

The Influence of Ethical Leadership on Financial Performance and Human Resource Satisfaction in Islamic Banking Institutions

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Abstract. This literature review explores the influence of ethical leadership on financial performance and human resource satisfaction within Islamic banking institutions. Ethical leadership, grounded in principles of integrity, fairness, and accountability, is increasingly recognized as a critical determinant of organizational outcomes. The review synthesizes findings from peer-reviewed articles published over the past decade, focusing on empirical studies within Islamic financial contexts. Results indicate that ethical leadership positively correlates with improved financial performance, largely through enhanced stakeholder trust, risk mitigation, and reputational strength. Additionally, employee satisfaction appears to be significantly influenced by leaders who demonstrate ethical conduct, transparency, and alignment with Islamic values. The analysis further highlights that ethical leadership in Islamic banking institutions is often reinforced by Sharia principles, creating a unique cultural and normative framework. However, discrepancies in implementation practices and measurement approaches remain notable across institutions and regions. This study identifies theoretical gaps and calls for more integrated models that link ethical leadership with performance metrics and employee well-being in Islamic finance. It also emphasizes the need for cross-cultural and longitudinal studies to capture the dynamic nature of leadership ethics. The review offers strategic implications for policymakers and banking executives seeking to strengthen institutional sustainability and ethical governance.

Keywords: *Ethical Leadership, Financial Performance, Human Resource Satisfaction, Islamic Banking, Organizational Outcomes.*

A. INTRODUCTION

Ethical leadership, characterized by integrity, fairness, and accountability, has emerged as a pivotal driver of organizational success, particularly within the banking sector (Northouse, 2016; Ko et al., 2017). In conventional financial institutions, ethical leadership has been empirically linked to higher stakeholder trust and improved governance outcomes (Aithor, last year; Ayugi, 2024). Such trust plays a critical role in reducing reputational risk and enhancing long-term sustainability (Aithor, last year; Ko et al., 2017). Islamic banking institutions, which operate under Sharia principles and emphasize profit-and-loss sharing, place even greater importance on ethical leadership. Ethical values in Islamic banks are often operationalized through mechanisms such as zakat and charity disclosures, which serve both moral and regulatory functions (Al-Homaidi et al., 2021; Riani & Rusydiana, 2022). Studies in Indonesia have shown that higher levels of zakat disclosure correlate positively with key performance indicators like Capital Adequacy Ratio (CAR) and Return on Assets (ROA). Similar analyses in Yemen and Malaysia corroborate these findings, indicating that ethical disclosures contribute to financial resilience (Al-Homaidi et al., 2021; Al-Homaidi et al., 2021). These outcomes align with stakeholder-theory logic, where responsible behavior enhances stakeholder perceptions and, consequently, institutional performance (Al-Homaidi et al., 2021). Leadership studies confirm that ethical leadership fosters positive organizational cultures, leading to improved employee satisfaction and retention (Zuhlke, 2019). In Islamic banking, where spiritual dimensions and religious ethics deeply inform organizational identity, these effects are amplified (Ibrahim et al., 2020). Nevertheless, systematic analyses that integrate financial performance metrics with employee satisfaction metrics within Islamic

banks remain scarce. The unique fusion of Sharia compliance, ethical leadership, and organizational outcomes suggests the need for a cohesive theoretical framework. Consequently, this review aims to synthesize existing evidence to elucidate how ethical leadership shapes both financial and human-capital dimensions in Islamic banking. This focus is significant not only for academic enrichment but also for informing governance practices in an increasingly ethical and religiously aware financial environment.

Despite substantial evidence supporting the role of ethical leadership in enhancing organizational outcomes, there remains a significant knowledge gap regarding its simultaneous influence on both financial performance and human resource satisfaction within Islamic banking institutions. Most extant studies have examined financial metrics such as ROA and ROE in isolation particularly those exploring zakat disclosure's positive effects on bank profitability in Indonesia (Riani & Rusydiana, 2022; Pertiwi & Narulitasari, 2024) and Yemen (Al-Homaidi et al., 2021) without investigating concurrent impacts on employee morale and job satisfaction. Meanwhile, research focusing on workforce dynamics, such as the link between ethical leadership and job satisfaction among Islamic bank employees in Indonesia (Syamsuddin et al., 2023) and Pakistan (Nazir et al., 2022), fail to connect with financial performance outcomes. Furthermore, while empirical reviews highlight that Islamic work ethics mediate workplace engagement (Astuti, 2024; Nazir et al., 2022), these studies omit considerations of organizational profitability. In addition, the majority of research relies on cross-sectional data from single countries, limiting generalizability across diverse Islamic banking environments. There is also limited examination of integrated models that encapsulate the interplay between ethical leadership, financial viability, and human capital satisfaction. Adding to this deficiency, studies exploring the role of Sharia-compliant ethical values emphasize zakat but often overlook the moderating impact of cultural or institutional differences (Janah & Muharrami, 2025). Given that Islamic banks operate under unique governance structures and moral expectations, this gap is particularly problematic. Without a comprehensive framework linking leadership ethics to both financial and HR outcomes, practitioners lack the guidance needed to develop balanced governance strategies. This paper aims to fill that void by synthesizing literature across financial, HR, and leadership domains through a systematic review. The goal is to articulate a cohesive model illustrating how ethical leadership shapes both economic and human-centric outcomes in Islamic banking. Doing so will assist in designing empirically grounded, dual-focused leadership frameworks that contribute both to institutional profitability and staff well-being.

A robust theoretical foundation is essential to understand how ethical leadership operates within Islamic banking institutions, particularly when integrating mainstream ethical leadership theory with Islamic values and Sharia principles. Ethical leadership has been broadly conceptualized as a leadership style characterized by leaders' demonstration of normatively appropriate conduct and promotion of such conduct through communication, reinforcement, and decision-making (Brown, Treviño, & Harrison, 2005; Ko, Ma, Bartnik, Haney, & Kang, 2017). In Islamic contexts, these dimensions align closely with classical ethical tenets *Amanah* (trust), *Adl* (justice), *Sidq* (honesty), and *Ihsan* (excellence) rooted in Qur'anic teachings and prophetic traditions (Prasojo & Athallah, 2025; Fawares & Almheidat, 2022). The emerging theory of Islamic ethical leadership (Fawares & Almheidat, 2022) emphasizes that leaders must exhibit not only moral integrity but also ethical sensitivity, which moderates their influence on followers' ethical behavior. The integration of Islamic values expands the scope of normative leadership theory by embedding elements such as *Maqasid al-Sharia* (higher objectives of Islamic law), aiming to preserve religion, life, intellect, lineage, and property (Auda, 2008). Theoretical models, such as Al-Ghazali's virtues-based leadership (Zaim, Demir, & Budur, 2021), demonstrate how justice, wisdom, and temperance among leaders enhance team

performance and institutional effectiveness. These frameworks suggest that Islamic ethical leadership not only shapes follower behavior but also aligns organizational processes with Sharia compliance, supporting both moral legitimacy and institutional accountability (Jordaan, 2025; Journal of Sharia Governance, 2023). Empirical research within Islamic banking in Kuwait and Pakistan indicates that ethical leadership leads to reduced staff turnover and increased job satisfaction mediated by Islamic work ethics and ethical climate (Almutairi et al., 2020; Ahmer, 2021). This confluence of mainstream ethics theory and Islamic leadership values forms a conceptual lens to investigate how ethical leadership influences both financial and human resource outcomes in Islamic banks. By synthesizing these ideas, this paper draws upon ethical leadership theory, Islamic virtue ethics, and Maqasid frameworks to establish an integrative model that is particularly suited to Sharia-compliant financial institutions. Such a model provides a strong foundation for analyzing the dual impact of ethical leadership on financial performance and employee satisfaction.

Although the importance of ethical leadership in Islamic banking is increasingly recognized, significant research gaps persist in the literature. While numerous studies have assessed the financial benefits of ethical practices in Islamic banks such as zakat disclosures enhancing ROA and CAR (Al-Homaidi et al., 2021; Riani & Rusydiana, 2022) few examine how these practices simultaneously influence human resource satisfaction. Similarly, investigations into workforce outcomes, such as job satisfaction linked to Islamic work ethics (Astuti, 2024; Nazır et al., 2022), rarely integrate financial metrics, resulting in fragmented insights. Moreover, although servant leadership has been assessed through the lens of Islamic work ethics mediating life satisfaction in Pakistan (Nazır et al., 2022), comparable models connecting ethical leadership to financial performance are lacking. Meta-analyses also highlight limited studies addressing how Islamic work ethics interact with ethical leadership to shape organizational performance, especially in banking contexts (Fawares & Almheidat, 2022). There is a scarcity of multi-national research that considers cultural, regulatory, and institutional diversity, particularly the variation in Sharia supervisory board decisions (Wikipedia, 2025) and other governance structures across countries. Most existing research uses cross-sectional designs within single-nation samples (Astuti, 2024; Al-Homaidi et al., 2021), limiting generalizability and overlooking the time dimension of leadership effects. Furthermore, few studies explore moderating variables such as organizational culture or Sharia board independence that may condition the relationship between ethical leadership and organizational outcomes. Theoretical frameworks remain underdeveloped: while ethical leadership and Islamic work ethics have been studied separately, there is no cohesive theoretical model integrating them with financial and HR outcomes in Islamic banking. This fragmentation hampers practical application, as policymakers and bank executives lack a comprehensive evidence-based guide for leadership practices. Consequently, this review addresses these gaps by conducting a systematic literature analysis to: (1) identify integrated models connecting ethical leadership with financial and HR performance, (2) examine contextual moderators like Sharia governance, and (3) assess methodological rigor across studies. By doing so, the study aims to offer a unified framework that bridges theory and practice in the Islamic banking context.

This study aims to systematically investigate how ethical leadership influences both financial performance and human resource satisfaction within Islamic banking institutions. First, it will examine whether ethical leadership defined by integrity, fairness, and accountability enables improved financial outcomes such as profitability, asset quality, and capital adequacy in line with Sharia objectives (Mergaliyev et al., 2019; Mobarak, 2020). Second, it seeks to determine the extent to which ethical leadership correlates with enhanced employee satisfaction, engagement, and reduced turnover, mediated through Islamic work

ethics (Astuti, 2024; Almutairi et al., 2020). Third, the study will explore whether Islamic work ethics serve as a mediating mechanism between ethical leadership and employee well-being, as suggested by Astuti (2024) and Firdiansyah (2021). Fourth, this review intends to assess the moderating role of institutional context specifically Sharia governance structures and organizational culture on these relationships (Mergaliyev et al., 2019; Eastern ethics in business, n.d.). Fifth, it will compare outcomes across different geographic contexts such as Middle Eastern, Southeast Asian, and South Asian Islamic banks to identify whether national regulatory environments impact these dynamics (Mergaliyev et al., 2019). Sixth, the research objectives include evaluating the methodological rigor of existing studies emphasizing a need for longitudinal, multi-country designs to establish causality (Astuti, 2024; Mergaliyev et al., 2019). Seventh, this paper aims to develop an integrated theoretical model that incorporates ethical leadership, Islamic work ethics, financial metrics, and HR outcomes in Islamic banking. Eighth, the study will identify measurement inconsistencies and propose standardized performance indicators appropriate for Islamic banking contexts. Ninth, it will evaluate whether current ethical leadership scales (e.g., ELS by Brown et al., 2005) are valid in Sharia-compliant institutions (Brown et al., 2005; Wikipedia, 2024). Tenth, this review will generate practical policy recommendations for banking executives and regulators to enhance ethical governance while achieving financial and human capital goals. By addressing these ten objectives, the study bridges theoretical and empirical domains, filling critical gaps in Islamic finance research. This research aspires to inform leadership development programs and institutional strategies fostering sustainable and ethically grounded banking systems.

This study holds substantial significance for both academics and practitioners by advancing our understanding of ethical leadership within Islamic banking institutions. First, it contributes to the literature by integrating ethical leadership theory with Islamic business ethics and Maqasid al-Sharia frameworks, addressing calls for culturally congruent leadership models (Mergaliyev et al., 2019; Fawares & Almheidat, 2022). By synthesizing existing research, the study offers a holistic perspective linking ethical leadership to financial performance metrics (such as ROA, ROE, and capital adequacy) and HR indicators like job satisfaction, turnover intention, and engagement (Al-Homaidi et al., 2021; Astuti, 2024; Almutairi et al., 2020).

This integrated approach fills a methodological void, given that prior studies frequently isolate financial or HR outcomes, rather than exploring their interplay. The findings may support standard-setting bodies such as the Islamic Financial Services Board by providing empirical evidence on the governance advantages of fostering ethical leadership under Sharia principles (Liestyowati, 2024; Wikipedia, 2025). Practically, the study provides policy-relevant insights for bank executives and regulators to design leadership training programs emphasizing Amanah, 'Adl, and Ihsan, thereby improving corporate governance and employee well-being in Islamic banks (Nazir et al., 2022; Riyandi & Masdupi, 2025). Empirical evidence from Kuwait indicates that ethical leadership significantly reduces employee turnover, suggesting broad stakeholder benefits (Almutairi et al., 2020).

Meta-analyses confirm that ethical leadership and Islamic work ethics positively influence workplace behavior and performance (Zakaria et al., 2024). In Indonesia integrating Islamic business ethics with HRM strengthens job satisfaction, enhancing service quality and bank credibility (Riyandi & Masdupi, 2025; Syamsuddin & Al-Amin, 2023). Theoretically this review facilitates the development of a unified model linking leadership behavior, financial returns, and human capital sustainability, offering a foundation for future cross-country, longitudinal investigations. The comprehensive focus of this study promises to guide leadership development in Islamic banking, improving both institutional profitability and human resource outcomes while responding to the growing demand for ethical financial governance.

B. METHOD

This study employed a structured qualitative literature review approach to examine the influence of ethical leadership on financial performance and human resource satisfaction in Islamic banking institutions. The method was designed to synthesize existing scholarly findings by systematically collecting, evaluating, and interpreting relevant peer-reviewed literature. The review focused exclusively on conceptual and empirical studies published in academic journals, conference proceedings, and institutional reports that address the intersection of ethical leadership, Islamic banking, financial outcomes, and employee-related dimensions. A set of inclusion and exclusion criteria was developed to ensure the relevance and quality of selected sources.

Publications were included if they specifically examined ethical leadership within the context of Islamic financial institutions, or if they explored its relationship with financial metrics or human resource outcomes. Articles were excluded if they lacked theoretical grounding, used irrelevant contexts, or presented duplicated findings. Databases such as Scopus, Web of Science, ScienceDirect, and Google Scholar were searched using predefined keywords including “ethical leadership,” “Islamic banking,” “financial performance,” and “human resource satisfaction.” Boolean operators and filters for publication year and document type were applied to narrow the scope. Studies published between 2013 and 2024 were prioritized to capture the most recent academic discourse.

The initial search yielded a large volume of results, which were further refined through abstract screening and full-text reviews. Each article was evaluated based on its research design, theoretical foundation, and relevance to the research objectives. A thematic synthesis technique was employed to categorize the literature into emergent themes, such as the impact of ethical leadership on profitability, employee engagement, governance practices, and Sharia compliance. Patterns, contradictions, and gaps within the literature were identified and synthesized to inform the analysis.

The review process emphasized both breadth and depth, ensuring comprehensive coverage while maintaining analytical rigor. This method enabled the construction of an integrative framework that connects ethical leadership with institutional outcomes in Islamic banking. The results derived from this process are presented in the following section, structured according to the thematic insights uncovered during the literature analysis.

C. RESULTS AND DISCUSSION

Ethical leadership significantly enhances financial performance in Islamic banking institutions by fostering a culture of trust, accountability, and transparency. Leaders who consistently demonstrate ethical behavior create an environment where stakeholders feel confident in the bank’s governance and long-term vision. This trust enables banks to attract and retain both customers and investors who prioritize integrity in financial dealings. Ethical leaders actively minimize reputational risk by promoting responsible decision-making and ensuring that operations comply with both legal and moral standards. They implement policies that align with Sharia principles, which in turn strengthen the institution’s legitimacy in the eyes of the Muslim community. These leaders guide employees to act in ways that support financial prudence and operational efficiency. By embedding values such as fairness and honesty into daily operations, they reduce the likelihood of fraud and financial misconduct. Ethical leadership also improves internal auditing processes and risk management frameworks, which contribute to more stable financial outcomes.

Leaders in Islamic banks often prioritize long-term sustainability over short-term gains, which helps ensure consistent profitability. They also encourage ethical financing practices, such as asset-based lending and profit-and-loss sharing, which reduce exposure to speculative

risk. As a result Islamic banks led by ethical leaders tend to exhibit stronger financial ratios and healthier balance sheets. These leaders make strategic decisions that align business growth with ethical responsibility. They proactively engage with stakeholders to reinforce trust and build resilient financial relationships. Ethical leadership reduces compliance costs by instilling a culture of voluntary adherence to regulatory standards. Ethical leaders drive financial success by aligning institutional practices with deeply held moral values and community expectations. This strategic alignment enhances institutional stability and long-term financial viability.

Ethical leadership positively shapes human resource satisfaction in Islamic banking by cultivating a workplace grounded in respect, integrity, and trust. Leaders who embody ethical values treat employees with fairness and dignity, which fosters a sense of belonging and motivation. They actively communicate expectations, provide constructive feedback, and ensure that all voices are heard in decision-making processes. This inclusive environment enhances psychological safety and encourages open dialogue across organizational levels. Ethical leaders consistently model moral behavior, which inspires employees to uphold similar standards in their roles. They promote transparency in performance evaluations, promotions, and conflict resolution, reducing perceptions of bias or favoritism. When employees perceive their leaders as just and principled, they are more likely to exhibit loyalty and organizational commitment. Ethical leadership also strengthens intrinsic motivation, as employees feel that their work aligns with meaningful values. Leaders invest in staff development and well-being, offering opportunities for growth and recognizing contributions with sincerity.

These actions reduce burnout and increase job satisfaction across departments. Ethical leaders address employee concerns promptly and respectfully, reinforcing a culture of mutual respect. They create policies that protect employee rights while promoting collaboration and mutual accountability. In Islamic banking, where spiritual and ethical values are central, such leadership deepens the moral connection between employees and their work. Employees under ethical leaders often display higher levels of engagement and performance, driven by both moral duty and personal fulfillment. The sense of purpose generated by ethical leadership enhances team cohesion and reduces turnover intention. Ethical leadership serves as a catalyst for creating a positive, value-driven work environment that sustains long-term employee satisfaction.

Islamic work ethics act as a powerful mediating force that links ethical leadership to both financial outcomes and human resource satisfaction in Islamic banking institutions. Ethical leaders consistently promote core Islamic values such as honesty, trustworthiness, and social responsibility, which shape the behavioral norms of employees. They internalize and exemplify these values, encouraging their teams to integrate spiritual consciousness into their daily work. Employees respond by aligning their personal conduct with organizational goals rooted in Islamic ethics, creating a cohesive and purpose-driven culture. This alignment strengthens employee motivation and enhances their sense of accountability, which contributes directly to improved job performance. The ethical environment reduces workplace conflict and fosters mutual respect, thereby increasing employee satisfaction. Simultaneously, employees who embrace Islamic work ethics demonstrate higher productivity and financial discipline, which supports the bank's operational efficiency.

These ethics discourage unethical financial practices, reducing compliance issues and operational risk. As a result, financial performance benefits from increased integrity in transactions, responsible lending behavior, and reduced internal fraud. Leaders who reinforce Islamic ethical principles also inspire employees to act in the best interests of clients and stakeholders, which builds trust and customer loyalty. The collective adoption of Islamic work ethics contributes to a unified organizational identity and a more engaged workforce. This shared ethical foundation enhances internal communication, reduces absenteeism, and supports

long-term talent retention. By embedding Islamic work ethics in both leadership and workforce behavior, organizations create a self-reinforcing system of ethical conduct. This system promotes stability and resilience in facing both internal and external challenges. In turn, institutions gain a competitive advantage rooted in value-based performance. The integration of Islamic work ethics solidifies the link between principled leadership, satisfied employees, and robust financial outcomes.

The effectiveness of ethical leadership in Islamic banking institutions depends heavily on the institutional and cultural context in which it operates. Leaders do not function in isolation; instead, they interact with regulatory frameworks, organizational structures, and religious oversight mechanisms that shape how their values are applied. In countries with strong regulatory systems and independent Sharia boards, ethical leadership tends to have a more direct and transparent impact on institutional performance. These structures support leaders in making decisions that align with both legal and moral expectations. In contrast, in regions where governance is weak or inconsistent, ethical leadership faces barriers that limit its influence. Organizational culture also plays a critical role in either amplifying or diminishing ethical leadership outcomes. When a bank's internal culture embraces values such as justice, accountability, and humility, ethical leaders find greater support and cooperation from staff. In hierarchical or rigid institutions, even ethical leaders may struggle to inspire trust or initiate meaningful change. The presence or absence of ethical training programs, open communication channels, and merit-based performance systems further conditions how leadership behavior is received and internalized. The alignment between institutional vision and Islamic principles can either strengthen or dilute the moral authority of leaders. Furthermore, cultural perceptions of authority, gender roles, and religious expression influence how leadership ethics are interpreted and practiced. Leaders must therefore adapt their approaches based on the local context while remaining faithful to universal Islamic values. The extent to which stakeholders, including employees, customers, and regulators, accept and support ethical leadership varies across regions. As a result, the success of ethical leadership cannot be measured uniformly across all Islamic banks. Each institution must navigate its own socio-cultural environment to implement ethical values effectively. Context shapes not only how ethical leadership is expressed but also how it translates into organizational outcomes.

Despite the recognized value of ethical leadership in Islamic banking, researchers have yet to develop an integrated theoretical framework that fully connects leadership behavior with both financial and human resource outcomes. Most existing studies tend to isolate these dimensions, analyzing either the impact on profitability or the influence on employee satisfaction, but rarely both in a unified model. This fragmented approach limits the understanding of how ethical leadership simultaneously drives institutional performance and internal well-being. Researchers often focus on individual constructs without capturing the dynamic interactions between financial goals and human-centric strategies. As a result, banks lack a clear roadmap for implementing leadership practices that address both dimensions holistically. The absence of a cohesive model also restricts the ability to generalize findings across institutions and contexts. Without such integration, practitioners struggle to align ethical leadership development with broader organizational performance metrics. Variations in measurement tools and theoretical assumptions lead to inconsistent conclusions, making it difficult to compare results across studies. Institutions require a standardized framework to assess how ethical leadership influences both employee behavior and financial health. A unified theory would enable clearer benchmarking and support the design of leadership training programs that serve multiple strategic objectives. By bridging the gap between financial performance and human resource satisfaction, an integrated model could strengthen institutional resilience and sustainability. It would also enhance the strategic role of leadership

in shaping organizational culture and stakeholder trust. Researchers must therefore shift toward multi-dimensional frameworks that reflect the interconnected nature of leadership, ethics, and institutional outcomes. Such models should account for mediating and moderating variables, including organizational values, Sharia compliance, and governance structures. The development of this integrative theory represents a critical step in advancing both academic understanding and practical application in Islamic finance.

Ethical leadership's positive impact on financial performance aligns closely with multiple empirical studies in Islamic banking. For instance, research on Indonesian Islamic banks revealed that enhanced zakat and charity disclosure reflecting ethical values significantly improved capital adequacy ratios, thereby reinforcing the argument that moral leadership supports institutional stability and profitability (As Sahara & Setiawan, 2022). Studies in Bangladesh further showed that higher Return on Assets (ROA) correlates with strong ethical identity indices in Islamic banks, implying that ethical orientation at the leadership level contributes to financial efficiency (Sumiyati & Vehtasvili, 2021). Comparative research across the Middle East demonstrated that Islamic banks with ethical governance frameworks achieved profitability levels comparable to their conventional counterparts, emphasizing the moderating role of ethical oversight in risk-sharing models (Sobol, Dopierała, & Wyśiński, 2023). Evidence from Bahrain also indicated that ethical leadership practices, specifically those promoting transparency and stakeholder engagement, directly influenced financial outcomes in non-banking firms, suggesting applicability to Islamic banks as well (Anonymous, 2023). Asian studies noted that banks linking ethical leadership to robust audit processes and compliance frameworks consistently outperformed peers in solvency and cost efficiency (Mobarak, 2020). These findings collectively affirm that ethical leadership enhances operational credibility, reduces financial misconduct, and drives value creation. When contrasted with conventional banks, these results illustrate that ethical leadership offers a unique advantage to Islamic banks by reinforcing trust and adherence to Sharia principles while simultaneously driving traditional financial metrics. Institutions with strong ethical leadership often demonstrate more resilience during periods of economic uncertainty, as they rely on value-based decision-making. The cross-country consistency from Indonesia and Bangladesh to the Gulf region adds credence to our conclusion that ethical leadership is not only conceptually valuable but also empirically validated as a strategic lever for improving financial performance in Islamic banking.

Ethical leadership consistently improves human resource satisfaction in Islamic banking by fostering trust, transparency, and a shared moral vision. For example, a study of Indonesian Islamic banks showed that ethical leadership significantly enhanced employee trust, knowledge sharing, and job satisfaction, subsequently boosting engagement levels (Junaidi, 2023). In Pakistan research revealed that ethical leadership combined with Islamic work ethics elevated employee commitment and satisfaction in the banking sector (Abbas & Tan Owee Kowang, 2020). Another investigation within Indonesian Islamic banks found that employees who perceived strong ethical leadership reported higher job satisfaction and organizational commitment, leading to reduced turnover (Riyandi & Masdupi, 2025). Complementing these findings, a multi-country study on Islamic microfinance institutions demonstrated that Islamic work ethics mediated the link between ethical leadership and improved employee outcomes, including satisfaction (Athar et al., 2016). Islamic work ethics not only contributed directly to job satisfaction in Indonesia but also reinforced the behavioral impact of leadership (Astuti, 2024). When comparing contexts, these outcomes contrast with more fragmented results in non-Islamic settings, highlighting the value-alignment effect of Islamic ethical frameworks. The consistency across diverse cultural environments confirms that ethical leadership rooted in Islamic principles drives intrinsic motivation. Leaders who model transparency and justice

create a work climate where employees feel valued and supported. Such leaders implement participative decision-making and fair treatment, which strengthens organizational justice perceptions and enhances job satisfaction. These comparative findings support the conclusion that ethical leadership serves as a key lever for boosting human resource satisfaction across Islamic banking contexts.

Islamic work ethics consistently mediate the relationship between ethical leadership and both financial and human resource outcomes, underscoring their crucial integrative role. Amaliasita and Astuti (2023) found that Islamic work ethics significantly enhance employee performance through increased job satisfaction, serving as a bridge between ethical leadership and productivity. Similarly, Astuti (2024) demonstrated that Islamic work ethics positively influence employee responses and satisfaction, mediating leadership's effect on organizational engagement. Research by Mursaleen et al. (2018) revealed that ethical leadership fosters a culture of trust and knowledge sharing only when Islamic work ethics are internalized by employees. Business Perspectives (2025) confirmed that Islamic work ethics strengthen affective commitment and task performance across different Islamic banking institutions, emphasizing their mediating influence in both financial and human resource dimensions. A SAGE study (2022) further explained that knowledge sharing linked to better organizational outcomes only thrives under ethical leadership when supported by strong Islamic work ethics. Compared to leadership models that omit value-based mediators, these studies collectively demonstrate that Islamic work ethics function as the active mechanism transforming leadership behavior into measurable outcomes. They do not merely reinforce ethical culture but translate leadership integrity into employee commitment and operational excellence. These consistent results across multiple geographic contexts validate the universal application of Islamic work ethics in shaping institutional behavior. Without this mediating layer, ethical leadership alone may lack the cultural resonance required to motivate teams and sustain long-term results. Institutions must therefore nurture both ethical leadership and Islamic ethical norms simultaneously to optimize impact. The convergence of these variables enables Islamic banks to achieve financial goals while safeguarding internal cohesion and moral accountability. Islamic work ethics are not an accessory component but a structural foundation for ethical leadership effectiveness.

The influence of ethical leadership in Islamic banking markedly depends on the surrounding institutional and cultural context, which acts as both catalyst and constraint for leadership behavior. Khan et al. (2021) demonstrated that Islamic banks in countries with robust Sharia supervisory frameworks show stronger translation of ethical leadership into governance outcomes, compared to those in less regulated environments. In contrast Abdulrahman and Osei (2022) found that weak institutional oversight in West African Islamic banks limited the efficacy of ethical leadership, resulting in only marginal improvements in trust and performance. A study in Malaysia by Lim and Ismail (2020) revealed that organizational cultures emphasizing hierarchy often dampened employees' responses to ethical leadership, while more egalitarian structures boosted staff engagement. Similarly, Hassan and Farouk (2019) confirmed that transparent communication climate significantly amplified the impact of ethical leadership on employee satisfaction and performance. Meanwhile research by Javed and Hussain (2022) showed that Islamic banking institutions with strong cultural alignment between national religiosity and internal ethics exhibited significantly higher returns and lower employee turnover. These diverse contexts underline that leadership actions do not operate in a vacuum but require institutional legitimacy and cultural resonance to yield results. When Islamic work ethics and governance structures align, ethical leadership fosters robust stakeholder trust and compliance. Conversely, in contexts lacking institutional support, leadership initiative alone often fails to achieve desired outcomes. These comparisons suggest

that institutions must adapt leadership practices to their regulatory and cultural environments to maximize effectiveness. Recognizing contextual variability is therefore essential for both research generalization and practical governance reforms.

The current absence of an integrated theoretical framework linking ethical leadership with both financial and human resource outcomes in Islamic banking hampers both scholarly progress and practical implementation. Saleem and Waheed (2021) argue that existing models often focus on one-dimensional outcomes either profitability or employee satisfaction without exploring how ethical leadership simultaneously influences both domains. Qureshi et al. (2022) further highlight that fragmented metrics and inconsistent measurement tools across studies limit comparability and hinder meta-analytic synthesis. Similarly, Farooq and Khan (2020) demonstrate that many leadership scales developed in Western contexts fail to capture culturally embedded constructs necessary for understanding leadership in Islamic finance settings. Yusoff and Al-Rashid (2023) show that this lack of integration prevents practitioners from designing holistic leadership development programs capable of driving both financial discipline and moral engagement. Alam and Ismail (2024) emphasize that theoretical voids inhibit regulatory bodies from crafting cohesive governance guidelines reinforcing ethical culture alongside financial oversight. Without a unified model, researchers cannot identify mediating and moderating mechanisms such as corporate governance practices or Islamic work ethics that may bridge the dual outcome perspectives. The absence of such frameworks contributes to inconsistent empirical evidence and weak external validity across contexts. As a result leadership initiatives often emphasize one area either financial controls or HR development neglecting the synergistic potential between ethics, performance, and employee well-being. Developing an integrative model would allow more precise benchmarking and support the strategic alignment of governance, leadership training, and organizational ethics. Building such a framework represents a critical step forward in both theory and practice within Islamic finance and leadership studies.

D. CONCLUSION

This study concludes that ethical leadership plays a central role in shaping both financial performance and human resource satisfaction within Islamic banking institutions. Ethical leaders actively promote values such as integrity, transparency, and accountability, which influence the organization beyond surface-level compliance. They create an environment of trust that supports effective governance and enhances institutional credibility. Employees respond positively to ethical leadership by demonstrating stronger commitment, engagement, and moral responsibility in their work. These leadership qualities foster financial stability by reducing operational risk and reinforcing stakeholder confidence. At the same time, ethical leadership enhances workplace satisfaction by cultivating a fair, respectful, and value-driven culture. The presence of Islamic work ethics strengthens this relationship by acting as a mediating force that converts leadership intentions into concrete behavioral outcomes. Organizations that internalize these values experience greater alignment between leadership, staff behavior, and institutional goals. The effectiveness of ethical leadership depends heavily on contextual factors such as regulatory systems, cultural expectations, and internal governance frameworks. Leadership models that ignore these contextual dynamics may fail to deliver consistent results across different environments. A one-size-fits-all approach does not apply to ethical leadership in Islamic finance, making adaptability a strategic necessity. Despite its importance, there remains a critical gap in integrated theoretical models that link ethical leadership to dual institutional outcomes. Existing literature often treats financial performance and HR satisfaction as separate areas, weakening the understanding of their interdependence. Without a unified approach, Islamic banks struggle to implement leadership strategies that

address both performance and people-centered objectives. This review highlights the need for more holistic frameworks that bridge ethical behavior, institutional governance, and cultural authenticity. Future research should explore multidimensional models that capture these complex interactions across different regions. Islamic banks must invest in leadership development that reflects both spiritual and strategic priorities. By aligning ethical leadership with Islamic values and institutional design, banks can achieve sustainable success. Ultimately ethical leadership serves as a foundation for integrity, resilience, and growth in the Islamic financial sector.

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