
Building Trust through Ethical Leadership: Its Effect on Employee Innovation Behavior in Islamic Financial Institutions

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Abstract

This qualitative study explores the role of ethical leadership in building organizational trust and its subsequent impact on employee innovation behavior within Islamic Financial Institutions (IFIs) in Indonesia. Data were collected through in-depth interviews with 25 employees and middle managers from three different IFIs. Thematic analysis was employed to identify key patterns. The findings reveal that ethical leadership, characterized by justice, honesty, and care for subordinates, is a significant antecedent of trust in leadership. This trust, in turn, creates a psychologically safe environment that encourages employees to engage in innovative behaviors, such as generating new ideas, seeking improved work processes, and championing change. However, the study also identifies contextual barriers, such as rigid hierarchical structures and a strong compliance culture, that can moderate this relationship. The research contributes to the existing literature by integrating ethical leadership theory with the context of Islamic finance, highlighting the unique socio-cultural mechanisms that drive innovation. Practical implications suggest that IFIs should invest in ethical leadership development programs to foster a culture of trust and sustained innovation

1. Introduction

The rapid growth of the Islamic finance industry, which reached over USD 4.5 trillion in global assets in 2023 (Islamic Financial Services Board [IFSB], 2024), underscores the sector's increasing importance in the global economy. Indonesia, as the world's largest Muslim-majority country, has emerged as a key player, ranking among the top ten global Islamic finance markets (OJK, 2023). Within this expanding ecosystem, Islamic Financial Institutions (IFIs) play a central role in driving inclusive economic development, ethical financial practices, and Shariah-compliant innovation. However, despite their promising potential, IFIs face ongoing

challenges in fostering organizational agility, employee creativity, and innovation within highly regulated and hierarchical systems (Hassan & Aliyu, 2018).

Innovation in IFIs is often constrained by a risk-averse culture arising from strong Shariah compliance frameworks and bureaucratic decision-making (Beekun & Badawi, 2005). While these ethical boundaries ensure integrity and social justice, they may unintentionally limit experimentation and idea generation (Jabri, 2017). In such contexts, ethical leadership becomes a critical enabler of innovation, not only by guiding moral conduct but also by cultivating psychological safety and trust among employees (Brown, Treviño, & Harrison, 2005; Edmondson, 1999). Ethical leadership, defined as the demonstration of normatively appropriate behavior through personal actions and interpersonal relationships (Brown et al., 2005), aligns naturally with Islamic principles such as Amanah (trustworthiness) and Adl (justice), which are fundamental to both leadership and Shariah governance (Beekun & Badawi, 2005).

In Indonesia's Islamic finance landscape, the interplay between ethical leadership and trust represents an underexplored dimension of organizational innovation. Previous research has established that trust mediates the relationship between ethical leadership and employee outcomes such as commitment, satisfaction, and citizenship behavior (Dirks & Ferrin, 2002; Mayer, Davis, & Schoorman, 1995). Yet, few studies have empirically examined how this dynamic influences employee innovation behavior voluntary efforts to generate, promote, and implement novel ideas within IFIs (Khan, Bashir, & Imran, 2015). Understanding this relationship is crucial because innovation is no longer optional for IFIs seeking to compete with agile fintech and conventional banking institutions (Hassan & Aliyu, 2018).

Moreover, national data indicate that while Indonesia's Islamic banking sector continues to expand—with total assets growing by 11.8% in 2023 (OJK, 2023) its innovation performance, measured through digital product development and market adaptation, still lags behind global peers (IFSB, 2024). This situation highlights the urgency to strengthen human-centered drivers of innovation, particularly trust and ethical leadership, which are less dependent on structural reforms and more on behavioral transformation (Creswell & Poth, 2018).

The purpose of this study is to explore how ethical leadership builds organizational trust and how this trust, in turn, influences employee innovation behavior within Islamic Financial Institutions (IFIs). This qualitative research seeks to uncover the lived experiences of employees and managers, providing nuanced insights into the human and spiritual dimensions of ethical leadership in Shariah-compliant institutions. By integrating the concepts of Amanah (trustworthiness) and Adl (justice) within the ethical leadership framework, this study contributes to contextualizing Western-derived leadership models in an Islamic environment.

From a theoretical perspective, the study advances the integration of ethical leadership and trust models by examining them within a value-based institutional setting. From a practical perspective, it provides actionable insights for policymakers and managers in IFIs to design leadership development programs that foster innovation without compromising Shariah integrity. Ultimately, this research aims to bridge a critical gap between ethical leadership, trust, and innovation an intersection that holds the key to sustainable competitiveness in Indonesia's Islamic finance industry.

The study addresses the following research questions:

1. How does ethical leadership manifest and build organizational trust within IFIs?
2. How does the trust fostered by ethical leadership influence employees' willingness to engage in innovative behaviors?
3. What are the contextual factors within IFIs that may hinder or facilitate the relationship between trust and innovation?

1.1 Literature Review

This literature review discusses the theoretical core of the research by exploring and synthesizing three main constructs: ethical leadership, organizational trust, and employee innovation behavior, as well as the relationships between them in the context of Islamic Financial Institutions (IFIs). The purpose is to "look again" (Leedy & Ormrod, 2005) and critically evaluate the existing research landscape, not merely as a summary, but to identify the gaps, contradictions, and opportunities that form the background for this study.

1.1.1 Ethical Leadership and Its Dimensions in an Islamic Context

Ethical leadership is defined as the demonstration and promotion of normatively appropriate conduct through personal actions, interpersonal relationships, and decision-making (Brown et al., 2005). In the context of IFIs, this construct gains deeper dimensions. Research by Beekun and Badawi (2005) emphasizes that Islamic values such as *Amanah* (trustworthiness), *Adl* (justice), and *Rahmah* (compassion) are not just personal values but the foundation of effective leadership. A study by Khan et al. (2015) supports this, showing that leadership imbued with Islamic values significantly influences work behavior. However, a critical question arises: have ethically leadership scales developed in Western contexts (like Brown et al., 2005) fully captured this spiritual and communal essence? Criticism from Khan et al. (2015) implies that contextual adaptation may be necessary, hence this study seeks to capture the authentic manifestation of ethical leadership within the IFI environment.

1.1.2 Organizational Trust as a Key Mediator

Mayer et al.'s (1995) integrative model of organizational trust, with its dimensions of integrity, benevolence, and ability, provides a relevant framework. A meta-analysis by Dirks and Ferrin (2002) strongly links ethical leadership with increased trust in leader. In IFIs, trust might not only be a product of general ethical behavior, but specifically of the fulfillment of *Amanah* and *Adl* values. This is where critical synthesis is needed: While the literature postulates a strong positive relationship, the highly regulated and value-based context of IFIs might lead employees to have higher ethical expectations. Does ethical leadership in this context have a greater impact on trust, or is it rather considered a "hygiene factor" (a basic, expected factor) so its marginal impact is smaller? This question highlights a gap that needs exploration.

1.1.3 Employee Innovation Behavior and the Role of Psychological Safety

Employee innovation behavior from idea generation to implementation—is heavily influenced by contextual factors. Research by Edmondson (1999) affirms that psychological safety, the belief that one will not be embarrassed or punished for speaking up with ideas, is a key driver. Trust in a leader is the foundation for creating this psychological safety. When employees trust that their leader has integrity and benevolence, they are more likely to take risks to innovate. However, synthesizing the literature also reveals a contradiction. Jabri (2017) argues that in highly structured and bureaucratic organizations, trust at the individual level (direct leader) might not be sufficient to overcome systemic barriers to innovation. The context of IFIs, with often rigid hierarchies and high Shariah compliance pressures, presents a perfect testing ground for this contradiction. Can the trust built by ethical leaders penetrate the bureaucratic inertia of IFIs?

1.1.4 Synthesizing the Relationship: Gaps Explored in This Research

Synthesizing these three areas, a clear path emerges: Ethical Leadership → Organizational Trust → Innovation Behavior. However, this literature review reveals that this relationship is not a simple, direct one. This research aims to investigate this mechanism more deeply by considering:

- a) Contextualizing Ethical Leadership: How Islamic values shape the perception and practice of ethical leadership in IFIs.
- b) The Strength and Limits of Trust: The extent to which trust built by ethical leaders can facilitate innovation in an inherently risk-averse environment.
- c) The Role of Contingency Factors: How Shariah compliance culture and organizational structure moderate the relationship between trust and innovation acting either as a constraint or as a framework guiding Shariah-compliant innovation.

Thus, this literature review does not only summarize what is known but also critically evaluates the tensions and gaps in the existing literature. This study intends to fill these gaps by providing qualitative evidence on how these theoretical relationships live, adapt, and are potentially contested within the unique setting of IFIs, thereby contributing to a more nuanced understanding of the drivers of innovation in value-based organizations.

2. Research Methods

This study was conducted at three major Islamic Financial Institutions (IFIs) in Makassar, namely Bank Syariah Indonesia (BSI) Makassar Area, Pegadaian Syariah Regional VI, and a Sharia pawn company operating within

the Makassar region. These institutions were selected to represent diverse operational scales and organizational structures within the Islamic finance industry, ranging from banking and non-bank financial services to community-based financial enterprises.

2.1 Participant Selection Strategy

A purposive sampling technique was employed to select 25 participants, consisting of 15 frontline employees and 10 middle managers from three different Islamic Financial Institutions (IFIs) in Indonesia. The inclusion criteria were carefully designed to ensure that participants possessed relevant and substantial experience with the phenomenon under study. The criteria were as follows: (1) having worked under their current direct supervisor for at least one year, to ensure adequate interactional experience; and (2) being employed in units or departments where innovation constitutes an integral part of their responsibilities or work environment, such as product development, digital banking, digital transformation, and customer service. The selection of participants from various IFIs and hierarchical levels was intended to capture a diversity of perspectives and thereby enrich the research findings.

To maintain confidentiality, the names and institutional identities of the participants are anonymized. Participants are identified throughout the analysis by their role and the type of institution in which they work.

2.2 Data Collection Procedures

Data were collected through in-depth semi-structured interviews, each lasting between 45 and 60 minutes per participant. The interview protocol was designed to guide the flow of discussion while allowing flexibility to explore participants' responses in greater depth. Key questions were formulated to examine:

- a) Participants' perceptions and concrete examples of their leaders' ethical behavior;
- b) The degree and forms of trust they experienced toward their leaders and the organization; and
- c) Their experiences and specific examples of demonstrating innovative behavior in the workplace, including the factors that facilitated or hindered such behavior.

All interviews were audio-recorded with participants' consent and subsequently transcribed verbatim to ensure the accuracy and integrity of the data.

2.3 Data Analysis Process

The transcribed data were analyzed using thematic analysis, following the six-phase framework developed by Braun and Clarke (2006). The analytical process was iterative and consisted of the following stages:

- a) Familiarization with the Data: Repeatedly reading the transcripts to gain a deep understanding of their content and meaning.
- b) Generating Initial Codes: Identifying interesting data segments and assigning initial codes.
- c) Searching for Themes: Grouping similar codes to form potential themes.
- d) Reviewing Themes: Examining the coherence between themes, codes, and the overall dataset, followed by refining, merging, or separating themes as needed.
- e) Defining and Naming Themes: Describing the essence and scope of each refined theme.
- f) Producing the Report: Developing an analytical narrative that connects the thematic findings to the research questions.

2.4 Ensuring Validity and Reliability (Trustworthiness)

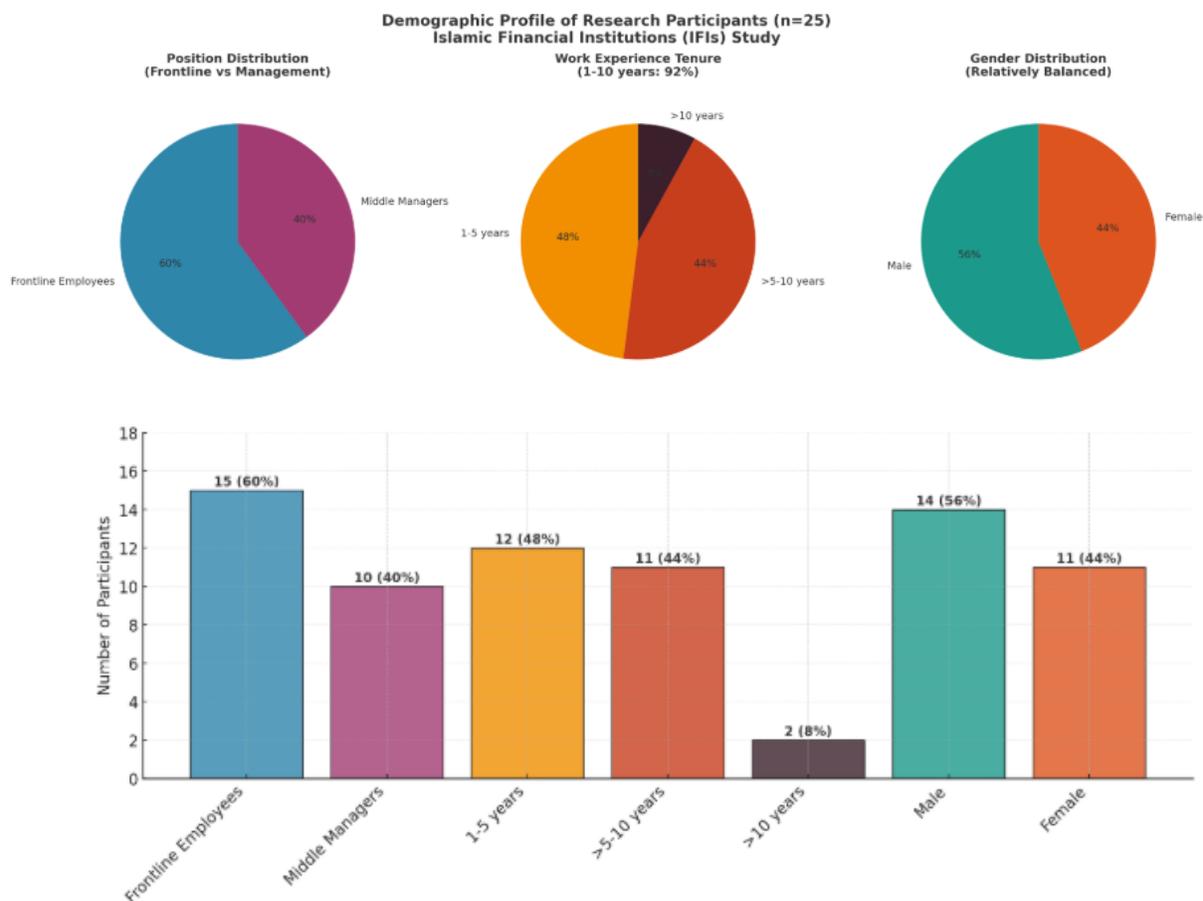
To ensure the credibility and trustworthiness of the findings, several validation strategies were implemented. Peer debriefing was conducted by discussing the coding process and data interpretation with colleagues experienced in qualitative research methods. Additionally, member checking was performed by presenting interpretations and thematic summaries to several participants to confirm that their meanings and experiences were accurately represented (Creswell & Poth, 2018).

3. Result and Discussion

3.1 Participant Characteristics

Before presenting the thematic findings, the demographic profile of the 25 participants in this study is first described. As illustrated in Figure 1, the participants comprised 15 frontline employees (60%) and 10 middle managers (40%). In terms of tenure, the majority had between 1 and 10 years of work experience (92%), with 1–5 years (48%) and more than 5–10 years (44%). Only a small proportion (8%) had more than 10 years of experience. The gender distribution was relatively balanced, consisting of 14 male participants (56%) and 11 female participants (44%). This composition is considered to adequately represent a range of perspectives across different hierarchical levels and lengths of service within the context of Islamic Financial Institutions (IFIs).

Figure 1. Demographic Distribution of Research Participant



The model illustrates the reciprocal relationship between ethical leadership, trust, and innovative behavior, with the culture of Sharia compliance serving as a moderating factor that influences the strength of these relationships.

The diverse composition of participants enabled the emergence of rich and multidimensional insights into the phenomenon under study. The following section presents the thematic analysis, which delves deeper into participants' experiences regarding ethical leadership and the dynamics of innovation within Islamic Financial Institutions (IFIs). The analysis identified three central themes that directly address the research questions.

3.2 Ethical Leadership as the Fulfillment of *Amanah* and *Adl* (Justice)

The research findings reveal that the manifestation of ethical leadership in Islamic Financial Institutions (IFIs) consistently materializes through the actualization of two fundamental Islamic values: *Amanah* (trustworthiness) and *Adl* (justice). Participants described ethical leaders not merely through the lens of managerial competence, but more as figures who embody religious values in their daily leadership practices.

3.2.1 Manifestation of Amanah through Transparency and Communication

Amanah was primarily demonstrated through transparency in decision-making and open communication. A manager affirmed,

"My leader never hides information that affects our team. He explains the 'why' behind decisions, even when the news is unpleasant. This openness makes me trust his intentions and integrity."

This statement indicates that transparency is not just about sharing information, but also about building subordinates' conviction regarding the leader's integrity and benevolence, which are key components of Mayer et al.'s (1995) trust model. In the complex context of IFIs, where decisions often involve complicated ethical and Shariah considerations, such transparency becomes critical for creating an environment free of suspicion.

3.2.2 Application of Adl through Proportional Distribution

Meanwhile, 'Adl (justice) is manifested through the fair and proportional distribution of workload and rewards. Participants expressed appreciation for leaders who refrain from favoritism and who assign recognition and responsibilities based on merit. One employee stated:

"Here, no one feels overburdened without a clear reason, and bonuses are distributed transparently based on contribution. We all feel equally treated under the same rules."

This sense of distributive justice (Adams, 1965) reinforces employees' perception of their leader's integrity. Within an Islamic framework that emphasizes justice, such practices are not merely viewed as sound management policies but as a religious obligation.

A staff member from Sharia pawn company further shared:

"We are often reminded that this work is part of our worship. If we are not trustworthy, it means we are betraying the trust of both Allah and our customers."

These statements illustrate that ethical leadership in Islamic Financial Institutions (IFIs) is perceived not merely as a managerial style but as a spiritual responsibility grounded in Islamic values. The Qur'an affirms this principle in the words of Allah SWT:

"Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice." (Qur'an, Surah An-Nisa [4]: 58)

Similarly, the Prophet Muhammad ﷺ said:

"He who is not trustworthy has no faith, and he who does not keep his promises has no religion." (Hadith narrated by Ahmad)

The field findings indicate that amanah (trustworthiness) forms the foundation for organizational trust, while 'adl (justice) serves as a relational strengthener between leaders and employees. When leaders consistently uphold fairness and keep their promises, subordinates experience psychological safety and become motivated to contribute at their fullest potential.

3.2.3 Contextualization of Ethical Leadership Theory

These findings strongly align with the theoretical framework of Brown et al. (2005), which emphasizes the "demonstration of normatively appropriate conduct," while enriching it with specific cultural and religious contextualization. What Brown et al. identified as "normatively appropriate conduct" in the context of IFIs is operationally interpreted as behavior aligned with Amanah and Adl. This supports Beekun & Badawi's (2005) argument that Islamic principles provide a strong normative foundation for ethical leadership. These findings answer first research problem statement by demonstrating that ethical leadership manifests in IFIs through

concrete behaviors reflecting Amanah (transparency, honesty) and Adl (distributive justice), and that these behaviors directly build organizational trust by strengthening subordinates' perceptions of the leader's integrity, benevolence, and reliability (ability) in implementing values.

3.2.4 Trust as a Product of Value Fulfillment

Thus, organizational trust in the context of IFIs is built not merely through a universal definition of ethical leadership, but through the fulfillment of specific values that are culturally and religiously considered "obligations." When a leader fulfills Amanah and Adl, they are not only seen as an ethical leader but also as a "Shariah-compliant" and legitimate leader. This creates a deeper and more resilient form of trust, as it is built on the same value foundation held by the organization and most of its employees.

3.2.5 Theoretical and Practical Implications

Theoretically, this theme underscores the importance of culturally contextualizing leadership constructs. It demonstrates that while universal frameworks of ethical leadership are valuable, their operationalization and potency can be significantly enhanced when aligned with local religious and cultural values. Practically, for IFIs, this suggests that leadership development programs should move beyond generic ethical training to explicitly incorporate and emphasize Islamic values like Amanah and Adl as core leadership competencies. Recruitment and performance appraisal systems for leadership positions could also be designed to assess these value-based behaviors.

3.3 Trust as a Catalyst for Psychological Safety and Risk-Taking

The second theme reveals that trust built through ethical leadership creates a profound sense of psychological safety among employees. Participants consistently reported a greater willingness to propose "crazy ideas" or challenge the status quo because they trusted their leaders would not punish well-intentioned failures. As one employee shared,

"I proposed a new digital onboarding system knowing it might fail. But my manager supported the experiment. He valued the initiative more than the immediate outcome."

This quote illustrates that trust creates a safe space for experimentation, allowing innovation to grow organically. Employees feel valued because their participation is seen as part of a collective contribution rather than a personal risk.

This finding provides direct empirical support for Edmondson's (1999) theory that psychological safety enables learning behavior, which serves as a crucial precursor to innovation. The research elucidates a clear mechanism (trust → psychological safety → *risk-taking*) that answers second research problem statement by demonstrating how trust translates into innovative behavior.

The mediating role of psychological safety in this relationship is particularly significant. When employees perceive their leaders as trustworthy demonstrating integrity, benevolence, and ability (Mayer, Davis, & Schoorman, 1995) they feel secure that interpersonal risks, such as voicing novel ideas or admitting mistakes, will not lead to negative consequences. This safety liberates employees from the fear of failure, thereby encouraging experimentation and exploratory learning (Edmondson, 1999). The data show that this environment is not merely about the absence of fear, but the active presence of encouragement, where leaders frame failures as learning opportunities, thus reinforcing the trust-innovation cycle.

However, this relationship is not universal. A counter-narrative emerged from participants in more traditional branches, highlighting that even with a trusted leader, a strong organizational culture of compliance and fear of Shariah non-compliance could significantly inhibit innovation. One middle manager noted,

"We trust our director completely, but the shadow of making a mistake that violates Shariah principles creates a different kind of fear. Sometimes, it's safer to do nothing new than to risk being accused of gharar (excessive uncertainty)."

The same sentiment was expressed by a manager at Pegadaian Syariah:

"I always try to give my staff the opportunity to test their ideas, and even if they fail, I take responsibility. For me, trust is not just a word, but a form of moral protection for the team."

This statement reflects the reciprocal nature of trust that trust is not only expected from subordinates toward their superiors but is also extended by leaders to their teams through support and protection. Such an attitude fosters a sense of *ukhuwah* (professional brotherhood) and cultivates intrinsic motivation to innovate. An administrative staff member from Sharia pawn company also shared:

"In our workplace, when mistakes happen, we're not immediately scolded. The leader says, 'what matters is that you learn from this just don't repeat it.' That makes me unafraid to express my opinions and even more eager to improve."

This quote illustrates how trust serves as a balance between responsibility and compassion in Islamic leadership. Leaders who extend trust not only build professional relationships but also nurture a spiritual dimension *tawakkul*, the act of surrendering the outcome to Allah after doing one's best. This important nuance supports Jabri's (2017) argument that trust at the dyadic level (between employees and leaders) can be undermined by rigid organizational systems and overarching institutional logics.

This introduces a critical discussion point where the effects of ethical leadership and trust on innovation are substantially moderated by the broader organizational culture and the regulatory environment of Islamic Financial Institutions (IFIs). The findings suggest a more complex model than a simple linear relationship. While ethical leadership fosters trust, and trust cultivates psychological safety, the ultimate expression of innovation depends on the organization's tolerance for ambiguity and its interpretation of compliance.

From an Islamic perspective, psychological safety can be associated with the concepts of *amanah* (trustworthiness) and *husnuzan* (positive presumption). When leaders instill trust, employees feel respected and protected, giving them the moral courage to take constructive risks. These findings also reinforce Edmondson's (1999) concept of psychological safety and connect it with Islamic values that emphasize honesty, compassion, and collective responsibility. In Islamic financial institutions, trust serves not only as a social bridge but also as a spiritual mechanism that nurtures the courage to innovate without compromising moral values.

Conceptually, these results also support the model proposed by Mayer et al. (1995), in which trust reduces perceived risk and enhances interpersonal openness. However, within the *Sharia* context, the findings indicate that psychological safety does not merely arise from professional relationships but also from spiritual awareness the understanding that every work process is part of worship (*ibadah*).

Allah says:

"And whoever puts their trust in Allah, He will suffice them." (Qur'an, Surah At-Talaq [65]:

3)

This verse reinforces the notion that in the Islamic system of belief, trust is not only a social construct between individuals but also a reflection of one's faith in Allah SWT. When leaders and employees trust one another based on good intentions and *amanah* (trustworthiness), a collective courage to innovate emerges without fear of failure because every process is perceived as an act of worship and a shared moral responsibility.

In highly bureaucratic and risk-averse institutional environments, the strong effects of trust at the leader level can be neutralized by constraints at the system level. This synthesis aligns with the perspective that organizational phenomena should be understood through multi-level analysis, recognizing that micro-level relationships (between leaders and employees) are embedded within and shaped by macro-level structures

(institutional norms and culture) (Kozlowski & Klein, 2000). Therefore, trust functions as a necessary but not always sufficient condition for fostering innovation within highly regulated religious contexts such as Islamic Financial Institutions (IFIs).

3.4 The Double-Edged Sword of Shariah Compliance

The third theme in this research reveals the dualistic nature of Shariah compliance, serving both as an ethical foundation and a potential inhibitor of innovation. The findings demonstrate that Shariah principles create a paradox within the context of innovative behavior in Islamic Financial Institutions (IFIs).

3.4.1 Constraining Framework vs. Innovative Guide

Participants consistently acknowledged that the strict boundaries established by Shariah principles—such as prohibitions against *gharar* (excessive uncertainty), *maysir* (gambling), and usurious transactions inherently limit the scope or maneuvering room for innovation. A product manager explained,

"In developing new products, we cannot simply copy conventional banks. Every feature must undergo strict examination by the Shariah Supervisory Board to ensure it doesn't violate Islamic principles."

Interestingly, however, most participants reframed these limitations not as obstacles, but as creative challenges. As expressed by a business development analyst,

"It's precisely because of these constraints that we are challenged to be more creative. We cannot take the easy way out, so we must find truly original solutions that are shariah-compliant."

3.4.2 Theoretical Dialogue: Guidance vs. Inertia

These findings bridge an important theoretical dialogue in the literature. On one hand, Hassan and Aliyu (2018) view Shariah as a guiding framework that frames innovation within ethical parameters, thus serving as a catalyst for the development of unique products and services. On the other hand, data from this study shows that in operational practice, the interpretation of Shariah within organizational risk management can create forces of bureaucratic inertia. Multi-layered checking and approval processes, coupled with extremely cautious and conservative interpretations of Shariah principles, often slow down innovation cycles and promote an excessive culture of risk-aversion.

3.4.3 Moderation through Transformational Leadership

Further analysis reveals that leadership plays a crucial role in navigating this paradox. In IFIs where leaders implement transformational approaches and can articulate a clear vision of value-based innovation, Shariah constraints are used as stimuli for creativity. A business unit director stated,

"My team views Shariah compliance not as a confining wall, but as guardrails that keep us on the right path while still allowing innovation within it."

This approach aligns with the concept of "creative boundedness" where constraints can actually trigger creativity when understood as a framework rather than a barrier (Stokes, 2006).

3.4.4 Theoretical and Practical Implications

These findings develop the conceptual model by introducing Shariah compliance not as a simple variable, but as a dynamic factor with dual effects. This research strengthens the argument that innovation in the context of Islamic finance must be understood as a process conditioned by the interaction between ethical leadership, organizational trust, and the interpretation of religious norms. Practically, these findings highlight the importance for IFIs to develop adequate organizational capabilities to balance compliance demands with innovation needs, including through cross-functional training between innovation teams and Shariah compliance teams.

4. Conclusions

This study concludes that ethical leadership is a powerful driver for building organizational trust in Islamic Financial Institutions, primarily through the demonstration of justice and trustworthiness. This trust is a critical psychological prerequisite that empowers employees to engage in innovative work behavior. However, the positive relationship between trust and innovation is not absolute; it is susceptible to the influence of broader organizational factors, particularly a rigid hierarchical structure and an overly cautious interpretation of Shariah compliance that stifles creative exploration.

The theoretical implication of this research is the refinement of the ethical leadership-trust-innovation model by incorporating the unique contextual moderators present in value-based institutions like IFIs. For practitioners, the study suggests that IFIs should not only select and train leaders based on ethical competencies but also actively work on creating organizational policies that empower rather than overly restrict employees. Leaders must be trained to champion psychological safety and act as buffers against excessive bureaucratic inertia.

A limitation of this study is its focus on a single country (Indonesia). Future research could employ a comparative qualitative design across different countries to explore cross-cultural nuances in the perception of ethical leadership within the global Islamic finance industry.

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