

Leadership Style as a Mediator Between Employee Competence and Performance in Islamic Banking: A Case Study of BSI Area Banjarmasin

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ABSTRACT: This study examines the effect of employee competence on performance and tests whether leadership style mediates this relationship in Bank Syariah Indonesia (BSI) Area Banjarmasin. Competence is positioned as a core dimension of human resource development that enhances work effectiveness, while leadership style shapes the extent to which competence is translated into employee performance. A quantitative survey was conducted with 60 employees purposively selected from six BSI sub-branch offices. Data were analyzed using partial least squares structural equation modeling (PLS-SEM) in SmartPLS. The results show that (1) competence has a positive effect on leadership style; (2) leadership style positively affects employee performance; (3) competence directly improves employee performance; and (4) leadership style significantly mediates the competence–performance relationship. The structural model explains 76.9% ($R^2 = 0.769$) of the variance in employee performance, demonstrating a robust model with strong predictive power for employee outcomes in Islamic banking. This study contributes to Islamic banking and organizational behavior literature by clarifying how contextually grounded leadership style mediates the competence–performance link in a Sharia-compliant banking environment.

Keywords: Competence, Leadership Style, Employee Performance, Islamic Banking.



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INTRODUCTION

The Islamic banking industry has recorded substantial global growth, with total assets exceeding USD 2.5 trillion in 2022 ([Jarbou et al., 2024](#)). Islamic banks, unlike their conventional counterparts, pursue profitability while upholding principles of justice, transparency, and *barakah* ([Alhammadi et al., 2022](#); [Güney, 2024](#)). Balancing these normative principles with contemporary management demands for efficiency, innovation, and sustainable competitiveness remains a persistent challenge ([Abdelwahed et al., 2025](#)).

Indonesia, as the largest Muslim-majority country, holds significant potential for Islamic banking development. The sector's market share reached 6.59% of total national banking assets in 2023 ([Otoritas Jasa Keuangan, 2023a](#)). *Bank Syariah Indonesia* (BSI), formed from the merger of three national Islamic banks, plays a pivotal role in this expansion. Realizing BSI's vision of becoming a

global leader requires human capital that is both technically competent and grounded in Islamic values ([Rehman & Khan, 2020](#); [Zulkifli et al., 2023](#)).

Employee competence is a multidimensional construct comprising technical skills, interpersonal capabilities, adaptability, teamwork, and learning orientation ([Spencer & Spencer, 1993](#); [C. Wang et al., 2022](#)). Competence determines task effectiveness and organizational competitiveness ([Boyatzis, 2008](#)). In Islamic banking, competence extends beyond technical proficiency to include adherence to *Sharia* principles, directly impacting service quality and customer trust ([Abdelwahed et al., 2025](#)). Antecedents of competence include education and training, work experience, and leadership support, while its consequences range from improved individual performance to organizational competitiveness ([Lousã et al., 2024](#)).

Leadership style refers to the behavioral patterns that leaders use to influence, guide, and motivate subordinates ([Robbins & Coulter, 2020](#)). Drawing on *Full Range Leadership Theory* ([Bass, 1985](#)), leadership can be transformational, transactional, or laissez-faire, each with distinct impacts on employee outcomes. Islamic leadership enriches these models by embedding ethical spiritual dimensions such as *amanah* (trustworthiness), *‘adl* (justice), *shura* (consultation), and *ihسان* (excellence) into managerial practice ([Abdul Mutalib et al., 2022](#); [Rabbad et al., 2024](#)). Leadership styles that embody these values can more effectively translate employee competence into superior performance in Islamic banking ([Rabbad et al., 2024](#)). Antecedents of leadership style include leader personality, organizational structure, employee competence, and performance pressures ([Bakker et al., 2023](#)). Effective leadership increases motivation, optimizes competence utilization, builds loyalty, and improves decision-making ([Robbins & Coulter, 2020](#)).

Employee performance encompasses task performance, contextual performance, and counterproductive work behavior ([Koopmans et al., 2014a](#)). Performance is influenced by competence, leadership style, motivation, and work environment ([Robbins & Coulter, 2020](#)). High performance strengthens organizational productivity and reputation, while also supporting employee career development and loyalty ([Abdelwahed et al., 2025](#)).

In BSI Area Banjarmasin, internal HR observations indicate disparities in competence across branches, frequent leadership rotation (average 1.7 times in two years), and variations in leadership approach from participative to bureaucratic, which affect morale and service consistency. Some branches consistently meet performance targets, whereas others stagnate, suggesting that competence alone may be insufficient without effective leadership mediation.

Prior studies affirm links between competence, leadership, and performance ([Apreku-Djan et al., 2022](#); [Lai et al., 2020](#); [Yahaya & Segbenya, 2023](#)). Evidence from conventional banking and other service sectors shows that leadership can strengthen the competence–performance relationship, typically by acting as a direct antecedent or moderator of performance ([Budi Cahyono & Nur, 2023a](#); [Saragih et al., 2021a](#)). These models, however, are largely grounded in Western managerial assumptions and seldom incorporate Islamic ethical–spiritual constructs. Despite extensive studies on competence and leadership, limited research examines leadership grounded in Islamic values as a mediating mechanism between competence and performance within Indonesia’s banking context.

This study investigates how employee competence affects performance, with leadership style serving as the mediating mechanism in the BSI Banjarmasin area. The results are expected to advance theory by introducing an Islamic-leadership mediation model that contrasts with conventional banking frameworks through the integration of *Sharia*-based leadership values. The study also aims to inform practice by outlining strategies to strengthen leadership and competence in Islamic banking for sustainable, high-quality performance.

Hypothesis Development

The conceptual framework of this study is grounded in Competency Theory (Spencer & Spencer, 1993) and the Full Range Leadership Theory (Bass, 1985). Employee competence encompasses integrated characteristics knowledge, technical skills, behavior, and attitudes that enable effective task execution and optimal performance outcomes. In Islamic banking, competence also reflects an understanding of *Sharia*-compliant financial principles, enhancing service quality and organizational reputation (Abdelwahed et al., 2025).

Leadership style is a critical contextual factor influencing the translation of competence into performance outcomes (Bass, 1985). Transformational and transactional leadership, as conceptualized by (Bass, 1985), can guide, motivate, and optimize employee potential (Robbins & Coulter, 2020). Prior research confirms that leadership may serve as a mediating mechanism in this relationship (Hauff et al., 2024; Oroh et al., 2024; Rabbad et al., 2024).

The proposed research model depicts the direct and indirect effects among the variables: employee competence (X), leadership style (Z), and employee performance (Y).

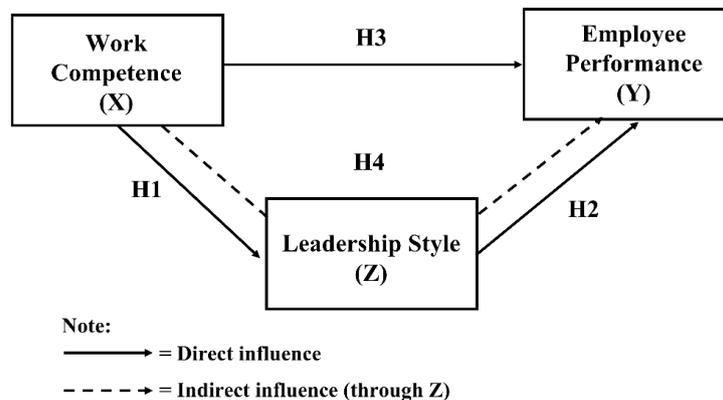


Figure 1: Research Model

Based on the theoretical underpinnings and empirical evidence, this study proposes the following hypotheses:

- H1: Employee competence has a positive effect on leadership style.
- H2: Leadership style has a positive effect on employee performance.
- H3: Employee competence has a positive effect on employee performance.
- H4: Leadership style mediates the effect of employee competence on employee performance.

METHOD

This study applied a quantitative survey approach to examine the influence of employee competence on employee performance through leadership style as a mediating variable in Islamic banking. The population consisted of 150 employees from six branch offices (*KCP*) of *Bank Syariah Indonesia* (BSI) Area Banjarmasin, with 60 respondents selected using purposive sampling (Etikan et al., 2016). Data collection was conducted through structured questionnaires, and the analysis employed *partial least squares structural equation modeling* (PLS-SEM) using *SmartPLS*, chosen for its ability to analyze complex models and test mediation effects with relatively small sample sizes (Hair et al., 2020). The sample size of 60 satisfies common PLS-SEM adequacy guidelines, including the “10-times rule,” which requires a minimum of 10 observations per largest number of structural paths directed at a latent construct, indicating that the data are sufficient for reliable parameter estimation (Hair et al., 2020).

Employee competence was measured through five dimensions: Technical Skill, Problem Solving, Adaptability, Teamwork, and Learning Orientation comprising 10 indicators that assessed technical knowledge application, problem identification and decision-making, adaptability to change, team collaboration, and continuous learning orientation (Sodiq et al., 2024; Spencer & Spencer, 1993). Additionally, leadership style was operationalized based on *Full Range Leadership Theory*, encompassing Contingent Reward, Inspirational Motivation, Intellectual Stimulation, Management by Exception, and Laissez-faire, and was measured by 10 indicators reflecting reward systems, motivational communication, creative stimulation, active supervision, and participative decision-making (Hair et al., 2020). All items for these constructs were rated using a 5-point *Likert* scale ranging from “Strongly Disagree” to “Strongly Agree” (Hair et al., 2020).

Moreover, employee performance was assessed through three dimensions: Task Performance, Contextual Performance, and Counterproductive Work Behavior adapted from Koopmans et al. (2014b). Task performance captured efficiency and timeliness, contextual performance reflected initiative and cooperation, whereas counterproductive work behavior (reverse-scored) evaluated the avoidance of detrimental workplace behaviors. All constructs underwent validity and reliability testing through convergent and discriminant validity as well as composite reliability (Hair et al., 2020), before hypothesis testing was carried out using bootstrapping in *PLS-SEM* to determine the significance of both direct and mediating effects.

RESULT AND DISCUSSION

This study presents empirical findings on the influence of employee competence on employee performance, with leadership style as a mediating variable, at Bank Syariah Indonesia (BSI) Area Banjarmasin. The analysis integrates quantitative statistical outputs and qualitative interpretations to offer a comprehensive understanding of the relationships among variables. Descriptive statistics indicate consistently high to very high mean scores across all dimensions of competence, leadership style, and employee performance, with variable means ranging from 4.12 to 4.20 on a five-point scale, suggesting that employees perceive themselves as highly competent, guided by effective leadership, and capable of delivering strong performance outcomes.

Organizational Context of BSI Area Banjarmasin

Bank Syariah Indonesia (BSI) Area Banjarmasin is one of the regional units of PT Bank Syariah Indonesia Tbk., established in 2021 through the merger of three state-owned Islamic banks ([Otoritas Jasa Keuangan, 2023b](#)). This area oversees six branch offices (KCP) strategically located in South Kalimantan, focusing on banking services based on Sharia principles. The organizational structure consists of an area head, branch managers, and operational teams in financing, funding, and customer service divisions. The work culture emphasizes Sharia compliance, service innovation, and inter-unit collaboration as the foundation for achieving performance targets ([Sodiq et al., 2024](#)). BSI's commitment to human resource development is reflected in programs aimed at enhancing technical competence, mastering Sharia banking principles, and fostering adaptive leadership aligned with industry dynamics ([Abdelwahed et al., 2025](#)).

Profile of Research Respondents

This study involved 60 respondents who are employees from six branch offices under BSI Area Banjarmasin. The majority of respondents were male (53.33%), while females accounted for 46.67% of the total participants. The dominant age range was 26–35 years (48.33%), reflecting the prevalence of millennials actively engaged in the Islamic banking sector (Nawaz, 2019). In terms of education, 76.67% held a bachelor's degree, followed by diploma holders (13.33%) and master's degree holders (10%). Regarding work tenure, most employees had 3–7 years of service (41.67%), indicating sufficient professional experience to evaluate the research variables ([Robbins & Coulter, 2020](#)). This demographic profile reflects a balanced workforce composition relevant for examining the relationship between competence, leadership style, and employee performance.

Descriptive Statistical Overview

The descriptive analysis results show that all research variables were rated in the high to very high category by respondents. The *Employee Competence* variable obtained an average score of 4.12, with the highest rating recorded for the indicator of understanding Sharia banking principles (4.28, very high) ([Abdelwahed et al., 2025](#)). The *Leadership Style* variable achieved an average score of 4.15, with the highest rating for the indicator of providing clear guidance (4.30, very high) ([Bass, 1985](#)). The *Employee Performance* variable recorded the highest overall mean of 4.20, with the top indicator being responsibility for assigned tasks (4.35, very high) ([Lousã et al., 2024](#)). These findings indicate that respondents possess strong competence, operate under effective leadership, and demonstrate optimal performance outcomes.

Outer Model Evaluation

The outer model evaluation aimed to verify the validity and reliability of the constructs Employee Competence (X), Leadership Style (Z), and Employee Performance (Y) before structural model testing. The results show that all constructs met the minimum thresholds for convergent validity, discriminant validity, and internal consistency reliability. All average outer loading values exceeded the 0.70 benchmark ([Hair et al., 2020](#)), while Average Variance Extracted (AVE) values were above 0.50, confirming strong convergent validity ([Guenther et al., 2023](#)). Discriminant validity was confirmed as all Heterotrait-Monotrait Ratio (HTMT) values remained below 0.90 ([Henseler &](#)

(Schuberth, 2023). Reliability indicators, measured through Cronbach’s Alpha and Composite Reliability (ρ_c), were all above 0.70, indicating high internal consistency.

Table 1. Integrated Results of Measurement Model Evaluation

Construct	Avg. Outer Loading	AVE	Cronbach’s Alpha	Composite Reliability (ρ_c)	HTMT Range	Validity & Reliability Status
Employee Competence (X)	0.794	0.566	0.916	0.928	0.800–0.856	Convergent, Discriminant, Reliable
Employee Performance (Y)	0.828	0.687	0.908	0.929	0.827–0.874	Convergent, Discriminant, Reliable
Leadership Style (Z)	0.777	0.506	0.891	0.909	0.808–0.874	Convergent, Discriminant, Reliable

Source: Processed primary data, SmartPLS 4.0 (2025)

Overall, the measurement model fulfills the required psychometric criteria, ensuring that the constructs are both valid and reliable. This provides a solid foundation for the subsequent structural model evaluation, allowing for accurate and credible hypothesis testing.

The outer model evaluation confirmed that the measurement model met all reliability and validity requirements. Reliability testing through Composite Reliability (CR) and Cronbach’s Alpha produced values well above the minimum threshold of 0.70 for all constructs, indicating strong internal consistency. Convergent validity assessment using factor loadings resulted in the removal of several indicators with values below 0.70, ensuring that the remaining items accurately represented their respective constructs. The Average Variance Extracted (AVE) for all variables exceeded 0.50 both before and after item removal, confirming adequate convergent validity. Discriminant validity was established using the Heterotrait-Monotrait ratio (HTMT), with all values below 0.90, indicating clear empirical distinction between constructs.

Structural Model Evaluation

The structural model was assessed to evaluate the causal relationships among the latent constructs and to test the proposed hypotheses. The evaluation involved four main criteria: R-square, F-square, Q-square predictive relevance, and Goodness of Fit (GoF).

Table 2. Integrated Structural Model Evaluation Results

Evaluation Criteria	Leadership Style (Z)	Employee Performance (Y)	Interpretation
R-square	0.652	0.769	Moderate & Very Strong Predictive Power
F-square (from X)	1.877	0.273	Very Large & Moderate Effect
F-square (from Z)	–	0.369	Large Effect

Evaluation Criteria	Leadership Style (Z)	Employee Performance (Y)	Interpretation
Q-square	0.92	–	Extremely High Predictive Relevance
GoF	0.645	–	High Overall Model Fit

Source: Processed primary data, SmartPLS 4.0 (2025)

Table 2 reports R² statistics showing that employee competence accounts for 65.2% of the variance in leadership style, a *moderate* level under Chin’s (1998) guideline. When competence and leadership style are taken together, they explain 76.9% of the variance in employee performance, indicating very strong explanatory power. The f² results indicate a very large effect of competence on leadership style (f² = 1.877) and a moderate effect on performance (f² = 0.973). Leadership style exerts a large effect on performance (f² = 0.369), consistent with its mediating function between competence and performance. The blindfolding-based Q² = 0.920 signals excellent predictive relevance for the endogenous constructs, while the GoF = 0.645 falls in the *large* category per , suggesting the model fits the data well and accurately reflects the proposed relationships (Hair et al., 2020).

Hypothesis Testing Results

Hypotheses were tested using Partial Least Squares–Structural Equation Modeling (PLS-SEM) to estimate direct and indirect paths among employee competence (X), leadership style (Z), and employee performance (Y). Estimation employed SmartPLS 4.0, an approach suitable for mediated, complex models and robust to relatively small samples and non-normal data distributions (Guenther et al., 2023). The analyses assessed the statistical significance of each structural path and evaluated leadership style’s role as a mediator.

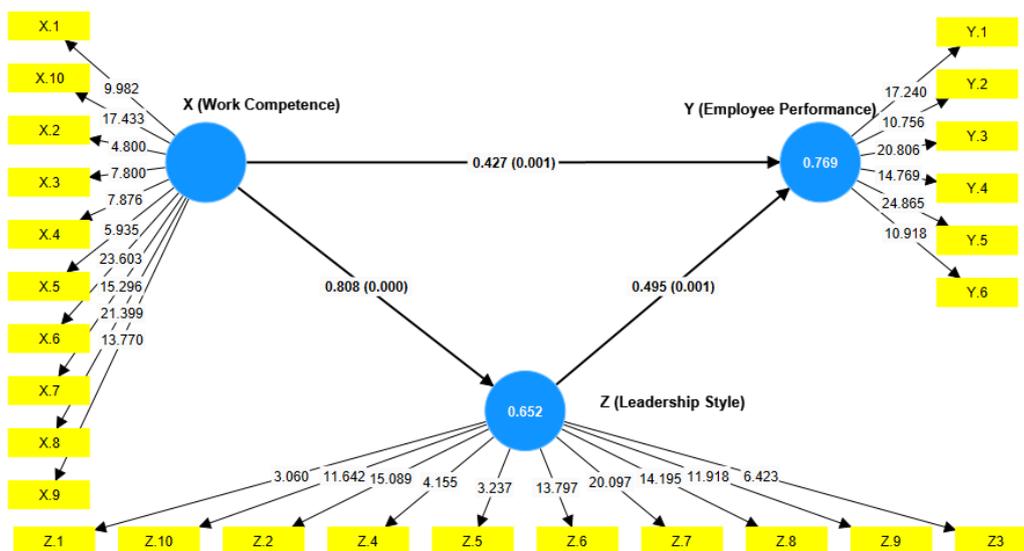


Figure 2: Bootstrapping Results

(Source: Processed primary data, SmartPLS 4.0, 2025)

The bootstrapping output in Figure 2 confirms the statistical robustness of the estimated paths, which are summarized in Table 3.

Table 3. Path Coefficients and Mediation Effects

Path	Relationship	Original Sample (O)	T Statistics	P Value	Decision
H1	X (Employee Competence) → Z (Leadership Style)	0.808	22.006	0.000	Accepted
H2	X (Employee Competence) → Y (Employee Performance)	0.427	3.205	0.001	Accepted
H3	Z (Leadership Style) → Y (Employee Performance)	0.495	3.376	0.001	Accepted
H4	X (Employee Competence) → Z (Leadership Style) → Y (Employee Performance)	0.4	3.24	0.001	Accepted

Source: Processed primary data, SmartPLS 4.0 (2025)

Table 3 indicates that all proposed links H1–H4 are statistically significant, with p-values below 0.05. Employee competence shows a strong positive association with leadership approach, meaning workers with higher knowledge, skills, and work attitudes are more likely to align with and reinforce effective leadership in the organization. Competence also has a significant direct effect on performance, suggesting that more capable employees achieve better outcomes. Leadership style positively affects employee performance, implying that supportive, communicative, and inspiring leaders raise productivity and service quality. Leadership further acts as a significant mediator between competence and performance, so the benefits of competence are strengthened under effective leadership. The evidence highlights leadership’s pivotal role in converting employee competence into measurable performance gains, particularly within Islamic banking at BSI Area Banjarmasin.

The results of the analysis indicate that all hypotheses proposed in this study are supported, both for direct and indirect effects. Overall, these findings highlight the critical role of employee competence and leadership style in enhancing employee performance within Bank Syariah Indonesia (BSI) Area Banjarmasin. The significant and positive relationships across all tested paths reinforce the argument that effective human resource management requires a combination of strong individual capabilities and adaptive leadership support. The following sections discuss each hypothesis in detail, linking the empirical findings to theoretical foundations and prior research.

Effect of Employee Competence on Leadership Style

Regarding H1, the statistical analysis indicates that employee competence has a significant positive effect on leadership style. Competence, reflected in mastery of knowledge, technical expertise, and work-related attitudes, enhances employees’ capacity to engage with and shape leadership practices across the organization (Nöthel et al., 2023; X. Wang et al., 2024). This pattern provides clear

empirical support for the proposed relationship. Therefore, H1 is accepted. From a theoretical perspective, this finding is consistent with the Competency Model by Spencer and Spencer (1993), which posits that competence is not only a driver of individual performance but also a factor that shapes organizational behavior, including leadership dynamics. In the context of Islamic banking, competence also encompasses the ability to integrate Sharia principles into daily operations, which can influence the way leaders formulate and communicate strategic directions.

These results are consistent with the findings of Yahaya and Segbenya, who demonstrated that competence development contributes to the formation of effective leadership behaviors in service organizations. Similarly, ([Sabran et al., 2022](#)) and ([Mbogo & Mnyavanu, 2025](#)) found that employees with high professional competence are more likely to interact constructively with their leaders, thereby fostering a leadership style that is both adaptive and inclusive. ([Budi Cahyono & Nur, 2023](#)) also emphasized that in the banking sector, competence plays a strategic role in shaping leadership approaches, particularly in managing teams and achieving service excellence.

The positive relationship between competence and leadership style in this study suggests that enhancing employee capabilities can indirectly improve leadership effectiveness, even in highly regulated environments such as Islamic banking. This aligns with the broader human resource development perspective, which views competence as a catalyst for leadership quality improvement. Therefore, organizational strategies that focus on competence development through structured training, knowledge sharing, and performance feedback are likely to foster leadership styles that promote communication, trust, and employee engagement, ultimately contributing to a more productive and cohesive work environment ([Aslam et al., 2022; Pasaribu et al., 2022](#)).

Effect of Employee Competence on Employee Performance

Regarding H2, the analysis shows that employee competence exerts a clear, positive influence on employee performance. Employees who demonstrate strong technical expertise, relevant knowledge, and appropriate work attitudes consistently deliver higher productivity and better service quality. This pattern provides solid empirical support for the proposed relationship; therefore, the hypothesis is accepted (H2). According to Competency Theory ([Spencer & Spencer, 1993](#)), competence directly determines the efficiency and effectiveness with which employees can execute their job responsibilities, ultimately affecting organizational outcomes. In the Islamic banking sector, competence is particularly vital, as employees are expected to uphold Sharia compliance while maintaining competitive service delivery standards.

These findings are consistent with ([Saragih et al., 2021](#)), who reported that competence is a key determinant of job performance in financial institutions. Similarly, ([Bachmid, 2021](#)) found that competence especially in customer service and operational management has a direct positive impact on performance in banking environments. ([Widayanto & Nugroho, 2022](#)) and ([Pham et al., 2024](#)) reinforced this perspective by highlighting that competence supports both task accomplishment and adaptability in dynamic work environments. ([Mochklas, 2022](#)) and ([Garzón-Lasso et al., 2024](#)) further demonstrated that competence acts as a performance enhancer,

particularly when supported by adequate organizational resources and a conducive work environment.

The evidence from this study supports the view that employee competence is not merely a prerequisite for satisfactory performance but also a driver of excellence. In practice, organizations such as BSI should prioritize continuous competence development through professional training, mentorship programs, and regular performance evaluations. Such initiatives not only enhance individual capabilities but also contribute to achieving strategic business objectives, fostering a competitive advantage in the Islamic banking industry.

Effect of Leadership Style on Employee Performance

Regarding H3, the findings confirm that leadership style positively shapes employee performance. Leaders who communicate clearly, provide motivational support, and delegate appropriately enable employees to meet and often exceed performance expectations ([Bakker et al., 2023](#); [Huang et al., 2025](#)). The evidence substantiates the hypothesized link between leadership and performance; therefore, the hypothesis is accepted (H3). Within the Full Range Leadership Theory ([Bass, 1985](#)), both transformational and transactional leadership behaviors can create an environment that encourages productivity, fosters employee engagement, and aligns individual performance with organizational goals ([Pazetto et al., 2023](#)). In the context of Islamic banking, leadership style is also expected to model ethical conduct and Sharia-compliant practices, thereby reinforcing trust and commitment among employees.

These results are in line with the study by ([Dewi & Wibowo, 2020](#)), who found that leadership style plays a critical role in directing employee behavior toward achieving performance targets. ([Hutabarat et al., 2023](#)) also emphasized that supportive and visionary leadership can increase job satisfaction, which in turn positively impacts performance. ([Hang, 2024](#)) further demonstrated that leaders who actively mentor and guide their subordinates significantly enhance work efficiency and effectiveness. Likewise, ([Lai et al., 2020](#)) and ([Xia et al., 2024](#)) confirmed that leadership style acts as a strategic driver in achieving competitive performance outcomes across service industries, including banking.

From a managerial standpoint, these findings suggest that leaders in organizations such as BSI must continuously develop leadership competencies that balance task orientation with people orientation. This includes providing regular feedback, fostering an inclusive decision-making process, and recognizing employee achievements. By cultivating a leadership style that combines operational efficiency with employee empowerment, organizations can sustain high performance levels and achieve long-term strategic objectives in the competitive Islamic banking sector.

The Mediating Role of Leadership Style

Regarding H4, the results demonstrate that leadership style functions as a meaningful mediator between employee competence and performance ([S. Wang et al., 2025](#)). Competence creates the capacity for high performance, and effective leadership converts that capacity into consistent

results through guidance, motivation, and alignment ([Kim et al., 2025](#)). This mechanism strengthens the impact of competence on performance within the organizational context; therefore, the hypothesis is accepted (H4). This finding suggests that the impact of competence on performance is amplified when it is channeled through an effective leadership approach. Competence provides the foundation for skillful task execution, while leadership transforms that potential into actual high-level performance through guidance, motivation, and organizational alignment. In line with mediation theory, this implies that even highly competent employees require effective leadership to fully realize their performance potential in the workplace ([Hwang et al., 2023](#)).

This result is consistent with the findings of Pradana et al. (2020), who observed that leadership acts as an essential bridge connecting competence to performance outcomes. ([Bahari et al., 2025](#)) also highlighted that leadership mediates the relationship by creating an enabling environment that supports competence application. Similarly, ([Sodiq et al., 2024](#)) emphasized that leadership behaviors such as empowerment, feedback provision, and vision sharing enhance the positive impact of employee competence on organizational performance. These studies collectively affirm that leadership is not merely a parallel factor but an active mechanism shaping how competence translates into tangible performance achievements.

From a practical perspective, this mediating effect underscores the necessity for organizations such as BSI to not only invest in competence development programs but also ensure that leadership quality keeps pace with employee skill growth. Leadership training, succession planning, and leadership performance evaluations should be integrated into human resource strategies to maintain synergy between competence and performance. By aligning leadership practices with competence development, Islamic banks can maximize workforce productivity, improve service delivery, and sustain competitive advantage in the financial sector ([Asif et al., 2025](#)).

Practical Implications

The validated mediation model shows that employee competence improves performance both directly and indirectly through leadership style, with strong explanatory power for performance outcomes ($R^2 = 0.769$). For Islamic banking HR, particularly in BSI Area Banjarmasin, competence and leadership should therefore be treated as twin strategic levers. Strengthening competence through targeted technical and *Sharia*-related training is likely to enhance both leadership quality and individual performance. Parallel leadership-development programmes that cultivate transformational and ethically grounded leadership behaviours can help leaders translate employee competence into consistent performance gains. Embedding competence and leadership indicators into performance appraisal and promotion criteria will operationalise these empirically supported relationships and support sustainable service quality and operational efficiency in Islamic banks.

Limitations and Future Research

Although this study provides valuable contributions, it is subject to certain limitations. The research was conducted within a single organizational setting, BSI Area Banjarmasin, limiting the

generalizability of findings to other banking sectors or regions. The use of cross-sectional survey data restricts the ability to infer causality, as temporal changes in competence, leadership style, and performance could not be observed. Additionally, this study focused solely on leadership style as a mediating variable, while other potential mediators, such as motivation, organizational culture, or job satisfaction, were not examined. Future research should expand the scope by including multiple organizations, adopting longitudinal designs, and exploring additional mediating or moderating variables to enrich the understanding of competence performance dynamics in Islamic banking.

CONCLUSION

This study confirms that employee competence and leadership style are critical determinants of employee performance in the context of Islamic banking. Competence influences performance both directly and indirectly through the mediation of leadership style, with the structural model explaining 76.9% of the variance in performance. These findings reinforce the importance of aligning human capital development with leadership strategies to maximize organizational outcomes. For BSI and similar institutions, the integration of competence-building initiatives with leadership enhancement programs is essential to achieving sustainable service excellence and competitive advantage.

Based on the results, several recommendations can be made. First, management should invest in continuous training and certification programs tailored to both technical and Sharia-compliant competencies to ensure employees are well-equipped for their roles. Second, leadership development programs should be designed to cultivate communication, motivation, and decision-making skills that align with Islamic banking values. Third, performance appraisal systems should integrate competence and leadership indicators to provide a holistic assessment and guide targeted improvements. Lastly, future organizational strategies should consider strengthening mentorship and coaching mechanisms, enabling leaders to effectively guide competent employees toward achieving higher performance levels.

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