



Ethical Leadership to Increase Employee Readiness to Change through Good Relations as a Mediation Variable at PT Pegadaian Wiyung Branch Surabaya, Indonesia

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ABSTRACT

This study aims to develop a conceptual framework model by analyzing whether there is an effect of Ethical Leadership on Good Relations, Good Relations on Employee Readiness to Change and Ethical Leadership on Employee Readiness to Change at PT Pegadaian Wiyung Branch. The design of this study uses social exchange theory. The analytical method used is a quantitative method. The data analysis technique used is path analysis, validity test, reliability test, mediation effect analysis (construct validity and reliability, discriminant validity, R Square, F Square, Direct Effect, Indirect Effect and Total Effect). The results of this study indicate that Ethical Leadership has a significant effect on Good Relations, Good Relations has a significant effect on Employee Readiness to Change and Ethical Leadership has no significant effect on Employee Readiness to Change at PT Pegadaian Wiyung Branch. This study adds scientific discussion discourse related to the variables discussed.

Keywords: Ethical Leadership; Good Relation; Social Exchange Theory.

1. Introduction

In the era of globalization, human resources (HR) are effective individuals within the company, as the driving force for organizational development. HR is the only human resource that has emotions, desires, skills, knowledge, motivation and work. To achieve the company's vision and mission, organizations can use their human resources as well as possible. Preparation to start a company requires the belief that every hard work and effort is supported by many parties. Thus, the role of the leader is very important to solve every problem that occurs in the company. Social exchange theory (Thibaut and Kelly) explains how humans evaluate a relationship with other humans. The meaning of this theory is that a person will be willing to behave in a certain way when the individual gets something (prize, award, etc.)

Leadership is the attitude of a leader who encourages his followers to achieve common goals. The right leadership style approach will ensure that employees with great potential are loyal and give their best. Thus, leaders have a role to reduce stress for employees in times of uncertainty. This is because feelings of stress can cause employees to have a negative attitude towards change. This impact can be indirect and cause physical health problems for employees.

Good relations within the organization are a form of social needs of employees with other employees in the company. By interacting with fellow employees, good relationships emerge, and will support the smooth running of work in a company. Employee readiness to change is an individual change that is comprehensively influenced simultaneously by a phenomenon of how the change occurs (Holt et al., 2007). When a person begins to engage in change-related actions, such as support and participation, that requires belief in their own ability to bring about change, that person is willing to change. Thus, a very important change is the formation of effective and efficient human resources.

This research builds on previous research conducted by (Metwally et al., 2019) suggests continuing the research by testing ethical leadership, good relations and employee readiness to change variables. This conceptual framework model will be tested on employees of the operational division of PT Pegadaian Wiyung Surabaya Branch located on Jl. Raya Menganti, Ruko Swipe No A1, Wiyung District, Surabaya City, East Java. Based on PT Pegadaian Board of Directors regulation Number 23 of 2016 that along with business development, work program implementation and company dynamics, the PT Pegadaian employee assessment is based on the Performance Management System (PMS), which is a system created to see employee performance so that the company will get more human resources. good.

PT Pegadaian is a company under the auspices of a BUMN that provides services in the field of pawn services to the public on the basis of pawn law. With this system in place, pawnshops in the current era are not only a place for the needs of people who pawn gold, but pawnshops are also trying to develop by creating new product innovations, with the expectation that employees must be able to generate new ideas about new products.

Formulation of the problem:

The research problem is formulated as follows based on the problem's background:

- Does Ethical Leadership affect the Good Relations of the employees at PT Pegadaian Wiyung Branch?
- Does Good Relations affect Employee Readiness to change at PT Pegadaian Wiyung Branch?
- Does Ethical Leadership affect Employee Readiness to change at PT Pegadaian Wiyung Branch?

2. Literature Review***The theory of social exchange***

Social exchange theory is a theory that focuses on the diversity of relationships, how relationships are formed, how relationships are maintained, and whether relationships end. This theory assumes that individuals want to maximize self-interest through sacrifice. This assumption is objective, at least in a sense, because humans are purely rational beings (Putranto et al., 2022). We will create an imbalance in exchange with others. Exchange can occur in social relations, regardless of whether the exchange they make leads to satisfaction in the social relations they build. There is an element of imbalance (reward), sacrifice (cost) and gain in this relationship. This theory predicts that the positive relationship will continue, while the negative relationship will end.

When leaders treat their employees ethically, employees build strong relationships within an organization. When leaders treat employees unethically, there is an unequal relationship that affects their attitude at work and reduces performance. It can be concluded that social exchange theory is an act that gives a positive response to other people.

Ethical leadership

Leadership is a trait of every individual that carries certain qualities and influences the way he or she leads. In this case, a leader is influenced by his followers and the situation around them. Leaders must also be aware of the preferences, ideas, positions, motivations, and attitudes of their followers. Ethical leadership is characterized by honesty, fairness, inclusivity, other orientation, and organizational rewards. In addition to these characteristics, an ethical leader must be able to use his managerial strengths in a leadership organization to promote and promote ethical standards and ethical behavior in the workplace.

According to (Brown et al., 2005), Ethical Leadership shows behavior that adheres to norms through individual actions in interpersonal relationships and promotes ethical behavior to subordinates through two-way communication, namely reinforcement and decision making. This definition describes two aspects of ethical leadership: 1) ethical people and 2) ethical managers. The aspect of moral character is the personality of a leader in terms of moral characteristics and qualities such as fairness and honesty. The ethical aspect of managers refers to the efforts of leaders to influence and manage the ethical behavior of employees (Lindblom et al., 2015).

Good relation

Relationships are social interactions between two or more people and make it easy to be able to communicate with one another. Relationship basically means a relationship, when applied in social relations there is a reciprocal and mutually sustainable relationship between humans (Saputro & Sugiarti, 2021). In this reciprocal relationship, rejection and acceptance, the true feelings of a co-worker relationship, increase. Such as the relationship between the opposite sex, relatives and relationships in society.

It happens from two opposite directions in a relationship. Where a positive relationship that benefits the parties involved can be mutually beneficial. Therefore, parties who have good relations such as leaders and subordinates are needed. However, in reality there is still a gap between management and employees in the business environment, if there is a negative relationship then one-sided interests will foster negative behavior such as exploiting each other, subjugating each other.

Employee readiness to change

Individual willingness to change is an individual's cognitive and emotional behavior that can accept, try and implement plans to make changes in current conditions (Holt et al., 2007). Their willingness to change can shape the company's future goals, because there will also be changes in the company's way of life. A very important change is the establishment of an effective and efficient human resource management system. Individual readiness to change by having an important role in any change in the organization (Vakola, 2014). The concept of individual readiness to change in terms of reaction to change is having confidence in their ability to manage by accepting, embracing, and adopting certain plans within the organization (Raffety & Fremeth, 2012).

Based on the opinions above, employee readiness to change, their belief in their ability to cope with change, and organizational support and involvement are the behaviors of individuals who participate in change. With the establishment of a good relationship from the start between leaders and employees, employees are ready to face change.

Conceptual framework and Hypothesis

Based on the description above that has been explained. For more details, the conceptual framework in this study is described as follows:

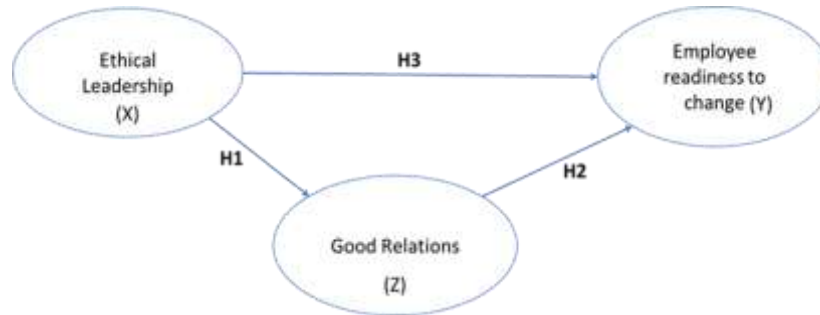


Fig. 1 – conceptual framework

Hypothesis:

The temporary answer to the formulation of the problem is a hypothesis. The main function of the hypothesis is to open up the possibility to test the truth of the theory. The hypothesis in this study is:

H1: Ethical Leadership has an effect on employee Good Relations.

H2: Relationships affect Employee Readiness to change.

H3: Ethical Leadership affects Employee Readiness to change.

Relationship Between Variables

The relationship between Ethical Leadership and Good Relations variables

Ethical leadership is behavior that adheres to norms through individual action in personal relationships and promotes behavior to subordinates through two-way communication, namely actions and decision making (Brown et al., 2005). In applying ethical leadership in organizations, the authors use social exchange theory, which is a theory that has the basic assumption that there is a reciprocal relationship and that personal feelings, gratitude, and trust emerge in social change. Leaders can lead followers through fair, honest behavior, and cause subordinates to have good relations with colleagues. So, from the explanation above it says that ethical leaders influence good relationships.

H1: Ethical leadership influences good relations.

The relationship between Good Relations variables and Employee Readiness to Change

Basically, the relationship describes a bond, when applied in social interaction it can take place continuously between humans and has a reciprocal relationship. In addition to this reciprocity, there is denial and acceptance, the true feeling of a co-worker relationship, increasing. Good leadership and relationships in the organization can understand the attitudes and actions of employees. In the literature, it has been established that the relationship between leadership and employees' changes knowledge from individual to individual, group and organization (Peroune, 2007). From the results of the above understanding it can be concluded that Good Relations among colleagues, they will be able to establish good relationships, volunteer to work together and form good teamwork. If employees are able to establish good teamwork, it causes these employees to have a willingness to change.

H2: Good relations have an effect on employee readiness to change.

The relationship between Ethical Leadership and Employee Readiness to Change variables

An ethical leader is a role that sets performance goals, expectations and has clear responsibilities (De Hoogh & Den Hartog, 2008), (Kalshoven, n.d.). If a leader can lead his subordinates ethically, then social exchange theory shows that leaders can treat their followers well and reciprocity will occur when employees participate in the exchange. In these situations, employees find that ethical leaders consider the best interests of their employees, and they tend to develop more commitment to the leader and work (Ng & Feldman, 2015). And will feel compelled to do something for the leader in return, as if the employee has a readiness to change effort.

H3: Ethical leadership has no effect on employee readiness to change

3. Methods

The research design uses a quantitative method and a causal associative approach. There are independent and dependent variables in this study. How to take samples with a survey and using a questionnaire. Online questionnaires are used in data collection methods by giving questions to respondents via electronic devices and respondents filling them out themselves (Blumberg et al., 2014). For data collection used a questionnaire using a Likert scale and Path Analysis.

Population and Sample

Population, according to (Sugiyono, 2019, p. 126) is an entity or subject that has specific measurements and traits that researchers have determined to study in order to develop conclusions. The participants in this study are employees of PT Pegadaian Wiyung Branch. With a total population of 35 employees.

The sample is one of many traits that the population possesses. 35 employees were used as the sample in this investigation utilizing the saturated sample method. The saturated sample strategy, according to (Sugiyono, 2017, p. 85), involves sampling every member of the population.

Data collection technique

A data collection technique is a way of gathering facts or information from the field in order to draw a conclusion. A questionnaire was used as the method for gathering data for this investigation. A questionnaire, as defined by (Sugiyono, 2017, p. 142), is a method of data collection that involves asking respondents to reply to questions or written comments. Questionnaires were conducted openly and closed.

A Likert scale is used as the variable measuring approach in this investigation. The Likert scale is used to gauge someone's attitude, opinion, and impression of them or a collection of social phenomena (Sugiyono, 2019, p. 146).

Table 1 - 5 levels of preference for answers.

Statement	Weight
Strongly Agree	5
Agree	4
Less agree	3
Disagree	2
Strongly Disagree	1

4. Results and Discussion

4.1. Respondent Profile

The demographic profile of the respondents is presented in Table. The data obtained shows that 80 percent of the respondents are male, while the rest are female. Most of the respondents belong to the age group of 20 to 40 years. The most respondents at the level of education, namely the level of high school education by 51.4 percent. In addition, the majority of respondents have worked at PT Pegadaian Wiyung Branch, the most recorded are respondents who have worked for 5-10 years by 54.3 percent, respondents who have worked for 10-20 years by 40 people, respondents who have worked for 20 years -30 years of 5.7 percent. So, it can be concluded that the respondents who have worked the longest are 5-10 years of 54.3 percent.

Table 2 - Respondents profile.

Variable	Description	Frequency	Percentage (%)
Gender	Male	28	80%
	Female	7	20%
Total		35	100%
Age	<20 years	0	0%
	20-30 years	13	37%
	31-40 years	13	37%
	>50 years	9	26%
Total		35	100%
Education background	Senior High School	18	51,4%
	Diploma	2	5,7%
	Bachelor	14	40%
	Master	1	2,9%
Total		35	100%
Year service	5-10 years	19	54,3%
	10-20 years	14	40%
	20-30 years	2	5,7%

	>30 years	0	0%
Total		35	100%

4.2. Path analysis

This research model uses path analysis because researchers want to know the effect of Ethical Leadership on increasing Employee Readiness to Change through Good Relations as a mediating variable. According to (Sugiyono, 2017) path analysis is an analysis that uses regression and correlation, through which it can be seen that the dependent variable must go through a direct path or mediating variable.

Before using path analysis in a study, the researcher creates a path model to identify the structural similarities that exist in the relationships between variables in the path model. The function of this path analysis is to test the regression analysis equation which includes the dependent and independent variables, thus testing the mediating variable.

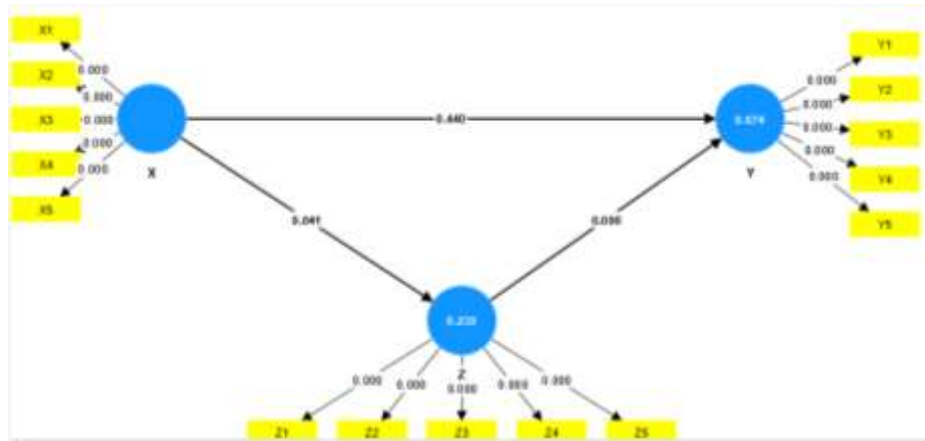


Fig. 2 – Path Analysis

4.3. Outer Model Analysis

In this study using the Outer Model which tests using 2 tests namely Construct Validity and Discriminant Validity. The Validity Test will see if there are indicators that are declared valid, when using SmartPLS 4.

Construct validity and reliability

Table 3 - Result of validity and reliability test.

Variable	Cronbach Alpha	Rho A	Composite Reliability	AVE
Employee Readiness to Change (Y)	0.893	0.902	0.921	0.700
Ethical Leadership (X)	0.865	0.867	0.903	0.654
Good Relation (Z)	0.910	0.912	0.933	0.738

From the results of the table above, the results of the questions show that the value already meets the requirements, namely Cronbach Alpha: > 0.70, Rho_A: > 0.70 Composite Reliability: > 0.6, and AVE > 0.5, which means the construct variable employee readiness to change (Y), good relations (Z), ethical leadership (X) have a good construct.

Discriminant Validity

According to (Juliandi, 2018) said when the value of HTMT < 0.90 this in a construct has good discriminant validity. The criterion for a new best measure is to look at the value of the Heterotrait-Monotrait Ratio (HTMT).

Table 4 - Result of Heterotrait-Monotrait Ratio.

Variable	HTMT
X-Z	0.532
Z-Y	0.907
X-Y	0.553

Based on the Heretroit-Monotrait Ratio (HTMT) test:

- The ethical leadership variable (X) to the employee readiness to change (Y) variable has a Heterotrait-Monotrait Ratio of 0.553 < 0.90, which means that the construct is discriminant validity.
- The ethical leadership variable (X) to the good relation variable (Z) has Heterotrait-Monotrait (HTMT) with a ratio of 0.532 < 0.90, which means it has construct discriminant validity.
- The variable employee readiness to change (Y) to the variable good relation (Z) has a Heterotrait-Monotrait Ratio of 0.907 > 0.90, which means that discriminant validity is not construct.

4.4. Model Structure Analysis (Inner Model)

R Square

The model from the R Square test serves to predict whether this model is suitable or not. The criteria for the R Square assessment include:

- If the value of $R^2 = 0.75$ then this model is substantial (strong)
- If the value of $R^2 = 0.50$ then this model is moderate
- If the value of $R^2 = 0.25$ then this model is weak.

Table 5 – R Square

Variable	R-square	R-square(adjusted)
Y	0.674	0.657
Z	0.239	0.220

Based on the table above, it can be concluded that:

- Adjusted R Square column 1 has a value of 0.657, which means that the ability of the employee readiness to change (Y) variable is 65.7%, so it is included in the strong group model.
- Adjusted R Square column 2 has a value of 0.220, which means that the ability of the good relation variable (Z) is 22%, so it is a weak group model

F Square

A measure that contributes from exogenous variables to endogenous variables. F Square criteria according to (Juliandi, 2018) include:

- If the value of $f^2 = 0.02$ small effect of exogenous variables on endogenous variables.
- If the value of $f^2 = 0.15$ moderate effect of exogenous variables on endogenous variables.
- If the value of $f^2 = 0.35$ a large effect of exogenous variables on endogenous variables.

Table 6 – F Square

	X	Y	Z
X		0.035	0.314
Y			
Z		1.327	

Based on the table above it can be concluded that:

- The ethical leadership variable (X) on employee readiness to change (Y) has a value of 0.035, so there is a moderate effect of exogenous variables on endogenous variables.
- The ethical leadership variable (X) on the good relations variable (Z) has a value of 0.314, this has a moderate effect on the exogenous variables on the endogenous variables.
- The variable good relation (Z) to the variable employee readiness to change (Y) has a value of 1.327, so there is a large effect from exogenous variables on endogenous variables.

4.5. Hypothesis test

Table 7 – Direct Effect.

	Original Sample	T Statistic	P Value
X – Y	0.122	0.773	0.440
X - Z	0.489	2.053	0.041
Z - Y	0.754	4.423	0.000

According to the above table, it can be deduced that (1) there is no relationship between ethical leadership (X) and employee readiness to change (Y) based on the T statistic value of $0.773 < 1.96$, path coefficient = 0.122, and P value of $0.440 > 0.05$. (2) The effect of ethical leadership (X) on excellent relations (Z) has a T statistic value of $2.053 > 1.96$, a path coefficient of 0.489, and a P value of $0.041 < 0.05$, indicating that this effect is significant. (3) The influence of excellent relations on employee readiness to change is shown by a T statistic value of $4.423 > 1.96$, a path coefficient of 0.754, and a P value of $0.000 < 0.05$ on employee readiness to change is influential.

4.6. Discussion

The Effect of Ethical Leadership on Good Relations

Based on the outcomes of data processing, it is known that the impact of ethical leadership (X) on positive relationships has a P Value = $0.041 < 0.05$, indicating a favorable impact. The findings of this study indicate that moral leadership affects positive relationships, in an organization if there is a leader who has ethical, polite and responsible behavior towards his subordinates. then harmony will be created in establishing good relations between employees and between leaders and employees. This means that ethical leaders influence good relations between leaders and employees towards employees of PT Pegadaian Wiyung Branch.

The Effect of Good Relations on Employee Readiness to Change

According to data processing findings, there is a positive relationship between good relationships and employee readiness to change, with the influence of ethical leadership having a P Value of $0.000 < 0.05$. In the research results, good relations have an effect on employee readiness to change. In an organization, if there is a good relationship between employees, the employee is able to establish good relationships, can form good teamwork, and the employee will have the readiness to change in the organization. If good relations are not going well, then what happens is that the employee is reluctant to be willing to change because the relationship is not going well between employees. This means that good relations between employees greatly affect the readiness of employees to change towards employees of PT Pegadaian Wiyung Branch.

The Effect of Ethical Leadership on Employee Readiness to Change

Based on the analysis of the data, it has been determined that the relationship between ethical leadership and employee readiness to change has a P Value = $0.440 > 0.05$, which indicates that the relationship between ethical leadership (X) and employee readiness to change (Y) is both positive and unaffected. The results of this study say that the company has a system in which employees are always required to be able to meet the targets set by the company, so that there are situations that make employees relatively stressed at work. It is this factor that causes ethical, polite and responsible leaders to have no effect on employee readiness to change. This means that employees must create a conducive atmosphere, a harmonious atmosphere among employees, so employees at PT Pegadaian Wiyung Branch are willing to change in the future.

5. Conclusion

Based on the research findings "Ethical Leadership to increase Employee Readiness to Change through Good Relations as a mediating variable at PT Pegadaian Wiyung Surabaya Branch", it can be concluded as follows:

- This finding says that ethical leadership influences good relations between leaders and employees, because there are ethical leaders, harmony will be created in establishing good relations with employees.
- In this finding, there is a good relationship that influences the willingness of employees to change in the company, so employees are able to establish good relationships by forming good teamwork so that these employees will have readiness to experience changes in the organization.
- In this finding, the research results indicate that ethical and ethical leaders do not affect readiness for change, it can be concluded that there is a lack of emotional attachment from subordinates and leaders.

However, companies can use the results to increase employee readiness to change to support the achievement of company goals. This study adds space for discussion related to the variables discussed.

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