

## **Examining the Impact of Ethical Leadership on Employee Performance: Mediating Effects of Islamic Ethics and Knowledge Sharing in Indonesia**

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**Abstract.** This study analyzes the effect of ethical leadership on employee performance through Islamic work ethics and knowledge sharing. A survey was successfully collected from 252 employees working in Indonesian public sector, including healthcare, higher education, and police service. Structural equation modeling (SEM) with SmartPLS 3.0 was utilized to evaluate the proposed hypotheses. The study results unveiled that while employee performance was not significantly impacted by ethical leadership, it significantly benefited Islamic work ethics and knowledge sharing. Furthermore, Islamic work ethics and knowledge sharing directly had a significant effect on employee performance. Likewise, it has been confirmed that Islamic work ethics and knowledge sharing had a mediating role in the influence of ethical leadership on employee performance. The findings highlight that ethical leadership is indeed crucial to being emphasized and considered properly to facilitate sharing of knowledge and Islamic work ethics as well as to encourage better performance.

**Keywords:** Ethical Leadership, Islamic Work Ethic, Knowledge Sharing, Employee Performance, Structural Equation Modeling (SEM)

## 1. Introduction

In the era full of challenges, such as globalization, rapid technological changes, and times of uncertainty, organizations face major challenges regarding how to encourage employees to work innovatively and take the initiative to do their best to show maximum results. Hence, a different approach to organizational leadership is urgently required. Leaders are expected to appear more flexible, facilitative, accommodative, and person-centered to encourage increased employee performance (van Dierendonck & Dijkstra, 2012).

Recent research on leadership is more focused on ethical leadership since it can influence employee attitudes and behavior through exemplary, honesty, fairness, and strengthening other ethical behaviors (Brown & Treviño, 2006a; Nejati, Brown, Shafaei, & Seet, 2021). Ethical leadership becomes one of the most important main factors in improving employee performance (Kia, Halvorsen, & Bartram, 2019; Ullah, Mirza, & Jamil, 2021; Yang & Wei, 2017).

Several previous studies have also identified the considerable effect of ethical leadership on performance at the individual (Schwepker & Dimitriou, 2021), group (Peng & Lin, 2017), and organizational levels (Shafique, Ahmad, & Kalyar, 2020). Bhatti, Kiyani, Dust, and Zakariya (2021) further found that sharing knowledge could mediate the relationship between ethical leadership and performance in shaping organizational success. Ethical leadership not only motivates employees to work harder but also encourages them to interact with other team members to enhance teamwork and organizational success.

In Indonesia, as in many other countries, ethical leadership is not only a moral imperative but also good for business. It fosters trust among employees, customers and stakeholders, and contributes to long-term success. Ethical leadership practices in the Indonesian context are influenced by the nation's unique cultural, social, and economic characteristics. Indonesia is a diverse country with multiple ethnicities and cultures (Dimiyati et al., 2021). Understanding the local culture and values is crucial for leaders to establish ethical practices. Ethical leaders should respect and appreciate this diversity, valuing local traditions and customs. Recognizing the importance of "*gotong royong*" (mutual cooperation) (Slikkerveer, 2019) and collective decision-making can be key to building trust and rapport with employees, customers, and stakeholders.

However, as far as the researchers of this study know, there has not been a single study to date that examines the effect of ethical leadership on employee performance through Islamic work ethics as a mediator. A study conducted by Qasim, Rizvi, and Irshad (2020) uncovered that Islamic work ethics moderated and strengthened the influence of ethical leadership on proactive work behavior and employee extra work. Employees applying Islamic work ethics in their workplace could also exert extra effort to achieve organizational goals, exhibit higher dedication, and appear more creative and innovative in carrying out their work. In contrast, the findings from Khurram, Fatima, and Khurram (2020) have proven that Islamic work ethics did not moderate the relationship between ethical leadership and work performance. For that reason, this study aims to test whether ethical leadership can influence employee performance through the mediation of Islamic work ethics and knowledge sharing. In this framework, when ethical leaders embody the principles such as honesty, integrity, compassion, and fairness, and encourage employees to collaborate and exchange their expertise, it can create a culture of trust, respect, and responsibility to foster better performance. In view of these, this study intends to examine the direct effect of ethical leadership on Islamic work ethics, knowledge sharing and employee performance, and consequently the possible indirect effect of ethical leadership on employee performance, through the mediating mechanisms of Islamic work ethics and knowledge sharing within the public sector context in Indonesia.

## **2. Literature Review and Hypotheses Development**

### **2.1. Employee performance**

Rotundo and Sackett (2002) define employee performance as work activities that meet the standards set according to formal work and contribute to organizational success. Employee performance, according to Griffin, Neal, and Parker (2007), is the capacity of employees to complete certain assigned tasks, by appearing more adaptive and proactive to support organizational sustainability. In addition, the completion of specific mandated tasks requires skill in the task and is related to the extent to which the employee's behavior can meet these expectations. Adaptive and proactive behaviors are change-oriented behaviors, where employees are expected to respond to the conditions and changes they face.

Proactive behavior at work helps employees to identify the best ways to achieve the specified work goals (Strauss, Lepoutre, & Wood, 2017). Meanwhile, in adaptive behavior, employees are supposed to accept the existing situation and adapt to the new situation (Griffin et al., 2007). Adaptive behavior assists employees in adjusting to change by learning new skills, approaches, and technologies to be effective in completing performance.

Many experts and practitioners in the field of organizational management argue that the success or failure of employee performance is influenced by many factors. Among the most vital factors are ethical leadership (Eluwole, Karatepe, & Avci, 2022; Ullah et al., 2021), Islamic work ethics (Qasim, Irshad, Majeed, & Rizvi, 2021; Udin, Dananjoyo, Shaikh, & Vio Linarta, 2022), and knowledge sharing (Jing, Hou, Zhang, & Zhao, 2022; Meher & Mishra, 2022). Knowledge sharing stimulates employees to share intriguing ideas related to completing the best performance. Furthermore, employees with Islamic work ethics tend to work sincerely and responsibly because they believe that God is always watching what they do. Likewise, ethical leadership encourages employees to voluntarily provide high-quality performance that enhances sustainable business organizations.

### **2.2. Ethical leadership**

Due to its strong connection to boosting organizational competitiveness, the concept of ethical leadership, in recent years, has drawn enormous attention from researchers and practitioners of business organizations (Saha, Shashi, Cerchione, Singh, & Dahiya, 2020; Udin, 2024). Ethical leadership is characterized by Brown, Treviño, and Harrison (2005) as demonstrating behavior that complies with existing norms through personal action and interpersonal relationships with employees through two-way communication, reinforcement, and decision-making. It indicates that leaders display ethical behaviors to employees so that they can learn, imitate, and practice them in work life.

The ethical leadership construct includes good behaviors, such as honesty, friendliness, trust, and fairness (Brown & Treviño, 2006b), which are highly predictive of the outcomes of job satisfaction, dedication, stability, and overall organizational performance. Ethical leaders also provide clear instructions about important ethical values to be realized in the organization and communicate them to employees so that they are committed to jointly reaching agreements (Huang & Paterson, 2014). As a result, when they see unethical behaviors, attitudes, or decisions being made at work, employees are more likely to speak up. Through modeling ethical leadership, employees are motivated to internalize the meaningfulness of ethical values in work practice and are more inclined to address ethical issues (Walumbwa, Morrison, & Christensen, 2012).

Additionally, ethical leaders exhibit desirable traits, such as honesty, fairness, kindness, and trustworthiness, and employ punishment (i.e., to deter unethical behavior) and rewards (i.e., to motivate normatively appropriate behavior) on employees to hold them accountable for assigned work activities (Piccolo, Greenbaum, Hartog, & Folger, 2010). Ethical leadership is also seen as very effective for forming the moral identity of employees (Mayer, Aquino, Greenbaum, & Kuenzi, 2012) and encouraging them to perform better in overall performance and organization.

Ethical leaders can foster good relationships with employees, create a healthy work environment,

encourage mutually supportive collaboration, and offer a commitment to generating quality and sustainable performance both inside and outside the organization (Lin, Yip, Ho, & Sambasivan, 2020; Zaim, Demir, & Budur, 2021). Ethical leaders are also very involved in providing encouragement and opportunities for employees to share knowledge, expertise and insights (Bavik, Tang, Shao, & Lam, 2018). By promoting morality (e.g., open two-way communication systems and fair rewards), ethical leaders can facilitate and assist in a sense of mutual resource-sharing among employees. Through exemplary behavior, ethical leaders demonstrate the values and norms realized within the organization (e.g., fairness, kindness, honesty, and concern for the needs of others). Ethical leadership contributes positively to increased knowledge sharing among employees by establishing a relationship of mutual trust and providing fair recompense for their resource-sharing contribution in the workplace (Arijanto, Suroso, & Indrayanto, 2022; Lam, Loi, Chan, & Liu, 2016). Furthermore, ethical leaders serve as role models in developing a caring and altruistic culture to facilitate high-quality exchange relationships among co-employees and employee-leaders (Mayer, Kuenzi, & Greenbaum, 2010). Ethical leaders further promote good ethical behavior from an Islamic point of view (e.g., fairness, honesty, kindness, concern for the needs of others) and strive for commitment to them, contributing to enhancing Islamic work ethics (Qasim et al., 2021). Continuously, ethical leaders endeavor to maintain, uphold, and develop an environment of trust, fairness, and honesty in the work environment, which is their priority, so that a commitment is formed to realizing ethical values at all levels of the organization. When employees feel valued and understood, their motivation and performance tend to improve. Therefore, the hypotheses put forth are:

*H1: Ethical leadership has a significant effect on employee performance.*

*H2: Ethical leadership has a significant effect on knowledge sharing.*

*H3: Ethical leadership has a significant effect on Islamic work ethics.*

### **2.3. Islamic work ethic**

Ethics at work is seen as vital to create comfortable work for all members of the organization. On the other side, employees' beliefs in religion (De Cremer & Moore, 2020), such as Hinduism, Buddhism, Christianity, and Islam, greatly influence their work ethics since religious beliefs can form intrinsic and extrinsic values of ethical work (Parboteeah, Paik, & Cullen, 2009). To capture the essence of work ethics from an Islamic religious perspective, Ali (1988) first conceptualized Islamic work ethics, which was further developed by Yousef (2001). Islamic work ethics place a strong emphasis on morality originating from the teachings of the Koran and the sunnah of the Prophet Muhammad, which cover four main characteristics: wisdom, fairness, courage, and regret. It leads one to carry out one's duties sincerely and honestly with the primary aim of getting the reward from Allah - Almighty God (Yousef, 2001).

Islamic work ethic is fundamentally different from other work ethics because it is more concerned with intentions than results, and all beneficial activities are considered unethical when they violate Islamic teachings (Al-Douri, Aldabbagh, Mohammad, & Qawasmeh, 2020). Islamic work ethic also focuses more on dedication to work, loyalty, teamwork, and preventing the accumulation of wealth through unethical means (i.e., cheating and bribing) (Aflah, Suharnomo, Mas'ud, & Mursid, 2021; Saban, Basalamah, Gani, & Rahman, 2020). Employees who can internalize Islamic work ethics in the organization have a strong closeness to God so their attitudes and behavior at work tend to be reliable.

Furthermore, Islamic work ethics reflect good moral values, which distinguish what is right and what is wrong (Beekun, 1997). Islamic work ethics can strengthen the relationship between employees with their work and the organization. Employees with high Islamic work ethic tend to view the workplace as a place to realize the values of worship and build cooperation, dedication, loyalty, and hard work that contribute positively to work and the work environment (Hasbi, Moeljadi, Noermijati, & Rofiq, 2020; Khan, Abbas, Gul, & Raja, 2015). Raja, Haq, De Clercq, and Azeem (2020) show that maintaining and maximizing the application of Islamic work ethic among employees is particularly

beneficial for the organization because it leads to increased job satisfaction, performance, and psychological well-being of employees. Thus, the hypotheses proposed are:

*H4: Islamic work ethics has a significant effect on employee performance.*

*H5: Islamic work ethics mediates the relationship between ethical leadership and employee performance.*

## 2.4. Knowledge sharing

Knowledge is seen as one of the most valuable resources for individuals and organizations. When shared with others, the knowledge possessed takes on a highly important significance. Therefore, experts contend that sharing knowledge not only increases the value of achieving competitive advantage but also develops expertise and skills among employees (Ahmadi, Abzari, Nasr Isfahani, & Safari, 2018; AlQudah, 2022; Udin, Dananjoyo, & Isalman, 2022; Zhang, 2022). Knowledge sharing within the organization includes the transfer of as much knowledge, information, experience, and skills as possible at the individual, team, and entire organization levels (Halisah, Jayasingam, Ramayah, & Popa, 2021). To share knowledge, employees cultivate interpersonal skills, friendships, and social interaction to facilitate knowledge and access knowledge to build a positive work environment (Al-Kurdi, El-Haddadeh, & Eldabi, 2020).

Intezari, Taskin, and Pauleen (2017) stated that knowledge sharing includes three main aspects: the process of sharing knowledge, the type of knowledge shared within the organization, and the approach used when sharing knowledge. Specifically, the knowledge-sharing process entails knowledge collection (i.e., employees obtain information and knowledge from others) and knowledge donation (i.e., employees communicate knowledge to others) (Dysvik, Buch, & Kuvaas, 2015). The organization's sharing-knowledge culture is designed as best as possible to encourage employees to distribute the knowledge evenly and accumulate knowledge at all levels of the organization to boost employee performance and organizational success in a sustainable manner (Azeem, Ahmed, Haider, & Sajjad, 2021).

Sharing knowledge then leads to innovative work behavior of employees (Montani & Staglianò, 2022), especially in terms of the tendency to design innovative strategies to create new products and services (Halisah et al., 2021). Sharing knowledge also encourages employees to impart their knowledge to others to help solve problems and enhance work performance within the organization (Jing et al., 2022; Layaman, Harahap, Djastuti, Jaelani, & Djuwita, 2021; McCarthy, Erdogan, & Bauer, 2019). By sharing knowledge, employees continuously distribute and accumulate knowledge to effectively stimulate innovative thinking, generate new ideas, and drive employee performance improvements. Hence, the following hypotheses were brought up:

*H6: Knowledge sharing has a significant effect on employee performance.*

*H7: Knowledge sharing mediates the relationship between ethical leadership and employee performance.*

## 3. Research Methodology

### 3.1. Sample

The target population of this study was employees who worked in public-sector organizations, including healthcare, higher education, and police service – Yogyakarta Province, Indonesia. This study was conducted as ethical leaders of public-sector organizations in Yogyakarta usually demonstrate unwavering integrity, honesty, and transparency in all their actions and decisions. They show respect for employees' traditions, beliefs, and values. This research employed a quantitative method through a survey by distributing questionnaires in person and online to employees selected by the simple random sampling method. Survey in this study became an effective method of collecting data from a large number of respondents. The survey was administered to a diverse audience, including employees from different organizations and backgrounds. This made it easier to gather a wide range of perspectives and

opinions. From the results of distributing the questionnaires, 252 respondents filled out and deserved to be analyzed to test the proposed hypotheses.

Table 1. Participant demographic factors

Criteria	Respondents	Percentage (%)
<i>Gender</i>		
Male	139	55.16
Female	113	44.84
<i>Age</i>		
21 – 30 years old	32	12.70
31 – 40 years old	76	30.16
41 – 50 years old	91	36.11
51 – 60 years old	53	21.03
<i>Education level</i>		
Bachelor	188	74.60
Master	59	23.41
Doctoral	4	1.59
Full professor	1	0.40
<i>Work experience</i>		
4 years or less	54	21.43
5 – 8 years	96	38.10
8 years or more	102	40.48

Table 1 explains that there were 55.16% male respondents and 44.84% female respondents in this study. In addition, most respondents (36.11%) were aged between 41-50 years, while in terms of educational level, 74.60% were dominated by bachelor graduates, as many as 188 respondents. As for work experience, 40.48% had worked for more than eight years in the current organization and only 21.43% had been employed for four years or less.

### 3.2. Measures

*Ethical leadership*: Ethical leadership was measured using eight items adapted and developed by Brown et al. (2005), with a 5-point Likert scale ranging from 1 = very strongly disagree to 5 = strongly agree. The validity of this scale has been extensively proven by several previous studies (Martin, Emich, McClean, & Woodruff, 2022; Schwepker & Dimitriou, 2021). Example items for this research included: “*My supervisor lives by ethical standards.*” The Cronbach alpha recorded for the ethical leadership scale was 0.838.

*Islamic work ethic*: Islamic work ethic was determined using six items developed by Udin et al. (2022). This scale has been valid and widely utilized in several previous studies (Abun, Julian, & Ballesteros, 2022; Faadhilah, Norvadewi, Parlina, & Zaroni, 2022). An example of a question item on this scale is: “*I am happy to dedicate my work output to myself and others.*” For the affective commitment scale, the Cronbach alpha was 0.837.

*Knowledge sharing*: The 4-item measurement scale developed by Udin, Dananjoyo, and Isalman (2022) was used to evaluate knowledge sharing in this study. The validation of this scale has previously been developed from the research of De Vries, Van Den Hooff, and De Ridder (2006), Lu, Leung, and Koch (2006). An example of a question item in this variable is: “*I like to share work experience and knowledge that is useful to others.*” Cronbach's alpha for this scale was 0.797.

*Employee performance*: Employees completed the 5-item employee performance scale (Astuty & Udin, 2020). This measurement scale was adapted from research by Bratton and Gold (2017), Williams and Anderson (1991); it has been adopted in previous research (Udin et al., 2022). An example of a question item on this scale is: “*I always finish my work on time.*” The total Cronbach alpha value of this variable was 0.784.

### 3.3. Common method bias

This study collected data through a self-administered questionnaire to employees working in public-sector organizations in Yogyakarta Province, Indonesia. According to Rodríguez-Ardura and Meseguer-Artola (2020), self-reported data could potentially introduce common-method bias, leading to artificial inflation of the results. Therefore, to assess potential non-response bias, this study compared early and late responses, following the approach outlined by Armstrong and Overton (1977). The t-test conducted on the 50 earliest and 50 latest responses, with a 95% confidence interval, showed no significant difference (see Table 2). This suggests that, with  $p > 0.05$ , non-response bias is not a significant concern in this research (Rosca & Bendul, 2019).

Table 2. Non-response bias test

Constructs	Early 50 responses		Late 50 responses		T-test sig. (two-tail)
	Mean score	Standard deviation	Mean score	Standard deviation	
Ethical Leadership	4.11	0.53	4.11	0.58	0.56
Islamic Work Ethics	4.16	0.51	4.14	0.56	0.54
Knowledge Sharing	4.09	0.61	4.11	0.65	0.63
Employee Performance	3.96	0.54	3.95	0.55	0.55

### 3.4. The technique of data analysis

To analyze quantitative data and test the proposed hypotheses, this study used a structural equation model (SEM) with SmartPLS 3.0 software. The use of SmartPLS as a statistical analysis tool makes it easier for researchers to visually describe models, make estimates by providing complete information (Hair, Hult, Ringle, & Sarstedt, 2021), and deal with problematic data (De Souzaabido & Da Silva, 2019).

## 4. Results and Discussion

The structural equation model (SEM) with SmartPLS 3.0 software was utilized in this study: the first was to test the validity and reliability of the instrument in the measurement model, and the second was to test the path coefficient or hypothesis test in the structural model (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014) as depicted in Fig. 1.

Table 3. Construct reliability and validity

Constructs	Factor Loading		Cronbach's Alpha (CA)	rho_A	Composite Reliability (CR)	Average Variance Extracted (AVE)
Ethical Leadership	SL1	0.662	0.838	0.845	0.875	0.469
	SL2	0.599				
	SL3	0.621				
	SL4	0.654				
	SL5	0.717				
	SL6	0.775				
	SL7	0.716				
	SL8	0.718				
Islamic Work Ethics	IWE1	0.643	0.837	0.840	0.881	0.553
	IWE2	0.750				
	IWE3	0.778				
	IWE4	0.738				
	IWE5	0.745				
	IWE6	0.798				
Knowledge Sharing	KS1	0.825	0.797	0.801	0.867	0.620
	KS2	0.784				
	KS3	0.771				
	KS4	0.769				
Employee Performance	EP1	0.710	0.784	0.786	0.852	0.535
	EP2	0.755				

	EP3	0.712				
	EP4	0.721				
	EP5	0.760				

Table 3 displays that Cronbach's alpha (CA) values ranged from 0.784 to 0.838 and rho\_A for all items spanned from 0.786 to 0.845, while composite reliability (CR) values varied from 0.901 to 0.979, all of which were greater than the recommended value of 0.70 (Fornell dan Larcker 1981; Hair et al. 2011). Likewise, the average variance extracted (AVE) values for all items ranged from 0.469 to 0.620, all of which were more significant than the recommended value of 0.45 (Nunnally, 1994). Hence, the measurement model results in this study confirmed the convergent validity.

Table 4. Results of discriminant validity - Fornell-Larcker criterion

Constructs	Employee Performance	Ethical Leadership	Islamic Work Ethics	Knowledge Sharing
Employee Performance	0.732			
Ethical Leadership	0.640	0.685		
Islamic Work Ethics	0.637	0.961	0.743	
Knowledge Sharing	0.528	0.545	0.513	0.788

Table 4 shows the results of evaluating discriminant validity using the Fornell-Larcker criteria, where the square root of AVE on the diagonal (except the correlation between Islamic Work Ethics and Ethical Leadership) was higher than the correlation between constructs. It demonstrates that each construct is closely related to its respective indicator (Fornell & Larcker, 1981), thus showing good discriminant validity (Hair et al., 2021). If most of the constructs are higher for one construct compared to others, it can be an indication of good discriminant validity. Therefore, the discriminant validity of all the constructs in this study was well fulfilled.

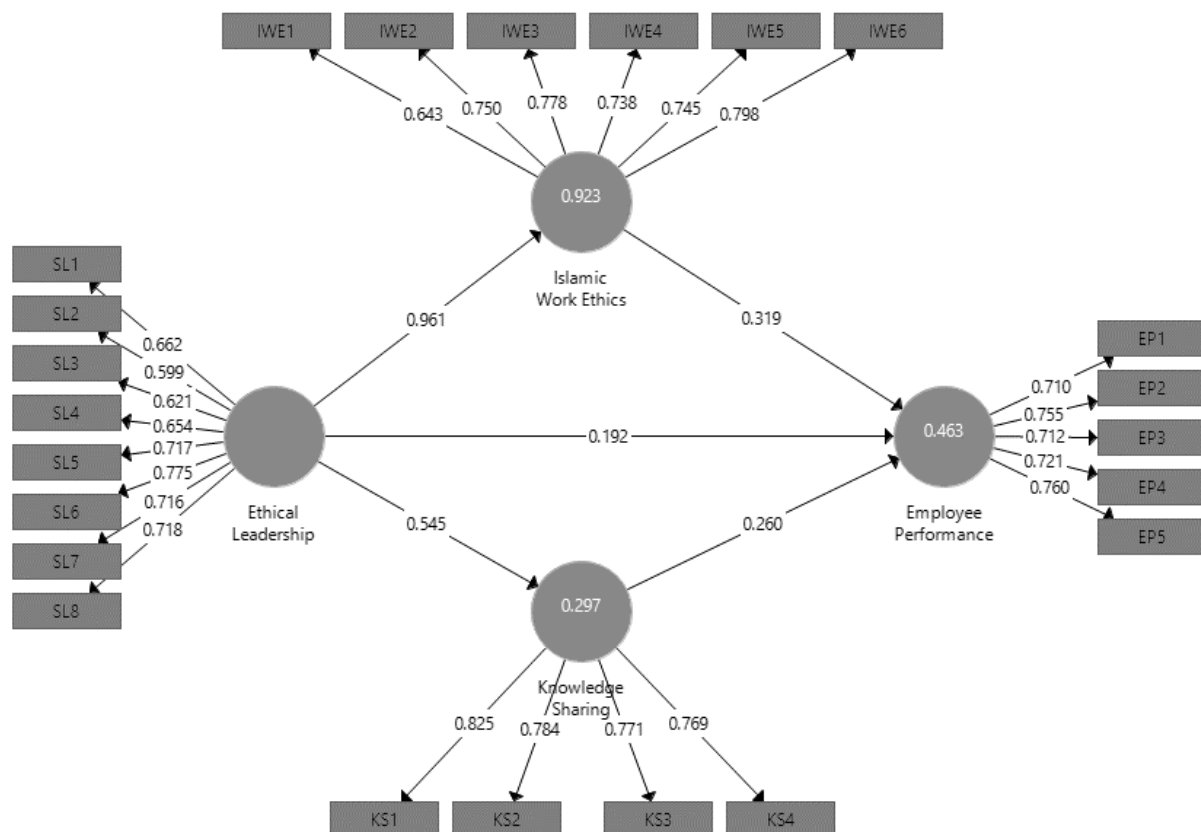


Fig. 1. Research framework



Table 5. Path coefficients

Hypotheses	Original Sample	Sample Mean	T Statistics	P Values	Findings
<i>Direct Effect</i>					
Ethical Leadership → Employee Performance	0.192	0.191	1.162	0.245	Not supported
Ethical Leadership → Knowledge Sharing	0.545	0.549	10.438	0.000**	Supported
Ethical Leadership → Islamic Work Ethics	0.961	0.961	19.660	0.000**	Supported
Islamic Work Ethics → Employee Performance	0.319	0.320	1.997	0.046**	Supported
Knowledge Sharing → Employee Performance	0.260	0.262	3.993	0.000**	Supported
<i>Indirect Effect</i>					
Ethical Leadership → Islamic Work Ethics → Employee Performance	0.306	0.308	1.996	0.046**	Supported
Ethical Leadership → Knowledge Sharing → Employee Performance	0.141	0.144	3.539	0.000**	Supported

Note: Significant at \*\* $p < 0.05$

The result of structural model in Fig. 1 shows that ethical leadership has the strongest impact on Islamic work ethics (0.923). Moreover,  $R^2$  value between ethical leadership and knowledge sharing is 0.297. Additionally, ethical leadership, Islamic work ethics, and knowledge sharing can explain 46.3% of the variance of the employee performance. This result exhibits a strong ability to provide explanations to the research model (Kline, 2011). Table 5 presents the direct and indirect relationships between the core variables in the theoretical models tested and hypothesized. First, ethical leadership had no significant effect on employee performance ( $\beta = 0.192$ ,  $t$ -value = 1.162,  $p = 0.245$ ); thus, H1 was rejected. Furthermore, ethical leadership had a significant influence, both on knowledge sharing ( $\beta = 0.545$ ,  $t$ -value = 10.438,  $p = 0.000$ ) and on Islamic work ethics ( $\beta = 0.961$ ,  $t$ -value = 19.660,  $p = 0.000$ ); hence, H2 and H3 were accepted. Second, Islamic work ethics ( $\beta = 0.319$ ,  $t$ -value = 1.997,  $p = 0.046$ ) and knowledge sharing ( $\beta = 0.260$ ,  $t$ -value = 3.993,  $p = 0.000$ ) had a significant effect on employee performance; therefore, H4 and H6 were accepted. In addition to testing the magnitude of the indirect effect to evaluate the hypothesized model, first, Islamic work ethics ( $\beta = 0.306$ ,  $t$ -value = 1.996,  $p = 0.046$ ) and knowledge sharing ( $\beta = 0.141$ ,  $t$ -value = 3.539,  $p = 0.000$ ) significantly mediated the relationship between ethical leadership and employee performance; consequently, H5 and H7 were supported. Further, Islamic work ethics had a stronger mediating effect than knowledge sharing in the effect of ethical leadership on improving employee performance. Additionally, R-squared ( $R^2$ ) values in Fig. 1 represent that ethical leadership as the independent variable predicting Islamic work ethics (0.923) and knowledge sharing (0.297). This indicates that ethical leadership becoming a better predictor of Islamic work ethics (92.3%). Then,  $R^2$  of employee performance is 0.463, indicating that 46.3% of the variable can be explained by ethical leadership, Islamic work ethics, and knowledge sharing.

The findings of this study have proven that ethical leadership was not directly significant in increasing employee performance but required to be through a mediator effect. It is because ethical leaders had low emotional sensitivity and ineffective communication styles, causing low employee attention to produce high performance. According to Kock, Mayfield, Mayfield, Sexton, and De La Garza (2019), when leaders exhibit high emotional sensitivity and empathy and use language that inspires follower behavior and employee affective states, they can produce quality work performance and innovation for achieving organizational goals. Additionally, when leaders focus more on attention and increasing the emotional well-being of employees by building concrete communication (Abu Bakar & McCann, 2018), employees take on a greater sense of responsibility for producing high performance and attempting to avoid poor performance.

This study also uncovered that ethical leadership directly not only significantly influences Islamic

work ethics but also increases knowledge sharing. In this case, ethical leadership encourages positive behavior and employee confidence to share knowledge at the individual, group, and organizational levels (Le & Nguyen, 2022; Xinxin & Sun, 2017). At the individual and group levels, ethical leadership fosters the acquisition and sharing of knowledge with other individuals. Furthermore, at the organizational level, employees who are driven by ethical leadership perceive knowledge-sharing behavior as a moral obligation to share information and work experience and help their colleagues in need. In addition, ethical leadership improves the Islamic work ethics of employees so that they consistently comply with the existing rules and values in the organization, show the best deed as the realization of servitude to God, and sow wisdom beneficial to others. Ethical leadership also always discusses and gives more intense attention and emphasizes regularly ethical work to be carried out and cultured within the organization (Al Halbusi, Tang, Williams, & Ramayah, 2022; Zhu, Treviño, & Zheng, 2016).

This study, further, revealed that Islamic work ethics and knowledge sharing directly affected employee performance and indirectly mediated the relationship between ethical leadership and employee performance. The study aligns with previous research (i.e., Udin, 2024) highlighting that knowledge sharing and Islamic work ethics – rooted in principles of honesty, integrity, and accountability – serves as the main mediators for ethical leadership to promote employee performance within organizations. Ethical leadership plays a vital role in directing employees' positive behavior in the workplace and increasing their motivation to engage in sharing knowledge with co-workers to generate the best performance. Ethical leadership also creates the main norms and guidelines in attitude and behavior for employees in the workplace and facilitates a trusting relationship between them to share knowledge and help each other. This finding is reinforced by previous research that knowledge sharing mediated the relationship between ethical leadership and employees' job success in their workplaces (Bhatti et al., 2021; Lei, Ha, & Le, 2020). Furthermore, ethical leadership in the organization promotes Islamic work ethics to influence the responsibilities and overall functions of the organization to grow employee performance. Ethical leadership also serves as a role model in cultivating altruistic behavior and a sense of concern among employees to give each other attention and support to improve high-quality performance (Nemr & liu, 2021; Muhammad Qasim et al., 2020).

## **5. Conclusion**

The study concludes that ethical leadership promotes Islamic work ethics, knowledge sharing and an environment of responsibility vital for better performance. While no direct relation was established between ethical leadership and employee performance, the mediating effects Islamic work ethics and knowledge sharing were confirmed. This highlights the indirect influence ethical leaders exert by instilling good values and behaviors among employees. The findings have pertinent implications for public sector organizations and leaders aiming to foster ethical conduct, trust and collaboration fundamental to sustainable success.

In this regard, ethical leadership is consistently responsible for building high-quality relationships with employees through honest behavior and fair treatment, thereby motivating employees to share knowledge, commit to ethical values firmly embedded in the organization and make them appear more professional in completing work. It is reinforced by social exchange theory (Blau, 1964), putting forward that leaders need to influence employee behavior by setting ethical standards and committing to the development of good relationships to produce employee trust and professional work in their leaders and organizations (Engelbrecht, Heine, & Mahembe, 2017).

Taking into account the findings of this research, organizations need to continue to train and develop ethical leadership in top management, more specifically in managers who hold power and decision-makers. It is believed to encourage ethical and fair work practices that even go beyond the transactional approach. Furthermore, practicing ethical leadership in Islamic countries, as in any context, requires a commitment to upholding moral principles, promoting the welfare of the employees, and fostering an

environment of trust and justice. Ethical leadership is indeed crucial to being emphasized and considered properly to facilitate sharing of knowledge, a sense of concern, and shared responsibility as well as encourage better performance effectiveness. In addition, managers play a crucial role in applying ethical leadership principles, building trust, promoting ethical decision-making, encouraging accountability, balancing stakeholder interests, and handling ethical challenges effectively. By embracing ethical leadership, managers create a positive work environment where trust, integrity, and collaboration thrive, ultimately leading the organization towards enduring success in the global business landscape.

Although this research produces insightful findings for the development of science, especially in the fields of business and management, several research limitations need to be emphasized in detail. First, this cross-sectional research design made it difficult for the researchers to observe causal relationships between the hypothesized variables. Therefore, future research using longitudinal and experimental studies is needed to corroborate the findings of this study. Second, several factor loadings values on ethical leadership indicators were below 0.7, considered weak in social science studies, but Chin (1998) still recommends values above 0.5 if a research model is being developed. Hence, further research should use a more reliable measurement of ethical leadership, such as that developed by Brown et al. (2005), Kalshoven, Den Hartog, and De Hoogh (2011), Yukl, Mahsud, Hassan, and Prussia (2013). Third, the research data was only collected from one source, i.e., employees, which was likely to cause response bias. Although non-response bias has been evaluated in this study following the approach outlined by Armstrong and Overton (1977), collecting data from various sources is crucial to address this concern. In addition, future research needs to replicate this research model by examining moderator variables, such as individual green values (Islam, Khan, Ahmed, & Mahmood, 2021) and green creativity (Ahmad, Ullah, & Khan, 2022), to link ethical leadership and employee performance.

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