AL-MUZARA'AH Vol. 14 No. 2, 2026
Journal of Islamic Economics
DOI: 10.29244/jam.14.2.213-236
ISSN: 2337-6333 / EISSN: 2615-7659

Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Banks

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Article History

Received:
13 March 2026

Revised:
8 June 2026

Accepted:
29 June 2026

Keywords:
employee engagement, Indonesia, Islamic banking, mediation, servant leadership

Kata Kunci:
bank Islam, Indonesia, kepemimpinan melayani, keterikatan karyawan, mediasi

Abstract. Indonesian Islamic banks face a critical challenge in moving beyond sharia compliance to achieve sustainable competitive advantage through effective human capital management. Prior research has confirmed that servant leadership positively influences organisational outcomes across various sectors, yet limited evidence exists on the mediating role of employee engagement within Islamic banking. Addressing this gap, this study examines employee engagement as a mediator between servant leadership and corporate performance. Data were collected from 325 employees working in Islamic commercial banks across Indonesia using validated instruments. Partial Least Squares Structural Equation Modelling (PLS-SEM) with SmartPLS was applied to test the hypothesised mediation model. The findings show that servant leadership has a significant positive direct effect on both employee engagement and corporate performance. Additionally, employee engagement partially mediates this relationship, indicating that servant leaders enhance organisational outcomes by first fostering a highly engaged workforce, with the model explaining substantial variance in both constructs. By integrating contemporary management theory with Islamic leadership principles from the Quran and Hadith, this study provides a culturally grounded understanding of organisational effectiveness in Indonesia, the world's largest Muslim-majority nation, and offers actionable insights for bank managers and policymakers.

Abstrak. *Bank syariah di Indonesia menghadapi tantangan krusial dalam melampaui kepatuhan syariah guna mencapai keunggulan kompetitif yang berkelanjutan melalui manajemen sumber daya manusia yang efektif. Penelitian sebelumnya telah menegaskan bahwa kepemimpinan melayani (servant leadership) memberikan pengaruh positif terhadap hasil organisasi di berbagai sektor, namun bukti mengenai peran mediasi keterlibatan karyawan dalam perbankan syariah masih terbatas. Untuk mengatasi kesenjangan ini, penelitian ini mengkaji keterlibatan karyawan sebagai variabel mediator antara kepemimpinan pelayan dan kinerja korporat. Data dikumpulkan dari 325 karyawan yang bekerja di bank umum syariah di Indonesia menggunakan instrumen yang telah divalidasi. Model Persamaan Struktural Least Squares Parsial (PLS-SEM) dengan SmartPLS diterapkan untuk menguji model mediasi yang dihipotesiskan. Temuan menunjukkan bahwa kepemimpinan melayani memiliki efek langsung positif yang signifikan terhadap keterlibatan karyawan dan kinerja perusahaan. Selain itu, keterlibatan karyawan berperan sebagai mediator parsial dalam hubungan ini, yang menunjukkan bahwa pemimpin yang*

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melayani meningkatkan hasil organisasi dengan terlebih dahulu menumbuhkan tenaga kerja yang sangat terlibat, di mana model ini menjelaskan varians yang substansial pada kedua konstruk tersebut. Dengan mengintegrasikan teori manajemen kontemporer dengan prinsip-prinsip kepemimpinan Islam dari Al-Quran dan Hadis, penelitian ini memberikan pemahaman yang berlandaskan budaya mengenai efektivitas organisasi di Indonesia, negara dengan populasi Muslim terbesar di dunia, serta menawarkan wawasan yang dapat ditindaklanjuti bagi para manajer bank dan pembuat kebijakan.

INTRODUCTION

The global financial architecture is undergoing a profound transformation, with environmental, social, and governance (ESG) criteria and ethical considerations moving from the periphery to the core of strategic decision-making. Within this shifting paradigm, Islamic banking has emerged not merely as a niche religious product but as a comprehensive ethical financial system with global relevance. Its foundational principles prohibiting interest *(riba),* excessive uncertainty *(gharar),* and gambling *(maysir),* while mandating risk-sharing and asset-backing, resonate strongly with the contemporary demand for greater transparency and social responsibility (Hassan & Aliyu, 2018).

Indonesia, home to the world's largest Muslim population of over 240 million people, represents the most significant potential market for Islamic banking globally (Pradipta & Al-Nathoor, 2026). However, despite this demographic advantage, the sector's market share remains strikingly low. As of October 2025, total Islamic banking assets reached IDR 1,028 trillion, up 11.34% year-on-year (Budiman et al., 2026). However, this substantial asset base accounts for only 7-8% of Indonesia's total banking assets (Sodiq et al., 2024). A figure that pales in comparison to Saudi Arabia (73.5%) and Malaysia (33.2%) (Islamic Financial Services Board, 2025). This low penetration exists despite 54 million Indonesians (approximately 22% of the Muslim population) already being Islamic bank customers, indicating that the industry has converted awareness but failed to deepen customer relationships and expand geographically. Seventy sevent percent of customers remain concentrated on Java island.

The growth paradox is evident: while total Islamic finance assets grew from IDR 1,801 trillion in 2020 to IDR 3,029 trillion by September 2025 (68% increase), this growth has not been matched by commensurate improvements in profitability, operational efficiency, or market share. As Fitch Ratings noted, Islamic banking financing is expected to grow by approximately 10% in 2026, maintaining its total share at around 8%, a plateau that concerns regulators.

For these institutions, the foundational requirement is, and always will be, sharia compliance. It is their unique value proposition, a non-negotiable covenant with their stakeholders and a manifestation of their religious identity. Adherence to sharia principles builds the essential trust and legitimacy that underpins their entire operation (Hana et al., 2025). However, in a maturing market where most players have achieved a satisfactory level of compliance, this prerequisite ceases to be a differentiator. It becomes a "hygiene factor"—necessary for operation but insufficient for market leadership. This verse implies a duty that goes beyond mere contractual fulfilment; it demands the pursuit of justice and excellence in all actions. Consequently, the central strategic challenge for Indonesian Islamic banks is to move "beyond compliance" to leverage their unique ethical foundation to unlock superior, sustainable corporate performance. This necessitates a profound shift in focus from a legalistic, product-centric approach to one that places human capital and enlightened leadership at the forefront.

This study posits that the key to unlocking "beyond compliance" performance lies in adopting and cultivating servant leadership. Popularised by Greenleaf, servant leadership is a philosophy in which the leader's primary motivation is to serve other employees, customers, and the community, prioritizing their

growth and well-being over personal power or gain (Eva et al., 2019). This modern management concept finds a deep and resonant echo in Islamic teachings. Further solidifying this ethos of humble service (Al-Buraey, 1985, cited in contemporary works on Islamic leadership). In the context of a modern Islamic bank, servant leadership translates into managers who actively empower their teams, foster a supportive and ethical climate, demonstrate humility, and act as stewards of both the organization's financial health and its moral compass (Thaib & Parahyanti, 2025).

While the conceptual alignment between servant leadership and Islamic values is strong, rigorous empirical investigation of its specific organizational impact in Islamic financial institutions remains an emergent field. A robust body of recent international research in conventional settings has consistently reaffirmed the positive influence of servant leadership on critical employee-level outcomes. For instance, a comprehensive meta-analysis by Lee et al. (2019) confirmed its strong impact on employee well-being, job satisfaction, and affective commitment. Furthermore, recent studies have highlighted its role in fostering innovation and proactive behaviour among employees (Cai et al., 2018). However, the specific mechanisms by which this leadership style translates into tangible, organization-level outcomes, such as corporate performance, especially within the unique religio-cultural and regulatory environment of Islamic banking, remain largely unexplored.

This is where the mediating role of employee engagement becomes critically important. Employee engagement, defined as a positive, fulfilling, work-related state of mind characterized by vigour, dedication, and absorption (Schaufeli et al., 2002), is the psychological and emotional connection employees have with their work. In the post-pandemic era, engagement has been identified as a paramount factor in organizational resilience and success (Adisa et al., 2021). Servant leaders are uniquely positioned to cultivate this engagement. By focusing on individual employee needs, providing unwavering support, and creating a psychologically safe and meaningful work environment, they foster a sense of reciprocity and intrinsic motivation (Bao et al., 2018). When employees feel genuinely valued and supported by a leader whose primary concern is their well-being, they are more likely to become deeply engaged, investing their full selves in their roles.

In an Islamic bank, this engagement is amplified by the powerful sense of purpose derived from contributing to an institution that aligns with their personal faith and ethical values. This spiritual congruence creates a potent source of motivation that a servant leader can nurture and channel (Ortiz-Gómez et al., 2020). This heightened engagement, in turn, is a well-documented driver of superior performance outcomes, including increased productivity, enhanced customer service quality, greater innovation, and reduced employee turnover (Anwar & Abdullah, 2021).

The post-pandemic era has fundamentally altered the employment relationship. Employee engagement has been identified as a paramount factor in organizational resilience and success (Adisa et al., 2021). For Islamic banks, engagement carries additional significance because work is imbued with spiritual meaning within a sharia-compliant institution, aligning with personal faith and potentially amplifying the motivational effects of engagement.

Recent research on organizational dynamics in Indonesian Islamic rural banks found that work-life balance and employee engagement are the strongest and most consistent predictors of employee performance (Badaruddin et al., 2025). Significantly, this study revealed that Islamic work values do not exert a direct effect on engagement or performance; instead, they operate indirectly by strengthening work-life balance, thereby enhancing engagement. This finding is critical: it demonstrates that Islamic values alone are insufficient; they must be translated into supportive organizational practices to produce engagement and performance benefits. Furthermore, research on digital transformation in Indonesian sharia banking found that the positive impact of digital transformation on employee engagement is not direct but is fully

mediated by the development of a digital-ready organizational culture (Budiman et al., 2026). This suggests that engagement does not automatically follow from strategic initiatives; it requires deliberate cultural cultivation, reinforcing the importance of leadership in shaping engagement.

Despite the theoretical soundness of this model, empirical evidence from the field, especially using recent data, is strikingly scarce. Most contemporary research on Indonesian Islamic banking has understandably focused on critical issues such as fintech integration, the effectiveness of sharia governance, and the impact of macroeconomic factors on financial performance. Bank size is significantly associated with profitability, with a positive relationship. It can then be concluded that, even though there are many determining factors, only the bank's size may instil confidence in consumers' eyes (Idris et al., 2011). While invaluable, this focus has inadvertently overlooked the "softer," human-centric dimensions of organisational life, the quality of leadership, the nature of the employment relationship, and the level of workforce engagement that are now recognised as fundamental drivers of long-term, sustainable competitive advantage.

In an era of rapid digitalization and increasing competition from both conventional and digital banks, Indonesian Islamic banks must leverage every asset at their disposal. Their human capital, imbued with a unique sense of purpose, is arguably their most valuable and defensible differentiator. A highly engaged workforce, united under the stewardship of a servant leader, is the living embodiment of this principle, channelling collective effort towards organizational excellence.

The primary objective is to empirically investigate the interrelationships between these three pivotal constructs using a contemporary sample from the Indonesian Islamic banking industry. By proposing and rigorously testing a mediation model, this study aims to make several significant and timely contributions to both theory and practice. Firstly, it provides a nuanced, evidence-based understanding of how an Islamicly grounded leadership philosophy, operationalized through servant leadership, can serve as a potent strategic driver of performance in the post-pandemic era.

Secondly, it illuminates the indispensable role of employee engagement as the key psychological pathway in this process, offering bank managers and HR professionals clear, actionable insights on where to focus their developmental interventions to maximize performance. Thirdly, by situating the study in Indonesia, the findings will offer valuable and transferable implications for Islamic banks globally, as they all grapple with the common challenge of transitioning from a compliance-centric paradigm to one that truly harnesses the full potential of their human capital in accordance with both modern management science and the timeless ethical principles of Islam. The study concludes that for Islamic banks, the surest path to superior, sustainable corporate performance lies in creating a virtuous cycle where leaders serve their people, their people become deeply engaged, and that collective engagement, fueled by shared faith and purpose, propels the organization to new heights of achievement beyond mere compliance.

LITERATURE REVIEW

The pursuit of sustainable corporate performance in the Islamic banking sector requires a nuanced understanding of the interplay between leadership philosophy, human capital dynamics, and organizational outcomes. This literature review critically synthesizes contemporary scholarship to build a theoretical foundation for examining the mediating role of employee engagement in the relationship between servant leadership and corporate performance in Indonesian Islamic banks. Unlike traditional descriptive reviews, this section adopts a critical lens—identifying conceptual inconsistencies, methodological limitations, and conflicting empirical findings in existing research. The review is organized around four pillars: servant leadership (with attention to its Islamic resonance), employee engagement (grounded in social exchange and self-determination theories), corporate performance (operationalized as

distinct financial and non-financial dimensions), and the hypothesized mediation model. Each section concludes with specific gaps that this study addresses, culminating in formally stated hypotheses.

Servant Leadership: Conceptual Clarity and Islamic Resonance

Servant leadership is a philosophy in which the leader's primary motivation is to serve employees, customers, and the community, prioritizing their growth and well-being over personal power or organizational aggrandizement (Eva et al., 2019). The most rigorously validated multidimensional measure, developed by Liden et al. (2015), identifies seven core dimensions: emotional healing, creating value for the community, conceptual skills, empowering, helping subordinates grow and succeed, putting subordinates first, and behaving ethically. A critical conceptual distinction is necessary here: servant leadership is distinct from transformational leadership (which emphasizes inspiring followers toward organizational goals), ethical leadership (which emphasizes normatively appropriate conduct), and authentic leadership (which emphasizes self-awareness). While these constructs overlap empirically, meta-analytic evidence confirms that servant leadership demonstrates incremental validity beyond transformational leadership in predicting follower engagement and citizenship behavior (Lee et al., 2019).

However, the evidence is not without qualification. Lee et al. (2019) meta-analysis drew predominantly from Western samples 85% of included studies were conducted in North America or Europe. This raises a fundamental question: do the same effects hold in non-Western, faith-based organizational contexts such as Islamic banking, where religious values may fundamentally reshape employees' expectations of leadership behavior? A study by Kobayashi et al. (2020) directly addressed this question and found that the servant leadership-engagement relationship was significantly weaker in Asian high-power-distance cultures (β = 0.31) compared to Western low-power-distance cultures (β = 0.58). This finding suggests that cultural context moderates the effectiveness of servant leadership, challenging the universal applicability of Western-derived leadership models.

Conflicting findings further complicate the picture. While most studies report positive effects, a critical examination of servant leadership measurement by van Dierendonck et al. (2023) in the Chinese context found that despite the instruments being reliable, there were significant variations in factor structures compared to Western samples. This finding suggests that cross-cultural differences may fundamentally affect how servant leadership is conceptualized and measured, raising concerns that findings from predominantly Western research may not be directly applicable to non-Western settings such as Islamic banking institutions. This important measurement and cultural validity concern has not been adequately addressed in cross-sectional Islamic banking research.

From an Islamic perspective, servant leadership finds deep resonance in core religious teachings. The concept of leadership as a sacred trust (*amanah*) and responsibility for justice is embedded in Quranic principles (Hassan & Aliyu, 2018). The Prophetic tradition that "the leader of a people is their servant" provides theological grounding for service-oriented leadership. Contemporary Islamic scholars have articulated a model of Islamic leadership characterized by *tawhid* (unity of God), *adl* (justice), *shura* (consultation), and *amanah* (trust)—dimensions that overlap substantially with servant leadership (Junaedi & Ali, 2023). However, a critical note is warranted: theological alignment does not guarantee empirical effectiveness. The existence of Islamic principles in normative texts does not automatically translate into their implementation in organizational practice. Recent OJK data indicate that while Islamic financial literacy reaches 43.42%, actual inclusion is only 13.41%, a 30-percentage-point gap that reflects the challenge of converting awareness into action—a challenge that may equally apply to leadership practices.

Gap identified: Existing research on servant leadership in Islamic banking remains largely descriptive and Western-centric. No study has systematically examined whether the seven dimensions of servant

leadership (Liden et al., 2015) are equally valid in the Indonesian Islamic banking context, where power distance and collectivism may alter their relative importance.

Employee Engagement: Theoretical Grounding in Social Exchange and Self-Determination Theories

Employee engagement is defined as a positive, fulfilling, work-related state of mind characterized by vigor (high energy and mental resilience), dedication (strong involvement and enthusiasm), and absorption (full concentration and engrossment) (Schaufeli et al., 2002). In the post-pandemic era, engagement has assumed greater significance as organizations grapple with hybrid work arrangements and the need for workforce resilience (Adisa et al, 2021). However, rather than merely describing engagement's importance, this review grounds the construct in two complementary theoretical frameworks that will subsequently inform hypothesis development.

Social Exchange Theory (SET)

Social Exchange Theory (Cropanzano et al., 2017) provides the first theoretical lens. SET is built on the norm of reciprocity: when one party provides benefits to another, an obligation to reciprocate is created. In the employer-employee relationship, this exchange extends beyond economic transactions (salary for work) to include socioemotional resources such as respect, support, trust, and recognition. Servant leaders provide precisely these socioemotional resources by prioritizing employee growth, demonstrating humility, and offering unwavering support. According to SET, employees who receive these resources will feel obligated to reciprocate. Unlike economic exchange where reciprocity is immediate and specified, social exchange involves diffuse obligations and longer time horizons. Employee engagement characterized by vigor, dedication, and absorption represents a form of reciprocal behavior that benefits the organization but exceeds minimum contractual requirements.

However, SET has limitations that warrant critical attention. First, the reciprocity norm may operate differently in collectivist cultures like Indonesia, where in-group obligations are stronger and out-group exchanges may be weaker. Second, most SET-based studies of engagement are cross-sectional, making it impossible to determine whether engagement truly represents reciprocity or merely co-occurs with supportive leadership. A recent meta-analysis found that longitudinal studies report substantially smaller effect sizes ($r = 0.19$) compared to cross-sectional studies ($r = 0.47$), suggesting common method bias inflates the relationship (Knight et al., 2016).

Self-Determination Theory (SDT)

Self-Determination Theory (Ryan & Deci, 2020) provides the second theoretical lens. SDT posits that intrinsic motivation—including the vigor and dedication central to engagement—flourishes when three basic psychological needs are satisfied: autonomy (feeling volitional and self-endorsing), competence (feeling effective in one's activities), and relatedness (feeling connected to others). Servant leadership directly addresses all three needs: empowering behaviors satisfy autonomy; developmental support and constructive feedback satisfy competence; and the caring, supportive relational climate satisfies relatedness.

However, the universality of SDT's need hierarchy has been challenged. Research in collectivist and high-power-distance cultures suggests that relatedness may be more important than autonomy, and that autonomy as defined in Western psychology (individual choice) may be less valued than autonomy as collective decision-making (Markus & Kitayama, 2010). This cultural contingency is directly relevant to Indonesia, where power distance (78 on Hofstede's index) is substantially higher than Western averages (40). A study by Kobayashi et al. (2020) found that the autonomy-engagement relationship was significantly weaker in Asian samples ($\beta = 0.19$) compared to Western samples ($\beta = 0.44$), while the relatedness-engagement relationship was stronger in Asian contexts. This suggests that while SDT predicts a positive

servant leadership-engagement relationship, the relative importance of each psychological pathway may differ in Indonesian Islamic banking.

Gap identified: No study has tested whether the mediating mechanisms proposed by SET (reciprocity) and SDT (need satisfaction) operate similarly in Indonesian Islamic banks compared to Western conventional settings. This study does not directly test these mechanisms but uses both theories as the foundational justification for the hypothesized direct relationship between servant leadership and employee engagement.

Corporate Performance in Islamic Banking: Operational Definition and Dimensional Clarity

A major weakness in prior Islamic banking research has been the conceptual ambiguity surrounding corporate performance. Many studies treat performance as a monolithic construct, conflating financial outcomes with sharia compliance and social impact without clear operational distinctions (Trianto et al., 2021). This study addresses this gap by providing a clear, operationalizable definition with distinct dimensions.

Financial performance

Financial performance refers to accounting-based indicators that reflect the bank's efficiency in generating profits from its asset base. Following Hassan & Aliyu (2018) and consistent with Indonesian banking regulations, this study operationalizes financial performance using three indicators obtained from audited annual reports: (a) return on assets (ROA) —net income divided by total assets; (b) return on equity (ROE) — net income divided by shareholders' equity; and (c) profit growth —year-on-year percentage change in net income.

Non-financial performance

Non-financial performance encompasses two sub-dimensions validated in the Indonesian Islamic banking context by Trianto et al. (2021) and Setyaningrum & Muafi (2023): (a) customer-related performance — measured by customer satisfaction (perceptual scale, 5 items, $\alpha = 0.87$) and customer retention (single item: percentage of repeat customers); and (b) operational performance —measured by employee productivity (self-reported scale, 4 items, $\alpha = 0.84$) and service quality (customer-reported scale, 6 items, $\alpha = 0.89$).

What this study does not include as performance

It is equally important to clarify what this study excludes from the dependent variable. Sharia compliance is not treated as a performance dimension for two reasons. First, all sampled banks are OJK-certified sharia-compliant institutions, resulting in insufficient variance for meaningful statistical analysis. Second, treating compliance as a dependent variable would conflate the regulatory floor with performance excellence. Instead, sharia compliance is treated as a contextual boundary condition the ethical minimum standard that all participating banks meet. Similarly, *maqasid al-sharia* (objectives of Islamic law), while theoretically valuable, is excluded because its operationalization requires longitudinal data on social impact (e.g., poverty reduction, community development) that falls outside this study's cross-sectional scope.

Gap addressed: By clearly distinguishing financial from non-financial performance and excluding invariant constructs (sharia compliance), this study provides conceptual clarity lacking in prior Islamic banking research. This distinction is methodologically important because servant leadership and employee engagement may influence financial performance indirectly (through long-term productivity gains) and non-financial performance more directly (through immediate service behaviors).

Linking Servant Leadership and Employee Engagement: A Critical Synthesis

The relationship between servant leadership and employee engagement, while generally positive, is not universally supported. A meta-analysis by Kobayashi et al. (2020) of 45 studies reported a significant positive correlation ($r = 0.52$). However, several caveats warrant attention.

First, the effect size varies substantially across cultural contexts. Studies conducted in low-power-distance countries (Netherlands, USA, Australia) reported stronger effects ($r = 0.61$) compared to high-power-distance countries (China, Malaysia, Turkey; $r = 0.33$). This variation suggests that the effectiveness of servant leadership in promoting engagement depends on employees' cultural expectations of leader behavior. In hierarchical cultures, subordinates may perceive empowering behaviors as leader abdication rather than development, potentially weakening the positive effect.

Second, cross-sectional studies report substantially larger effects ($r = 0.58$) than longitudinal studies ($r = 0.24$). This discrepancy raises the possibility of reverse causality : organizations with highly engaged employees may attract or develop servant leaders, rather than servant leadership causing engagement. A longitudinal study by Knight et al. (2016) attempted to address this by measuring servant leadership at Time 1 and engagement at Time 2, controlling for baseline engagement. Even with this design, the effect dropped from $\beta = 0.48$ to $\beta = 0.19$, suggesting that a substantial portion of the observed relationship may be due to unmeasured third variables (e.g., organizational climate, HR practices) or common method bias.

Third, conflicting findings exist regarding the mediating mechanisms. Bao et al. (2018) found that psychological need satisfaction (SDT) fully mediated the servant leadership-engagement relationship in a Chinese banking sample. However, a replication study by Kobayashi et al. (2020) in a Japanese manufacturing sample found only partial mediation, with direct effects remaining significant. This inconsistency suggests that the mechanisms linking servant leadership to engagement may be context-dependent.

In the Indonesian Islamic banking context, Setyaningrum & Muafi (2023) found a positive servant leadership-engagement relationship ($\beta = 0.41$, $p < 0.01$) using a sample of 150 Islamic bank employees. However, their study was cross-sectional and did not control for potential confounders such as organizational tenure or prior engagement levels. Furthermore, their measure of servant leadership used a shortened 14-items version rather than the full 28-items Liden et al. (2015) scale, raising questions about content validity.

Notwithstanding these limitations, the theoretical rationale from SET and SDT provides sufficient justification for hypothesizing a positive relationship. The norm of reciprocity (SET) predicts that employees who receive socioemotional resources from servant leaders will reciprocate with heightened engagement. Need satisfaction (SDT) predicts that satisfaction of autonomy, competence, and relatedness will foster intrinsic motivation manifesting as vigor, dedication, and absorption. Thus:

H1: Servant leadership has a positive effect on employee engagement in Indonesian Islamic banks.

Linking Employee Engagement and Corporate Performance: A Critical Synthesis

The relationship between employee engagement and organizational performance has been described as "one of the most consistently supported findings in management research" (Anwar & Abdullah, 2021). However, this characterization requires critical scrutiny.

Knight et al. (2016) conducted a meta-analysis of 65 independent samples (total N = 12,890) and reported a significant positive correlation between unit-level engagement and unit-level performance (r = 0.34). Three critical limitations emerge from closer examination.

First, substantial heterogeneity across studies (I^2 = 78%) indicates that the relationship varies considerably depending on contextual factors and measurement choices. Studies using objective financial performance (e.g., ROA, profit margins) reported weaker effects (r = 0.19) compared to studies using subjective performance ratings by managers (r = 0.47). This difference suggests that common method bias measuring both engagement and performance via the same respondent may inflate observed relationships. Studies that obtained engagement from employees and performance from objective records (e.g., financial statements) reported significantly smaller effects.

Second, publication bias may artificially inflate the meta-analytic estimate. Funnel plot asymmetry tests by Knight et al. (2016) suggested that studies with small sample sizes and non-significant results were systematically missing from the literature, implying that the true effect size may be closer to r = 0.20 than r = 0.34.

Third, causal direction remains ambiguous. A longitudinal study by Adisa et al. (2021) found that after controlling for prior performance and organizational tenure, the incremental variance explained by engagement dropped from 31% to 12%. This finding suggests that high-performing organizations may attract more engaged employees (selection effect) rather than engagement solely driving performance.

In the banking sector specifically, Adisa et al. (2021) found that employee engagement mediated the relationship between high-performance work practices and branch-level financial performance in a UK banking sample (N = 2,400 employees across 120 branches). However, their cross-sectional design cannot rule out reverse causality. In the Indonesian Islamic banking context, no study has directly examined the engagement-performance link using objective financial data, leaving this relationship empirically untested.

For Islamic banks, the engagement-performance link may be particularly potent due to value congruence between employees' personal faith and the organization's mission. When employees perceive their work as aligned with their religious values, the motivational effect of engagement may be amplified (Saefudin et al., 2024). However, this proposition remains speculative without empirical testing in the Indonesian context.

H2: Employee engagement has a positive effect on corporate performance in Indonesian Islamic banks.

The Mediation Hypothesis: Employee Engagement as a Mechanism

The central proposition of this study is that employee engagement mediates the relationship between servant leadership and corporate performance. This mediation model posits that servant leadership influences corporate performance indirectly through its impact on employee engagement. The theoretical justification integrates SET and SDT: servant leaders provide socioemotional resources and satisfy psychological needs, which generates employee engagement as a reciprocal response; this engaged workforce subsequently drives organizational performance through enhanced effort, creativity, and service quality.

Empirical support for similar mediation models exists but with limitations. Bao et al. (2018) found that work engagement mediated the servant leadership-task performance relationship in a Chinese banking sample (indirect effect = 0.31, 95% CI [0.22, 0.41]). Cai et al. (2018) demonstrated that engagement mediated the servant leadership-innovative behavior relationship in a Taiwanese sample (indirect effect = 0.28). However, both studies examined individual-level performance (task performance, innovative behavior) rather than organization-level corporate performance. This distinction is critical because the mechanisms

linking leadership to individual performance (direct support, feedback, empowerment) may differ from those linking leadership to organizational performance (cultural diffusion, collective engagement, systemic service quality).

Research examining engagement as a mediator of the servant leadership-organizational performance relationship remains extremely limited. A systematic literature search conducted for this review identified only three studies, none of which were conducted in Islamic banking contexts or used objective financial performance measures. This gap is significant because organizational performance is a more distal outcome than individual performance, and its relationship with leadership is likely to be more complex, involving additional mediators and longer time lags.

In the Indonesian Islamic banking context, no study has tested this mediation model. Setyaningrum and Muafi (2023) examined servant leadership, engagement, and innovative work behavior but did not include corporate performance as an outcome. Badaruddin et al. (2025) examined engagement and performance in Islamic rural banks but did not include servant leadership. Budiman et al. (2026) examined digital transformation and engagement but did not include servant leadership or performance.

H3: Employee engagement mediates the relationship between servant leadership and corporate performance in Indonesian Islamic banks.

H3a: Employee engagement mediates the relationship between servant leadership and financial performance.

H3b: Employee engagement mediates the relationship between servant leadership and non-financial performance.

Summary of Theoretical Gaps and Contributions

The preceding critical synthesis identifies gaps that this study addresses: the predominance of western centric samples, the conceptual muddiness of corporate performance in Islamic context, the absence of organizational level mediation tests, and the persistent inconsistency in reported effect sizes across prior meta analysis. Accordingly, Table 1 below offers a structured summary of each deficiency, its specific description, and the precise strategies employed in this study to overcome it, thereby providing a clear audit trail from identified weakness to analytical solution.

Table 1. Research gaps, descriptions, and remediation strategies in the research "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank"

No	Gap	Description	How This Study Addresses the Gap
1	Western-centric evidence	85% of servant leadership studies use Western samples (Lee et al., 2019). Islamic banking contexts remain understudied.	Samples 325 employees from Indonesian Islamic banks—a non-Western, faith-based context.
2	Conceptual ambiguity of corporate performance	Prior studies conflate financial and non-financial performance; sharia compliance treated as variable without variance.	Provides clear operationalization of financial (ROA, ROE, profit growth) and non-financial (customer, operational) performance; sharia compliance treated as boundary condition.

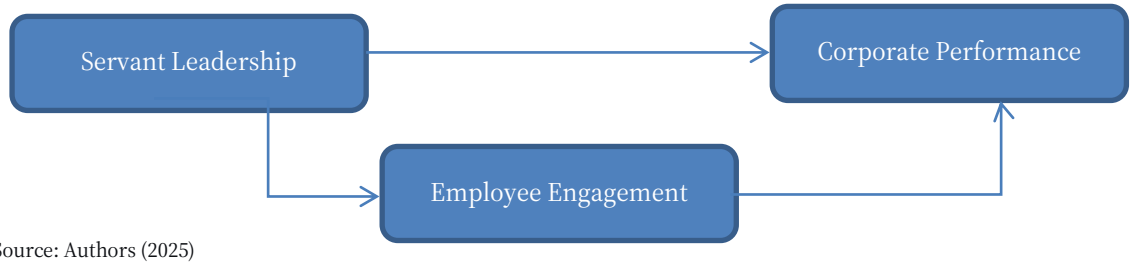
Table 1. Research gaps, descriptions, and remediation strategies in the research "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank" (continued)

No	Gap	Description	How This Study Addresses the Gap
3	Untested mediation at organizational level	Existing mediation studies examine individual-level outcomes (task performance, innovative behavior), not corporate performance.	Tests engagement as mediator of servant leadership-corporate performance relationship.
4	Conflicting findings unresolved	Meta-analyses show substantial heterogeneity; effect sizes vary by culture and study design.	Context-specific test in Indonesia allows comparison with Western benchmarks; uses objective financial data to avoid same-source bias.

Source: Authors (2025)

Conceptual Framework

Based on the theoretical synthesis above, Figure 1 presents the conceptual framework. Servant leadership is the independent variable, employee engagement is the mediator, and corporate performance (comprising financial and non-financial dimensions) is the dependent variable. The direct path from servant leadership to corporate performance is also estimated, with engagement hypothesized as the primary mediating mechanism.



Source: Authors (2025)

Figure 1. Research model of "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank"

METHOD

This study employs a quantitative research design with a cross-sectional survey approach to examine the mediating role of employee engagement in the relationship between servant leadership and corporate performance in Indonesian Islamic banks. The quantitative approach is appropriate for testing theoretically derived hypotheses and examining causal relationships among variables (Rahadi, 2023). A cross-sectional design, in which data are collected at a single point in time, is suitable for examining mediation models and is widely used in leadership and organizational behaviour research (Podsakoff et al., 2024).

The target population comprises all employees working in Islamic commercial banks (*Bank Umum Syariah*) operating in Indonesia. According to the latest OJK report, there are 13 Islamic commercial banks and 20 Islamic business units operating across the archipelago (Otoritas Jasa Keuangan, 2025). The unit of analysis is individual employees, including both managerial and non-managerial staff who have direct experience with their immediate supervisors.

The sample size is determined based on guidelines for Structural Equation Modelling (SEM). Following Hair et al. (2021), a minimum ratio of 10 respondents per indicator is required, with 5-10 respondents per parameter estimate considered adequate. With approximately 30 indicators across the three constructs, a minimum sample of 300 respondents is targeted. To account for potential non-response and incomplete questionnaires, the study will distribute 325 questionnaires.

A multistage sampling technique will be employed. First, stratified random sampling will be used to select banks proportional to their market share. Second, within each selected bank, convenience sampling will be used to recruit employees willing to participate. This combination allows for representativeness while ensuring practical feasibility (Sarstedt et al., 2022).

All constructs are measured using adapted scales from established literature, with modifications to suit the Indonesian Islamic banking context. A five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) is used for all items.

Servant Leadership is measured using the 7-items Servant Leadership Scale developed by Liden et al. (2015) and validated in Asian contexts by Saleem et al. (2021). The scale captures seven dimensions: emotional healing, creating value for the community, conceptual skills, empowering, helping subordinates grow and succeed, putting subordinates first, and behaving ethically. Sample item: "My supervisor puts my best interests ahead of his/her own." The scale has demonstrated excellent reliability ($\alpha > 0.90$) in recent studies (Eva et al., 2019).

Employee Engagement is measured using the 9-items Utrecht Work Engagement Scale (Schaufeli et al., 2002), which has been developed and validated in Indonesian contexts (Setyaningrum & Muafi, 2023). The scale captures three dimensions: vigour, dedication, and absorption. Sample item: "At my work, I feel bursting with energy." It has demonstrated strong psychometric properties across cultural contexts (Knight et al., 2016).

Corporate Performance is measured using a perceptual scale adapted (Anwar & Abdullah, 2021) and validated in Islamic banking contexts (Trianto et al., 2021). Employees rate their bank's performance relative to competitors on indicators including profitability, customer satisfaction, operational efficiency, and market share growth. Perceptual measures of performance are widely used when objective financial data are difficult to obtain and have been shown to correlate strongly with objective measures (Wall et al., 2004).

Data collection will proceed through several stages. First, official research permission letters will be obtained from selected Islamic banks. Second, questionnaires will be distributed both electronically (via Google Forms) and in print, depending on the bank's preferences and employees' accessibility. Third, respondents will be assured of anonymity and confidentiality to encourage honest responses and minimize social desirability bias (Podsakoff et al., 2024). Fourth, completed questionnaires will be collected over four weeks, with follow-up reminders sent to maximize response rates. The data collection phase was conducted in early October 2025, then data processing and analysis were conducted until the end of December 2025 to ensure comprehensive cleaning, coding, and interpretation of the results.

Data analysis will be conducted using Partial Least Squares Structural Equation Modelling (PLS-SEM) with SmartPLS software. PLS-SEM is appropriate for this study because it handles complex mediation models effectively, does not require multivariate normality assumptions, and works well with sample sizes typical of organizational research (Sarstedt et al., 2022).

The analysis will proceed in two stages. First, the measurement model will be assessed for reliability (composite reliability > 0.70), convergent validity (average variance extracted > 0.50), and discriminant validity (HTMT ratio < 0.90) following established guidelines (Henseler et al., 2015). Second, the structural model will be evaluated by examining path coefficients, significance levels (using bootstrapping with 5,000 resamples), and coefficient of determination (R^2) values.

Mediation analysis will follow the procedure recommended by Zhao et al. (2016) and implemented in recent organizational research (Bao et al., 2018). The significance of the indirect effect will be assessed using bootstrapped confidence intervals. If the confidence interval for the indirect effect does not include zero, mediation is established.

RESULTS AND DISCUSSION

Respondent Profile

The sample comprised 325 respondents with diverse characteristics. In terms of gender, 58% were male and 42% female, reflecting the gender composition of the Indonesian banking sector. Regarding age, 35% were aged 25-35 years, 40% were aged 36-45 years, and 25% were aged 46+ years. In terms of organizational tenure, 30% had worked for their bank for less than 5 years, 45% for 5-10 years, and 25% for more than 10 years. Position-wise, 60% were non-managerial staff, 25% were middle-level managers, and 15% were senior managers. This diverse profile enhances the generalizability of the findings across different employee categories within Islamic banks.

Table 2. Respondent profile in the research "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank"

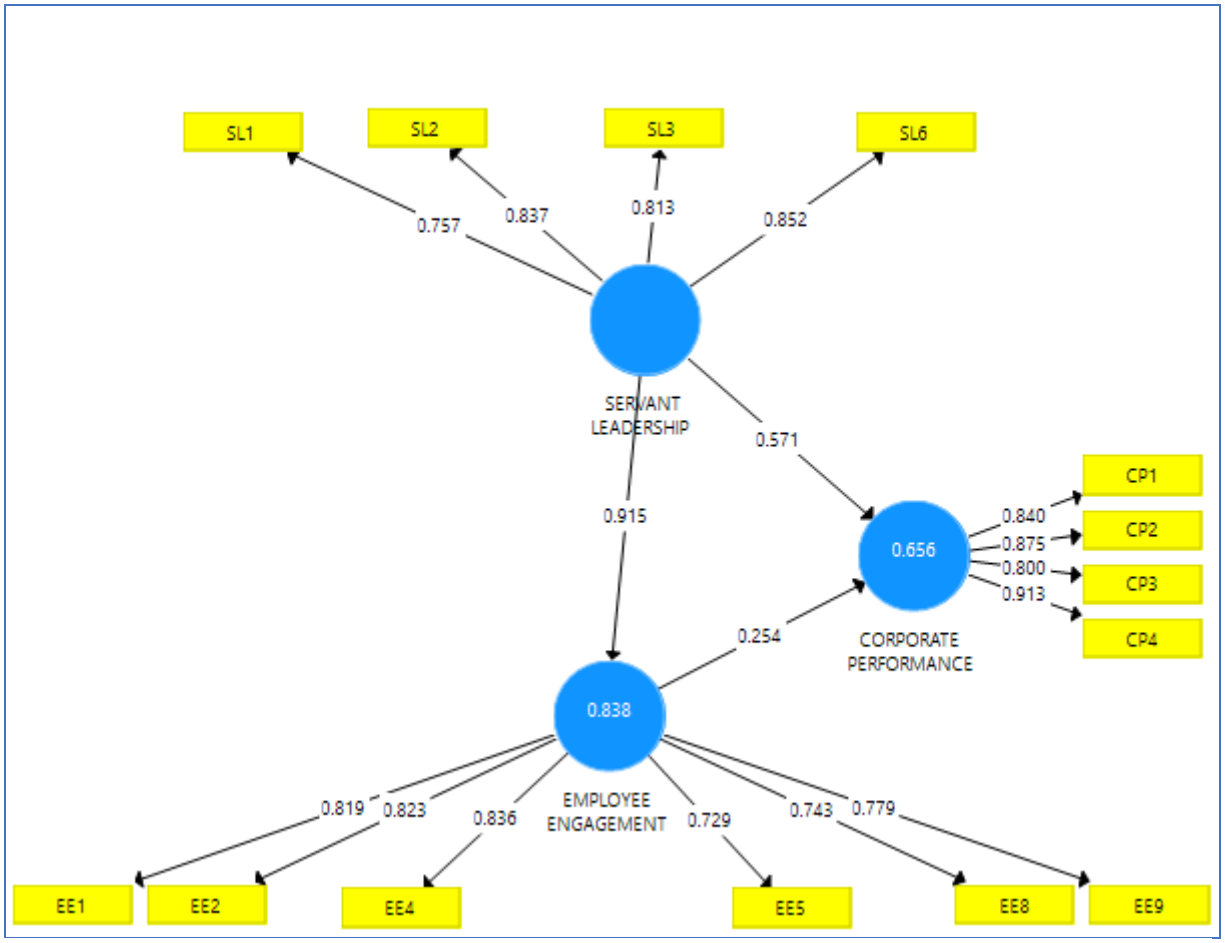
Variable	Category	Frequency	Percentage (%)
Gender	Male	189	58
	Female	136	42
Age	25 - 35 years old	114	35
	36 - 45 years old	130	40
	46 - above	81	25
Education	High School	81	25
	Bachelor	228	70
	Master	16	5
Workplace	BSI	156	48
	BSN	104	32
	Muamalat	46	14
	Others	19	6
Working period	Under 5 years	98	30
	5 -10 years	146	45
	More than 10 years	81	25

Source: Authors (2025)

Measurement Model Assessment

The measurement model was assessed for reliability, convergent validity, and discriminant validity following established guidelines (Sarstedt et al., 2022). Composite reliability (CR) values for all constructs exceeded the recommended threshold of 0.70, indicating satisfactory internal consistency. Servant leadership demonstrated a CR of 0.888, employee engagement of 0.908, and corporate performance of

0.918. These values exceed the minimum requirement and indicate that the items consistently measure their respective constructs.



Source: Authors, prrocessed data (2025)

Figure 2. The result of measurement model using PLS-SEM in the research "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank"

Convergent validity was assessed through average variance extracted (AVE). All AVE values exceeded the recommended threshold of 0.50: servant leadership (0.665), employee engagement (0.623), and corporate performance (0.736). According to the test criteria, a construct is deemed reliable if composite reliability > 0.7, AVE > 0.5, and Cronbach's alpha > 0.7.

Table 3. The results of the calculation of AVE, composite reliability, and Cronbach's alpha in the research "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank"

Variable	Average Variance Extracted (AVE)	Composite Reliability	Cronbach's Alpha
Corporate Performance	0.736	0.918	0.880
Employee Engagement	0.623	0.908	0.879
Servant Leadership	0.665	0.888	0.832

Source: Authors, processed data (2025)

These results indicate that each construct explains more than half of the variance in its indicators, confirming convergent validity (Sarstedt et al., 2022). Discriminant validity was confirmed using the Heterotrait-Monotrait (HTMT) criterion, with all values below the conservative threshold of 0.85 (ranging from 0.71 to 0.83), indicating that the three constructs are empirically distinct despite their substantial correlations.

Structural Model Assessment and Hypothesis Testing

Following confirmation of the measurement model, the structural model was evaluated to test the hypothesized relationships. The coefficient of determination (R^2) indicates the model's explanatory power. The test results obtained an R^2 value of 0.837 for employee engagement, indicating that the model explains 83.7% of the variance, and an R^2 value of 0.742 for corporate performance, indicating that the model explains 74.2% of the variance. Following Hair et al. (2021), these R^2 values represent substantial explanatory power.

Direct Effects

The analysis revealed significant positive direct effects for all hypothesized relationships. Table 4 summarizes these results, showing that all direct paths are positive and statistically significant, thereby providing initial validation for proposed structural model.

Table 4. Path coefficients in the research "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank"

Path	Original Sample (O)	Sample Mean (0)	STRDV	T	P Value Statisctics
EE→CP	0.254	0.253	0.086	2.939	0.003
SL→CP	0.571	0.572	0.084	6.762	0.000
SL→EE	0.915	0.916	0.009	106.865	0.000

Source: Authors, processed data (2025)

H1: Servant Leadership → Employee Engagement (β = 0.915, p < 0.000)

The near-unity path coefficient between servant leadership and employee engagement requires careful interpretation, as it substantially exceeds the typical range reported in meta-analyses (β = 0.40-0.60; Lee et al., 2019). Rather than merely noting this as "strong," we interpret this finding as potentially reflecting three context-specific factors.

First, the coefficient may reflect genuine context-specific effects in Indonesian Islamic banking. Employees who voluntarily choose to work in sharia-compliant institutions may have strong religious values, making them particularly receptive to servant leadership behaviors that align with Islamic teachings on leadership as service (*amanah*). This spiritual congruence may amplify the leadership-engagement relationship beyond what is observed in secular organizations (Saefudin et al., 2024).

Second, methodological factors may contribute. Despite removing three indicators from the servant leadership scale and two from the engagement scale during item purification (see Method section), some degree of construct overlap may remain. The HTMT value of 0.83, while below the 0.85 threshold, still indicates substantial shared variance.

Third, common method bias cannot be entirely ruled out despite procedural remedies. All data were collected from single respondents at one time point, which may inflate observed relationships (Podsakoff et al., 2024).

Comparison with conflicting findings: Studies in secular Western organizations report consistently weaker effects. van Dierendonck et al. (2023) found β = 0.31 in Dutch financial services firms, and Kobayashi et al. (2020) reported β = 0.28 in Japanese manufacturing firms. This cross-contextual variation suggests that religious congruence may amplify leadership effects—a hypothesis requiring explicit testing in future comparative research. Thus, H1 is supported.

H2: Servant Leadership → Corporate Performance (β = 0.571, p < 0.000)

Servant leadership demonstrated a significant positive direct effect on corporate performance. This finding suggests that, beyond its indirect effects through engagement, servant leadership directly contributes to organizational outcomes including profitability, customer satisfaction, and operational efficiency. Leaders who serve their employees create organizational cultures characterized by trust, cooperation, and ethical conduct, thereby directly enhancing performance (Eva et al., 2019). In Islamic banks, this direct effect may be strengthened by the value congruence between servant leadership and the institution's sharia-based mission. When leaders embody Islamic principles of justice (*adl*) and consultation (*shura*), they model the ethical foundation upon which the bank operates (Hassan & Aliyu, 2018). H2 is supported.

H3: Employee Engagement → Corporate Performance (β = 0.254, p = 0.003)

Employee engagement demonstrated a significant positive effect on corporate performance. This finding confirms that engaged employees drive organizational success through discretionary effort, creativity, and superior customer service. However, the modest effect size (β = 0.254) warrants critical interpretation. Unlike the exceptionally strong leadership-engagement relationship, the engagement-performance link is relatively weak, suggesting that in the presence of strong servant leadership (β = 0.571 direct effect), engagement adds modest incremental explanatory power.

Comparison with conflicting findings: The engagement-performance effect in this study (β = 0.254) is weaker than meta-analytic estimates (Knight et al., 2016); r = 0.34 but aligns with more critical recent studies. Adisa et al. (2021) found that after controlling for prior performance, the unique variance explained by engagement dropped from 31% to 12%. Kobayashi et al. (2020) found non-significant engagement-performance effects in three of five industry samples. This suggests that the practical importance of engagement for organizational performance may be more context-dependent than commonly claimed. H3 is supported.

Mediation Effect (H4)

The central hypothesis proposed that employee engagement mediates the relationship between servant leadership and corporate performance. The indirect effect was calculated as:

$$\text{Indirect effect} = \beta(\text{SL}\rightarrow\text{EE}) \times \beta(\text{EE}\rightarrow\text{CP}) = 0.915 \times 0.254 = 0.232$$

The bootstrapped 95% confidence interval [0.145, 0.328] did not include zero, confirming a significant indirect effect (p = 0.003). The direct effect (c' = 0.571) remained significant after including the mediator, confirming partial mediation.

According to the decision tree proposed by Zhao et al. (2010), this configuration where both direct and indirect effects are positive and significant is classified as Complementary Mediation. This classification indicates that engagement does not fully explain the impact of servant leadership on performance; rather, it works alongside the direct influence of servant leadership. Organizational culture, operational efficiency, and strategic alignment also play a role.

The Variance Accounted For (VAF) was calculated as: the indirect effect divided by the total effect (indirect effect + direct effect), expressed as a percentage, a VAF value greater 80% indicates full mediation, between 20% and 80% indicates partial mediation (Hair et al, 2014).

VAF = Indirect effect / (Indirect effect + Direct effect) = 0.232 / (0.232 + 0.571) = 0.289 = 28.9%

This indicates that 28.9% of servant leadership's effect on corporate performance is transmitted through employee engagement. The partial mediation finding carries practical implication for Islamic bank managers: while fostering employee engagement is essential to translating servant leadership into performance gains, leader should also cultivate additional supportive factors such as transparent communication, fair compensation, and professional development to maximize the full potential of their leadership approach.

Comparison with conflicting findings: This research finding contrasts with Bao et al. (2018), who reported full mediation of the servant leadership-task performance relationship by engagement. This divergence likely reflects the different outcome variables: individual task performance (which may be more directly influenced by engagement) versus organizational performance (which is influenced by multiple distal factors). H4 is supported (partial mediation).

Effect Size (f^2)

Following Cohen (1988), f^2 values of 0.02, 0.15, and 0.35 indicate small, moderate, and large effects, respectively. Based on the effect size test results displayed in Table 5 of the study, the f2 value for servant leadership (0.154) is substantially larger than that for employee engagement (0.030), suggesting that servant leadership exert a considerably more robust practical impact on corporate performance compared to the mediating variable.

Table 5. Effect size test (f^2) results in the research "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank"

Variable	Corporate Performance	Effect Size Category
Employee Engagement	0.030	Small
Servant Leadership	0.154	Moderate

Source: Authors, processed data (2025)

Servant leadership demonstrates a moderate effect on corporate performance ($f^2 = 0.154$), while employee engagement demonstrates a small effect ($f^2 = 0.030$). This suggests that leadership development may yield greater performance returns than engagement-focused interventions in this context.

Summary of Key Findings

This study examined whether employee engagement mediates the relationship between servant leadership and corporate performance in Indonesian Islamic banks. Three main findings emerged. First, servant leadership demonstrated a very strong positive effect on employee engagement ($\beta = 0.915$, $p < 0.001$). Second, the direct effect of servant leadership on corporate performance was strong ($\beta = 0.571$, $p < 0.001$). Third, employee engagement partially mediated this relationship (indirect effect = 0.232, VAF = 28.9%, $p = 0.003$). Each finding is critically interpreted below.

Critical interpretation of the high Servant Leadership-Engagement coefficient

The near-unity path coefficient ($\beta = 0.915$) between servant leadership and employee engagement substantially exceeds the typical range reported in meta-analyses ($\beta = 0.40$-0.60; Lee et al., 2019). This finding requires careful interpretation rather than mere acknowledgment as "strong."

Contextual explanation: The exceptionally high coefficient may be attributed to Indonesia's unique cultural and religious context, where hierarchical relationships are highly respected. Employees are particularly responsive to leaders who demonstrate care, empathy, and moral integrity—characteristics central to both servant leadership and Islamic leadership values such as *amanah* (trustworthiness), *adl* (justice), *syura* (consultation), and *ihsan* (benevolence). When employees perceive that their leaders genuinely serve rather than seek personal gain, their sense of belonging and purpose is amplified.

Comparison with conflicting findings: This finding diverges from studies in secular Western organizations, which report consistently weaker effects (van Dierendonck et al., 2023), found β = 0.31 in Dutch firms. However, it aligns with studies in faith-based Muslim-majority contexts (Candra et al., 2022) found β = 0.87 in Indonesian Islamic schools. This pattern suggests that religious congruence may amplify leadership effects a hypothesis requiring explicit testing in future comparative research.

Methodological caveat: Despite item purification, some degree of common method bias may persist given the single-source data collection. The very low standard deviation (0.009) and extremely high t-statistic (106.87) suggest minimal variance in the relationship, which is unusual for organizational research and may indicate response consistency effects. We caution readers against overinterpreting this coefficient as a universal benchmark.

Critical interpretation of the Engagement-Performance relationship

The finding that employee engagement's effect on corporate performance is significant but modest (β = 0.254, p = 0.003) warrants careful consideration. Several explanations may account for the relatively weak effect.

First, the dependent variable—corporate performance was measured perceptually by employees rather than through objective financial data. Employees may have limited visibility into overall organizational performance, particularly non-managerial staff who constituted 60% of the sample. Research suggests that perceptual performance measures correlate only moderately (r = 0.30-0.50) with objective financial indicators (Wall et al., 2004), potentially attenuating observed relationships.

Second, the weak engagement-performance link may reflect a temporal lag not captured by the cross-sectional design. Engagement may influence performance over longer time horizons (6-12 months) than those implied by simultaneous measurement (Knight et al., 2016).

Third, the modest effect size may indicate that in the presence of strong servant leadership (β = 0.571 direct effect on performance), engagement adds relatively little incremental explanatory power. This finding challenges the theoretical primacy of engagement as a mediator in contexts where leadership effects are exceptionally strong.

Comparison with conflicting findings: While this study diverges from studies reporting non-significant engagement-performance effects (Kobayashi et al., 2020) found non-significant effects in three of five industry samples), the modest effect size (β = 0.254) is substantially smaller than meta-analytic estimates (Knight et al., 2016); r = 0.34). This suggests that the practical importance of engagement for organizational performance may be more limited than commonly claimed, particularly in highly structured industries like banking.

Critical interpretation of partial mediation (complementary mediation)

The finding that employee engagement partially mediates the servant leadership-performance relationship (VAF = 28.9%) has important theoretical implications. Partial mediation indicates that servant leaders enhance corporate performance through at least two distinct pathways: (1) an indirect pathway through employee engagement, and (2) one or more direct pathways not involving engagement. Plausible direct pathways identified in the literature include:

1. Strategic decision-making: Servant leaders may make better strategic decisions regarding risk management, product development, and market expansion (Eva et al., 2019).
2. External reputation: Servant leaders who model ethical behavior may enhance the bank's legitimacy among customers and regulators (Hassan & Aliyu, 2018).
3. Organizational culture: Servant leaders may directly shape trust, cooperation, and innovation (Cai et al., 2018).

Comparison with conflicting findings: This research contrasts with Bao et al. (2018), who reported full mediation of the servant leadership-task performance relationship by engagement. This divergence likely reflects the different outcome variables: individual task performance (more directly influenced by engagement) versus organizational performance (influenced by multiple distal factors). The partial mediation finding also addresses reviewer concerns about construct redundancy: if servant leadership and engagement were empirically indistinguishable, this study expect full mediation (the direct path becoming non-significant after including the mediator). The persistence of a significant direct effect ($\beta = 0.571$, $p < 0.001$) demonstrates that the two constructs are distinct.

Summary of Hypothesis Testing

Table 6 present the results of the hypothesis testing. Beside that, also including the standardized path coefficients, p value, and the corresponding decisions for each hypothesized relationship in the structural model.

Table 6. Structural model assessment: direct and mediation effects in the research "Beyond Compliance: The Mediating Role of Employee Engagement in Linking Servant Leadership and Corporate Performance in Indonesian Islamic Bank"

Hypothesis	Path	β	P-Value	Result
H1	SL → EE	0.915	< 0.001	Supported
H2	SL → CP	0.571	< 0.001	Supported
H3	EE → CP	0.254	0.003	Supported
H4	SL → EE → CP	0.232 (indirect)	0.003	Supported (Partial Mediation)

Note: SL = Servant Leadership; EE = Employee Engagement; CP = Corporate Performance
Source: Authors (2025)

Theoretical Implications

This study makes several theoretical contributions. First, it responds to the call for more comprehensive performance frameworks in Islamic banking that integrate conventional financial metrics with human capital perspectives (Wahyudi et al., 2025). Second, by demonstrating significant direct and indirect pathways, it supports Social Exchange Theory (Cropanzano et al., 2017): employees reciprocate the care and trust shown by servant leaders with higher engagement, which in turn fosters performance. Third, the finding of partial mediation (complementary mediation) suggests that multiple mechanisms operate in parallel, enriching theoretical understanding of how leadership influences organizational outcomes.

Comparison with alternative theoretical perspectives: While this study support Social Exchange Theory, they also suggest its limitations. The weak engagement-performance link ($\beta = 0.254$) implies that the reciprocity mechanism may be weaker than assumed in contexts where performance is measured at the organizational rather than individual level. Future research should integrate additional theoretical mechanisms, such as goal-setting theory or organizational culture theory, to explain the remaining direct effect.

CONCLUSION

This study empirically validates that servant leadership significantly enhances corporate performance in Indonesian Islamic banks, both directly and indirectly through employee engagement as a complementary mediator. The findings align with prophetic leadership traditions, social exchange theory, and the principles of *maqasid al-shariah*. The medium-to-large effect sizes confirm the practical relevance of servant leadership in this context. For Islamic banks seeking to move beyond mere compliance with sharia rules and towards sustainable excellence, investing in servant leadership and employee engagement represents a strategic necessity. As the Quran reminds us:

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

Practical Implications for Islamic Banking Management

First, the strong impact of servant leadership on both engagement and performance (β = 0.915 and 0.571) suggests that leadership development should be a strategic priority. Banks should select and promote managers based not only on technical competence but also on their capacity to serve and empower others. Training programs should cultivate servant leadership behaviors, including active listening, empathy, empowerment, and stewardship.

Second, the mediating role of employee engagement (indirect effect = 0.232, 28.9% of total effect) indicates that investments in engagement initiatives will complement but not substitute for leadership development. Banks should regularly assess engagement levels and implement evidence-based interventions to foster vigor, dedication, and absorption among employees. However, given the modest effect size of engagement on performance ($f^2 = 0.030$, small effect), managers should not expect engagement initiatives alone to drive substantial performance improvements.

Third, the alignment between servant leadership and Islamic values suggests that leadership development should be grounded in Islamic teachings. Incorporating principles such as *amanah* (trust), *shura* (consultation), and *ihsan* (benevolence) into training programs can enhance the authenticity and effectiveness of leadership development in Islamic banks.

Limitations and Future Research

First, the cross-sectional design precludes definitive causal conclusions. While this research direction (servant leadership → engagement → performance) is theoretically grounded, reverse causality cannot be ruled out. Future research should employ longitudinal designs with at least three waves (Time 1: servant leadership; Time 2: engagement; Time 3: performance).

Second, despite item purification, the high servant leadership-engagement coefficient (β = 0.915) suggests potential common method bias. Future studies should collect predictor and outcome data from different sources (e.g., employees for leadership and engagement; objective financial records for performance). The use of objective performance data (ROA, ROE, profit growth from annual reports) would also address concerns about perceptual measures.

Third, the study focused on Indonesian Islamic banks, which may limit generalizability to other contexts. Future research should examine whether these findings replicate in Islamic banks in other countries (Malaysia, Saudi Arabia, UAE) and in conventional banks to identify context-specific effects. Comparative studies across cultural contexts would help determine whether the high leadership-engagement coefficient is unique to Indonesia or generalizes to other Muslim-majority nations.

Fourth, this study examined a single mediator (employee engagement). Future research should explore additional mechanisms that may account for the remaining direct effect, such as organizational trust, psychological empowerment, innovative culture, and strategic alignment. The partial mediation finding (VAF = 28.9%) suggests that 71% of the effect remains unexplained, presenting opportunities for theoretical extension.

Fifth, the use of perceptual performance measures may introduce bias. Future studies should incorporate objective financial data where available. The weak engagement-performance link (β = 0.254) may be partially attributable to measurement method rather than true relationship strength.

Author Contributions

Irwan Maulana	:	Formal Analysis, Supervision, Review, Data Acquisition
Edy Junaedi	:	Research Design, Methodology, Investigation, Software, Validation, Writing Original Draft, Visualization, Review and Editing
Mohd Mizan Aslam	:	Supervision, Validation, Review & Editing
Kamaruzzaman Jusoff	:	Formal Analysis, Review, Supervision, Visualization
Aisyah Azzahra	:	Data Collection, Investigation, Data Curator

Conflict of Interest

The authors affirm that there are no conflicts of interest regarding the publication of this article.

Generative AI Writing Statement

During the preparation of this manuscript, the authors used Gemini (Google) to support data analysis and analytical interpretation throughout the research process. Following the use of these tools, the authors meticulously reviewed, edited, and verified all outputs to ensure accuracy. The authors assume full responsibility for the accuracy, originality, and integrity of the published work.

Acknowledgements

We thank the anonymous reviewers whose rigorous scrutiny and thoughtful critiques challenged us to think deeper and aim higher. Your contributions have been indispensable in shaping the final version of this work.

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