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The Influence of Work Ethic and Competency Development on Employee Performance through Employee Loyalty as a Mediating Variable in the Beauty Salon Industry

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Abstract: This study analyzes the influence of work ethic and competency development on employee performance, with employee loyalty as a mediating variable in the beauty salon industry in Greater Jakarta (Jabodetabek). The study is motivated by the highly competitive service environment in which salon performance depends not only on technical skill but also on disciplined work behavior, continuous competence enhancement, and employee retention. A quantitative explanatory design was employed using a survey of 320 employees from 37 beauty salons affiliated with the Tiara Kusuma Association. The data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS). The findings indicate that work ethic does not have a significant direct effect on employee loyalty or employee performance. Competency development has a positive and significant effect on employee loyalty but does not directly affect employee performance. Employee loyalty has a positive and significant effect on employee performance and fully mediates the relationship between competency development and employee performance. These results suggest that improving performance in beauty salons is more effective when competence development is designed to strengthen employee loyalty and long-term commitment to the organization.

Keywords: Work Ethic, Competency Development, Employee Loyalty, Employee Performance

Abstrak: *Penelitian ini menganalisis pengaruh etos kerja dan pengembangan kompetensi terhadap kinerja karyawan dengan loyalitas karyawan sebagai variabel mediasi pada industri salon kecantikan di Jabodetabek. Penelitian dilatarbelakangi oleh tingginya persaingan layanan yang menuntut kinerja karyawan tidak hanya ditentukan oleh kemampuan teknis, tetapi juga oleh etos kerja, pengembangan kompetensi, dan keterikatan terhadap organisasi. Penelitian kuantitatif eksplanatori ini menggunakan survei terhadap 320 karyawan dari 37 salon kecantikan yang tergabung dalam Asosiasi Tiara Kusuma. Data dianalisis dengan Structural Equation Modeling–Partial Least Squares (SEM-PLS). Hasil penelitian menunjukkan bahwa etos kerja tidak berpengaruh signifikan terhadap loyalitas karyawan maupun kinerja karyawan. Pengembangan kompetensi berpengaruh positif dan signifikan terhadap loyalitas karyawan, tetapi tidak berpengaruh langsung terhadap kinerja karyawan. Loyalitas karyawan berpengaruh positif dan signifikan terhadap kinerja karyawan serta memediasi secara penuh hubungan antara pengembangan kompetensi dan kinerja karyawan. Temuan ini menegaskan bahwa peningkatan kinerja pada industri salon kecantikan lebih* *efektif dicapai melalui pengembangan kompetensi yang mampu membangun loyalitas dan komitmen jangka panjang karyawan.*

Kata Kunci: *Etos Kerja, Pengembangan Kompetensi, Loyalitas Karyawan, Kinerja Karyawan,*

INTRODUCTION

The global economy has undergone a significant structural transformation over the past several decades, shifting from a manufacturing-based economy toward a service-oriented and experience-driven economy. In this transformation, organizations are no longer competing solely through product quality or pricing strategies but increasingly through the ability to deliver superior customer experiences. The rapid expansion of the service sector has intensified competition among organizations, requiring them to continuously improve service quality, organizational responsiveness, and customer satisfaction to maintain sustainable competitive advantage. One of the service industries that has experienced remarkable growth is the beauty and personal care industry, which has become an integral component of the creative economy in many developing countries, including Indonesia. The increasing public awareness of personal appearance, lifestyle, and self-confidence has substantially increased the demand for beauty services, encouraging the continuous emergence of beauty salons, aesthetic clinics, and personal care businesses. Consequently, organizations operating within this industry are required not only to provide innovative beauty treatments but also to develop competent human resources capable of delivering high-quality customer experiences. As emphasized by Agrevinna (2024), the increasingly competitive beauty industry requires organizations to become more creative and innovative in delivering services in order to strengthen their competitive position within the market.

Indonesia has experienced similar developments, particularly within the Greater Jakarta (Jabodetabek) metropolitan area, where rapid urbanization, changing lifestyles, and increasing purchasing power have stimulated substantial growth in beauty salon businesses. Beauty salons are no longer perceived merely as facilities for hair treatment or facial care but have evolved into lifestyle destinations that provide comprehensive beauty, wellness, and self-care experiences. This transformation has significantly changed customer expectations regarding service quality. Customers increasingly expect not only excellent technical results but also professional communication, personalized attention, empathy, consistency, and memorable service experiences. These changing expectations have intensified business competition and encouraged salon owners to improve both operational excellence and human resource management practices. Consequently, employee performance has become one of the most critical determinants of organizational sustainability because employees represent the primary interface between organizations and customers in high-contact service environments.

Unlike manufacturing industries where production systems and technological capabilities largely determine organizational outcomes, the beauty salon industry relies heavily on direct interpersonal interactions between employees and customers. This characteristic classifies beauty salons as high-contact and high-touch service organizations, in which service quality is largely influenced by employees' technical competence, communication skills, emotional intelligence, professional behavior, and consistency in delivering customer-centered services. Ariandita and Sulistiani (2024) argued that service quality creates substantial opportunities for organizations to establish competitive advantage, provided that marketing strategies are supported by continuous improvements in service delivery and customer satisfaction. Therefore, the sustainability of beauty salon businesses depends not only on organizational resources but also on employees' capability to provide professional, responsive, and customer-oriented services throughout every service encounter.

Employee performance has therefore become a strategic concern for organizations operating within the beauty service industry. In service organizations, employee performance extends beyond the completion of assigned tasks and encompasses the quality of interpersonal interactions, responsiveness to customer needs, adherence to organizational standards, productivity, creativity, and the ability to create positive service experiences. Employees who consistently demonstrate superior performance contribute directly to customer satisfaction, customer retention, organizational reputation, and long-term business sustainability. Conversely, poor employee performance may reduce service quality, increase customer complaints, weaken organizational competitiveness, and ultimately threaten organizational survival. Consequently, improving employee performance has become a central objective of contemporary human resource management, particularly within industries characterized by intensive employee-customer interactions.

Despite the strategic importance of employee performance, empirical observations conducted during this research indicate that employee performance within beauty salons operating across the Jabodetabek area remains inconsistent. Several operational issues continue to challenge organizational effectiveness. Employees frequently demonstrate inconsistent service quality, whereby excellent service performance at one time is followed by declining service quality under similar working conditions. Furthermore, some employees are unable to consistently meet organizational service standards, particularly regarding technical expertise, interpersonal communication, and individualized customer care. Customer complaints concerning unsatisfactory service outcomes, insufficient friendliness, and limited personal attention continue to occur, indicating that organizational service quality remains below customer expectations. Additional operational problems include delays in serving customers, declining daily productivity, limited creativity in developing innovative beauty services, and insufficient responsiveness to rapidly changing beauty trends. These organizational phenomena collectively indicate that employee performance within Indonesia's beauty salon industry has not yet reached its optimal level and requires a more comprehensive human resource management approach.

The performance challenges observed within beauty salons cannot be explained solely by employees' technical capabilities because organizational performance represents the outcome of multiple interrelated behavioral and organizational factors. Among these factors, employee loyalty has emerged as one of the most strategically important determinants of organizational sustainability. Within the beauty salon industry, customer relationships are frequently established with individual employees rather than with the salon brand itself. Consequently, loyal employees contribute not only to organizational stability but also to customer retention and long-term organizational competitiveness. However, field observations reveal that employee loyalty within the beauty salon industry remains relatively weak. High employee turnover continues to characterize many beauty salons, with experienced employees frequently moving to competing salons while bringing loyal customers with them. Moreover, many employees demonstrate limited organizational commitment, weak emotional attachment, and relatively low willingness to develop long-term careers within their organizations. Instead, employment is frequently perceived as a temporary opportunity rather than a long-term professional commitment. These conditions ultimately reduce employees' willingness to contribute beyond formal job requirements and negatively influence organizational performance. Madison et al. (2025) argued that employee loyalty represents a reciprocal response toward organizational support and fair treatment, indicating that organizations capable of fostering supportive work environments are more likely to retain committed employees who demonstrate stronger organizational citizenship behaviors.

The relationship between organizations and employees described above can be explained through Social Exchange Theory (SET), which serves as the grand theory underpinning this study. SET proposes that employment relationships are built upon reciprocal exchanges in which positive organizational treatment encourages employees to reciprocate through positive attitudes and behaviors, including organizational commitment, loyalty, and improved performance. Within the present research, competency development represents an organizational investment, while employee loyalty reflects employees' reciprocal response to organizational support. Consequently, employee loyalty functions as an important psychological mechanism linking organizational practices to employee performance. In addition, work ethic strengthens employees' internal values and behavioral responses, thereby influencing how employees interpret organizational support and perform their responsibilities. This theoretical perspective provides an appropriate conceptual foundation for explaining the complex relationships among work ethic, competency development, employee loyalty, and employee performance within Indonesia's beauty salon industry.

Another important factor influencing employee performance is work ethic, which reflects an individual's attitudes, values, discipline, responsibility, commitment, and motivation toward work. Work ethic represents an internal psychological resource that encourages employees to perform their duties responsibly while maintaining professional standards. Employees with strong work ethics generally demonstrate greater perseverance, punctuality, accountability, and dedication to organizational objectives. Within service organizations, particularly beauty salons, work ethic extends beyond completing assigned tasks and includes employees' willingness to maintain service consistency, demonstrate empathy toward customers, and continuously improve service quality. Consequently, organizations with employees who possess strong work ethics are expected to achieve higher service quality and stronger organizational competitiveness.

However, empirical observations within the beauty salon industry indicate that work ethic remains inconsistent among employees. Several operational problems continue to occur, including frequent lateness, absenteeism, limited responsibility for assigned tasks, and inconsistent adherence to organizational service standards. Furthermore, some employees demonstrate short-term work orientation by prioritizing immediate financial rewards rather than long-term professional development and organizational sustainability. These conditions reduce service consistency and weaken customer trust in the organization. Although work ethic is generally recognized as an important determinant of employee performance, previous studies have suggested that work ethic alone may not be sufficient to improve organizational outcomes unless it is supported by appropriate organizational systems and managerial practices. Beck et al. (2023) reported that high work ethic without adequate organizational support may even contribute to employee fatigue and undesirable workplace behavior. These findings indicate that the relationship between work ethic and employee performance remains complex and requires further empirical investigation, particularly within labor-intensive service industries such as beauty salons.

Besides work ethic, competency development has become one of the most strategic organizational investments for improving employee capability and organizational competitiveness. Competency development refers to systematic organizational efforts aimed at enhancing employees' knowledge, technical skills, interpersonal abilities, adaptability, and professional behavior through education, training, coaching, certification, and continuous learning. Within the beauty salon industry, competency development is particularly important because technological innovation, changing beauty trends, and increasing customer expectations require employees to continuously update their knowledge and professional skills. Employees are expected not only to master technical beauty procedures but also to communicate effectively with customers, provide personalized consultation, and adapt quickly to emerging market demands.

Despite its strategic importance, competency development within many beauty salons remains suboptimal. Field observations indicate that training programs are often irregular, insufficiently aligned with operational needs, and focused primarily on technical competencies while neglecting communication skills, emotional intelligence, and customer relationship management. Furthermore, many small and medium-sized beauty salons experience limited access to professional training due to financial constraints and operational limitations. Consequently, employees frequently encounter difficulties in keeping pace with evolving industry standards and customer expectations. Bisschoff and Massyn (2025) emphasized that competency development should extend beyond technical expertise by incorporating digital competencies, interpersonal communication, and emotional intelligence as components of employability capital, enabling employees to remain competitive within dynamic labor markets. These observations indicate that competency development remains an important managerial issue requiring comprehensive organizational attention.

The importance of competency development is theoretically supported by Human Capital Theory, which views employees as strategic organizational assets capable of generating long-term economic value. Becker (1964) argued that investments in education, training, and competency development should be regarded as strategic investments rather than organizational costs because improvements in employee capability ultimately enhance productivity, innovation, service quality, and organizational competitiveness. Within beauty salon organizations, investments in competency development strengthen employees' technical abilities while simultaneously improving communication, adaptability, creativity, and customer relationship management. Human Capital Theory further suggests that organizational investments encourage employees to develop stronger organizational commitment and psychological attachment because they perceive that the organization values their professional growth. Consequently, competency development contributes not only to employee capability but also to employee loyalty, thereby strengthening long-term organizational sustainability.

In addition to Human Capital Theory, this study adopts the Resource-Based View (RBV) as one of its theoretical foundations. RBV argues that sustainable competitive advantage originates from valuable, rare, inimitable, and non-substitutable organizational resources (Barney, 1991). Within service organizations, particularly beauty salons, employees constitute one of the most valuable strategic resources because service quality cannot be separated from employees' competence, professional behavior, and customer relationship skills. Consequently, work ethic and competency development should not be viewed merely as individual characteristics but as strategic organizational resources capable of creating sustainable competitive advantage. Organizations investing continuously in employee development are therefore more likely to improve service quality, strengthen employee loyalty, and achieve superior organizational performance compared with competitors that neglect human resource development.

Furthermore, this study is supported by the Stimulus–Organism–Response (S-O-R) framework, which explains how organizational stimuli influence employees' internal psychological conditions before producing behavioral responses. Within the proposed conceptual model, work ethic and competency development function as organizational and individual stimuli, employee loyalty represents the organism reflecting employees' psychological responses, and employee performance constitutes the behavioral response. This theoretical perspective provides a comprehensive explanation regarding the mediating role of employee loyalty because organizational investments and employees' internal work values may not directly improve performance unless employees first develop stronger organizational attachment and commitment. Therefore, the S-O-R framework strengthens the conceptual rationale for positioning employee loyalty as the mediating variable in this study.

Although numerous studies have investigated employee performance and its determinants, previous findings remain inconsistent. Schilpzand and De Jong (2021) reported that work ethic influences work behavior but did not examine employee performance directly. Meriac et al. (2023) demonstrated that work ethic contributes to employee loyalty and retention, although its direct influence on employee performance was not investigated. Azuma et al. (2024) identified a significant direct relationship between work ethic and employee performance but did not incorporate mediating variables into the proposed model. Norawati and Harahap (2023) concluded that work ethic does not always influence employee performance directly, while Santayana and Ferine (2024) examined incentive-based mediation rather than employee loyalty. Similarly, Zhang et al. (2023), Deng et al. (2024), and Cho et al. (2021) emphasized the importance of human resource management practices and organizational relationships but did not integrate work ethic, competency development, employee loyalty, and employee performance into a comprehensive conceptual framework.

These inconsistent findings indicate that the behavioral mechanisms underlying employee performance remain insufficiently understood.

Beyond these empirical inconsistencies, previous studies have concentrated predominantly on manufacturing industries, educational institutions, public organizations, and healthcare services, whereas empirical evidence within the beauty salon industry remains very limited. Beauty salons possess distinctive organizational characteristics because they operate as high-touch service organizations in which customer satisfaction depends heavily on interpersonal interactions between employees and customers. Consequently, theoretical models developed in manufacturing or public-sector contexts cannot be generalized directly to beauty salon organizations. This contextual limitation demonstrates the need for empirical investigation within Indonesia's beauty salon industry, particularly across the Greater Jakarta metropolitan area, where competition and customer expectations continue to intensify.

Based on the empirical, theoretical, and contextual limitations identified above, this study offers two major contributions. First, it proposes employee loyalty as a mediating variable explaining how work ethic and competency development influence employee performance. Second, it examines these relationships within the context of beauty salons affiliated with the Tiara Kusuma Association across Greater Jakarta, an industrial context that has received limited attention within contemporary human resource management research. By integrating Social Exchange Theory, Human Capital Theory, Resource-Based View, and the Stimulus–Organism–Response framework into a unified conceptual model, this study seeks to provide a more comprehensive understanding of employee performance in labor-intensive service organizations. Furthermore, the findings are expected to contribute theoretically to the development of human resource management literature while providing practical recommendations for salon managers regarding competency development, employee retention, and sustainable organizational performance.

Accordingly, the objective of this study is to analyze the effects of work ethic and competency development on employee performance, while examining the mediating role of employee loyalty among employees working in beauty salons affiliated with the Tiara Kusuma Association across the Greater Jakarta (Jabodetabek) region. The study is expected to enrich existing literature on strategic human resource management and provide empirical evidence supporting the development of effective human resource strategies for Indonesia's beauty service industry.

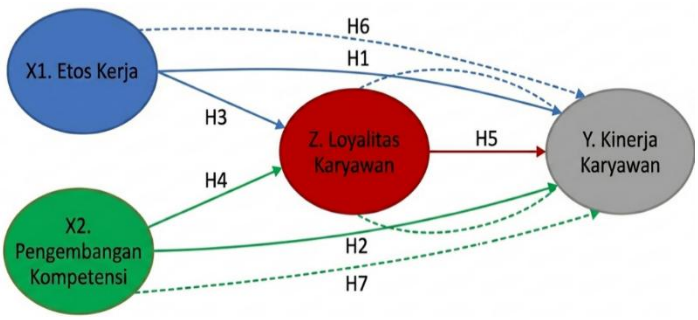

Figure 1. Conceptual Framework

METHOD

This study employed a quantitative approach using an explanatory research design to examine the relationships among work ethic, competency development, employee loyalty, and employee performance in the beauty salon industry. Quantitative research was selected because it enables objective hypothesis testing through numerical measurement and statistical analysis of causal relationships among variables (Creswell & Creswell, 2023). The explanatory design was considered appropriate because this study aims to explain both the direct and indirect effects of work ethic and competency development on employee performance through employee loyalty as a mediating variable (Sekaran & Bougie, 2020). The research was conducted in beauty salons affiliated with the Tiara Kusuma Association across the Greater Jakarta (Jabodetabek) metropolitan area, consisting of Jakarta, Bogor, Depok, Tangerang, and Bekasi. These organizations were selected because they represent service businesses characterized by high-contact and high-touch interactions, where employee competence and service behavior are fundamental determinants of organizational performance.

The population consisted of 661 employees working in 37 registered beauty salons affiliated with the Tiara Kusuma Association. Respondents were selected using a purposive sampling technique because participants were required to meet specific research criteria, including working in a member salon, being directly involved in customer service activities, having at least six months of work experience, and voluntarily participating in the study. Following the recommendation of Hair et al. (2022), the minimum sample size for Partial Least Squares Structural Equation Modeling (PLS-SEM) should be five to ten times the number of measurement indicators. Since this study employed 64 indicators, the minimum required sample was 320 respondents, which also ensured adequate statistical power for estimating the structural model. To maintain representativeness, the sample was proportionally distributed across Jakarta (132 respondents), Bogor (26 respondents), Depok (71 respondents), Tangerang (76 respondents), and Bekasi (15 respondents). Primary data were collected through a structured questionnaire using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), allowing respondents to evaluate each statement related to the research variables systematically (Sugiyono, 2023).

The research instrument measured four latent variables, namely work ethic, competency development, employee loyalty, and employee performance. Work ethic was operationalized through four dimensions: work commitment, responsibility, work discipline, and work motivation. Competency development comprised knowledge competency, technical competency, interpersonal competency, and adaptive competency. Employee loyalty was measured using affective loyalty, retention loyalty, and behavioral loyalty, whereas employee performance was assessed through work quality, work quantity, timeliness, effectiveness, and independence. All measurement indicators were adapted from established studies and modified to fit the operational characteristics of the beauty salon industry. The operational definitions of each research variable are presented in Table 1.

Table 1. Operational Definition of Research Variables

Variable	Indicator	Scale
Work Ethic (X_1)	Discipline, responsibility, integrity, and work quality orientation	Likert Scale 1–5
Competency Development (X_2)	Training, skill development, and knowledge enhancement	Likert Scale 1–5
Employee Loyalty (Z)	Organizational commitment, sense of belonging, intention to remain, and contribution to the organization	Likert Scale 1–5
Employee Perfomance (Y)	Organizational commitment, sense of belonging, intention to remain, and contribution to the organization	Likert Scale 1–5

Source: Adapted from previous studies and processed by the authors (2026)

Data analysis was performed using Structural Equation Modeling based on Partial Least Squares (PLS-SEM) with SmartPLS version 4. The analysis consisted of evaluating the measurement model (outer model) and the structural model (inner model). Convergent validity was assessed using outer loading values and Average Variance Extracted (AVE), while reliability was examined through Cronbach's Alpha and Composite Reliability. Subsequently, the structural model was evaluated using the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and bootstrapping procedures to test the proposed hypotheses. Following Hair et al. (2022), hypotheses were accepted when the t-statistic exceeded 1.96 and the p-value was below 0.05. Mediation analysis was also conducted to examine whether employee loyalty significantly mediated the relationships between work ethic and employee performance, as well as competency development and employee performance.

RESULT AND DISCUSSION

Results

Respondent Characteristics

The study involved 320 employees working in beauty salons across the Greater Jakarta (Jabodetabek) area. The sample was predominantly female, comprising 256 respondents (80.0%), while 64 respondents (20.0%) were male.

Table 2. Respondent Characteristic

Characteristics	Category	Frequency	Percentage (%)
Sex	Men	173	54,2
	Women	147	45,8
Age	≤ 30 years old	42	12,4
	31–40 years old	95	30,1
	41–50 years old	112	35,3
	≥ 50 years old	71	22,2
Study	Senior High School	37	11,1
	Diploma (D3)	45	13,7
	Bachelor (S1)	171	54,9
	Master (S2)	62	19,0
	Doctor (S3)	7	1,3
Length of Work	< 5 years	42	9,2
	5–10 years	69	21,6
	11–20 years	128	40,5
	> 20 years	83	28,8

In terms of age, 39.4% were 30 years old or younger, 32.5% were between 31 and 40 years old, 19.7% were between 41 and 50 years old, and 8.4% were 50 years old or above. Regarding educational attainment, most respondents had completed senior high school or equivalent education (54.1%), followed by bachelor's degree holders (22.8%), diploma graduates (19.4%), and other educational backgrounds (3.7%).

With respect to length of employment, 43.1% of respondents had worked for less than five years, 30.0% for five to ten years, 18.8% for eleven to twenty years, and 8.1% for more than twenty years. Overall, the respondent profile reflects the workforce characteristics of the beauty salon industry, which is dominated by female employees and relies substantially on practical skills and professional competencies developed through work experience, training, and certification.

Descriptive Statistics of Research Variables

Descriptive statistics were used to provide an overview of the respondents' response patterns for each research variable. The analysis was conducted based on the mean, minimum, maximum, and standard deviation values to determine the respondents' overall perceptions of the variables examined in this study.

Table 3. Descriptive Statistics of Research Variables

Variable	Number of Items	Mean	Standard Deviation	Minimum	Maximum
Work Ethic	16	4.763	0.413	3.000	5.000
Competency Development	16	4.754	0.417	3.000	5.000
Employee Loyalty	12	4.704	0.453	3.000	5.000
Employee Performance	20	4.727	0.440	3.000	5.000

Sources: Data Analysis, 2026

The descriptive statistics show that all research variables had relatively high mean scores, exceeding 4.70 on a five-point Likert scale. Work Ethic recorded the highest mean score

(M = 4.763, SD = 0.413), followed by Competency Development (M = 4.754, SD = 0.417), Employee Performance (M = 4.727, SD = 0.440), and Employee Loyalty (M = 4.704, SD = 0.453). The relatively low standard deviations, ranging from 0.413 to 0.453, indicate limited variability in respondents' responses. Furthermore, the observed scores ranged from 3.000 to 5.000 across all constructs, suggesting that respondents generally expressed favorable perceptions of the variables examined in this study.

Data Analysis Result

a. Measurement Model (Outer Model)

The measurement model (outer model) was evaluated to assess the validity and reliability of the constructs before testing the structural relationships. The assessment included convergent validity, discriminant validity, and internal consistency reliability. Convergent validity was evaluated based on the outer loading and Average Variance Extracted (AVE) values, while reliability was assessed using Cronbach's Alpha and Composite Reliability.

Convergent Validity

Convergent validity was assessed to determine whether the indicators adequately represented their respective constructs. The results showed that all indicators had outer loading values above the recommended threshold of 0.70. The outer loadings ranged from 0.736 to 0.943 for Work Ethic, 0.886 to 0.943 for Competency Development, 0.803 to 0.954 for Employee Loyalty, and 0.898 to 0.957 for Employee Performance.

For the article, the results can be summarized as follows:

Table 4. Convergent Validity Results

Construct	Number of Items	Outer Loading Range	AVE	Criterion	Result
Work Ethic	16	0.736–0.943	0.823	> 0.50	Valid
Competency Development	16	0.886–0.943	0.845	> 0.50	Valid
Employee Loyalty	12	0.803–0.954	0.824	> 0.50	Valid
Employee Performance	20	0.898–0.957	0.870	> 0.50	Valid

Source: SmartPLS 4 output, processed by the authors (2026)

All constructs achieved AVE values above the recommended threshold of 0.50, ranging from 0.823 to 0.870. In addition, all indicator loadings exceeded 0.70. These results confirm that the measurement model demonstrates satisfactory convergent validity, indicating that the indicators adequately represent their respective latent constructs.

b. Discriminant Validity

Discriminant validity was assessed to determine whether each latent construct was empirically distinct from the other constructs in the model. The assessment was conducted using the Fornell–Larcker criterion, in which the square root of the Average Variance Extracted (AVE) for each construct should be greater than its correlations with the other constructs.

Table 5. Discriminant Validity Using the Fornell–Larcker Criterion

Construct	Work Ethic	Competency Development	Employee Loyalty	Employee Performance
Work Ethic	0.907			
Competency Development	0.878	0.919		
Employee Loyalty	0.808	0.824	0.908	
Employee Performance	0.818	0.829	0.843	0.933

Source: SmartPLS 4 output, processed by the authors (2026)

The results show that the square root of the AVE for each construct, represented by the diagonal values, was greater than its correlations with the other constructs. Specifically, the diagonal values were 0.907 for Work Ethic, 0.919 for Competency Development, 0.908 for Employee Loyalty, and 0.933 for Employee Performance. Therefore, according to the Fornell–Larcker criterion, all constructs demonstrated satisfactory discriminant validity, indicating that each construct was empirically distinguishable from the other constructs in the measurement model.

c. Reliability Assessment

The reliability of the measurement model was evaluated using Cronbach's Alpha and Composite Reliability (CR). According to Hair et al. (2022), constructs are considered reliable when both Cronbach's Alpha and Composite Reliability values exceed the recommended threshold of 0.70. The results are presented in Table 5.

Table 6. Reliability Assessment

Construct	Cronbach's Alpha	Composite Reliability	Criterion	Result
Work Ethic	0.985	0.986	> 0.70	Reliable
Competency Development	0.988	0.988	> 0.70	Reliable
Employee Loyalty	0.980	0.982	> 0.70	Reliable
Employee Performance	0.992	0.992	> 0.70	Reliable

Source: SmartPLS 4 output, processed by the authors (2026)

The results indicate that all constructs exhibited excellent internal consistency. Cronbach's Alpha values ranged from 0.980 to 0.992, while Composite Reliability values ranged from 0.982 to 0.992, all exceeding the recommended threshold of 0.70. These findings confirm that the measurement items consistently measure their respective latent constructs and demonstrate a high level of internal reliability.

Overall, the results of the measurement model assessment indicate that all constructs satisfy the requirements for convergent validity, discriminant validity, and internal consistency reliability. Therefore, the measurement model is considered robust and appropriate for subsequent evaluation of the structural model and hypothesis testing.

d. Structural Model (Inner Model)

The structural model (inner model) was evaluated to assess the explanatory power of the proposed relationships among the latent constructs. The evaluation focused on the coefficient of determination (Adjusted R^2), which indicates the proportion of variance in the endogenous constructs explained by their respective predictor variables.

e. Coefficient of Determination (Adjusted R^2)

The coefficient of determination was used to evaluate the extent to which the exogenous constructs explain the variance in the endogenous constructs. The results are presented in Table below.

Table 7. Coefficient of Determination (Adjusted R^2)

Endogenous Construct	Predictor Constructs	Adjusted R^2	Explained Variance	Category
Employee Loyalty	Work Ethic and Competency Development	0.853	85.3%	Substantial
Employee Performance	Work Ethic, Competency Development, and Employee Loyalty	0.912	91.2%	Substantial

Source: SmartPLS 4 output, processed by the authors (2026)

The results show that the Adjusted R^2 value for Employee Loyalty was 0.853, indicating that Work Ethic and Competency Development jointly explained 85.3% of the variance in Employee Loyalty, while the remaining 14.7% was explained by factors outside the research model.

Meanwhile, the Adjusted R^2 value for Employee Performance was 0.912, indicating that Work Ethic, Competency Development, and Employee Loyalty jointly explained 91.2% of the variance in Employee Performance, while the remaining 8.8% was attributable to other factors not included in the model.

Overall, both Adjusted R^2 values exceeded 0.75, indicating that the structural model has substantial explanatory power in explaining Employee Loyalty and Employee Performance. Thus, the proposed model provides a strong explanation of the relationships among the constructs in the context of the beauty salon industry in Greater Jakarta (Jabodetabek).

f. Hypothesis Testing

Hypothesis testing was conducted using the bootstrapping procedure in SmartPLS 4 at a significance level of 5%. The direction of each relationship was determined based on the path coefficient (β), while statistical significance was assessed using the p-value. A relationship was considered statistically significant when the p-value was below 0.05. The analysis included five direct effects and two specific indirect effects through Employee Loyalty as the mediating variable.

g. Direct Effects

The results of the direct-effect hypothesis testing are presented in Table 8.

Table 8. Direct Effect Hypothesis Testing

Hypothesis	Relationship	Path Coefficient (β)	p-value	Effect	Decision
H1	Work Ethic → Employee Loyalty	0.089	0.740	Positive, not significant	Rejected
H2	Competency Development → Employee Loyalty	0.836	0.002	Positive and significant	Accepted
H3	Work Ethic → Employee Performance	0.156	0.375	Positive, not significant	Rejected
H4	Competency Development → Employee Performance	0.249	0.141	Positive, not significant	Rejected
H5	Employee Loyalty → Employee Performance	0.571	< 0.001	Positive and significant	Accepted

Source: SmartPLS 4 output, processed by the authors (2026)

The results show that two of the five direct relationships were statistically significant. Competency Development had a positive and significant effect on Employee Loyalty ($\beta = 0.836$, $p = 0.002$), supporting H2. This result indicates that better competency development is associated with higher employee loyalty. The relatively large path coefficient also suggests that competency development plays an important role in strengthening employees' attachment to the organization.

Employee Loyalty also had a positive and significant effect on Employee Performance ($\beta = 0.571$, $p < 0.001$), supporting H5. Thus, higher levels of employee loyalty were associated with better employee performance.

In contrast, Work Ethic did not have a significant effect on either Employee Loyalty ($\beta = 0.089$, $p = 0.740$) or Employee Performance ($\beta = 0.156$, $p = 0.375$); therefore, H1 and H3 were rejected. Although both coefficients were positive, their p-values exceeded the 0.05 significance threshold.

Similarly, Competency Development had a positive but statistically insignificant direct effect on Employee Performance ($\beta = 0.249$, $p = 0.141$), leading to the rejection of H4. This finding is particularly important because it indicates that competency development does not directly translate into higher employee performance. Instead, its contribution to performance may operate through another mechanism, particularly Employee Loyalty, which is examined in the mediation analysis.

h. Indirect Effects and Mediation Analysis

The mediation analysis was conducted to examine whether Employee Loyalty mediates the relationships between Work Ethic and Employee Performance and between Competency

Development and Employee Performance. The significance of the specific indirect effects was evaluated using the bootstrapping procedure in SmartPLS 4, with a significance threshold of $p < 0.05$.

Table 9. Indirect Effects and Mediation Analysis

Hypothesis	Indirect Relationship	Indirect Effect (β)	p-value	Mediation Result	Decision
H6	Work Ethic → Employee Loyalty → Employee Performance	0.051	0.743	No mediation	Rejected
H7	Competency Development → Employee Loyalty → Employee Performance	0.478	0.004	Full mediation	Accepted

Source: SmartPLS 4 output, processed by the authors (2026)

The results show that the indirect effect of Work Ethic on Employee Performance through Employee Loyalty was positive but statistically insignificant ($\beta = 0.051$, $p = 0.743$). Therefore, H6 was rejected. This finding indicates that Employee Loyalty does not mediate the relationship between Work Ethic and Employee Performance. This result is consistent with the insignificant direct relationship between Work Ethic and Employee Loyalty, indicating that Work Ethic does not significantly contribute to the formation of Employee Loyalty and, consequently, does not influence Employee Performance through this mediating mechanism.

In contrast, the indirect effect of Competency Development on Employee Performance through Employee Loyalty was positive and statistically significant ($\beta = 0.478$, $p = 0.004$). Therefore, H7 was accepted. This finding confirms that Employee Loyalty serves as a mediating variable in the relationship between Competency Development and Employee Performance.

More importantly, the direct effect of Competency Development on Employee Performance was not statistically significant ($\beta = 0.249$, $p = 0.141$), whereas the indirect effect through Employee Loyalty was significant ($\beta = 0.478$, $p = 0.004$). This pattern indicates full mediation, meaning that Competency Development influences Employee Performance primarily through the development of Employee Loyalty rather than through a direct pathway. This finding is also explicitly stated in the final conclusion of the study.

Thus, the mediation analysis identifies Employee Loyalty as the key mechanism linking Competency Development to Employee Performance. Employees' competencies alone do not directly translate into improved performance; rather, competency development contributes to performance when it is accompanied by stronger employee loyalty.

Discussion

1. The Effect of Work Ethic on Employee Loyalty

The results show that Work Ethic has a positive but insignificant effect on Employee Loyalty ($\beta = 0.089$, $p = 0.740$); therefore, H1 was not supported. This finding indicates that discipline, responsibility, diligence, and commitment to work do not necessarily create stronger attachment to the organization. Employees may maintain professional work standards while remaining open to other employment opportunities when organizational support, recognition, career development, and future prospects are considered insufficient.

This finding distinguishes employees' orientation toward work from their attachment to the organization. In the beauty salon industry, professional skills are relatively transferable across workplaces; therefore, employees with a strong work ethic may perform consistently regardless of the salon in which they work. From a Social Exchange Theory perspective, loyalty is more likely to develop when employees perceive reciprocal organizational support through recognition, development opportunities, fair rewards, and supportive working conditions. Thus, work ethic alone may not be sufficient to build employee loyalty.

2. The Effect of Competency Development on Employee Loyalty

The results show that Competency Development has a positive and significant effect on Employee Loyalty (β = 0.836, p = 0.002); therefore, H2 was supported. This finding indicates that opportunities for training, technical skill improvement, communication development, customer service enhancement, and adaptability strengthen employees' attachment to the organization. Employees tend to perceive competency development as organizational support for their professional growth, which encourages a sense of pride, emotional attachment, intention to remain, and willingness to contribute more to the organization.

This finding supports Social Exchange Theory, which suggests that employees reciprocate favorable organizational treatment with positive attitudes and behaviors. When beauty salons invest in employees through training, career development, and continuous learning opportunities, employees are more likely to reciprocate by strengthening their loyalty and commitment. The finding is consistent with Mampuru et al. (2024), who demonstrated that training and development contribute to employee loyalty and retention, and is also in line with Sahoo and Mishra (2022), as cited in the revised Chapter IV, who emphasized that human resource management practices, including employee development, can strengthen loyalty and organizational outcomes.

3. The Effect of Work Ethic on Employee Performance

The results show that Work Ethic has a positive but insignificant effect on Employee Performance (β = 0.156, p = 0.375); therefore, H3 was not supported. This finding indicates that discipline, responsibility, commitment, and enthusiasm for work alone are insufficient to directly improve employee performance. In the beauty salon context, performance also depends on technical competence, work systems, facilities, leadership, organizational support, and employees' attachment to the organization.

This finding differs from studies that generally associate a strong work ethic with higher employee productivity and performance. For example, Mubaraq et al. (2024) examined the relationships among human resource development, work capability, work ethic, and employee performance, while Alhyasat et al. (2024) linked work ethic and cultural factors with perceived performance. The literature reviewed in the article nevertheless shows that empirical findings remain inconsistent and that work ethic alone may not improve performance when organizational systems, leadership support, and career opportunities are inadequate.

From the Resource-Based View (RBV) perspective, work ethic represents an intangible employee resource, but its value depends on how effectively it is organized and combined with other organizational resources. Thus, employees with a strong work ethic may not necessarily achieve superior performance without adequate competencies, resources, and organizational support. This finding extends previous research by showing that, in the high-touch beauty salon industry, work ethic is an important foundation for professional behavior but is not sufficient by itself to generate higher employee performance.

4. The Effect of Competency Development on Employee Performance

The results show that Competency Development has a positive but insignificant effect on Employee Performance (β = 0.249, p = 0.141); therefore, H4 was not supported. This finding indicates that improving employees' knowledge and skills does not automatically translate into higher performance. Competency represents employees' capacity to perform, whereas performance reflects the actual application of that capacity. Therefore, adequate opportunities to apply new skills, organizational support, equipment, mentoring, and recognition are required to transform competency into actual performance.

This finding differs from Nguyen et al. (2023), who found that competency significantly influenced employee performance in service organizations, as well as Salas et al. (2021) and Garavan et al. (2022), who emphasized that training and competency development can improve individual performance. However, the present result is consistent with

Dzulqarnaim, Nuraeni, and Hasanah (2024), who found that job training does not always have a significant direct effect on performance. These differences suggest that the effectiveness of competency development may depend on the psychological and organizational mechanisms accompanying the development process.

In the beauty salon context, newly acquired competencies may not immediately improve performance when employees lack opportunities to practice their skills, appropriate customers, adequate equipment, or organizational attachment. The finding therefore provides a more nuanced perspective on Human Capital Theory: investment in employee competencies creates productive capacity, but this capacity must be effectively utilized and supported by the organization to generate performance outcomes. In this study, competency development instead showed a strong effect on Employee Loyalty, suggesting that its contribution to performance occurs primarily through a psychological mechanism rather than a direct pathway.

5. The Effect of Employee Loyalty on Employee Performance

The results show that Employee Loyalty has a positive and significant effect on Employee Performance ($\beta = 0.571$, $p < 0.001$); therefore, H5 was supported. This finding indicates that employees who demonstrate stronger organizational attachment, pride, intention to remain, and long-term commitment tend to achieve better performance. In the beauty salon industry, loyalty is particularly important because service quality depends heavily on consistent employee behavior and sustained personal relationships with customers.

This finding is consistent with the previous studies discussed in Chapter IV, which generally indicate that employee loyalty and organizational attachment contribute positively to performance. Loyal employees are more willing to maintain service standards, contribute beyond formal job requirements, and support organizational objectives. In high-contact service settings, such behavioral commitment becomes particularly valuable because employees interact directly with customers and strongly influence their service experience and satisfaction.

From the Resource-Based View (RBV) perspective, employee loyalty represents an intangible strategic resource that helps organizations retain competencies, experience, customer knowledge, and service relationships. This role is especially relevant in beauty salons, where customers often develop personal relationships with hairstylists, beauticians, and therapists. Therefore, employee loyalty contributes to performance not only by encouraging greater individual effort but also by maintaining service continuity and preserving customer relationships within the organization.

6. The Mediating Role of Employee Loyalty in the Relationship Between Work Ethic and Employee Performance

The results show that the indirect effect of Work Ethic on Employee Performance through Employee Loyalty was positive but insignificant ($\beta = 0.051$, $p = 0.743$); therefore, H6 was not supported. This finding indicates that Employee Loyalty does not mediate the relationship between Work Ethic and Employee Performance. The absence of mediation is consistent with the insignificant effect of Work Ethic on Employee Loyalty, meaning that work ethic does not sufficiently strengthen loyalty to subsequently improve performance.

This finding differs from studies that suggest positive work attitudes can strengthen organizational attachment and ultimately contribute to performance. However, the results of this study demonstrate that commitment to work and commitment to the organization are conceptually distinct. Employees may remain disciplined, responsible, diligent, and professional without necessarily developing stronger loyalty to the salon in which they work. This supports the interpretation in Chapter V that individual work values require organizational support, development opportunities, recognition, and adequate working systems before they can be transformed into loyalty and performance.

From the perspective of Social Exchange Theory, work ethic primarily reflects an individual orientation toward work rather than an organizational resource received through reciprocal exchange. Consequently, it may not generate the psychological attachment required for Employee Loyalty to function as a mediating mechanism. In the beauty salon industry, where professional skills are transferable across workplaces, employees with a strong work ethic can maintain high professional standards even when their attachment to a particular salon is limited. Thus, Employee Loyalty does not serve as a mechanism linking Work Ethic to Employee Performance in this study.

7. The Mediating Role of Employee Loyalty in the Relationship Between Competency Development and Employee Performance

The results show that Employee Loyalty significantly mediates the relationship between Competency Development and Employee Performance (β = 0.478, p = 0.004); therefore, H7 was supported. Since the direct effect of Competency Development on Employee Performance was insignificant (β = 0.249, p = 0.141), while its indirect effect through Employee Loyalty was significant, the results indicate full mediation. Thus, competency development improves employee performance primarily by strengthening employee loyalty.

This finding reinforces previous research emphasizing that employee development does not necessarily translate directly into performance outcomes. Instead, organizational investment in training and development can generate positive psychological responses, including stronger attachment, commitment, and willingness to remain with the organization. In this study, competency development is perceived as organizational support for employees' professional growth, which strengthens loyalty and subsequently encourages employees to contribute more effectively to organizational performance. This finding therefore extends previous studies by identifying Employee Loyalty as the mechanism through which competency development is converted into performance.

The finding strongly supports Social Exchange Theory and the Stimulus–Organism–Response (SOR) framework. Competency Development functions as the *stimulus*, Employee Loyalty represents the internal psychological *organism*, and Employee Performance constitutes the behavioral *response*. It also extends Human Capital Theory by demonstrating that investment in employee competencies creates greater organizational value when the developed human capital is retained through loyalty. In the beauty salon industry, where technical expertise and customer relationships are highly transferable, competency development should therefore be integrated with employee retention, recognition, career opportunities, and organizational support to generate sustainable performance improvements.

CONCLUSION

This study examined the effects of Work Ethic and Competency Development on Employee Performance through Employee Loyalty in the beauty salon industry in Greater Jakarta (Jabodetabek). The findings demonstrate that Work Ethic does not significantly affect either Employee Loyalty (β = 0.089, p = 0.740) or Employee Performance (β = 0.156, p = 0.375). In contrast, Competency Development has a positive and significant effect on Employee Loyalty (β = 0.836, p = 0.002), although its direct effect on Employee Performance is not significant (β = 0.249, p = 0.141). Employee Loyalty has a positive and significant effect on Employee Performance (β = 0.571, p < 0.001).

The mediation analysis further reveals that Employee Loyalty does not mediate the relationship between Work Ethic and Employee Performance (β = 0.051, p = 0.743). However, Employee Loyalty significantly mediates the relationship between Competency Development and Employee Performance (β = 0.478, p = 0.004). Since the direct effect of Competency Development on Employee Performance is insignificant while the indirect effect is significant, Employee Loyalty demonstrates a full mediating role. Thus, competency development contributes to higher performance primarily by strengthening employees' attachment and commitment to the organization.

Overall, the study highlights Employee Loyalty as a critical mechanism linking competency development to employee performance. For beauty salons, investing in employee competencies should therefore be integrated with retention strategies, career development, recognition, and organizational support. Developing employee capabilities without strengthening loyalty may not be sufficient to generate sustainable performance improvements, particularly in a high-touch service industry where employee expertise and customer relationships represent important organizational resources.

This study highlights Employee Loyalty as a key mechanism linking Competency Development to Employee Performance. The findings imply that competency development should not be treated merely as a means of improving employees' skills but also as a strategy for strengthening organizational attachment and retention. For beauty salon management, training and professional development should therefore be integrated with career opportunities, recognition, supportive leadership, and fair rewards to ensure that improved competencies are translated into sustainable employee performance.

This study is limited by its cross-sectional design, self-reported questionnaire data, purposive sampling, and geographical focus on beauty salon employees in Greater Jakarta (Jabodetabek). Employee performance was also measured based on employees' perceptions rather than objective performance indicators. Consequently, future studies should consider longitudinal or mixed-method designs, broader geographical and service-industry contexts, multiple data sources, and additional variables such as organizational support, job satisfaction, employee engagement, leadership, and organizational culture.

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