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When Ethical Climate Alone Is Not Enough: The Role Of Person-Organization Fit In Employee Ethical Behavior

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Abstract

This study examines how employee ethical behavior is shaped by ethical leadership, ethical climate, and person-organization fit within Islamic microfinance institutions in Indonesia. By integrating social learning and social exchange mechanisms, this research aims to provide a more comprehensive explanation of ethical behavior that accounts for both organizational influences and individual value alignment. Utilizing survey data collected from microfinance institutions' employees and analyzing it through Partial Least Squares Structural Equation Modeling (PLS-SEM), the results reveal distinct patterns of relationships. Ethical leadership significantly reinforces the ethical climate, affirming its central role in shaping the organization's ethical environment. However, ethical leadership does not directly influence employee ethical behavior. Furthermore, the ethical climate does not significantly affect ethical behavior, nor does it mediate the relationship between leadership and behavior. Conversely, person-organization fit emerges as a strong predictor and significantly strengthens the relationship between ethical climate and ethical behavior. These findings highlight that ethical behavior is not solely driven by formal ethical systems but is profoundly influenced by the alignment of values between the individual and the organization. This study extends prior research by demonstrating that the effectiveness of an ethical climate is contingent upon the presence of person-organization fit, thereby offering a more contextualized understanding of ethical behavior within the collectivistic and underexplored landscape of Islamic microfinance.

Keywords: Ethical Leadership; Ethical Climate; Person-Organization Fit; Employee Ethical Behavior; Islamic Microfinance

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INTRODUCTION

Ethical issues have become a major concern in modern organizations as the complexity of global business increases and demands for transparent and accountable governance increase. Many cases of ethical violations, such as manipulation of financial reports, abuse of authority, and unethical practices in large companies, show that organizational success is no longer measured only by financial performance, but also by integrity and moral accountability (Bedi et al., 2023; Mayer & Brown, 2023). This situation compels organizations to position ethical leadership as a critical element in shaping sustainable work behaviors.

The trust-based service sector, particularly Islamic banking and microfinance institutions, faces high ethical pressures as operational sustainability relies heavily on customer trust and adherence to moral values and sharia principles (Bagis et al., 2024). Employee integrity is a key factor in maintaining the reputation of financial institutions (Otoritas Jasa Keuangan, 2024). Regulations have been strengthened, but ethical violations still occur due to target pressure, conflicts of interest, and misalignment of individual and organizational values (Puspitasari et al., 2022; Utami & Nugroho, 2023). Studies on Islamic financial institutions show that ethical values are not always consistently applied in work practices, and still face opportunistic behavior (Amalia et al., 2024; Huda et al., 2022; Rahman & Bukair, 2023). A broader approach to spirituality, not limited to ethical aspects, has been shown to strengthen ethical behavior in modern organizations (Bagis, Adawiyah, Pramuka, et al., 2026). In addition, Islamic microfinance institutions face dual pressures between social goals and financial sustainability, which can potentially create ethical dilemmas (Ascarya & Yumanita, 2021; Rini et al., 2024).

Employees' ethical behavior can be explained through the integration of Social Learning Theory and Social Exchange Theory. Employees observe and emulate the behavior of leaders as a primary point of reference, while simultaneously responding to organizational treatment through reciprocal relationships that foster positive behavior (Bandura & Walters, 1977; Blau, 1964). This integration shows that ethical behavior is influenced by the role models of leaders and perceptions of fairness and the quality of social relations within the organization.

Employees do not merely learn through observation; they also develop a moral obligation to reciprocate through behaviors that align with organizational values. Well-being is an important measure of an individual's overall quality of life, as those who experience abundance often lead lives characterized by inner harmony, both personally and within their social environment (Bagis et al., 2024). Ethical leadership not only serves as a source of social learning but also as a value-reinforcing mechanism that helps employees cope with work pressures and ethical dilemmas.

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When the values instilled by leaders have been well internalized, employees tend to exhibit behavior that is more aligned with the organization's ethical standards (Bagis et al., 2025). On the other hand, strengthening these values also plays a role in suppressing the emergence of deviant behavior in organizations (Bagis & Adawiyah, 2025). Research by Farhan Auladi et al., (2026) demonstrates that ethical leadership exerts a significant influence on employee behavior. Consequently, ethical leadership, ethical climate, and individual-organization value alignment can be conceptualized as an interconnected system (Brown & Mitchell, 2023).

Empirical findings reveal mixed results regarding the role of ethical climate in mediating the relationship between ethical leadership and employee ethical behavior. Some studies found a significant mediating role (Hwang & Lee, 2021; Ng & Feldman, 2022), while others showed weak or insignificant effects, particularly in organizations with high work pressure and strong goal orientation (Hwang & Lee, 2021; Ng & Feldman, 2022). Recent studies also show that the effectiveness of ethical climate depends on the interaction of individual factors, leadership, and situational pressures, so it does not always function as a universal mechanism (Amalia et al., 2024; Feng et al., 2022; Zhang & Tu, 2023). Indeed, under conditions of high work pressure, employees' personal values may exert a more dominant influence than organizational norms (Rini et al., 2024).

However, ethical climate is often positioned as the primary mechanism for ethical behavior, without considering contextual pressures and individual characteristics. This approach has the potential to oversimplify the dynamics of organizational ethics, particularly in contexts such as BMT that face demands on performance and moral values. Thus, the relationship between ethical leadership, ethical climate, and ethical behavior is not universal, but rather depends on specific conditions that have not been fully explained in the literature.

Research limitations are also evident in the dominance of studies conducted within individualistic cultures, which consequently do not fully reflect collectivist contexts such as that of Indonesia (Bedi et al., 2023; Brown & Mitchell, 2023). Differences in social values and hierarchical relationships influence how individuals respond to leadership and ethical norms. This study also shows that research integrating leadership factors with organizational contextual variables and individual value congruence is still limited, especially in the Islamic finance sector, which is rich in moral values (Bagis et al., 2026). Furthermore, research on the Islamic financial sector, particularly BMTs, is still limited and focuses more on sharia compliance than individual ethical behavior, despite its characteristics potentially creating complex ethical dilemmas (Amalia et al., 2024; Ascarya & Yumanita, 2021; Rini et al., 2024).

Person-organization fit also plays a role in shaping ethical behavior. Individuals with value

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congruence tend to demonstrate a higher commitment to ethical standards (Huang & Lee, 2021; D. Lee & Choi, 2023). Recent studies suggest that value congruence may be more dominant than organizational structural factors (Feng et al., 2022; Zhang & Tu, 2023). However, its role as a contingency factor in the relationship between ethical climate and ethical behavior has rarely been investigated, particularly within the financial sector in developing countries.

Based on these limitations, there are still three main gaps. First, the inconsistency of findings regarding the role of ethical climate suggests the need for reconsideration in the context of organizations with high work pressure. Second, the dominance of studies on individualistic cultures highlights the need to test the model in collectivist contexts. Third, limited research in the Islamic finance sector, particularly BMTs, and limited exploration of the role of individual-organization fit suggest there is room to develop a more contextual model. This research not only reviews existing relationships but also positions value congruence as a key factor determining the effectiveness of an organization's ethical system.

This study aims to investigate the relationships among ethical leadership, ethical climate, and employee ethical behavior, as well as to evaluate the role of person-organization fit as a moderating variable within the banking and BMT sectors in Indonesia. This research is expected to contribute by affirming that ethical behavior is determined not solely by an organization's ethical systems, but also by the alignment of individual values, thereby broadening the understanding of the limitations of the role of ethical climate within complex organizational contexts.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Social Learning Theory (SLT) and Social Exchange Theory (SET)

This research is based on the integration of Social Learning Theory and Social Exchange Theory in explaining the formation of employee ethical behavior(Bandura & Walters, 1977; Blau, 1964) . Social Learning Theory emphasizes that individuals shape behavior through observing authoritative figures, especially leaders who demonstrate consistency of values and integrity (Abuzaid, 2024; Bandura & Walters, 1977; Guo et al., 2023). Social Exchange Theory explains that employment relationships are based on mechanisms of reciprocity, wherein fair and ethical treatment from the organization encourages employees to respond with positive behavior (Blau, 1964; Q. Li, 2024).

The integration of these two approaches demonstrates that ethical behavior is influenced not only by leaders serving as role models but also by the quality of social relationships and value

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alignment within the organization (Al Halbusi et al., 2021; Firmansyah, 2025). Consequently, ethical leadership, ethical climate, and person-organization fit are positioned as interconnected factors in shaping employee ethical behavior (Firmansyah, 2025; Tsai et al., 2024). Based on these arguments, the relationships among these variables are formulated as follows:

Ethical Leadership and Employee Ethical Behavior

Ethical leadership reflects leader behavior that demonstrates integrity, fairness, and consistency of values in decision-making and work interactions (Bedi et al., 2023; Chughtai et al., 2023). Employees tend to imitate consistently observed moral behavior, making ethical leadership a primary source of ethical behavior formation through the process of observation and internalization of values (Feng et al., 2022; Guo et al., 2023). Research shows that ethical leadership can provide clear moral direction and reduce ethical ambiguity in organizations (Bedi et al., 2023; Chughtai et al., 2023). This mechanism confirms that social learning from leaders plays a direct role in shaping employees' ethical behavior (Abuzaid, 2024; Al Halbusi et al., 2021).

H1: Ethical leadership has a positive influence on employees' ethical behavior.

Ethical Leadership and Ethical Climate

In addition to influencing individual behavior, ethical leadership also creates a work environment based on moral values (Al Halbusi et al., 2021). Consistent leader behavior in upholding ethical standards will form a shared perception of applicable norms, so that ethical leadership plays a role in creating an organizational ethical climate (Chughtai et al., 2023; Tsai et al., 2024). When employees observe an alignment between the values being communicated and the leader's actual actions, they develop the perception that the organization upholds ethical standards. Empirical research demonstrates that ethical leadership significantly shapes the ethical climate through role modeling and value consistency (Chughtai et al., 2023; Zhang & Tu, 2023), indicating that the process of social learning impacts not only individuals but also the collective environment.

H2: Ethical leadership has a positive influence on the ethical climate.

Ethical Climate and Employee Ethical Behavior

An ethical climate describes shared perceptions of the moral norms and standards that guide behavior within an organization (Al Halbusi et al., 2021; Tsai et al., 2024). Employees working in an environment perceived as ethical tend to align their behavior with these norms in response

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to organizational expectations. In reciprocal employment relationships, a fair and ethical environment encourages employees to reciprocate through behaviors that align with organizational values (Abuzaid, 2024; X. Li et al., 2024). Several studies have shown that ethical climate contributes to employee ethical behavior (Al Halbusi et al., 2023), but some studies found inconsistent effects, especially when work pressure and performance demands were dominant (J. Lee et al., 2022; Ng & Feldman, 2022). These conditions suggest that reciprocal mechanisms do not always function optimally in every organizational context.

H3: Ethical climate is considered to have a positive influence on employee ethical behavior, although its effectiveness may be influenced by organizational conditions.

The Mediating Role of Ethical Climate

The relationship between ethical leadership and ethical behavior is not always direct; rather, it often manifests through the creation of a work environment that reflects the organization's moral values (Al Halbusi et al., 2021; Bedi et al., 2023). Ethical leadership shapes an ethical climate, which subsequently influences how employees perceive and enact ethical behavior in their daily work activities. When the work environment is perceived as fair and morally consistent, employees not only learn from their leaders but also reinforce ethical behavior through ongoing social interactions (Abuzaid, 2024). Research indicates that an ethical climate can serve as a mediating mechanism for the influence of ethical leadership on employee behavior (Al Halbusi et al., 2021; Tsai et al., 2024), although its effectiveness is contingent upon organizational conditions and job characteristics. However, the effectiveness of this mediating role is not always consistent across varying organizational contexts.

H4: Ethical climate mediates the relationship between ethical leadership and employee ethical behavior.

The Moderating Role of Person-Organization Fit

Individual-organization fit indicates the degree of alignment between personal values and organizational values that influence how individuals respond to the work environment (Hwang & Lee, 2021; Kristof Brown et al., 2023). Employees with a high degree of fit are more inclined to internalize organizational norms and exhibit behaviors consistent with prevailing ethical standards (Al Halbusi et al., 2021; Huang & Lee, 2021). When individual values align with organizational values, the influence of the ethical environment becomes more potent because social learning and responses are congruent. Research indicates that value congruence plays a pivotal role in

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shaping ethical behavior (Huang & Lee, 2021; D. Lee & Choi, 2023), although its role as a moderating factor in the relationship between the environment and behavior has yielded mixed results.

H5: Person-organization fit moderates the relationship between ethical climate and employee ethical behavior.

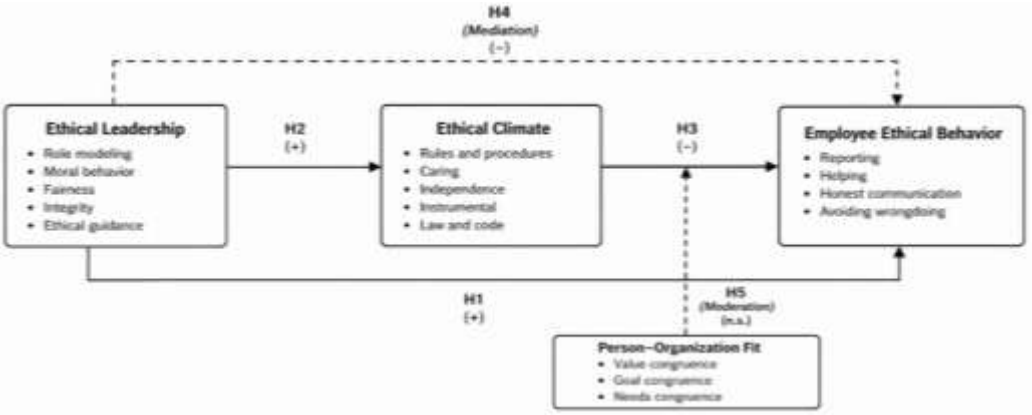


Figure 1. Conceptual Framework

RESEARCH METHODOLOGY

This study employs a quantitative approach to examine the relationships among ethical leadership, ethical climate, person-organization fit, and employee ethical behavior within the context of Islamic microfinance institutions in Indonesia. The research model was adapted from previous studies to evaluate the consistency of the relationships between variables within the Islamic finance sector and to enhance the external validity of the findings. The research population consisted of 338 employees, comprising all employees across several microfinance institutions in the Purwokerto, Purbalingga, Cilacap, and Banjarnegara regions. The sampling technique employed is purposive sampling, with a minimum tenure of one year.

Data collection was conducted online using a Google Forms-based questionnaire. The research instrument employed a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Each variable is measured using indicators that have been validated in previous studies, namely, ethical leadership, measured by 10 items from Brown et al., (2005), which have been used in the latest study by (Al Halbusi et al., 2021). Ethical Climate was measured using 12 items from Victor & Cullen, (1988), which remain relevant and are employed in contemporary

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studies (Tsai et al., 2024; Zhang & Tu, 2023). Person-Organization Fit was measured using 4 items from Cable & Judge, (1996), as well as subsequent developments Kristof-Brown et al., (2023) ; Ruiz-Palomino et al., (2013); and Employee Ethical Behavior was measured using 16 items from Ferrell et al., (2000) and Lu & Lin, (2014), which have also been applied in recent research (Abuzaid, 2024; Guo et al., 2023).

Data analysis was conducted using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) with the aid of SmartPLS software. The SEM-PLS method was chosen because it is capable of analyzing complex relationships between latent variables simultaneously, including models with mediating and moderating variables, and is suitable for research with relatively limited sample sizes (Hair et al., 2021). The analysis process was carried out in two stages: the evaluation of the measurement model (outer model) and the structural model (inner model). Evaluation of the outer model encompassed tests for convergent validity assessed via outer loading values (>0.70) and Average Variance Extracted (AVE >0.50), as well as reliability tests utilizing Cronbach's alpha and composite reliability (>0.70). Evaluation of the structural model was performed by examining R-square values and conducting path significance tests using t-statistics and p-values (<0.05).

To enhance data quality, this study employs procedures for respondent anonymity and questionnaire item randomization to minimize common method bias. This approach is expected to yield more accurate and representative estimates of the relationships among variables. Moderation testing is conducted using the product indicator approach within PLS-SEM.

RESULTS AND DISCUSSION

Results

This study employs a Partial Least Squares-Structural Equation Modeling (PLS-SEM) approach, utilizing SmartPLS software to test the research model. The analysis is conducted in two main stages: evaluation of the measurement model (outer model) and evaluation of the structural model (inner model) (Hair et al., 2021).

Demografi Responden

The characteristics of the respondents in this study are described descriptively to provide a more concise overview. Based on their institutional origin, respondents came from various BMTs. Most respondents were concentrated in several main institutions, namely Micro Finance 1 (16.9%), Micro Finance 2 (13.3%), and Micro Finance 3 (11.8%), which shows that the respondents'

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largest contribution came from these institutions.

Based on gender, the distribution of respondents was relatively balanced, with women slightly more dominant, namely 51.5%, while men were 48.5%. This reflects a proportional representation of respondents from both genders within this study. In terms of age, most respondents were in the productive age group, especially those aged 25–35 years (39.9%) and 35–45 years (32.2%). This shows that many respondents are in an active work phase with relatively high levels of productivity and responsibility.

Furthermore, based on the length of service, most respondents have quite extensive work experience, namely more than 5 years. Respondents with a work period of 5–10 years reached 29.3%, and more than 10 years 27.5%, followed by those with a work period of 3–5 years (21.9%) and 1–3 years (21.3%). This indicates that the respondents in this study are predominantly experienced individuals and thus possess a deeper understanding of working conditions.

Overall, the characteristics of the respondents indicate that this study involved individuals from various institutions who are of productive age, exhibit a balanced gender distribution, and are predominantly experienced professionals. This condition provides a strong basis for respondents to provide relevant and credible assessments of the variables studied.

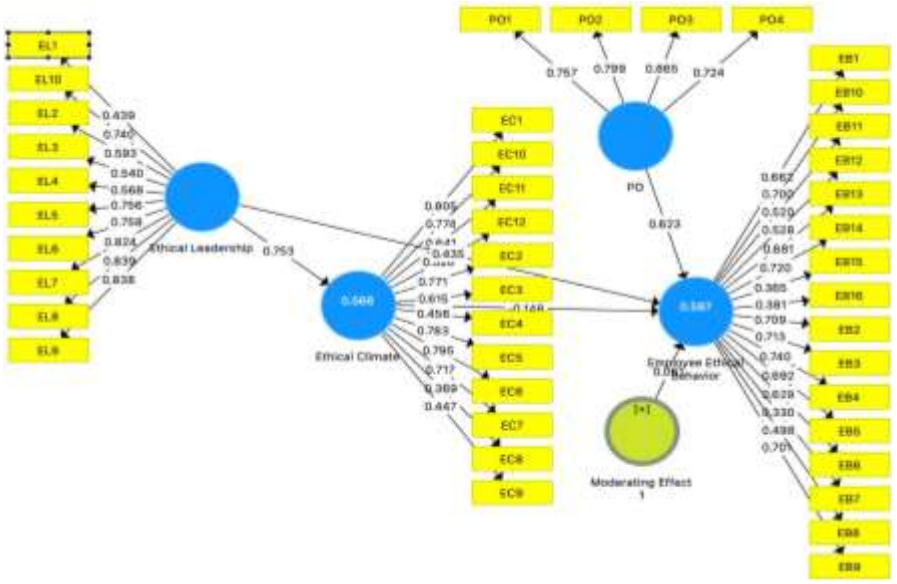


Figure 1. Research Model

An evaluation of the measurement model is conducted to ensure that each indicator can represent the research construct in a valid and reliable manner. According to Hair et al. (2021)

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Reflective indicators are considered to demonstrate convergent validity if they possess an outer loading value greater than 0.70. However, in exploratory research, loading values between 0.60 and 0.70 may still be retained, provided that the AVE and composite reliability values continue to meet the established criteria. During the initial testing phase, several indicators were identified with factor loading values below 0.60; consequently, these indicators had to be eliminated from the model.

For the Employee Ethical Behavior variable, the eliminated indicators were EB7, EB8, EB11, EB12, EB15, and EB16. For the Ethical Climate variable, the eliminated indicators included EC4, EC8, EC9, and EC12. Meanwhile, for the Ethical Leadership variable, indicators EL1, EL2, EL3, and EL4 were also eliminated as they failed to meet the minimum factor loading threshold. After re-estimating the model, two additional indicators in the Ethical Climate variable, specifically EC3 and EC11, were found to have loading values below 0.60; these indicators were subsequently eliminated during the second stage of the process.

After these two rounds of elimination, all remaining indicators were found to meet the criteria for convergent validity, as presented in Table 1.

Table 1. Outer Loading

Variables	Outer Loading
Ethical Leadership	0.782 – 0.856
Ethical Climate	0.774 – 0.847
Employee Ethical Behavior	0.636 – 0.788
Person-Organization-Fit	0.743 – 0.863

Based on Table 1, all indicators in the final model are considered valid. Several indicators within the Employee Ethical Behavior variable fall within the 0.60 – 0.70 range; however, these indicators were retained as they still meet the minimum threshold and do not compromise the overall quality of the construct.

Furthermore, construct reliability testing was conducted using Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE).

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Table 2. Construct Reliability and Validity

	Cronbach's Alpha	Rho_A	Composite Reliability	Average Variance Extracted (AVE)
EB	0.893	0.897	0.912	0.510
EC	0.898	0.900	0.922	0.662
EL	0.906	0.909	0.927	0.681
PO	0.796	0.805	0.865	0.617

The test results indicate that all constructs have met the criteria for reliability and validity. The values for Cronbach's Alpha, rho_A, and composite reliability exceed 0.70, signifying good internal consistency. Furthermore, the AVE values for all variables exceed 0.50, thereby satisfying the requirements for convergent validity. The moderating variable demonstrates perfect values, resulting from the formation of the interaction construct. Consequently, all constructs are deemed reliable and valid and are suitable for further analysis.

Table 3. Fit Model

	Saturated Model	Estimation Model
SMRM	0.080	0.088
d_ULS	2.267	2.728
d_G	0.890	0.896
Chi-Kuadrat	1704.657	1731.594
NFI	0.722	0.718

The results of the goodness-of-fit evaluation indicate that the model possesses an adequate level of fit. The SRMR values for the saturated model (0.080) and the estimated model (0.088) fall below the 0.10 threshold, rendering the model acceptable. The NFI values of 0.722 and 0.718, respectively, indicate a good model fit, although not optimal. Meanwhile, the d_ULS and d_G values reveal no significant differences between the two models, thereby indicating an absence of model fit issues. Consequently, the research model is deemed consistent with the data and suitable for use in subsequent analyses.

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Table 4. R Square Value

Variables	R-Square	R Square Adjusted
EB	0.551	0.545
EC	0.617	0.616

The R-square test results indicate that variable EB has a value of 0.551 (Adjusted = 0.545), while EC has a value of 0.617 (Adjusted = 0.616). This implies that the independent variables can explain 55.1% and 61.7% of the variation within their respective constructs. Overall, these values demonstrate that the model possesses adequate explanatory power, thereby effectively elucidating the relationships among the variables examined in this study.

Table 5. Predictive Relevance

Variables	Q-Square	RMSE	MAE
EC	0.611	0.629	0.467
EB	0.509	0.707	0.508

The predictive relevance of the model was evaluated using the blindfolding procedure. The results are presented in Table 5. As shown in Table 5, the Q^2 values for Ethical Climate (0.611) and Employee Ethical Behavior (0.461) lie well above zero and exceed the threshold for strong predictive relevance. This indicates that the model possesses high predictive accuracy and is capable of effectively estimating the endogenous constructs. The predictive relevance of the model was evaluated using the blindfolding procedure. The Q^2 values for Ethical Climate and Employee Ethical Behavior were found to be greater than zero, indicating that the model possesses adequate predictive relevance. This demonstrates that the proposed model is not merely explanatory in nature but is also capable of predicting the endogenous constructs.

Table 6. Discriminant Validity

	EB	EC	EL	Moderating Effect	PO
EB	0.714				
EC	0.328	0.814			
EL	0.411	0.785	0.825		
Moderating Effect	-0.037	-0.063	-0.013	1.000	

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	EB	EC	EL	Moderating Effect	PO
PO	0.703	0.387	0.332	-0.178	0.786

The results of the discriminant validity test, based on the Fornell-Larcker criterion, indicate that all constructs have met the requirements for discriminant validity. The square root of the AVE for each construct (EB = 0.714; EC = 0.814; EL = 0.825; Moderating Effect = 1.000; PO = 0.786) is greater than its correlation with any other construct within the model.

This demonstrates that each construct possesses a high degree of uniqueness and can be effectively distinguished from the other constructs. Therefore, it can be concluded that the research model satisfies the criteria for discriminant validity and is suitable for further analysis.

Table 7. Path Coefficient

	Original sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Statistik T (|O/STDEV|)	P Values	Results
EL => EB	0.343	0.344	0.076	4.492	0.000	Accepted
EL => EC	0.785	0.787	0.022	35.968	0.000	Accepted
EC => EB	-0.199	-0.198	0.064	3.104	0.002	Accepted
EL => EC => EB	-0.156	-0.155	0.050	3.097	0.002	Accepted
PO x EC => EB	0.062	0.059	0.043	1.442	0.150	Rejected

Based on Table 6, the relationship between EL and EB demonstrates a positive and significant effect; thus, the hypothesis is accepted. This implies that the higher the level of EL, the higher the level of EB. Furthermore, EL exerts a strong and significant positive influence on EC, indicating that EL plays a crucial role in enhancing EC.

However, the influence of EC on EB is negative and significant, suggesting that an increase in EC is accompanied by a decrease in EB. In the mediation analysis, the indirect effect of EL on EB, mediated through EC, is also significant; consequently, EC is proven to mediate the relationship between EL and EB, albeit with a negative directional effect.

Meanwhile, the moderating effect of the PO variable on the relationship between EC and EB is not significant; therefore, the hypothesis is rejected. This indicates that PO is unable to either strengthen or weaken the relationship between EC and EB.

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DISCUSSION

The results of this study provide a deeper understanding of how ethical behavior among employees is shaped within Islamic microfinance institutions. The findings produced do not fully follow common assumptions in the literature, thus showing the existence of more complex dynamics between leadership, organizational environment, and individual values.

The influence of the ethical climate on employee ethical behavior did not demonstrate statistical significance. This suggests that the mere existence of organizational ethical rules and norms is insufficient to directly foster ethical conduct. At Microfinance, working conditions characterized by the pressure of financing targets and the need to maintain the sustainability of the institution mean that employees do not always use the organization's ethical standards as the main reference in decision-making. Furthermore, the model evaluation process indicated that several indicators within the ethical climate variable could not be retained, suggesting that not all dimensions of the ethical climate possess strong relevance in actual work practices. These findings reinforce the perspective that the effectiveness of an ethical climate is heavily contingent upon the specific realities of the organization and does not always operate as consistently as assumed in prior research (J. Lee et al., 2022; Ng & Feldman, 2022). Thus, the existence of a formal ethical system without internalization of individual values tends to be merely symbolic and is not yet capable of directing behavior.

Ethical leadership has been proven to exert a powerful influence on the ethical climate. This suggests that leader behavior serves as a primary source in shaping employees' perceptions of the organization's ethical standards. The role modeling, consistency of action, and clarity of values demonstrated by leaders foster a shared understanding of what is considered right and acceptable within the organization. These findings align with the notion that employee behavior develops through a process of observing authoritative figures; thus, leaders serve as key reference points in establishing an ethics-oriented work environment (Al Halbusi et al., 2021; Chughtai et al., 2023; Zhang & Tu, 2023). This condition confirms that the formation of an ethical environment is more determined by leadership practices than by written rules alone.

However, ethical leadership does not show a direct influence on employee ethical behavior. This indicates that leader role modeling does not necessarily translate automatically into individual actions. Under certain conditions, employees may understand the values demonstrated by leaders, but not fully internalize them in work behavior. This situation shows that the relationship between leaders and employee behavior is not linear, but is influenced by other, more personal factors. This finding is in line with research showing that the influence of leadership

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on behavior often occurs through indirect mechanisms and is influenced by individual characteristics (Feng et al., 2022; Zhang & Tu, 2023). This means that the exemplary behavior of a leader requires the support of psychological conditions and individual values so that it can be realized in real behavior.

Person-organization fit demonstrates the strongest influence on employees' ethical behavior. This result affirms that value alignment serves as a primary factor in shaping behavior. In institutions such as microfinance, which uphold religious and social values, employees who have compatible values tend to make ethics part of their personal commitment, not just a formal obligation. This condition explains why ethical behavior is more influenced by internal factors than by organizational systems. These findings align with the research of Feng et al., (2022); Huang & Lee, (2021); D. Lee & Choi, (2023), which indicates that individual values play a dominant role in determining ethical behavior. In other words, ethical behavior is more value-driven than system-driven in value-based organizations.

The moderating role of individual–organization congruence shows that the relationship between ethical climate and ethical behavior is not general but depends on the level of individual value congruence. When individual values align with organizational values, ethical norms are more readily accepted and translated into behavior. Conversely, when value alignment is low, the presence of an ethical climate exerts no significant influence. These results suggest that the effectiveness of an organization's ethical system is highly contingent upon the individual's readiness to accept and internalize those values. This finding also confirms that value congruence acts as a reinforcement that determines when an ethical climate becomes effective.

Furthermore, the absence of a mediating role for ethical climate in the relationship between ethical leadership and ethical behavior suggests that the mechanism previously considered dominant does not invariably apply under all conditions. This finding reinforces the argument that inter-variable relationships in organizational ethics studies cannot be explained simply through a single causal pathway but are instead influenced by the interplay of various situational and individual factors. This indicates that linear approaches to explaining ethical behavior warrant reconsideration within the context of complex organizations.

Overall, the results of this study affirm that employees' ethical behavior is determined more by value alignment than by formal organizational systems. This finding also addresses the gaps that have been identified previously, namely the limited role of ethical climate as a universal mechanism and the importance of considering individual factors in explaining ethical behavior. Thus, this study contributes to broadening our understanding of how ethical behavior is shaped

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within the Sharia microfinance sector, an environment characterized by its own distinct set of values and operational pressures.

CONCLUSSION

This study demonstrates that employees' ethical behavior is not solely determined by the organization's ethical system, but is instead more strongly influenced by the alignment of values between the individual and the organization. Ethical leadership is shown to play a significant role in shaping the ethical climate; however, it does not directly influence employees' ethical behavior. Ethical climate also does not show a direct influence, thus confirming that the existence of ethical norms and standards is not enough to encourage behavior if it is not internalized by individuals. On the other hand, individual–organization fit is the most dominant factor and is able to strengthen the relationship between ethical climate and ethical behavior, which shows that the effectiveness of the ethics system is highly dependent on employee value alignment.

This finding provides an important implication that strengthening organizational ethics is not sufficient through the formulation of rules and policies, but needs to be directed at the process of selection, socialization, and development of values that are aligned between individuals and organizations. For Islamic microfinance institutions such as BMT, efforts to maintain integrity depend not only on the supervisory system but also on the formation of value alignment that can encourage ethical behavior intrinsically. This is crucial considering the dual pressures between social goals and financial sustainability that have the potential to give rise to ethical dilemmas in operational practices.

This study is subject to several limitations that warrant consideration. First, the study's focus on the BMT sector limits the generalizability of the findings to other sectors with distinct characteristics. Second, the use of a survey-based approach with a cross-sectional design does not fully capture the dynamics of ethical behavior over time. Third, the variables used are still limited to aspects of leadership, climate, and value congruence, so they do not include other factors such as work pressure, organizational culture, or internal controls that have the potential to influence ethical behavior. Accordingly, future research is encouraged to test the proposed model within different sectors and contexts, adopt a longitudinal approach, and incorporate additional contextual variables to gain a more comprehensive understanding of how ethical behavior is shaped within organizations.

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