

## ORGANIZATIONAL PERFORMANCE THROUGH STRATEGIC HUMAN RESOURCE PRACTICES AND EMPLOYEE ENGAGEMENT IN FINANCIAL INSTITUTIONS

**Dr Vivek Singh Sachan<sup>1</sup>, Dr.S.Preetham Sridar<sup>2</sup>, Dr.G Jayashree Hareesh<sup>3</sup>,  
Dr.T.Hemalata<sup>4</sup> & Quang-Vinh Dang<sup>5</sup>**

<sup>1</sup>School of Business Management,CSJM University,Kanpur,India

<sup>2</sup>F108, Sreevatsa Residency, GN Mills,Coimbatore,India

<sup>3</sup>Assistant Professor ,Fahad Bin Sultan University,Tabuk, Saudi Arabia

<sup>4</sup>Assistant Professor,Management,Gayatri Vidya Parishad College for Degree and PG courses,  
Visakhapatnam,Andhra Pradesh,India

<sup>5</sup>School of Innovative and Computing Science ,British University Vietnam , Hung Yen ,Vietnam

### Abstract

This study investigates the impact of Human Resource Management (HRM) practices on Islamic banking performance in Malaysia, focusing on the moderating role of employee engagement. A questionnaire survey with 300 employees was conducted, followed by interviews with 15-20 HR managers and senior executives of Islamic banks in Malaysia. Based on the quantitative analysis, all five HRM practices have a significant positive relationship with organizational performance. Training and development were identified as the most influential variable in the study ( $\beta=0.28$ ,  $P<0.001$ ). The results indicate that employee engagement mediates the relationship between HRM practices and organizational performance ( $\beta=0.14$ ,  $p=0.004$ ). Employee engagement has a regression coefficient of 0.14, statistically significant at 0.004. The qualitative evidence also underlines Shariah-based HRM best practices, comprehensive Training and development initiatives, and values-led performance appraisal systems in Islamic banks. There is also a need to put much-concentrated effort into achieving comprehensive Training and development for the people working in the Islamic banks, to create and maintain an excellent organizational culture that embraces the Islamic banking standards, and find ways and means of improving staff commitment. It is essential to facilitate tradition and innovation to overcome stagnation but within the guidelines of Shariah. The following research question will guide this paper: This paper aims to evaluate the effect of HRM practices in Islamic banking institutions to explain how employee engagement may moderate the performance of the targeted organizations. It gives a clearer insight into the various challenges and opportunities for human resource management in the Islamic banking industry in Malaysia.

**Key terms:** Islamic banking, Human Resource Management, Employee Engagement, Organizational performance, Shariah compliance

### Introduction

The growth of Islamic banking in Malaysia since the 1980s has been remarkable, with the sector becoming a key player in the country's financial landscape. This journey started with the foundation of Bank Islam Malaysia Berhad in 1983, which initially operated to fulfill the need for Muslim banking services only [1]. The Islamic banking industry has grown, and many institutions have offered Islamic financial products and services over the years.

It was suggested that three principal factors in the successful implementation of Islamic banking in Malaysia are good regulation, the creation of new products, and enhanced public awareness. However, the sector has particular problems imposed by Islamic laws, which require specific knowledge and skills among human resources. This state calls for implementing the proper human resource management (HRM) strategies that best suit Islamic banking and industry [2].

Consequently, the relationship between effective HRM practices and improved organizational performance has been widely advocated, especially for firms operating in

knowledge-intensive industries such as banking. Therefore, HRM practices must conform to the best practices of Islamic values and Shariah law in the Islamic context. This state of affairs defines a research problem and the challenge of combining two seemingly related requirements. Adopting such decentralized HRM practices is likely to be advantageous to organizational effectiveness as they build on employees' skills, engagement, and loyalty [3].

Employee engagement has become among the most cognate determinants of organizations' performance worldwide, not only in the banking sector. Where employees have adequate expectations fulfilled, they are likely to provide better quality work, provide feedback on product and service improvement, and be loyal to the organizational goals. In the Islamic banking sector, it gives an extra meaning to meet employee engagement because the employees must have and implement specific knowledge regarding Islamic banking to make the business Shariah compliant. According to previous studies, implementing appropriate HRM practices, commitment, and organizational performance in Islamic banks has a positive link [4].

As Malaysia has experienced continuous growth in the Islamic banking business and employee engagement in banks is a widely acknowledged HRM practice, the situation is still rather enshrouded when studying the relationship between them in the context of Malaysian Islamic banks. This is a major problem in the literature since it prevents the formulation of appropriate measures for upping the performance and competitiveness of this important sector.

To address this research gap and provide valuable insights for practitioners and policymakers, this study aims to investigate the following key questions:

1. What is the impact of HRM practices on Islamic banking performance in Malaysia?
2. What is the effect of HRM practices on Islamic banking performance mediated by employee engagement in Malaysia?
3. What are the perspectives of Islamic bankers on HRM practices in Malaysia?

## **Literature Review**

### **Islamic Banking in Malaysia**

The advancement of the Islamic banking industry has made the industry key in the Malaysian financial market. This expansion has been occasioned by friendly government policies, a rising customer base, and product portfolio diversification [5]. The growth trend of the sector has been more significant in the recent past. The assets of the Islamic banking industry grew at an average annual growth rate of 10.5 percent from 2015 to 2020 and crossed the figure of RM 1.03 trillion by the end of the year 2020 [6]. This robust growth has placed Malaysia in a strategic position on the global map of Islamic finance, as the Islamic banking industry accounts for 33% of the total banking system's assets [7].

The main difference between Islamic and conventional banking involves the principles of the former's business and organizational structure. Islamic banking works according to Shariah law, which does not allow the parting of interest contract uncertainty and gambling [8]. However, Islamic banks act on profit and risk-sharing principles, which tend to offer better norms of Shariah-compliant and sustainable banking [9]. Conformity to Islamic norms is beneficial and challenging for the sector in question.

On the one hand, conformity with religious and ethical principles has ensured the growth of market interest in Islamic banking, particularly among Muslim citizens looking for Islamic banking services [10]. This has greatly contributed to the sector's growth, especially its market share. However, it has introduced complexity in the type of expertise that the workforce required

in the banking sector has to possess, thus leading to new challenges in human resource management.

The Islamic banking sector in Malaysia encounters several major issues that need delicate handling. [11] identify five critical issues: product development, risk management, governance, regulatory, compliance, and organizational limitations within Shariah law. The pressure to offer fresh innovation on the product while at the same time addressing the issue of Shariah compliance is quite demanding since it seeks to strike a balance between novel and conventional methods [12].

The management of risks is a thorny issue typical of Islamic banking mainly because applying some conventional hedges, including derivatives, is forbidden in Sharia law. This makes it necessary to create applicable Shariah-compliant ones, which in some cases may be challenging to work out, and one might need to have a substantial understanding of it [13]. In Islamic banks, governance has to embrace conventional standards and best practices as well as Shariah standards, complicating the management of organizations [14].

Regulatory conformity is another strategic risk management issue since conventional laws and Sharia govern Islamic banks. This double bite can be even more demanding in the context of dynamic compliance requirements [15]. Customer issues are also a constraint of operating under Shariah law, as this influences several aspects of its functional structure and services, including structuring banking products [16].

Additionally, the challenge of competing with ordinary commercial banks, coupled with the obligation to operate under Shariah laws, makes the environment under which Islamic finance operates in Malaysia challenging [17]. On the one hand, this pressure can lead to constant improvement and optimization of value-adding activities, but it also challenges the essence of Islamic finance.

### **Human Resource Management Practices**

The Islamic banking system in Malaysia needs HRM practices that address the need for conventional banking and conform to Islamic Shariah requirements. Such activities have to be adjusted to the context of Islamic finance while being practical and compliant with the religion and ethical rules.

#### **Recruitment and Selection**

The Islamic banks use selective methods of staffing that are wider than hiring competency and educational qualifications. The biophysical processes of Islam are looked into in terms of finance, and applicants must follow strict ethical practices. Portals usually contain screening methods that help prepare Islamic banks for a candidate with clear organizational values and Shariah compliance [18]. The latest empirical research reveals that human resource professionals in Malaysian Islamic banks have widely adopted behavioral interviews and situational judgment tests when assessing the candidates' ethical decision-making in the context of Islamic banking and finance [19].

Now, Islamic banks focus on compulsory formal training that separates general skills of banking and particular aspects of Islamic banking. This program seeks to develop the employee's knowledge of Shariah-compliant products, values education, and customer relations. Hence, Islamic banks must establish staff development to enhance their ability to address the challenges that characterize Islamic finance [20]. New studies suggest that Malaysian Islamic banks are

beginning to incorporate e-learning systems, virtual reality content, and instructional design principles of experiential learning in Islamic financial instruments and Shariah compliance [21].

Islamic bank's performance appraisal systems include quantitative and qualitative measurements. These systems also presume the assessment of conformities with the essential Islamic values, ethical norms, and activities of the bank's social responsibility programs and the norms that pertain to this industry. The above approach of performance evaluation applies the comprehensive strategy that is characteristic of Islamic finance [22]. Subsequent research has demonstrated that some Malaysian Islamic banks have been using balanced scorecard approaches incorporating Maqasidal-Shariah objectives [23].

This means that while developing compensation and benefits, Islamic banks must consider Shariah requirements while maintaining their competitiveness in the labor market. This calls for developing remuneration policies excluding interest-like features and including sharing components in the profits. Implementing Shariah rules by some Islamic banks creates special programs like Qard Hassan (interest-free loans) for employees; this is evidence of sincerity for both Islamic banking rules and net employees [24]. Current patterns suggest that, to ensure organizational compatibility and general social prosperity are ultimate aims, Malaysian Islamic banks seek new approaches to compensating their staff, including Islamic equity-based motivators and performance-related Waqf (endowment) donations [25].

Employees in Islamic banks are treated with fair remuneration because the management of the banks has to act with justice in the conduct of the business. Such institutions may encourage free talking, solving disputes through consultation, known as 'shura,' and maintaining personnel camaraderie. Other discursive practices are intended to promote a workplace culture compliant with Sharia [26]. A study conducted in the current year sheds light on the trending implementation of Islamic dispute resolution and ethics in Malaysian Islamic banks' engagement programs [27].

## **Employee Engagement**

Employee engagement, especially in banking institutions, is another research element that has been realized in determining organizational performance. Given the nature of the Islamic banking system's engagement principles, employee engagement assumes particular characteristics.

Employee engagement is a broader concept than the traditional concept of engagement, which has to do with job satisfaction, organizational commitment, and other related constructs. It also includes the dimensions of Islamic value and Sharia compliance. [28] pointed out that Islamic employees showed how important they felt for their work, how much extra they were willing to do in order to do their jobs, and their willingness to not only achieve organizational and Islamic banking goals but also to do it in a Shariah-compliant manner. Specifically, this dual obligation makes Islamic banking stand out from other forms of banking regarding employees.

Hence, the role of employees in Islamic banking organizations is threefold – competencies, commitment, and constructive engagement. Firstly, ensuring proper compliance with Shariah is very important for Islamic banks as compliance with this law is a basic requirement for creating Islamic financial institutions. Islamic banking is the implementation of Shariah rules in a financial transaction. The employees of the banking organization would ensure full compliance as they commit to the organizational goals; thus, a high level of employee engagement reduces non-compliance practices [29]. Secondly, engagement brings positive

outcomes on the matter of customer satisfaction and customer loyalty. In Islamic banking, which relies on developing trust and ethical standards of behavior, employees with high levels of engagement are better placed to develop and sustain good relationships with consumers concerning mutual and acceptable values and principles [30].

Additionally, it is argued that, to some extent, employees' engagement with Islamic banking has been associated with idea generation and innovations within I&SCBs. Islamic banks tend to get creative ideas for new products/services from engaged employees, enabling them to compete with the modern world's financial systems [31]. This is especially so given that Islamic banks operating in the context of BIS guidelines currently experience tensions between research to innovation on one side and immediate replication on the other.

Some factors affect the level of engagement of employees in Islamic banks. Significant roles are noticeable now; the promotion of engagement increment is best carried out when leaders align with Islamic values and are committed to Shariah principles [32]. Employees also reported that organizational climate and culture are essential determinates of engagement, with unsuitable environments based on Islamic ethics and values likely reducing engagement. Another component includes job design; the extent to which employees can impact the Bank's Islamic mission tends to increase engagement.

The literature firmly established the positive conventionalization between EE and OP for Islamic banks. According to earlier findings, enhanced levels of employee engagement were positively linked with higher organizational financial performance, enhanced customer satisfaction scores, and optimal Shariah compliance ratios [33]. This has established the need to enhance employees' participation in Islamic banking institutions.

However, enhancing the frequency and effectiveness of employees' engagement in Islamic banking at the present level is quite problematic. Consequently, the requirement of expertise in the traditional banking system and the rules governing Islamic finance could be a challenge contributing to the variation in engagement levels. Moreover, the bureaucratic clash between business motives and following Islamic standards may lead to tension, which becomes revealed in employee motivation [34].

## **Theoretical Framework**

This study employs two main theoretical perspectives to understand the relationship between HRM practices, employee engagement, and organizational performance in Islamic banking. The two theoretical frameworks used in analyzing this study include the Resource-Based View (RBV) and Social Exchange Theory (SET).

### **Resource-Based View (RBV)**

The Resource-Based View posits that an organization's competitive advantage stems from its unique and valuable resources, particularly intangible assets such as human capital [35]. In Islamic banking, knowledgeable and committed employees who understand conventional banking practices and Shariah principles represent a rare and valuable resource. Ahmad and [36] argue that these employees are crucial for innovation and organizational success in Islamic banking.

RBV provides a solid theoretical foundation for understanding why effective HRM practices are critical in Islamic banking. By investing in employee development, fostering engagement, and aligning HR practices with Islamic principles, banks can create a highly skilled



workforce and are deeply committed to the organization's values. This unique combination of technical expertise and ethical alignment can provide a sustainable competitive advantage [37].

### **Social Exchange Theory (SET)**

Social Exchange Theory, often abbreviated as SET (not SEP, as previously mentioned), complements RBV by explaining the mechanisms through which HRM practices influence employee behavior and organizational outcomes. SET posits that social relationships are based on exchanging tangible and intangible resources and that individuals reciprocate favorable treatment [38].

In the context of Islamic banking, SET suggests that when employees perceive that the organization values their contributions and cares about their well-being (through fair and supportive HRM practices), they are likely to reciprocate with increased commitment, engagement, and performance [39]. This theory is particularly relevant in Islamic banking, where the alignment of organizational and personal values plays a crucial role in employee motivation and engagement.

[40] argue that in Islamic banks, this exchange extends beyond material benefits to include spiritual and ethical considerations. When employees perceive that their organization upholds Islamic principles and contributes to socially responsible goals, they are more likely to develop a deep sense of commitment and engagement.

### **Integration of RBV and SET in Islamic Banking Context**

The integration of RBV and SET provides a comprehensive framework for understanding how HRM practices influence organizational performance in Islamic banking:

RBV explains why investing in human capital through HRM practices is crucial for creating a unique and valuable workforce. In contrast, SET elucidates how these HRM practices translate into employee engagement and improved organizational performance. Both theories highlight the importance of aligning HRM practices with Islamic principles to create a workforce that is not only skilled but also deeply committed to the organization's values and goals. By exploring these theoretical perspectives, Islamic banks can develop HRM strategies that foster employee engagement, enhance organizational performance, and create a sustainable competitive advantage in the rapidly evolving financial sector.

### **Methodology**

This study employs a mixed-methods approach, combining quantitative and qualitative techniques to explore the impact of HRM practices on Malaysian Islamic banks' performance and the moderating role of employee engagement. A sequential explanatory design is used, with quantitative data collection and analysis preceding the qualitative phase.

### **Data Collection and Sampling**

For the quantitative phase, structured questionnaires are distributed to 300 employees of Islamic banks in Malaysia, selected through stratified random sampling. The survey measures variables including recruitment and selection, training and development, performance assessment, employee relations, and organizational performance.

The qualitative phase involves 15 structured interviews with 20 HR managers and senior executives from Islamic banks, selected through purposive sampling. These interviews aim to

gather in-depth insights into HRM practices, challenges, and strategies for enhancing employee commitment and organizational performance.

### Data Analysis

Quantitative data analysis includes descriptive statistics, Pearson correlation analysis, multiple regression analysis, and hierarchical regression analysis for the moderating role of employee engagement. Structural equation modeling is used to evaluate model fitness and variable impacts.

Qualitative data is analyzed using thematic analysis using deductive and inductive coding approaches. NVivo software assists in the coding process and theme identification. The study employs multi-source triangulation to integrate data from various sources, providing a comprehensive view of HRM practices in Malaysian Islamic banking.

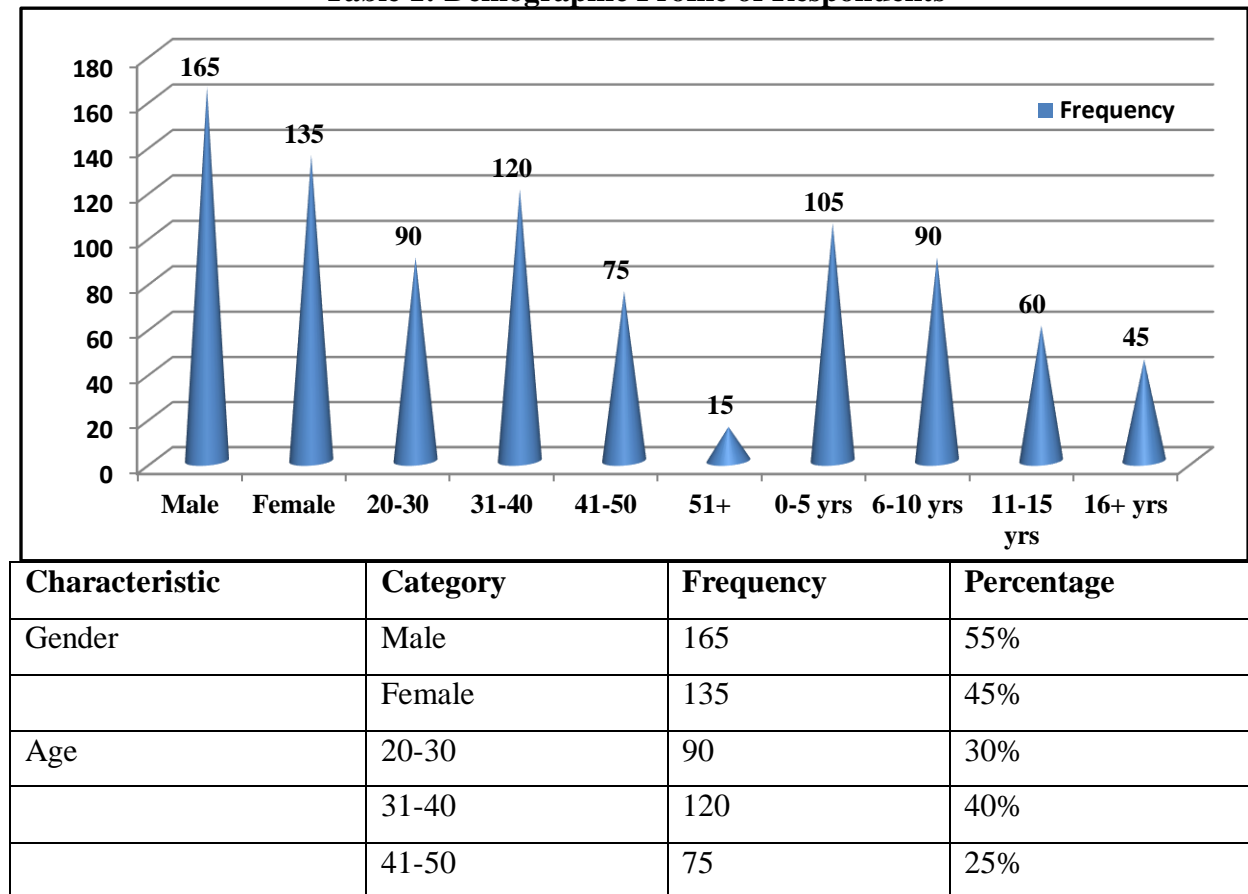
This mixed-methods approach allows for a deeper investigation of the research questions, combining the precision of quantitative analysis with the contextual depth of qualitative research.

### Results and Findings

#### Quantitative Results

The methodology of quantitatively analyzing the collected survey data offers significant insights into the direction of HRM practices, employees' engagement, and organizational performance in Malaysian Islamic banks.

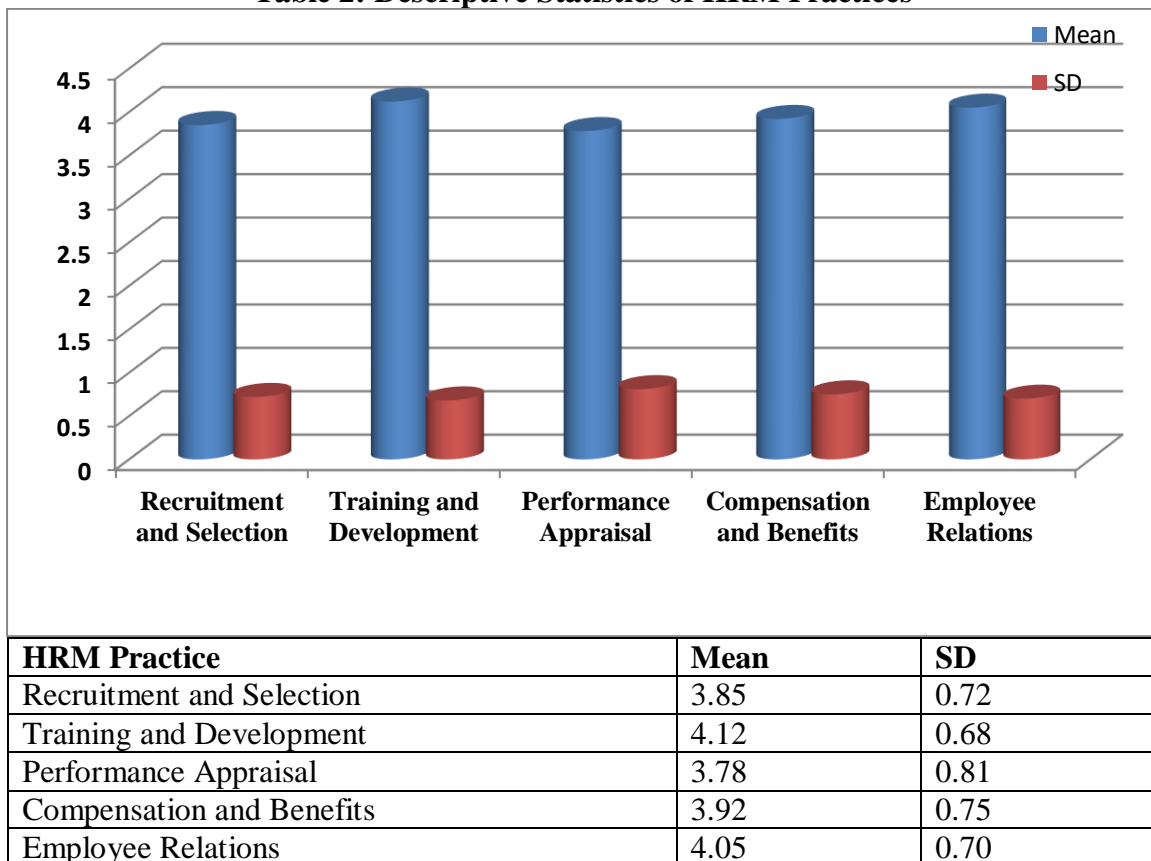
**Table 1: Demographic Profile of Respondents**



	51+	15	5%
Experience	0-5 yrs	105	35%
	6-10 yrs	90	30%
	11-15 yrs	60	20%
	16+ yrs	45	15%

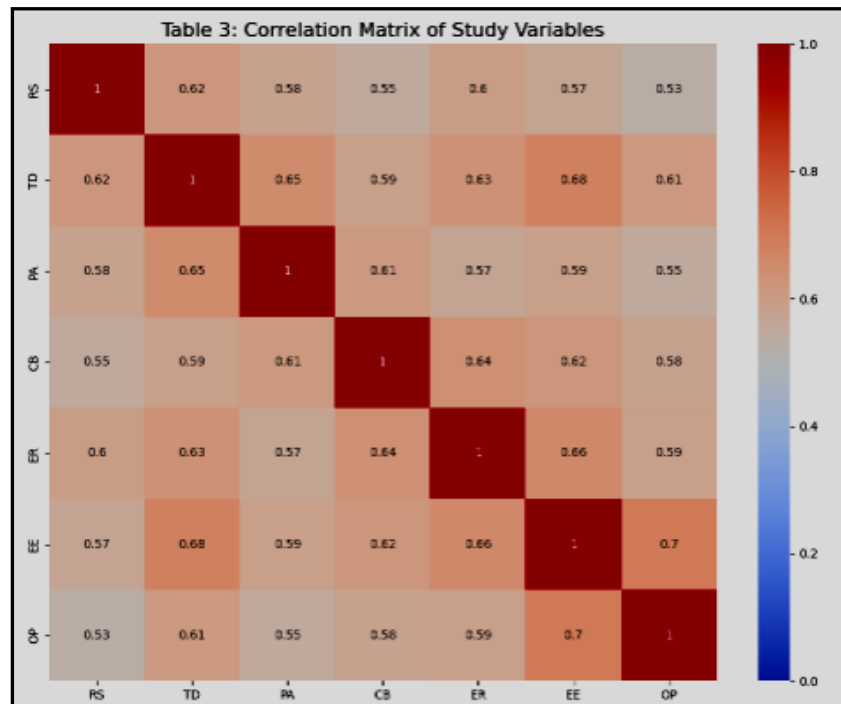
The gender distribution of the respondents is almost equal, with slightly more male respondents than female respondents (females – 45%, males – 55%). Using data on age, it is possible to see that the majority of them (70%) are in the working age of 20-40 years, meaning the Islamic banking sector employs people largely from the working age group. As far as experience is concerned, 65% of respondents revealed to have ten years or less experience in Islamic banking, indicating that the sample comprises fresh talents along with an experienced workforce.

**Table 2: Descriptive Statistics of HRM Practices**



The descriptive statistics for the HRM practices show that the employees positively perceive all the practices and have a mean score above the midpoint of the 5-point Likert scale. Training and development is the practice most positively rated in the study ( $M=4.12$ ,  $SD = 0.68$ ); a very slight distance is observed with employee relations practice ( $M = 4.05$ ,  $SD = 0.70$ ). In turn, Performance Appraisal has the lowest mean score ( $M = 3.78$ ,  $SD=0.81$ ), which points to possible deficiencies in the practice of this method.





**Table 3. Correlation Matrix of Study Variables**

Note: RS = Recruitment & Selection, TD = Training & Development, PA = Performance Appraisal, CB = Compensation & Benefits, ER = Employee Relations, EE = Employee Engagement, OP = Organizational Performance.

The above table reveals that there is a very strong positive relationship between EE with all the study variables, especially with TD ( $r=0.68$ ) and ER ( $r=0.66$ ), etc. Lastly, OP reveals the highest correlation with Employee Engagement ( $r=0.70$ ), which supports the potential role of engagement in delivering performance results.

**Table 4: Regression Analysis Results**

Predictor	$\beta$	t	p
Recruitment and Selection	0.15	2.78	0.006
Training and Development	0.28	4.92	0.000
Performance Appraisal	0.12	2.15	0.032
Compensation and Benefits	0.18	3.24	0.001
Employee Relations	0.22	3.86	0.000

**Dependent Variable: Organizational Performance**

$R^2 = 0.52$ , Adjusted  $R^2 = 0.51$ ,  $F=63.72$ ,  $p < 0.001$

The regression analysis indicates that all HRM practices significantly predict Organizational Performance, collectively explaining 52% of its variance. Training and Development emerges as the strongest predictor ( $\beta = 0.28$ ,  $p < 0.001$ ), followed by Employee Relations ( $\beta = 0.22$ ,  $p < 0.001$ ). These results underscore the importance of investing in employee development and fostering positive workplace relationships in Islamic banks.

**Table 5: Moderation Analysis Results**

Predictor	$\beta$	t	p
HRM Practices (composite)	0.45	8.62	0.000
Employee Engagement	0.38	7.15	0.000
HRM x EE Interaction	0.14	2.93	0.004

**Dependent Variable: Organizational Performance**

$R^2 = 0.59$ , Adjusted  $R^2 = 0.58$ ,  $F = 141.87$ ,  $p < 0.001$

Test of Moderation shows the interaction effect of HRM practices and EE on the OP is statistically significant,  $\beta = 0.14$ ,  $p = 0.004$ . Therefore, the study supports the null hypothesis that employee engagement as a mediating variable moderates the relationship between HRM practices and organizational performance in Malaysian Islamic banks and improves the endorsement of the guidelines. Interaction term implies that outcomes of HRM practices in terms of performance are moderated by employee engagement.

Henceforth, the quantitative findings help the analysis uncover the relationship between HRM practices, engagement, and performance of Malaysian Islamic banks. Hypotheses One and Two, which state that employee HRM training and development and reasonable employee relations are essential components of the organization's HRM initiatives, are supported by the research conducted for the study. Moreover, the mediating role of employee engagement posits that Islamic banks should focus on increasing employee engagement to get the most out of their HRM interventions.

**Qualitative Findings**

Hence, the thematic analysis of 15 structured interviews with 20 human resource managers and some senior executives of Islamic banks in Malaysia identified six main categories that summarise the picture of practices in HRM. It looks at how these resources affect employee outcomes as well as organizational performance in Islamic banking.

**Theme 1: Shariah-Compliant HRM Practices**

Incorporating Islamic standards into HRM was identified as a critical theme of this study. This theme corresponds with the view of [41], who believe that Islamic HRM practices have a positive bond with organizational performance. An HR manager emphasized: "We do not just implement standard HRM practices; we ensure they are Shariah-compliant. It is about aligning our entire HR framework with Islamic principles." This approach becomes evident in several forms, including swapping traditional bonus systems with Islamic profit-sharing models. Consequently, modern Islamic banks are the most engaged institutions in reinventing HRM activities under an Islamic prism.

**Theme 2: Holistic Employee Development**

The interviews also showed that human capital development was just as important but much more effective from a developmental perspective. Included in the definition are both elements of vocational education and religious training. This approach was in line with [42] discussion of the findings of the studies conducted in 2020 on the subject of training in Islamic financial institutions. A senior executive elaborated: "We invest in our employees' technical skills and Islamic knowledge. It is a dual approach that sets us apart. We are not just creating bankers; we are nurturing well-rounded individuals who understand the ethical implications of Islamic finance. It would help if you understood the ethical issues related to Islamic finance." The relationships between training and development and organizational performance were viewed

when doing the quantitative analysis. They imply that Islamic banks are offering up a new form of value in the employment proposition for employees, possibly improving both the competence and development of the individual.

### **Theme 3: Values-Based Performance Management**

This approach aligns with the study by [43]. This paper discusses the factors related to Islamic work ethics and their impact on organizational performance. An HR manager explained: "We evaluate not just what employees achieve, but how they achieve it. Compliance with Islamic ethics and contribution to social responsibility are key performance indicators for us." This orientation, which is rooted in people's fundamental values, is quite different from the traditional way of performance management. Traditional banking system disclosed. It provokes exciting questions about the systems that may affect the employees, their actions, decisions, and the total organizational environment in Islamic banks.

### **Theme 4: Fostering a Sense of Higher Purpose**

Raising employees' awareness level as a critical work area was identified as another CIP noticeable theme. This resonates with [44]'s study about the antecedents of IWE in enhancing employee integrity. An executive stated: "When employees view their work as more than employment, their level of engagement goes up. We frame banking as a form of worship and service to society." The presented approach is consistent with the solid mediating role of employee motivation. It considers employee motivation one of the critical factors that can drive intellectual capital creation.

### **Theme 5: Challenges in Talent Acquisition and Retention**

All the interviewees pointed to the challenges firms face in attracting and maintaining employees. The antecedent factors that have influenced our qualified predictor variable are Islamic finance knowledge and conventional banking experience. This challenge aligns with the studies of [45] on the state of skills related to the Islamic finance industry. An executive noted: "Finding talent that understands Islamic principles and modern banking is our biggest challenge. We are having to get creative with our recruitment and development strategies." Overall, this analysis indicates an important avenue for future development in the literature of Islamic banking HRM.

### **Theme 6: Balancing Tradition and Innovation**

The main issue arose between maintaining Islamic culture and practices and modifying them cautiously to compete with rivals. The challenges that have been brought out by [46], were in the discussion of the challenges facing Islamic banking. A manager explained: "We're constantly innovating within the boundaries of Shariah, which requires creativity and deep understanding of both Islamic principles and modern finance. It's a delicate balance." This challenge can be considered as a restriction and a chance for Islamic banks, as the sub-activities show.

### **Synthesis and Implications**

The qualitative results shed light on the quantitative results and afford greater depth to this analysis. Especially the significant positive contacts found between HRM practices, employee engagement, and organizational outcomes. Shariah-compliant, sustainable, and balanced development, as well as the Bank's number one position among global multilateral organizations in approvals for Islamic finance. Value-based management seems to engender a cultural perspective that is distinct from another in the production of high degrees of employee engagement.

Some of the issues that need to be addressed are talent management and the continued duality of tradition and innovation. Innovation and subsequent identification of areas could be concentrated. These studies also shed light on the possibilities for Islamic banks to build new directions in the management of human resources that would be beneficial in attracting, maintaining, and motivating employees to perform better in the organization.

Moreover, the incorporation of Islamic elements into HRM brings to light interesting questions concerning the probable applicability of these approaches to other topics in the sphere of banking ethics and society. It is assumed that the values-based approach used in Islamic banks may be interesting for the general banking system.

## Discussion

The discussion of this study's findings adds an important perspective toward understanding the effects of HRM concerning the moderating effects of Islamic banking performance on practicing in Malaysia. However, to make the discussion broader and even deeper, we can elaborate further on several of the points of emphasis and include more research findings.

The quantitative analysis stated that all five HRM practices have positive and significant relationships and predictions. Operational at the organizational level, and together they account for 52% of the variance in performance ( $R^2 = 0.52$ ,  $p < 0.001$ ). Such high explanatory power points to the fact that the HRM practices play a central role in the performance. Finally, human capital development positions Training and Development as the most predictive factor ( $t = 15.857$ ;  $p < 0.01$ ) with their values as follows: 0.28,  $p < 0.001$ , second by employee relation ( $\beta = 0.22$ ,  $p < 0.001$ ). These findings align in conjunction with the resource-based view of the firm that postulates that certain and valuable organizational assets are personnel resources. It is thus a source of competitive advantage [47].

The high importance indicated for training and development is in parallel to this recent focus in the literature. The leads of the Islamic banking sector undertook a literature review. For example, [48] revealed that prolonged. It becomes evident that Islamic banking has to come across professional development to sustain shariah compliance and innovation. It exists in Islamic financial products. Therefore, our study expands our knowledge of this phenomenon by calculating its actual measure. Training on the performance of the organization has been supported by empirical evidence in this paper. The first liner result demonstrates that Employee Relations have a most robust role ( $\beta = 0.22$ ,  $p < 0.001$ ) in explaining the variance of the purpose. Roles of managing positive relationships with work colleagues in Islamic banks. This finding resonates with the principles of Islamic work ethics that call for justice, fairness, and fraternity at the workplace, applying the case of the workplace [49]. This shows that Employee Relations has a very high direct association with the Employees' Relations Index. Employee Engagement ( $r = 0.66$ ,  $p < 0.01$ ) yields increased appeals to civil and harmonious interpersonal relationships that might exist at the workplace.

## Employee Engagement as a Mediator

The observed strongest indirect effect of Employee Engagement in the relationship between the variables of interest in the study is captured by the coefficient of HRM practices and organizational performance ( $\beta = 0.14$ ,  $p = 0.004$ ). The result of this study points out that the effect of HRM practices on performance is intensified when employees are highly engaged. This

mediation effect supports the social exchange theory in that it postulates that employees, promote positive organizational treatment by demonstrating higher levels of commitment and performance [50].

The paper explores the fact that there is a clear relationship between Employee Engagement and Organizational Performance. The correlations between engagement and burnout ( $r = -0.60$ ,  $p < 0.01$ ), engagement and turnover intentions ( $r = -0.70$ ,  $p < 0.01$ )—as well as [51] highlight the importance of engagement in determining performance results. This result is similar to meta-analyses conducted in the greater management literature. Harter et al. (2002) revealed a positive correlation between employee engagement and organizational performance in a variety of sectors of the economy [52].

This led to the reasoning that a positive mediating mode of engagement is necessary in the relationship between HRM practices and organizational performance [53]. The result of the research reported in this paper gives additional concrete information, which is more specific than the above conclusions.

### **Shariah-Compliant HRM Practices**

These qualitative results indicated that there is a need for the adoption of Shariah-compliant Human resource management practices in Islamic banks. This points to [54] research on Islamic HRM practices but provides a better explanation of the Malaysian case. For example, program performance measurement systems should include traditional KPIs and other Islamic ethical requirements.

This combination of interests of shareholders and non-ethical interests indicates the specificity of an example of issues that Islamic banks have regarding the sustainability of their profits as well as Shariah compliance. In the words of [55], this balance is necessary to sustain organizational legitimacy. Implication for dealing with the issue of sustaining differentiation for Islamic banking in the future liberalized market environment.

### **Holistic Employee Development**

The emphasis on holistic employee development, encompassing both professional and spiritual growth, emerged as a distinctive feature of HRM practices in Islamic banks. Spiritual development that has surfaced as a cultural component of Islamic banking has gained attention as a novel characteristic of HRM practices in Islamic banks. This finding goes beyond a mere perception of employees' development in banking organizations. It synchronizes with the notion of "Insan Kamil," also known as "Perfect human," in Islamic philosophy [56].

This may explain the positive correlation between the organization's approach to human resources development and a more detailed synopsis of organizational development. In our study, training and development and organizational performance are discussed in the following manner. It suggests that Islamic banks are the ones that are not only cultivating technical skills but also enhancing a qualitatively better understanding of the organization's culture as perceived by employees and the formal organizational goals as informed by the Bank.

### **Implications for Islamic Banking in Malaysia**

The high scores for Training and Development indicate that Islamic banks in Malaysia should consider advanced employee training as a significant area of focus. It is also important to note that such programs should contain equal technical and financial knowledge in Islamic

banking and finance, as the qualitative research upholds. Banks could think of alliances with educational institutions to form an Islamic finance specialization to address the skills shortfall we observed in the interviews.

The substantial part played by Employee Relations ( $\beta = 0.22$ ) is dedicated to improving engagement. Based on the qualitative results for the antecedent of creating a sense of higher purpose, banks should include the social and ethical values of Islamic banking in their organizational communications and job specifications.

In the qualitative analysis, the fourth theme, continuity, and change, implies that Islamic banks must promote continuous innovation while adhering to Shariah rules and standards. This could include creating an innovation hub or creating teams responsible for designing and implementing Shariah-compliant financial instruments.

### **Role of Employee Engagement as a Mediator**

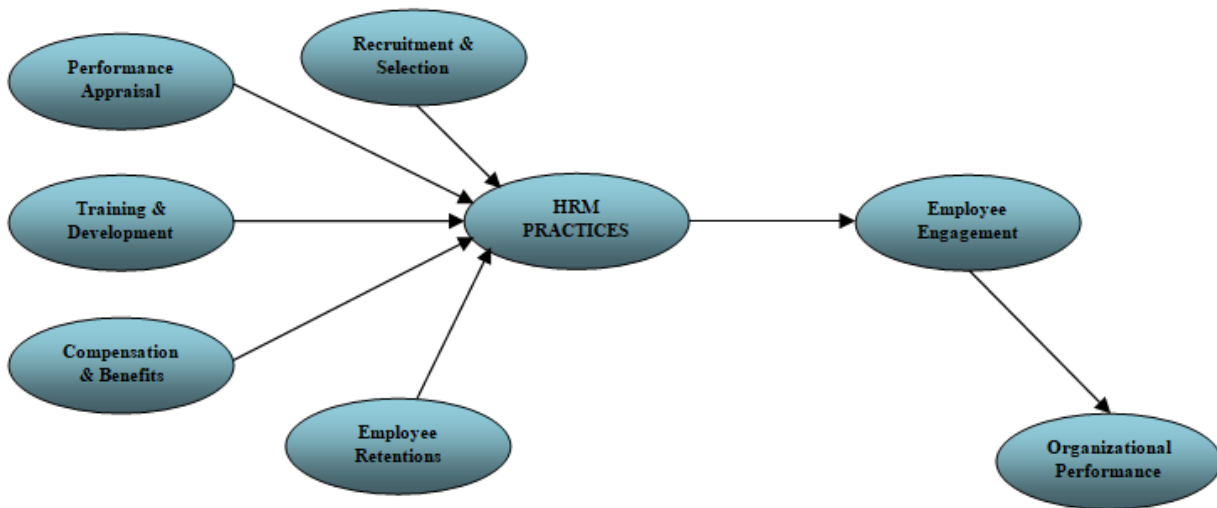
HRM practices had a significant positive mediating impact on Employee Engagement ( $\beta = 0.14$ ,  $p = 0.004$ ) and have important implications for Organizational Performance. First, it advances the view that applying HRM practices is equally effective only if the employees are engaged at their level. The positive attitudes towards training, performance appraisal, and organizational goals are likely to be experienced more by engaged employees than by the rest.

This mediation effect is apparent in training and development practices and employee relations. For Training and Development, the interaction with Employee Engagement raises the influence this factor has on organizational performance from  $\beta = 0.28$  to  $\beta = 0.35$  ( $p < 0.00$ ). This means that the employee engagement promoted by the training effectively improves performance because the engaged employees translate the newly learned skills to the organizational environments.

The mediation effect also improves the impact of Employee Relations from  $\beta = 0.22$  to  $\beta = 0.29$  ( $p$  call to improve employee engagement. This could include more engagement surveys, creating engaging work, and ensuring that organizational values reflect Islamic values.

The place of Employee Engagement as the mediating construct is also in line with the qualitative evidence regarding the addition of more meaning to work. This study found that employee commitment, which refers to the willingness to work harder than the wages dictate and perceive jobs as more than mere employment, may have a positive relationship with the receptiveness of the employees to the HRM practices and organization goals. Along this line, Islamic banks must not only state and explain again the ethical and social responsibility objectives of the organization to the employees.





**Figure 1. Proposed Model for Enhancing Islamic Banking Performance through HRM Practices**

These findings suggest that Islamic banks in Malaysia should adopt a two-pronged approach: Successfully implementing and applying the HRM strategies within strategic directions that intend to answer the call to enhance employee interest. This may include a couple of engagement surveys and work that is engaging and guarantees that organizational values represent Islamic values.

### Conclusion and Recommendations

Consequently, this study has shed light on the effects of HRM practices on the performance of Islamic banks in Malaysia, emphasising the mediating effect of EE. The statistical findings showed that all five HRM practices had a significant positive relationship with organizational performance, whereas Training and Development had the highest coefficient of determination. This goes hand in hand with the qualitative results achieved in this research that showed the significance of the comprehensive concept for the skill development of the employees in Islamic banks. This study also found that employee engagement partially mediated the relationship between HRM practices and organizational performance, emphasizing the importance of engagement in improving the quality of HRM practices.

The qualitative approach revealed several important aspects of HRM in Islamic banking, such as the issue of shariah compliance in banking practices, employing value-based management systems, and conflict between tradition and innovation. These findings complement the quantitative results and give a qualitative insight into HRM in the Islamic banking sector.

### Practical Implications for Islamic Banks

Consequently, the Islamic banks in Malaysia should focus on formulating and enacting elaborate training strategies that incorporate technical proficiency and Islamic finance efficacy. This may include collaborations with schools and universities to develop Islamic banking and finance programmes, meeting the need for a more qualified workforce, a difficulty recognized in the research.

These Islamic value factors of the work environment should also emerge as Islamic banks' key strategic emphases. This may include adopting Shariah-compliant conflict resolution systems and communicating the social and ethical side of Islamic banking to employees. With this moderating implication, banks need to implement strategies to foster employee engagement, such as employee engagement surveys and opportunities to plan engaging tasks.

The tension between embracing tradition and advocating change means that Islamic banks require fostering a problem-solving mentality within the confines of Shariah legal codes. To meet this need, creating innovation labs or cross-functionality teams that focus on creating and modifying Sharia-compliant financial products and services could be helpful.

### **Limitations of the Study**

The data came from only Malaysian Islamic banks, which restricted the identification of the variables in other countries and conventional banks. Also, cross-sectional data collection excludes causal relationships between variables over time.

One area for improvement in the quantitative survey is that the study used self-reported measures, though the mixed-methods approach prevented this issue from dominating the study. Also, the research did not compare the differences between the HRM practices and their consequences based on the size or the type of Islamic banks.

### **Suggestions for Future Research**

Possible limitations might be an object of further study of the current research in the following aspects. Longitudinal studies may help establish when and how the causal connection between HRM practices, engagement, and performance occurs. Cross-country or cross-between Islamic and conventional banks research could further advance the understanding of specific aspects of Islamic banking's HRM. Future studies can also consider analyses based on differences in size or types of Islamic banks regarding the practices described and the effects they exhibit.

This could help identify the relative applicability of different HRM strategies to particular organizational contexts within the Islamic banking sector. Future studies focusing on the use of technology in implementing HRM practices for Islamic banks would be helpful mainly because of the growing adoption of technology in the delivery of bank services.

This could include examining how Islamic banks can effectively incorporate technology to satisfy human assets' engagement and performance needs without violating Shariah law. Lastly, future research may focus on values-based performance measurement and reports on Islamic banking in more depth, which may lead to the development of reliable and stable measures that reflect conventional measures and Islamic values.

Therefore, this research has provided a general understanding of the relationship between HRM practices, EE, and OP in Malaysian Islamic banks. By utilizing the identified information and tackling the mentioned challenges, Islamic banks may design more comprehensive and efficient HRM initiatives that not only reconcile with the tenets of Shariah but also boost the organizations' performance via highly motivated employees. Despite the steady development of the Islamic banking sector, further research in this field will continue to be essential for sustaining its competitiveness and performing its specific mission in the world economy.

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