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**THE IMPACT OF ETHICAL LEADERSHIP ON SERVICE INNOVATION  
BEHAVIOR**

**(Study on Magetan Regency Government)**

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**Abstract**

This study aims to examine the effect of ethical leadership on service innovation behavior by considering the role of leader-member exchange, job autonomy, psychological capital. Conducted in the Magetan regency regional apparatus work unit, this study involved 199 respondents. For the analysis of this study using SEM-PLS with Smart PLS version 3.0. The findings of this study are that ethical leadership affects service innovation behavior, ethical leadership affects leader-member exchange, ethical leadership affects psychological capital and psychological capital affects service innovation behavior. And psychological capital mediates the relationship between ethical leadership and service innovation behavior. While the leader-member exchange does not mediate the relationship of ethical leadership to service innovation behavior and also job autonomy does not moderate the relationship of leader-member exchange to service innovation behavior. Future studies are recommended to further develop research on the relationship of ethical leadership to service innovation behavior by considering other variables in order to obtain more in-depth results.

**Keywords:** Ethical Leadership, Leader-member exchange, Job Autonomy, Psychological Capital.

**INTRODUCTION**

Organizations need good performance management for organizational cycles that are in line with their mission and vision. Organizational performance depends on ethical leadership approaches, innovation in services provided, employee job involvement and intrapreneurship (Brown & Treviño, 2006). These elements enable the organization to adapt to its environment and gain a sustainable competitive advantage (Cheng, Chang, Kuo, & Cheung, 2014). Research on fraud and scandal has forced organizations to reconsider the ethical behavior of their leaders and see restoration of public trust by leaders and organizations as a top priority (Xiaojun & Guy, 2014).

Ethical leadership has attracted the interest of organizational practitioners and academics in recent years (Neubert, Wu, & Roberts, 2013; Xiaojun & Guy, 2014). Studies conducted by various researchers have examined the effect of employee-related work behavior and found that ethical leadership has a very positive impact on employee satisfaction levels, then influences

employee commitment levels, helps employees to create employee moral identity and good citizenship behavior for the organization (Neubert *et al.*, 2013).

Not only helps employees to create employee moral identity (Neubert *et al.*, 2013), but a manager who has an ethical leadership style is able to encourage employees to come up with new ideas that improve product, process or service offerings. With increasing concerns about organizational ethics, it is useful to know how leaders can enhance the creativity of their employees through ethical practices as well as the impact of ethical leadership styles on organizational outcomes (Tu *et al.*, 2019). Creativity has been recognized as one of the main factors for a company's success (Elrehail *et al.*, 2018; Zacher & Rosing, 2015) and a country's economic growth (Pradhan *et al.*, 2018).

When employees perceive their leader to have an ethical leadership style by being caring, supportive, and motivating, employees perceive that the leader is committed to them (Dhar, 2016). Therefore, they produce high-quality leader-member exchanges because of the high level of trust, sense of belonging, and loyalty they develop towards the leader (Erdogan, Liden, & Kraimer, 2006). According to Dhar (2016), leader-member exchange is an exchange of relationships shared by organizational leaders and members. Compared to other leadership theories, the leader-member exchange differs in that it focuses specifically on the relationship between the leader and the subordinate and how this relationship is affected over time (Chen, Lam, & Zhong, 2012; Sears, 2011). In such an environment, leaders form very personal relationships with some members (Herdman, Yang, & Arthur, 2014).

There are various studies that consider that there is a positive relationship between leader-member exchange and employee service innovation behavior (Garg & Dhar, 2017; Dhar 2016). The research findings of Garg & Dhar (2017) state, leader-member exchange and service innovation behavior theory by showing that employees who experience high-quality working relationships with their supervisors tend to reciprocate by displaying service innovation behaviors due to the fact that in such relationships, employees get support. from their supervisors to face challenges in the work environment. However, studies of this relationship have yielded inconsistent results (Volmer, Spurk & Niessen, 2012), which pay attention to research gaps where further research can be done to explore other variables.

Although service innovation behavior is considered a complex interactional process (Dotzel, Shankar, & Berry, 2013; Schuhmacher & Kuester, 2012), little research has examined how job characteristics can promote innovative services. This study attempts to understand whether job autonomy acts as a moderator of the relationship between leader-member exchange and service innovative behavior. First, job autonomy is an important job characteristic that provides opportunities for employees to find combinations in different jobs (Wang & Cheng, 2010). Employees with a higher level of job autonomy can increase their responsibility towards their work (Parker & Sprigg, 1999) which results in a higher likelihood of engaging in service innovation behaviors and reciprocating them to their supervisors. Volmer *et al* (2012) examined whether job autonomy acts as a moderator as it has received much attention in previous studies examining its effect on various work-related outcomes such as job satisfaction, anxiety, employee turnover and performance. Therefore, this study will try to expand the literature by examining the role of leader-member exchange in influencing behavior employee turnover and

performance. Therefore, this study will try to expand the literature by examining the role of leader-member exchange in influencing behavior employee turnover and performance. Therefore, this study will try to expand the literature by examining the role of leader-member exchange in influencing behavior creative service employees and consider job autonomy as a moderator.

Not only job autonomy as a moderator in the relationship between leader-member exchange on employee service innovation behavior but an employee also requires high psychological capital. Previous research has shown that employees with high psychological capital perform better in the workplace (Avey *et al.*, 2011; Luthans *et al.*, 2013). However, service innovation behavior requires the ability to persist and move forward in challenging situations and find new ways to solve problems (Luthans *et al.*, 2007; Sweetman *et al.*, 2011). Psychological capital is considered a personal level concept (Dawkins *et al.*, 2015), and is a type of personal resource, which emphasizes that employees achieve personal goals through their psychological excellence (Avey *et al.*, 2011). Based on research from Luthans & Youssef (2004), a positive psychological form that has been determined to meet the criteria of hope, resilience, optimism, and self-efficacy when combined and is commonly referred to as psychological capital or PsyCap. Luthans *et al.* (2007) stated that psychological capital has been defined as "a state of positive psychological development of a person and describes the dimensions of psychological capital: (1) having the self-efficacy to take and make the necessary efforts to succeed in tasks. difficult task; (2) make positive decisions about present and future success (optimism); (3) stick to a goal and, if necessary, direct the path towards the goal to succeed (hope); and (4) when there is problems and difficulties,

In the context of the relationship between leadership and psychological capital, one of them is ethical leadership. Ethical leadership demonstrates that it not only has a normative role by encouraging ethical behavior among employees subordinate (Brown *et al.*, 2005; Brown & Trevino 2006), but has a positive impact on performance by strengthening individual motivation (PsyCap) and goal congruence between leaders and employees. From a strategic point of view, organizations that include ethics as an important criterion can benefit positively from ethical leadership on the role of employee performance (Bouckennooghe *et al.*, 2015).

In March 2020, President Jokowi officially announced that there were two Indonesian citizens who had tested positive for the corona virus. The President's official statement breaks the assumption that Indonesia is "immune" from the spread. Several diplomats from neighboring countries have long warned and even feared that Indonesia was very vulnerable to the spread of the virus. However, at that time the government seemed not to take seriously the warnings that had been conveyed by a number of diplomats. There was even a statement from one of the Ministers who seemed to "challenge" the Covid-19 threat (news.detik.com, 03 March 2020).

In the end, the government through Presidential Decree No. 12 of 2020 declared non-natural disasters caused by the spread of the Corona Virus Disease 2019 (Covid-19) pandemic as a national disaster. Even since March 17, 2020, the Kemenpan RB has issued a policy for State Civil Apparatus (ASN) to work from home or Work From Home (WFH). Along with the pandemic that has occurred, there has been a cessation of public services in the community as read in the Kompas Research and Development Survey that the decline in ASN professionalism

(9.2%), not getting quality health services (23%), unable to take care of correspondence and permits which have an impact in business (8%), and did not find a job (7.3%) (ombudsman.go.id, 08 May 2020).

From the phenomena above, it can be said that ethical issues are very important and unavoidable. As stated Law Number 44 of 2018 Paragraph 2 explains The Code of Ethics for ASN Employees so that it becomes more attention to government agencies, one of which is the Magetan Regency SKPD in avoiding unethical things and creating innovative things in order to maintain service continuity during the Covid-19 pandemic. (kompas.com, 10 May 2017).

Based on it is against the above background that this research is important to do to examine the ethical leadership role of a superior in leading an organization in improving employee service innovation behavior by considering the leader-member exchange and the role of employee psychological capital and job autonomy in government agencies, one of which is SKPD Magetan

## **Theory & Hypothesis Development**

### ***Ethical Leadership***

Ethics is a systematic approach to understanding and analyzing what is right and wrong, good and bad, as it relates to well-being and relationships among living things (Yukl *et al.*, 2011). According to Yukl (2015) one of the determinants in improving ethical behavior in an organization is success in influencing people. Effective managers influence subordinates to do their jobs effectively, managers influence coworkers to provide support and assistance, and employees influence superiors to provide resources and approve necessary changes (Yukl, 2015).

In this case, leadership is needed by humans because of certain limitations in humans. This is where the need to lead and be led comes from. In this case, namely ethical leadership, Kanungo (2001) explains that ethical leaders are able to set a real example through actions and behaviors that are beneficial to others, and also trust the prevailing social norms. Brown, Treviño & Harrison (2005) suggest that the combination of integrity, ethics, and fair behavior towards employees is the basis of ethical leadership. So ethical leadership can be defined as a form of appropriate normative behavior through personal actions and interpersonal relationships and applying these behaviors to employees through communication and decisions (Brown, Treviño & Harrison, 2005).

From this definition, two dimensions of ethical leadership are formed. First, people who have an ethical leadership style have high moral values characterized by trust, honesty, motivation, integrity and fairness (Hansen *et al.*, 2013; Xiaojun & Guy, 2014). Second, managers who have good morals can influence the attitudes of their employees through their leadership behavior (Trevino & Brown, 2004). According to Brown, Treviño & Harrison (2005), the basis of ethical leadership lies in two different theories, namely social learning theory and social exchange theory.

The theory explains that subordinates reciprocate in an appropriate way, namely by the way their leader interacts with them. For example, if a leader treats them fairly, supports those in need, shows concern, encourages and gives them opportunities, subordinates will reciprocate with positive behavior (Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009). Based on this, it can

be concluded that leaders who have ethical leadership style tend to create an environment that improves employee attitudes and behavior (Brown *et al.*, 2005).

### **Service innovation behavior**

The development of technology is so rapid and also the needs of society are always increasing so that organizations need to innovate or change some behavior. In the perspective of organizational psychology, this behavior is called innovative work behavior (Janssen, 2000). Janssen (2000) defines service innovation behavior as the intentional creation of new ideas in a job, group, or organization to gain an advantage in the performance of a job, group or organization. This definition defines service innovation behavior as deliberate efforts to bring about profitable results. On the other side a leader also needs to establish a place where he encourages employees to develop healthy relationships with leaders so that employees can accommodate customer preferences and demands by creatively adapting their services (Hallin & Marnburg, 2008).

From the employee's point of view, service innovation behavior is defined as the initiative of employees regarding the introduction of new processes, new products, new markets or such combinations into the organization (Amo & Kolvereid, 2005). According to De Jong & Hartog (2010) the effectiveness of service innovation behavior is related to the observation of workers in anticipating work problems and the response of colleagues to alternative solutions proposed. From this, service innovation behavior has a direct or indirect negative impact on job involvement. For example stress, burnout, perception of inadequate support and poor performance are examples of the negative direct effects then pressure on the production, realization, and persistence of new ideas, morale, limited work-life balance, criticism of proposed ideas. by others, social and health risks as an indirect negative effect (Hollebeek *et al.*, 2018).

From some of these perspectives, innovative behavior is often associated with creativity. These two things are related but have different forms. Creative behavior is the process of generating a new idea, idea, or thought related to products, services, processes and work procedures. Meanwhile, innovative work behavior does not only generate new ideas but also involves the implementation process of these ideas, especially in work settings (De Jong & Hartog, 2010). In this case, De Jong & Hartog (2007) stated that service innovation behavior is behavior that includes exploring new opportunities and ideas, it can also include implementing new ideas, applying new knowledge and to achieve personal or business performance improvements.

### **Leader-Member Exchange**

Leader-member exchange theory emerged as the idea of vertical linkage defined as an exchange relationship between superiors and subordinates (Dansereau, Graen, & Haga, 1975; Graen & Cashman, 1975). Therefore, the leader-member exchange theory describes superiors and subordinates as active participants in an ongoing process to develop a high-quality working relationship. (Graen & Cashman, 1975; Graen, 1976; Graen & Uhl-Bien, 1995). High quality leader-member exchange (in-group) relationships are described by trust, sharing information and providing resources such as desired assignments, training opportunities, two-way communication and emotional support for employees (Liden & Maslyn, 1998; Masterson *et al.*, 2000; Wayne, Shore, & Liden, 1997).

Some experts suggest that, Leader Member Exchange or leader-member exchange is a relationship carried out by leaders in different ways to all its members, leaders carry out different relationships, namely an exchange with each member (Herdman, Yang & Arthur, 2014; Garg. & Dhar, 2017; Carnevale, Huang & Paterson, 2019). The quality of the Member-Exchange Leader is divided into two, namely:

1. High Quality Leader Member-Exchange (in group)

Graen & Uhl-Bien (1995) stated that subordinates belonging to the in group perform their work in accordance with the employment contract and can be relied on by superiors to perform tasks that are not in the structure, volunteer for additional work, and to take on additional responsibilities. Superiors exchange personal resources and positions (in information, influence in decision making, tasks, support and attention) in exchange for subordinates' performance on unstructured tasks (Truckenbrodt, 2000).

2. Low Quality of Leader Member-Exchange (out group)

Low quality out group or Leader Member-Exchange relationships involve exchanges limited to employment contracts. In other words, the out group performs the routine tasks of the unit and experiences more formal exchanges with superiors (Lee, 2008).

The Leader Member-Exchange Theory differs from other leadership theories which emphasize the relationship between leader and subordinates. This comes as a critique of the leadership approach which assumes that the leader treats all subordinates the same way. The basis of the Leader Member-Exchange is the concept of differentiation (Schriesheim *et al.*, 1999). The theory also explains that the nature and quality of this relationship significantly influence the attitudes and behavior of leaders and subordinates (Liden *et al.*, 2006). The level of quality of leader-follower relationships varies from high-quality relationships, which are characterized by extra-contractual behavior, to low-quality relationships that are determined only by contractual behavior, hierarchies, and job roles (Liden *et al.*, 1980).

### **Psychological Capital**

Organizations and individuals are important to prepare themselves for the existing global competition and one way that can be done for each individual is by increasing their PsyCap which is an asset or capital that already exists in each individual. PsyCap is what will enhance the potential of these human resources (Luthans, Youssef, & Avolio, 2007). Based on the concept of positive psychology, Luthans (2002) explains about Positive Organizational Behavior (POB). Positive Organizational Behavior oriented towards positive human resource strengths and psychological capacities that can be measured, developed, and managed for better performance improvement in today's workplace. POB capacity includes self-efficacy, hope, optimism, and resilience, in this study Psychological Capital is called PsyCap.

There are four aspects that can describe the model form of PsyCap (Avey *et al.*, 2010; Luthans *et al.*, 2007), which act as an important source of internal motivation:

- a) Hope is defined as the perceived ability to find a path to a desired goal, and to motivate oneself by thinking about using that pathway (Snyder, 2009). Hope gives the ability to stay committed to constantly looking for new ways to achieve a desired goal.

- b) Resilience captures a person's ability to recover from adversity, uncertainty, conflict, and failure and can even capture positive change, progress, and increased responsibility (Luthans 2002). Basically, resilience describes a person's positive recovery efforts during unfavorable circumstances.
- c) Optimism affects the realistic expectations of an individual (Schueller & Seligman, 2008).
- d) *Self-efficacy* mainly inferred from Bandura's (1997) research, which was later adapted by Stajkovic and Luthans (1998) to the workplace when an employee has a strong belief in mobilizing the necessary resources to complete a task in a particular context.

Previous research has shown that employees with high psychological capital perform better in the workplace (Greguras & Diefendorff, 2010). Karatepe & Talebzadeh (2016) stated that someone with better psychological capital, can adjust their attitude towards work and concentrate on their work. Several studies have stated that when employees have proactive behavior and psychological resilience at work, they will have better performance (Avey *et al.*, 2011; Luthans *et al.*, 2013; Walumbwa *et al.*, 2010). Schaufeli & Taris (2014) show that when employees have rich personal resources, they can put forth efforts at work with high morale and psychological resilience.

### ***job autonomy***

job autonomy is an important job resource characterized by the extent to which the job allows individuals to decide and choose how to plan their tasks and complete them (Hackman & Oldham, 1975; Parker *et al.*, 2001). As a job resource, job autonomy is considered important for organizational success (Amburgey, 2005) because greater autonomy is believed to result in greater job satisfaction due to the freedom of employees to determine their own pace and schedule at work (Nguyen *et al.*, 2003). Similarly, individuals who experience greater job autonomy have higher job involvement, greater well-being, and superior performance ratings (Baard, Deci, & Ryan, 2004).

At the same time autonomy has been considered an important part of professional development (Hart & Rotem, 1995) and has a positive influence on job satisfaction (Kavanaugh *et al.*, 2006; Park, 2011). Autonomy involves taking responsibility for work-related outcomes such as increased work efficiency and greater intrinsic motivation (Hackman & Oldham, 1975; Langfred & Moye, 2004). According to Deci, Olafsen, & Ryan (2017) job autonomy is referred to as a job characteristic that can lead to a state of psychological responsibility of employees, which in turn can lead to favorable work attitudes and behaviors.

As stated by Garg and Dhar (2017), autonomy has an effect on innovative services, work engagement and goal setting processes because employees who are given autonomy have the freedom to control work engagement and to determine innovative services. Job autonomy is believed to play an important role in leader-member exchange because employees can better cope with work-related stress when they have greater autonomy at work (Garg & Dhar, 2017).

## **Hypothesis**

In the last decade, many studies have been carried out to understand the concept of leader-member exchange (Chen *et al.*, 2012; Garg & Dhar, 2014). Ethical leaders can strengthen their exchange relationships with subordinates in a number of ways. Ethical leaders are considered people who are endowed with high moral values who are honest, trustworthy, and whose main decisions are aimed at the greater good of employees, organizations, and society (Hansen *et al.*, 2013; Neubert *et al.*, 2013). As a result, ethical leaders can foster strong exchange relationships with their subordinates that go beyond economic exchange agreements (Kuvaas *et al.*, 2012; Walumbwa *et al.*, 2011), resulting in the development of leader-member exchange tall one. This finding is supported by findings from Dhar (2016) that leader-member exchange has a positive relationship with ethical leadership because someone who has ethical behavior in his leadership style can increase the emotional bond between subordinates and superiors. Therefore, a hypothesis is proposed:

H1: Ethical Leadership has a positive influence on the leader-member exchange.

Research (Hansen *et al.*, 2013; Neubert *et al.*, 2013; Walumbwa *et al.*, 2011; Xiaojun & Guy, 2014) which argues that ethical leadership plays a very important role in influencing employee behavior towards innovative performance and the influence of ethical leadership in positively influencing employee attitudes at work. These findings are supported by research by Dhar (2016) examining the role of ethical leadership in influencing the innovative behavior of hotel employees in the Uttarakhand region, India. The results found a positive relationship between ethical leadership and service innovation behavior of hotel staff. Chen and Hou (2016) found a strong positive relationship between ethical leadership and creativity for employees in Taiwanese Government Institutions. Therefore, a hypothesis is proposed:

H2: Ethical Leadership has a positive influence on service innovation behavior

Research by Kalyar, *et al.*, (2019) found that leader-member exchange can play a mediating role between ethical leadership and employee creativity. Furthermore, to increase employee creativity, organizations need to seek to increase multiple sources of creativity, apart from the emphasis on individual sources. Because the combination of high ethical leadership and high leader-member exchange leads to an increase in employee creativity (Kalyar *et al.*, 2019). Dhar (2016) reveals that the exchange relationship shown by superiors and subordinates plays a mediating role in influencing service innovation behavior among employees by behaving ethically. As a result, a manager who has good relations with his employees and behaves ethically will form service innovation behavior in employees so that employees can build good relationships with their customers. Therefore, a hypothesis is proposed:

H3: leader-member exchange mediates the influence between ethical leadership and service innovation behavior.

*PsyCap* is a state-like construct, functioning as a positive work-related psychological resource in an individual's cognitive and attitudinal perspective (Luthans *et al.*, 2012). Avey (2011) points out the lack of research on *PsyCap*'s antecedents and proposes that effective leadership and supervision can positively influence subordinates' *PsyCap*, because behaviors that encourage and assist work for example reduce uncertainty or barriers in facilitating subordinates to build self-



efficacy. To support his proposition, Avey (2014) tested authentic leadership, ethical leadership, and empowering leadership as predictors of PsyCap, finding that leadership was the strongest predictor. Walumbwa *et al.*, (2010) suggest that integrated research is needed between PsyCap and positive leadership styles such as leadership empowerment to explore the interactions between PsyCap leaders and followers' behaviors. Findings from Ozungur (2019) stated that ethical leadership was able to increase the psychological capital of male and female employees of factory workers in Adana, Turkey. Therefore, a hypothesis is proposed:

H4: Ethical Leadership has a positive influence on Psychological Capital.

In the PsyCap literature, several studies have found a mediating role with respect to leadership effectiveness. Walumbwa *et al.*, (2011) stated that PsyCap and trust mediate the relationship between authentic leadership (self-awareness, relational transparency, balanced point of view, and ethical foundation) and processes, as well as performance outcomes in work groups. Employee psychological capital fully mediates the relationship between leadership empowerment and employee psychological well-being, while partially mediates the relationship between work engagement and empowering leadership (Park *et al.*, 2017). Psychological capital has a mediating role on the relationship between ethical leadership and innovation service behavior in the form of effort required to successfully complete difficult tasks, has an optimistic attitude, shows assertive behavior to achieve targets and find new ways, is psychologically resistant because it is important for management corporate strategy (Ozungur, 2019). Therefore, a hypothesis is proposed:

H5: Psychological Capital mediates the influence between Ethical Leadership and service innovation behavior.

Psychological capital, or simply PsyCap, has been conceptually identified (Luthans & Youssef, 2004; Luthans, Youssef, & Avolio, 2007; Luthans, Youssef, Sweetman, & Harms 2012) which consists of four positive psychological resources namely hope, optimism, efficacy, and resilience, which, when combined, have been empirically determined as second-order core constructs (Luthans, Avolio, Avey, & Norman, 2007). Recent studies have shown that job involvement is a mediator between personal resources (or psychological capital) and performance (Chaurasia and Shukla, 2014). The results of the findings of Ozungur (2019) that good psychological capital has an influence on employee performance in order to improve employee service innovation behavior. Therefore, a hypothesis is proposed:

H6: Psychological Capital has a positive influence on service innovation behavior.

In the last decade, many studies have been conducted to understand the concept of leader-member exchange (Garg & Dhar 2014, 2017; Carnevale *et al.*, 2019; Park *et al.*, 2017). The majority of previous research on emotional work and mental health status workers has focused on specific types of service sectors, such as call centres, home care, nursing homes, or health care workers (Delgado *et al.*, 2017). Dhar's research (2016) proves the moderating role of job autonomy in influencing the strength of the relationship between leader-member exchange and service innovation behavior, because job autonomy encourages employees to believe that interpersonal relationships are useful for improving the skills needed and can create innovative ways to get work done. they. Therefore, a hypothesis is proposed:

H7: High job autonomy will strengthen the positive influence of the influence between leader-member exchange and service innovation behavior.

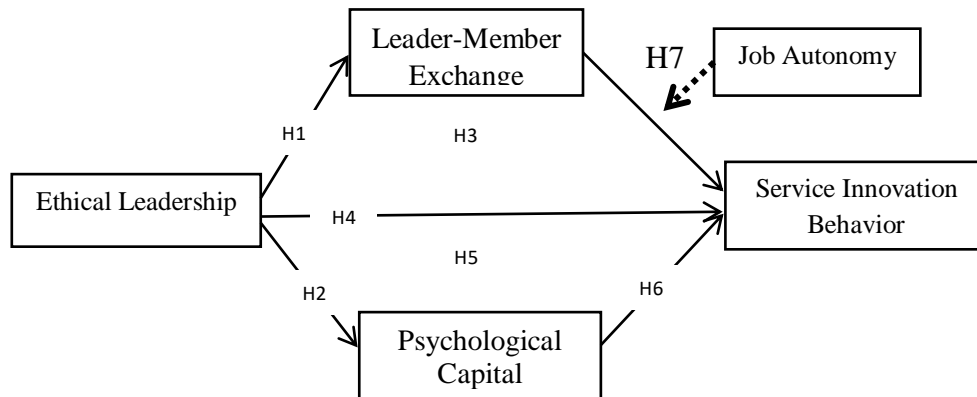


Figure 1. Framework

## METHOD

In this study using a quantitative approach, an approach that aims to describe or predict; or extending and testing a theory (Cooper & Schindler, 2017). Based on the time dimension, this research is categorized into cross-sectional research, i.e. a study can be conducted in which data is collected only once, perhaps over several days or weeks or months, to answer research questions (Sekaran & Bougie, 2016).

Research respondents were obtained using purposive sampling, according to Sekaran & Bougie (2016) purposive sampling is one of the non-random sampling techniques where the researcher determines the sampling by determining the special characteristics that are in accordance with the research objectives so that it is expected to answer the research problem. In purposive sampling, the target population that has the criteria to serve the community directly will be selected as the research sample.

Methods in collecting data, researchers used a questionnaire distributed online survey by sending a questionnaire via email in the form of an e-questionnaire. E-questionnaires are questionnaires created by researchers using software and then sent to respondents via email or website (Sekaran & Bougie, 2016).

The questionnaire used in this study consists of three parts: The first part is a brief introduction related to the questionnaire, researcher profile, and research objectives. The second section discusses the identity of the participants, including gender, age, education level and years of service. The last part consists of indicators of ethical leadership, leader-member exchange, service innovation behavior, job autonomy, psychological capital.

Furthermore, the data that has been obtained was analyzed using SEM-PLS. This is a common method for measuring the relationship between variables (Hair, 2017). analysis was performed using Smart PLS version 3.0.

Table 1. Variable measurement indicators

| Variable                    | Code  | Indicator  | Source                             |
|-----------------------------|-------|--|------------------------------------|
| Ethical Leadership          | EL 1  | Listens to what employees have to say  | Brown, Treviño & Harrison, (2005). |
|                             | EL 2  | Disciplines employees who violate ethical standards                                |                                    |
|                             | EL 3  | Conducts his/her personal life in an ethical manner                                |                                    |
|                             | EL 4  | Has the best interests of employees in mind  |                                    |
|                             | EL 5  | Makes fair and balanced decisions  |                                    |
|                             | EL 6  | Can be trusted   |                                    |
|                             | EL7   | Discusses business ethics or values with employees                                 |                                    |
|                             | EL 8  | Sets an example of how to do things the right way in terms of ethics               |                                    |
|                             | EL 9  | Defines success not just by results but also the way that they are obtained        |                                    |
|                             | EL 10 | When making decisions, asks "what is the right thing to do?"                       |                                    |
| service innovation behavior | SIB 1 | At work, I come up with innovative and creative notions                            | Hu, Horng, & Christine Sun, (2009) |
|                             | SIB 2 | At work, I try to propose my own creative ideas and convince others                |                                    |
|                             | SIB 3 | At work, I seek new service techniques, methods, or techniques                     |                                    |
|                             | SIB 4 | At work, I provide a suitable plan for developing new ideas                        |                                    |
|                             | SIB 5 | At work, I try to secure the funding and resources needed to implement innovations |                                    |
|                             | SIB 6 | Overall, I consider myself a creative member of my team                            |                                    |
| Leader-Member Exchange      | LMX 1 | My supervisor would be personally inclined to help me solve problems in my work.   | Janssen & Van Yperen, NW (2004)    |

|                       |       |   |  |
|-----------------------|-------|---|--|
|                       | LMX 2 | My working relationship with my supervisor is effective.  |  |
|                       | LMX 3 | I have enough confidence in my supervisor that I would defend and justify his/her decisions if he or she were not present to do so. |  |
|                       | LMX 4 | My supervisor considers my suggestions for change.  |  |
|                       | LMX 5 | My supervisor and I are suitable to each other.   |  |
|                       | LMX 6 | My supervisor understands my problems and needs.  |  |
|                       | LMX 7 | My supervisor recognizes my potential.  |  |
| job autonomy          | JA 1  | I have significant autonomy in determining how I do my job  |  |
|                       | JA 2  | I can decide on my own how to go about doing my work  |  |
|                       | JA 3  | I have considerable opportunity for independence and freedom in how I do my job   |  |
| Psychological Capital | PC 1  | I feel confident in representing my work area in meetings with manager.   | Luthans, F., Avolio, BJ, Avey, JB, & Norman, SM (2007) |
|                       | PC 2  | I feel confident contributing to discussions about the company's strategy.  |  |
|                       | PC 3  | I feel confident presenting information to a group of colleagues.   |  |
|                       | PC 4  | If I should find myself in a jam at work, I could think of many ways to get out of it.  |  |
|                       | PC 5  | Right now I see myself as being pretty successful at work.  |  |
|                       | PC 6  | I can think of many ways to reach my current work goals.  |  |
|                       | PC 7  | At this time, I am meeting the work goals that I have set for myself.   |  |

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|       |   |
|-------|---|
| PC 8  | I can be “on my own” so to speak at work if I have to.                                |
| PC 9  | I usually take stressful things at work in stride.                                    |
| PC 10 | I can get through difficult times at work because I've experienced difficulty before. |
| PC11  | I always look on the bright side of things regarding my job.                          |
| PC 12 | I'm optimistic about what will happen to me in the future as it pertains to work.     |

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### FINDING AND DISCUSSION

The respondents of this study were employees who worked in the Magetan Regency Regional Apparatus Work Unit. Respondents in this study were chosen because their main task is to serve the community directly. Of the 199 respondents, 48.2% were male while 51.8% were female. The majority of female respondents in the offices that provide direct services to the community are mostly women. As for male employees in the offices that provide direct services to the community, but fewer than female employees where male employees in these offices tend to work in the operational section or back office. The age of the respondents (40.3%) ranged from 45 - 55 years, indicating that the offices that provide direct services to the community tend to be relatively young even though they are included in the productive age limit. Education level of respondents (75.4%) is Bachelor, In general, the requirements for Candidates for Civil Servants in Regency Governments are Diplomas (D3) but the majority of people who register Candidates for Civil Servants in Regency Governments are Bachelors (S1). with other levels of education. And for the respondent's tenure (42.4%) ranging from 16 to 20 years, it can be said that the service period > 21 years shows a large number of 42.4%. The working period is proportional to the dominating age range, which is 45 - 55 years, so it can be concluded that the majority of Magetan Regency SKPD employees have entered the productive age range so that many employees from Magetan Regency SKPD will retire.

In this study, in measuring the validity of using the value of outer loading and Average Variance Extracted (AVE). Of the 38 questionnaire items, there are two questionnaire items whose outer loading value is less than 0.700, namely EL 2 (0.373) and SIB 6 (0.623). *Average Variance Extracted* (AVE) is a measure used to assess the internal consistency of the construct by measuring the amount of variance that the variable captures from the measurement indicator relative to the amount of variance (Fornell & Larcker, 1981). To meet the convergent validity standard, the Average Variance Extracted (AVE) value on the variable is equal to 0.5 or more than 0.5 (Hair *et al.*, 2017). B The following are the results of the outer loading after eliminating the two invalid questionnaire items and the results of the AVE score:

Table 2. Outer Loading

|                 | Ethical Leadership | LMX          | Job Autonomy | PsyCap       | Service Innovation |
|-----------------|--------------------|--------------|--------------|--------------|--------------------|
| <i>EL 1</i>     | <b>0.751</b>       |              |              |              |                    |
| <i>EL 3</i>     | <b>0.723</b>       |              |              |              |                    |
| <i>EL 4</i>     | <b>0.739</b>       |              |              |              |                    |
| <i>EL 5</i>     | <b>0.832</b>       |              |              |              |                    |
| <i>EL 6</i>     | <b>0.774</b>       |              |              |              |                    |
| <i>EL 7</i>     | <b>0.785</b>       |              |              |              |                    |
| <i>EL 8</i>     | <b>0.777</b>       |              |              |              |                    |
| <i>EL 9</i>     | <b>0.779</b>       |              |              |              |                    |
| <i>EL 10</i>    | <b>0.768</b>       |              |              |              |                    |
| <i>LMX 1</i>    |                    | <b>0.769</b> |              |              |                    |
| <i>LMX 2</i>    |                    | <b>0.835</b> |              |              |                    |
| <i>LMX 3</i>    |                    | <b>0.741</b> |              |              |                    |
| <i>LMX 4</i>    |                    | <b>0.828</b> |              |              |                    |
| <i>LMX 5</i>    |                    | <b>0.810</b> |              |              |                    |
| <i>LMX 6</i>    |                    | <b>0.839</b> |              |              |                    |
| <i>LMX 7</i>    |                    | <b>0.817</b> |              |              |                    |
| <i>JA 1</i>     |                    |              | <b>0.911</b> |              |                    |
| <i>JA 2</i>     |                    |              | <b>0.829</b> |              |                    |
| <i>JA 3</i>     |                    |              | <b>0.835</b> |              |                    |
| <i>PC 1</i>     |                    |              |              | <b>0.788</b> |                    |
| <i>PC 2</i>     |                    |              |              | <b>0.845</b> |                    |
| <i>PC 3</i>     |                    |              |              | <b>0.775</b> |                    |
| <i>PC 4</i>     |                    |              |              | <b>0.766</b> |                    |
| <i>PC 5</i>     |                    |              |              | <b>0.832</b> |                    |
| <i>PC 6 PC</i>  |                    |              |              | <b>0.821</b> |                    |
| <i>PC 7 PC</i>  |                    |              |              | <b>0.726</b> |                    |
| <i>PC 8</i>     |                    |              |              | <b>0.809</b> |                    |
| <i>9 PC</i>     |                    |              |              | <b>0.805</b> |                    |
| <i>PC 10</i>    |                    |              |              | <b>0.764</b> |                    |
| <i>PC 11 PC</i> |                    |              |              | <b>0.735</b> |                    |
| <i>12 PC</i>    |                    |              |              | <b>0.785</b> |                    |
| <i>SIB 1</i>    |                    |              |              |              | <b>0.805</b>       |
| <i>SIB 2</i>    |                    |              |              |              | <b>0.835</b>       |
| <i>SIB 3</i>    |                    |              |              |              | <b>0.876</b>       |
| <i>SIB 4</i>    |                    |              |              |              | <b>0.841</b>       |
| <i>SIB 5</i>    |                    |              |              |              | <b>0.782</b>       |

Table 3. Average Variance Extracted (AVE)

|                                    | Average Variance Extracted (AVE) |
|------------------------------------|----------------------------------|
| <b>Ethical Leadership</b>          | <b>0.593</b>                     |
| <b>LMX</b>                         | <b>0.650</b>                     |
| <b>job autonomy</b>                | <b>0.738</b>                     |
| <b>service innovation behavior</b> | <b>0.686</b>                     |
| <b>PsyCap</b>                      | <b>0.622</b>                     |

**Fornell-Larcker Criterion**

*Fornell-Larcker Criterion, which is to compare the correlation value between variables with the variables themselves and variables with other variables (Hair et al., 2017) Following are the results of the Fornell-Larcker Criterion in the table below:*

Table 4. Fornell-Larcker Criterion

|                                    | <b>Ethical Leadership</b> | <b>LMX</b>   | <b>job autonomy</b> | <b>service innovation behavior</b> | <b>PsyCap</b> |
|------------------------------------|---------------------------|--------------|---------------------|------------------------------------|---------------|
| <b>Ethical Leadership</b>          | <b>0.770</b>              |              |                     |                                    |               |
| <b>LMX</b>                         | 0.750                     | <b>0.806</b> |                     |                                    |               |
| <b>job autonomy</b>                | 0.313                     | 0.424        | <b>0.859</b>        |                                    |               |
| <b>service innovation behavior</b> | 0.568                     | 0.582        | 0.362               | <b>0.828</b>                       |               |
| <b>PsyCap</b>                      | 0.544                     | 0.702        | 0.559               | 0.664                              | <b>0.789</b>  |

**Composite Reliability**

After conducting the validity test, namely convergent validity and discriminant validity, a construct reliability test was carried out as measured by composite reliability and Cronbach's alpha to prove the reliability of the relationship between the indicators and the indicator variables studied. The following are the results of the reliability test as measured by composite reliability:

Table 5. Composite Reliability

|                                    | Cronbach's Alpha | Composite Reliability |
|------------------------------------|------------------|-----------------------|
| <b>Ethical Leadership</b>          | 0.914            | 0.929                 |
| <b>LMX</b>                         | 0.910            | 0.929                 |
| <b>job autonomy</b>                | 0.840            | 0.894                 |
| <b>service innovation behavior</b> | 0.876            | 0.916                 |
| <b>PsyCap</b>                      | 0.945            | 0.952                 |

A construct is declared reliable if it has a composite reliability value of 0.60 or 0.70 while a value of 0.70 or 0.90 is considered satisfactory (Nunally & Bernstein, 1994) and Cronbach's alpha value is above 0.60 (Hair *et al.*, 2014). The results of the reliability test show that all variables have good composite reliability and Cronbach's alpha values with composite reliability values between 0.70 - 0.90. Thus, it can be concluded that the construct in this study has a satisfactory level of reliability.

### **Hypothesis Testing**

After getting the results of the validity and reliability tests in accordance with the standards. The next step is to test the hypothesis and goodness-of-fit. In this study for Hypothesis testing on SEM-PLS was evaluated using *efficient of determination* ( $R^2$ ), *predictive relevance* ( $Q^2$ ), path coefficient, model fit through bootstrapping which then gets significant results on a variable in the construct.

### **Coefficient of determination ( $R^2$ )**

*Coefficient of determination* ( $R^2$ ) is a value that shows how much the exogenous (independent) variable affects the endogenous (dependent) variable. Hair, Hult, Ringle & Sarstedt (2017) argue that the value of  $R^2$  represents a substantial, moderate, or level of predictive accuracy weak about  $R^2$  acceptable with score 0.75, 0.50, 0.25. Here are the results *efficient of determination* ( $R^2$ ):

Table 6. *Coefficient of determination* ( $R^2$ )

|                                    | R Square | R Square Adjusted |
|------------------------------------|----------|-------------------|
| <b>service innovation behavior</b> | 0.506    | 0.493             |
| <b>LMX</b>                         | 0.563    | 0.561             |
| <b>PsyCap</b>                      | 0.296    | 0.292             |

The results of the test coefficient of determination ( $R^2$ ) The service innovation behavior includes a moderate level of prediction accuracy because the value is between 0.50 - 0.75. So it can be concluded that the service innovation behavior variable is influenced by 0.506 or 50.6% by the variables of Ethical Leadership, leader-member exchange and Psychological Capital.



**Path Coefficient**

Path Coefficient is a value that shows the strength of the relationship between exogenous variables and endogenous variables (Hair et al., 2010). To assess the significance of the path coefficient in testing the structural model by bootstrapping. It can be seen from the p-value < 0.05 and the t-statistic value > 1.96 between exogenous (independent) variables and endogenous (dependent) variables in the path coefficient table below:

Table 7. Results Path Coefficient

|   | <b>Original Sample (O)</b> | <b>Sample Mean (M)</b> | <b>Standard Deviation (STDEV)</b> | <b>T Statistics ( O/STDEV )</b> | <b>P Values</b> |
|---|----------------------------|------------------------|-----------------------------------|---------------------------------|-----------------|
| <b>Ethical Leadership LMX -&gt;</b>                                       | 0.750                      | 0.753                  | 0.034                             | 22,214                          | 0.000           |
| <b>Ethical Leadership service innovation behavior -&gt;</b>               | 0.267                      | 0.222                  | 0.098                             | 2.877                           | 0.004           |
| <b>Ethical Leadership PsyCap -&gt;</b>                                    | 0.544                      | 0.549                  | 0.054                             | 11.103                          | 0.000           |
| <b>LMX -&gt; service innovation behavior</b>                              | 0.031                      | 0.074                  | 0.120                             | 0.241                           | 0.810           |
| <b>Moderating Effect OK - LMX - PLI -&gt; service innovation behavior</b> | -0.056                     | -0.058                 | 0.046                             | 1.217                           | 0.224           |
| <b>job autonomy -&gt; service innovation behavior</b>                     | -0.001                     | 0.003                  | 0.061                             | 0.012                           | 0.990           |
| <b>PsyCap -&gt; service innovation behavior</b>                           | 0.484                      | 0.478                  | 0.091                             | 5.312                           | 0.000           |

Table 8. Result Specific Indirect Effect

|  | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics ( O/STDEV ) | P Values |
|--|---------------------|-----------------|----------------------------|--------------------------|----------|
| <b>Ethical Leadership -&gt; LMX -&gt; service innovation behavior</b>    | 0.024               | 0.036           | 0.099                      | 0.239                    | 0.811    |
| <b>Ethical Leadership -&gt; PsyCap -&gt; service innovation behavior</b> | 0.263               | 0.262           | 0.058                      | 4.505                    | 0.000    |

Based on the results from tables 7 and 8, the t-statistic value is greater than 1.96, which is 22,214. It can be concluded that ethical leadership has a significant effect on the leader-member exchange. This result is supported by findings from Kalyar, Usta, Shafique (2019) which states that ethical leadership can improve individual performance in an organization which is shown through the bond between superiors and subordinates. Ethical leaders also create exchange relationships with subordinates which are shown by providing rational and balanced trust to subordinates in relation to ethics (Aleksic *et al.*, 2017, Dhar, 2016, Walumbwa *et al.*, 2011). The findings of this study state that hypothesis 1 is supported.

Ethical Leadership Variable on service innovation behavior has a significant effect, obtained p-value of 0.004 (<0.05) and t-statistic value of 2.877 (> 1.96) so that it can be said that the Ethical Leadership variable has a positive and significant influence on service innovation behavior. . These results support the findings from Dhar (2016) that ethical leadership plays an important role in the workplace in encouraging employee behavior towards innovative performance and ethical leadership also influences employee attitudes in a positive way at work. The results of this study are also strengthened by research findings from Ozungur (2019) and Yidong & Xinxin (2012) which state that a positive relationship between ethical leadership and service innovation behavior is implemented by instilling moral values in work, emphasizes the influence of work on organizations and society, encourages open communication in groups, respects each employee with respect and dignity (Hansen *et al.*, 2013; Neubert *et al.*, 2013; Walumbwa *et al.*, 2011; Xiaojun & Guy, 2014). The findings of this study state that hypothesis 2 is supported.

Based on the results of the specific indirect effect, it shows that the relationship between the Ethical Leadership variable and the service innovation behavior is not mediated by the leader-member exchange and the p-value is greater than 0.05, which is 0.811. Meanwhile, the t-statistic value is smaller than 1.96, which is 0.239. The results of this study are not in line with previous research which states that the quality of social relations between superiors and subordinates mediates the relationship of ethical leadership to service innovation behavior (Agarwal, 2019). The findings of Kalyar, Usta, Shafique (2019) stated that to increase employee innovation,

organizations need leaders who can be trusted and have strong emotional ties with subordinates. When ethical leaders create a fair and honest environment that results in good emotional bonds. This encourages employees to be willing to give suggestions without fear and propose new ideas in the form of service innovation behavior (Dhar, 2016, Chen *et al.*, 2016, Nasser *et al.*, 2021, Javed *et al.*, 2018). The findings of this study are interesting to be investigated further because hypothesis 3 is not supported.

Based on the results of hypothesis testing conducted on the Ethical Leadership variable on Psychological Capital that has a significant effect, the p-value of 0.000 ( $<0.05$ ) and the t-statistic value of 11.103 ( $> 1.96$ ) can be said so that the Ethical Leadership variable has a positive influence and significant to Psychological Capital. These findings are supported by research from Bouckenoghe, Zafar & Raja (2014) which states that the ethical attitude of a leader tends to motivate subordinates and lead to self-efficacy in subordinates and the importance of ethical leadership styles that provide energy for subordinates which in turn raises psychological positive (Ozungur, 2019, Karatepe & Talebzadeh, 2017). These findings are reinforced by the findings of Avey (2014) which states that a leader figure who always motivates and is fair to his subordinates provides benefits not only to subordinates but also to the organization which is shown through high psychological capital. The findings of this study state that hypothesis 4 is supported.

Based on the results of the specific indirect effect, it shows the relationship between the Ethical Leadership variable and service innovation behavior mediated by Psychological Capital and the p-value is smaller than 0.05, which is 0.000. While the t-statistic value is greater than 1.96, which is 4.505, so it can be said that the Psychological Capital variable mediates the relationship between Ethical Leadership and service innovation behavior. The findings from previous studies state that psychological capital has a mediating role on several leadership style variables (authentic leadership, ethical leadership, transformational leadership, servant leadership) on creativity and service innovation behavior shown through the attitude of ethical leaders, transparent and honest so as to improve the performance and creativity of subordinates which is implemented in the form of service to customers (Schuckert *et al.*, 2018, Kim *et al.*, 2017, Dhar, 2016, Avey *et al.*, 2011 & 2014, Park *et al.*, 2017 ). The findings of this study state that hypothesis 5 is supported.

Based on the results of hypothesis testing conducted on the Psychological Capital variable on service innovation behavior that has a significant effect, the p-value is 0.000 ( $<0.05$ ) and the t-statistic value is 5.312 ( $> 1.96$ ). positive and significant impact on service innovation behavior. These findings are supported by Schuckert, Kim, Paek & Lee (2018), Cheng, Hong & Yang (2018) stating that an employee can utilize their personal resources to contribute to the organization by offering ideas. to provide good service and satisfy customer needs. Furthermore, an employee who has high psychological capital can generate, promote and realize service innovation behavior.

Based on the results of the hypothesis test, the p-value is 0.224 ( $> 0.05$ ) and the t-statistic value is 1.217 ( $< 1.96$ ) so that it can be said that the Autonomy variable does not moderate the influence of the leader-member exchange relationship on service innovation behavior. The results of this study are not in line with previous research which states that a high level of

autonomy can strengthen the emotional bond between superiors and subordinates thereby increasing service innovation behavior (Garg & Dhar, 2017). Furthermore, giving subordinates autonomy in their work will improve the quality of positive social exchange relationships shown through service innovation behavior. The results of research findings from Volmer, Spurs & Niessen (2012) states that job autonomy is an individual's way of carrying out a job that can affect the individual's psychological state which is displayed through innovative behavior and a sense of responsibility (Dhar, 2016). The findings of this study state that hypothesis 7 is not supported.

**Fit Model**

*Goodness of Fit* used to validate the combined performance of the measurement model (outer model) and structural model (inner model) using the SRMR value with a value of less than 0.08 or less than 0.12 indicates a well-fitting model while a higher value indicates a lack of fit. (Hair *et al.*, 2014).

Table 9. Results of the Fit Model Model

|                   | <b>Saturated Model</b> | <b>Estimated Model</b> |
|-------------------|------------------------|------------------------|
| <b>SRMR</b>       | 0.064                  | 0.113                  |
| <b>d_ ULS</b>     | 2,757                  | 8,541                  |
| <b>d_ G</b>       | 1.339                  | 1.483                  |
| <b>Chi-Square</b> | 1376,330               | 1474,259               |
| <b>NFI</b>        | 0.761                  | 0.743                  |

Table 25 shows the results of Goodness of Fit that have met the criteria of the well-fitting model with an SRMR value of less than 0.8 or less than 0.12 with an SRMR value of 0.113. Therefore combined performance between measurement model (outer model) and structural model (inner model) This study includes a well-fitting model.

**CONCLUSION**

After conducting the validity test, reliability test and hypothesis testing, this research can be concluded. First, the leader-member exchange variable does not mediate the effect of ethical leadership on service innovation behavior. Second, the job autonomy variable does not moderate the effect of leader-member exchange on service innovation behavior. Third, the ethical leadership variable has a significant effect on the leader-member exchange variable. Fourth, the ethical leadership variable has a significant effect on service innovation behavior. Fifth, the ethical leadership variable has a significant effect on psychological capital. Sixth, the psychological capital variable mediates the effect of ethical leadership on service innovation behavior.

**RECOMMENDATION**

However, from the results of this study there are shortcomings that are expected to be developed for further research. Because this research was conducted during Covid-19, this research uses an online survey so that quite a lot of questionnaire responses are inappropriate and need to consider

geographical conditions and different cultural characteristics in order to get more in-depth results in examining the influence of ethical leadership on service innovation behavior.

So it is recommended for future research using offline surveys or using interview techniques in order to establish a strong personal relationship with respondents so as to get the expected results and take into account different geographical conditions and different cultural characteristics.

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