engagement. Without the employee engagement role, OCB will not be able to bridge ethical leadership behavior on the employee performance improvement.

A practical implication for management and employees is to provide input that this research emphasizes that employee engagement is the key to assisting in improving OCB and employee performance because the values of employee engagement are inherent and have strong relationship in improving employee performance through ethical leadership roles.

Limitations of research

This research has attempted to construct an integrated model of the employee engagement and OCB role in mediating ethical leadership and employee performance relationship of non-star hotel employees in Sarbagita area of Bali. However, it is acknowledged that there are still many limitations that make that the results of this study are not yet perfect, which are related to the following issues: the sampling is not representative yet (representative of population) based on the level and type of non-star hotels (budget hotels class 1, budget hotels class 2, budget hotels class 3, resorts, villas, pavilions, etc.); and research respondents less reflect/represent units in non-star hotels, which should involve all units in non-star hotels.

Theoretical recommendations

First, in relation to the limitations of this study, further research may be undertaken on non-star hotels in other areas or in larger areas. Research can also be done by using the research sample on the entire classification of non-star hotels throughout Bali by involving all employees. Second, research can also be undertaken by examining issues related to ethical leadership, employee engagement, OCB and employee performance in star hotels as a comparison. Third, for future researchers, it is necessary to develop ethical leadership that leads to the existing culture without removing the cultural principles in the local research area as a primary consideration.

Practical recommendations

First, non-star hotel managers, in particular, need to be aware that employee performance improvement can be done with approaches that pay more attention to employee conditions, the personal needs of employees and the development of employee life to foster a sense of closeness and attachment of employees in the company. Second, for the management of the hotel, it is advisable to pay more attention related to the employee engagement which is described by focus on work, more attention to work, the happiness in work, the feeling of difficulty to get away from their work which plays a role in fostering a sense of ownership and love of employees in the company. Third, for the management of the hotel, they should pay more attention to the improvement of employee behavior that implements the company rules well, arrive at work early, conscientious and rarely make mistakes to increase the awareness of employees in good behavior. Fourth, for the management of the hotel, they should be able to maintain the employee performance in executing the work by collaborating, coordinating and communicating well, the role of employees in taking the initiative to help the problem, be able to open to criticism, be able to learn from mistakes and be able to prioritize the guest/client interests and satisfaction.

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Corresponding author

Ida Ayu Putu Widani Sugianingrat can be contacted at: ida.unud.jp@gmail.com

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