The Influence of Competence and Intrinsic Rewards on Ethical Behavior and Their Impact on Organizational Performance: A Study of Local Government Agencies Partnering with Commission D Of the Gayo Lues Regional House of Representatives

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ABSTRACT

This study investigates the mediating role of ethical behavior in the relationship between employee competence, intrinsic rewards, and organizational performance within remote public sector agencies. Focusing on the Regional Work Units (SKPK) partnering with Commission D of the Gayo Lues Regional House of Representatives, a cross-sectional survey was conducted among 129 civil servants. Data analysis utilizing Partial Least Squares Structural Equation Modeling (PLS-SEM) reveals that both competence and intrinsic rewards significantly foster ethical behavior. Notably, while intrinsic rewards and ethical behavior directly enhance organizational performance, employee competence shows no significant direct effect. Furthermore, mediation analysis confirms that ethical behavior fully mediates the impact of competence on performance, and partially mediates the effect of intrinsic rewards. These findings highlight that technical competence and intrinsic motivation are insufficient for achieving optimal public sector performance unless they are strictly channeled through a strong, internalized ethical culture.

Keywords: competence; intrinsic rewards; ethical behavior; organizational performance.

INTRODUCTION

The administration of effective, accountable, and welfare-oriented local governance is a constitutional mandate that serves as the primary foundation for regional autonomy in Indonesia. Within the decentralization framework, the Regional House of Representatives (DPRK) holds a strategic position as a local legislative body executing legislative, budgeting, and oversight functions. Among the various commissions within the DPRK, Commission D plays a vital role, as its duties directly intersect with essential public services encompassing education, health, social welfare, and child protection (Law Number 23 of 2014).

Public sector organizational performance, including that of regional legislative bodies and their partner agencies, is influenced by interacting internal factors. Three variables that have garnered substantial attention in public sector human resource management literature are employee competence, intrinsic rewards, and ethical behavior. Competence refers to the combination of knowledge, skills, and attitudes required to perform tasks effectively (Dessler, 2020). Intrinsic rewards, which encompass a sense of achievement, recognition, and autonomy, have been proven to significantly impact employee motivation and performance quality (Ryan & Deci, 2000). Meanwhile, ethical behavior constitutes the moral foundation ensuring that duties are executed with integrity, transparency, and public accountability (Trevino & Nelson, 2017).

Gayo Lues is a regency in Aceh Province characterized by its mountainous geography and eleven widely dispersed, hard-to-reach sub-districts. These conditions create structural challenges in the equitable distribution of basic public services, particularly in education and social sectors. Statistics Indonesia (2024) data indicates that the Human Development Index (HDI) of Gayo Lues stands at 68.21, remaining below the Aceh provincial average of 72.80. Furthermore, it is essential to understand the specific contextual details regarding the remote nature of the Gayo Lues SKPK agencies. This geographic isolation directly shapes local compliance pressures and the distribution of intrinsic rewards among the workforce.

In this context, Commission D of the Gayo Lues DPRK and its partner SKPKs in the education sector bear a substantial budget management responsibility. Therefore, the quality of their oversight function and the performance of their apparatus are primary determinants of public expenditure effectiveness (Mardiasmo, 2018). Empirical phenomena reveal a gap between public expectations and the actual performance of Commission D and its partner agencies. A preliminary survey conducted by the researcher in 2026 yielded a moderate average performance perception score of 3.51. The lowest-rated items were the improvement of school infrastructure quality following Commission D's oversight and the transparency of annual performance reporting to the public.

Past studies indicate that low technical and managerial competence among employees in remote areas is a primary factor hindering performance quality (Moeheriono, 2012). In the public sector, extrinsic rewards have limitations in fostering long-term motivation due to civil service regulations. Thus, intrinsic rewards—such as meaningfulness, autonomy, and recognition—become more influential motivational drivers for sustained performance (Ryan & Deci, 2000; Pink, 2009). On the other hand, ethical behavior is critical in local governance, as ethical deviations damage public trust and reduce service efficacy.

Based on this background, this study explicitly examines the influence of competence and intrinsic rewards on ethical behavior and their impact on organizational performance within the SKPKs partnering with Commission D of the Gayo Lues DPRK, positioning ethical behavior as a mediating variable.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Competence and Ethical Behavior

Competence is defined as the combination of knowledge, skills, abilities, and other characteristics needed to perform a job effectively (Dessler, 2020). High competence enhances cognitive capacity, enabling individuals to understand regulations, codes of conduct, and the legal and moral consequences of their actions, thereby increasing ethical sensitivity. Conversely, a lack of competence can trigger the rationalization of unethical behavior (Trevino & Nelson, 2017).

H1: Competence has a positive and significant effect on the ethical behavior of employees.

Intrinsic Rewards and Ethical Behavior

Intrinsic rewards are internal gratifications obtained from the work itself, such as a sense of achievement and personal growth (Robbins & Judge, 2022). Self-Determination Theory suggests that ethical behavior is most effective when it stems from internalized motivation rather than external pressure (Ryan & Deci, 2000). When employees feel their work is meaningful and appreciated, they develop a sense of ownership over organizational values, including ethical standards (Pink, 2009).

H2: Intrinsic rewards have a positive and significant effect on ethical behavior.

Competence and Organizational Performance

Theoretically, high competence correlates positively with performance, as competent employees possess the necessary knowledge and skills to complete tasks effectively (Spencer & Spencer, 2012). However, in the public sector, organizational performance is also heavily influenced by external factors such as systems, regulations, and leadership (Dwiyanto, 2018).

H3: Competence has a positive and significant effect on organizational performance.

Intrinsic Rewards and Organizational Performance

Given the limitations of financial incentives for civil servants in remote areas, the internalization of intrinsic rewards becomes the primary determinant of long-term work motivation (Ryan & Deci, 2000). Recognition, developmental opportunities, and a sense of meaningfulness consistently enhance employee motivation and organizational performance (Njanja, 2015).

H4: Intrinsic rewards have a positive and significant effect on organizational performance.

Ethical Behavior and Organizational Performance

Organizations with high ethical standards tend to exhibit better performance, accountability, and stakeholder trust (Trevino & Nelson, 2017). Ethical behavior creates a conducive work environment, minimizes conflicts of interest, and enhances team cohesion, ultimately contributing to improved overall organizational performance (Robbins & Judge, 2022).

H5: Ethical behavior has a positive and significant effect on organizational performance.

The Mediating Role of Ethical Behavior

According to Baron and Kenny's (1986) mediation framework, employee competence will not automatically enhance organizational performance unless implemented through ethical and responsible behavior (Boyatzis, 2008). Furthermore, intrinsic rewards strengthen employees' identification with organizational values, thereby encouraging more ethical behavior, which in turn elevates performance.

H6: Ethical behavior mediates the effect of competence on organizational performance.

H7: Ethical behavior mediates the effect of intrinsic rewards on organizational performance.

RESEARCH METHODOLOGY

This research utilizes a quantitative approach with a cross-sectional survey design. The population comprises all civil servants within the SKPKs partnering with Commission D of the Gayo Lues DPRK. Through non-probability convenience sampling, 129 respondents were selected. Data were collected using a 5-point Likert scale questionnaire.

Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS 4.0 software. The analysis involved evaluating the measurement model (outer model) to assess convergent validity, discriminant validity, and internal consistency reliability, followed by evaluating the structural model (inner model) and conducting hypothesis testing via bootstrapping (5,000 subsamples).

RESULTS AND DISCUSSION

The respondent demographic profile revealed a male majority (58.9%), with the largest age group being 25–35 years old (38.0%). The following table dramatically present it clearly as follows:

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Tabel 4.1. Respondent Demographic Profile

Characteristic	**Category**	**Frequency**	**Percentage (%)**
Gender	Male	76	58.9
	Female	53	41.1
Age	< 25 years old	13	10.1
	25–35 years old	49	38,0
	36–45 years old	43	33.3
	> 45 years old	24	18.6
Long Tenure (Year)	< 1 years	13	10.1
	1–5 years	51	39.5
	6–10 years	42	32.6
	> 10 years	23	17.8

Source: Output of Primary Data Analysis (2026), n = 129.

Hypothesis testing was conducted using a bootstrapping procedure with 5,000 subsamples to ensure accurate standard errors and unbiased confidence intervals (Hair et al., 2019; Preacher & Hayes, 2008). A hypothesis is accepted if the T-statistic is greater than or equal to 1.96, and the P-value is less than or equal to 0.05.

Direct Effect Analysis

The empirical results of the direct effect testing are presented in Table 4.2 as follows:

Table 4.2 Output of Path Coefficients to Test Direct Effect

Effect among Variables	**Coefficient (β)**	**T-Statistics**	**P-Values**	**Position of Hypothesis**
Competence → Ethical Behavior	0.221	2.568	0.011	Significant
Intrinsic Reward → Ethical Behavior	0.318	3.112	0.002	Significant
Competence → Organizational Performance	0.077	0.914	0.361	Not Significant
Intrinsic Reward → Organizational Performance	0.337	4.048	0.000	Significant
Ethical Behavior → Organizational Performance	0.395	5.524	0.000	Significant

Source: Output of Primary Data Analysis (2026)

Based upon the above table, it can be explained the hypothesis testing result as following:

- **Hypothesis Testing:**
  - **H1 (Accepted):** Competence positively and significantly influences ethical behavior ($\beta = 0.221$; $p = 0.012$).
  - **H2 (Accepted):** Intrinsic rewards positively and significantly influence ethical behavior ($\beta = 0.318$; $p = 0.002$). Motivation plays a more dominant role than competence in fostering ethical behavior.
  - **H3 (Rejected):** Competence does not have a significant direct effect on organizational performance ($\beta = 0.077$; $p = 0.361$). In the public sector, competence alone is insufficient to drive performance without intervening factors.

- **H4 (Accepted):** Intrinsic rewards positively and significantly influence organizational performance (β = 0.337; p = 0.000).
- **H5 (Accepted):** Ethical behavior positively and significantly influences organizational performance (β = 0.395; p = 0.000).

Indirect Effect Analysis

The empirical results of the mediation analysis for ethical behavior are presented in Table 4.3 below:

Table 4.3 Output of Indirect Effect (Mediation Effect) Analysis

Indirect Effect of Ethical Behavior	Coefficient (β)	T-Statistics	P-Values	Type of Mediation
Competence → Ethical Behavior → Organizational Performance	0.087	2.341	0.020	Fully Mediation
Intrinsic Reward → Ethical Behavior → Organizational Performance	0.126	2.582	0.010	Partially Mediation

Source: Output of Primary Data Analysis (2026)

According to the table, it then can be fostered as summarizing as follows:

- **H6 (Accepted - Full Mediation):** Ethical behavior fully mediates the relationship between competence and organizational performance, as the direct effect is insignificant but the indirect effect is significant (β = 0.087; p = 0.024).
- **H7 (Accepted - Partial Mediation):** Ethical behavior partially mediates the relationship between intrinsic rewards and organizational performance (β = 0.126; p = 0.010).

In this study, the evaluation of the measurement model (outer model) was conducted to assess the validity and reliability of each latent construct. The outer model assessment in Partial Least Squares (PLS) encompasses three primary criteria: convergent validity, discriminant validity, and internal consistency reliability. All statistical evaluations were executed using the SmartPLS 4.0 software application (Ghozali & Latan, 2015; Hair et al., 2019). A comprehensive illustration of this measurement model framework is provided in Figure 4.1 below:

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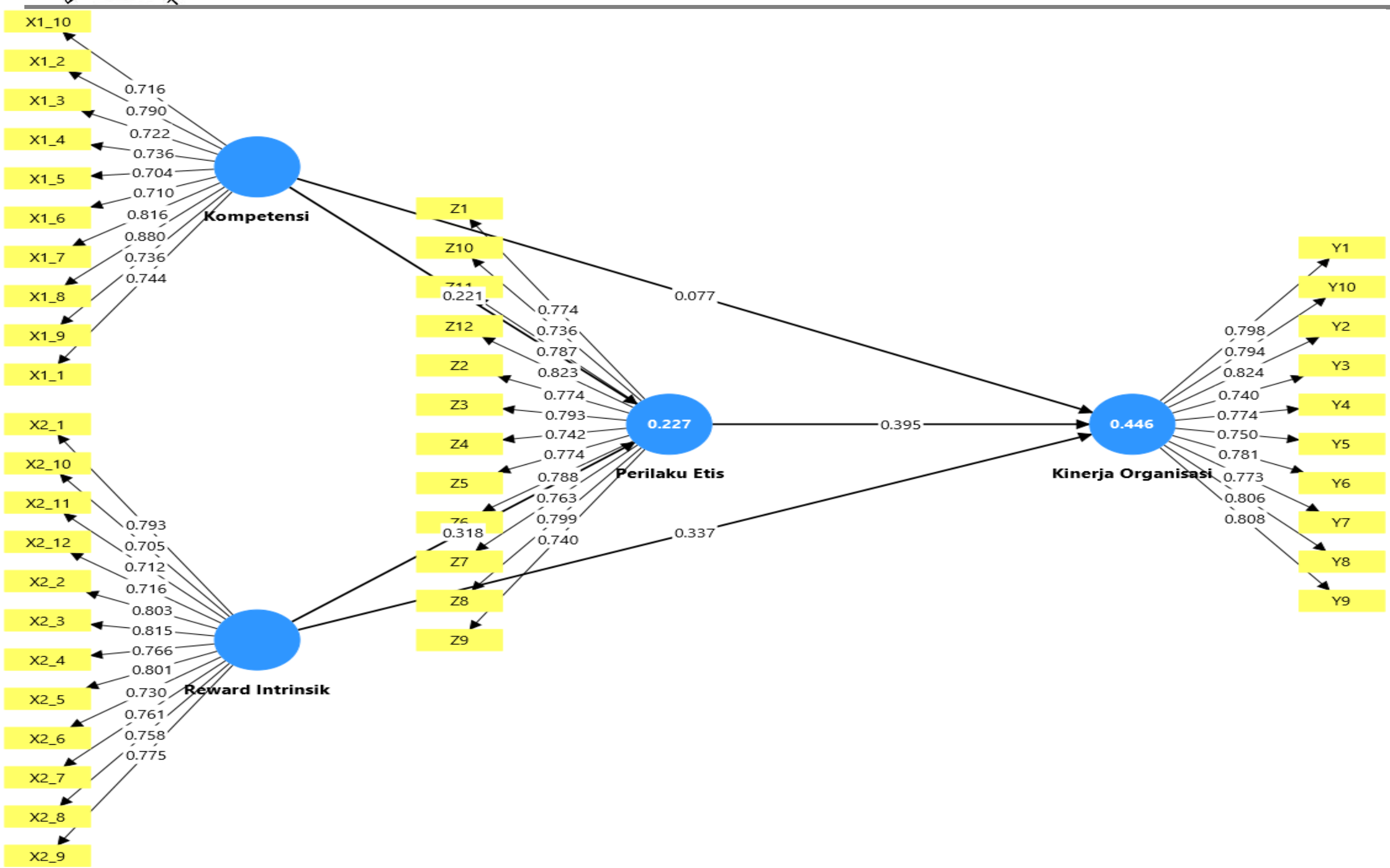

Figure 4.1 Structural Model with Path Coefficients.

DISCUSSION

The Influence of Competence and Intrinsic Rewards on Ethical Behavior

The empirical results reveal that both competence and intrinsic rewards significantly foster ethical behavior among civil servants in the SKPKs partnering with Commission D. Interestingly, the data indicates that intrinsic rewards exert a more dominant influence on ethical behavior compared to competence. From a theoretical standpoint, this aligns with Self-Determination Theory (Ryan & Deci, 2000), which posits that when employees find their work intrinsically rewarding—feeling a sense of autonomy, meaningfulness, and recognition—they are more likely to internalize the organization's moral values. In the context of remote public administration in Gayo Lues, where external supervision may be constrained by geographic challenges, the internal drive derived from the meaningfulness of public service acts as the primary safeguard against unethical conduct. While competence provides the cognitive ability to distinguish between right and wrong (ethical sensitivity), it is the intrinsic motivation that ultimately drives the psychological commitment to act ethically.

The Direct Determinants of Organizational Performance

A compelling finding of this study is the rejection of the direct relationship between employee competence and organizational performance. While human capital theories generally suggest that higher competence leads to better performance, this study demonstrates that in a rigid public sector environment, competence alone is insufficient. This anomaly can be attributed to structural constraints within local government agencies; highly competent employees may be hindered by bureaucratic red tape, limited budget allocations, or inadequate infrastructure typical of remote areas. Proving that technical skill is effectively useless unless it is channeled through a fully mediated ethical culture offers a profound and sophisticated contribution to modern administrative theory.

Conversely, intrinsic rewards and ethical behavior exhibit strong, positive direct effects on organizational performance. When employees feel appreciated and recognize the societal impact of their work (especially in vital sectors like education and dayah development under Commission D), they demonstrate higher civic organizational behavior and resilience, which directly elevates institutional outcomes. Furthermore, high ethical behavior ensures that public duties are executed with transparency and accountability, directly translating into higher quality public service delivery and greater public trust.

The Mediating Role of Ethical Behavior

The most pivotal contribution of this research lies in the mediating mechanism of ethical behavior. The analysis confirms that ethical behavior fully mediates the relationship between competence and organizational performance. This implies a critical managerial reality: a highly skilled and knowledgeable civil servant will not contribute to organizational success unless their competence is channeled through a strong ethical foundation. Without integrity, high competence might instead be misdirected toward opportunistic behaviors or bureaucratic manipulation.

Additionally, ethical behavior *partially mediates* the relationship between intrinsic rewards and organizational performance. This indicates a dual pathway: intrinsic rewards not only directly boost an employee's drive to achieve organizational goals but also reinforce their moral compass. When civil servants feel their work is intrinsically valued, they are less likely to engage in moral hazards, thereby creating a transparent administrative ecosystem that naturally amplifies overall institutional performance.

CONCLUSION

This study establishes that while competence and intrinsic rewards are foundational to human resource development, their ultimate impact on the performance of public sector organizations in remote regions is heavily contingent upon ethical behavior. The empirical evidence reveals that intrinsic rewards serve as the most potent catalyst for both ethical conduct and organizational performance.

Crucially, the absence of a direct effect between employee competence and organizational performance, coupled with the full mediation role of ethical behavior, underscores a vital paradigm in public administration: technical skills and bureaucratic knowledge are rendered ineffective in driving institutional success unless they are strictly governed by a strong moral compass. Furthermore, the partial mediation of ethical behavior in the relationship between intrinsic rewards and performance highlights that when civil servants find their work intrinsically meaningful, they not only perform better but also uphold higher ethical standards, creating a compounding positive effect on overall organizational efficacy.

Practical Implications for Management

The findings offer actionable and strategic directives for regional policymakers and public sector managers, particularly within the SKPKs partnering with Commission D of the Gayo Lues DPRK:

1. **Redesigning Capacity Building Programs:** Recognizing that competence alone does not guarantee high performance, human resource development initiatives must pivot from focusing solely on technical or administrative skills. Management must integrate mandatory integrity, public accountability, and ethical leadership modules into all competency training programs to ensure that enhanced skills translate into positive organizational outcomes.

2. **Innovating Non-Financial Reward Systems:** Given the dominant influence of intrinsic rewards, public sector managers operating under rigid financial and geographic constraints must creatively leverage non-financial incentives. Cultivating a supportive work environment that emphasizes job autonomy, publicly recognizes individual and team contributions, and constantly reinforces the societal meaningfulness of their public service will be highly effective in sustaining long-term employee motivation and ethical compliance.

Academic Implications and Recommendations for Future Research

From a theoretical standpoint, this study enriches the public administration and human resource management literature by successfully integrating Self-Determination Theory with ethical behavior frameworks within a geographically marginalized, public sector context. To advance this field of study, several avenues for future research are recommended:

1. **Methodological Advancements:** Future scholars should employ longitudinal research designs to establish stronger causal inferences over time, thereby overcoming the inherent limitations of the cross-sectional survey approach utilized in this study.

2. **Objective Data Integration:** Subsequent studies are highly encouraged to incorporate objective organizational performance metrics—such as actual departmental Key Performance Indicator (KPI) achievement scores or audit reports—to complement self-reported survey data, effectively mitigating the risk of common method bias and social desirability bias.

3. **Model Expansion:** Future research should consider expanding the current structural model by incorporating contextual or macro-level moderating variables, such as transformational leadership, organizational culture, or digital governance adoption. This would provide a more holistic understanding of the external boundaries that influence ethical behavior and public sector performance in emerging regional economies.

Limitations and Future Research

This research has several limitations that provide opportunities for future studies:

1. The cross-sectional survey design limits the ability to draw definitive causal inferences over time; future studies should employ longitudinal designs.

2. The geographical constraints of the sample limit the generalizability of the findings to other regional contexts.

3. Relying on a self-reported cross-sectional survey given to 129 civil servants within the same close-knit legislative partner network introduces a severe social desirability bias.

4. Because public employees are highly unlikely to admit to unethical habits, this self-reporting approach can artificially inflate the "ethical behavior" scores.

5. To address this weakness, future research is highly encouraged to integrate objective institutional metrics.

6. These objective metrics should include official audit ratings, public service delivery timelines, or citizen satisfaction scores to balance out the subjective, self-reported civil servant survey data.

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