



## *The Impact of Psychological Safety and Ethical Leadership on Employee Outcomes in the Banking Sector: The Mediating Role of Emotional Exhaustion*

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### Article Details:

Received on 15 May, 2026

Accepted on 22 June, 2026

Published on 24 June, 2026

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### Abstract

In banking, employee roles are exposed to and dynamically interact with the competitive, technological, customer, and regulatory demands. This can cause employees to become emotionally exhausted, resulting in poor productivity at a national level. Drawing on the Conservation of Resources Theory, the objective of this study was to understand the extent to which banking employees' psychological safety and the presence of ethical leadership can create a positive environment where employees' level of performance and commitment is enhanced and where they become willing to share their knowledge in an effort to protect and promote organizational efficiency and help safeguard the employees' creativity. This study also examined the emotional exhaustion of banking employees. This study adopted a quantitative, cross-sectional, explanatory research style, and data were self-generated and collected through surveys. Public- and private-sector banking employees were the study population. The data were analyzed quantitatively using the Statistical Package for the Social Sciences (SPSS), and hypothesized relationships were examined through regression analysis with mediation assessed using the Hayes PROCESS macro. The results of this study reveal that psychological safety and ethical leadership positively influence banking employees' performance, commitment, and willingness to share knowledge, thereby protecting organizational creativity. Psychological safety and ethical leadership also influence emotional exhaustion. Emotional exhaustion was found to be a significant mediator in the relationships between psychological safety and ethical leadership, and between psychological and behavioral outcomes and banking employees' performance commitment and knowledge sharing. The results of this study highlight the banking sector's need for psychological safety and ethical leadership.

**Keywords:** Psychological Safety, Ethical Leadership, Emotional Exhaustion, Job Performance, Organizational Commitment, Knowledge Sharing Behavior, Employee Creativity.



## Introduction

Banking exemplifies a competitive industry. Many external and internal factors continuously reshape conditions in banking. Rapid technological advancements, new regulations, and shifting client expectations drive these changes. Banking employees, like those in other service industries, strive to meet challenging goals and continually improve service. These factors can strain an employee's mental health and performance, which, in turn, can undermine organizational performance. As a result, organizations increasingly seek to understand which factors boost employee performance and reduce the negative impact on the work environment.

Two factors are the focus of recent organizational studies: psychological safety and ethical leadership. Psychological safety is the perception employees have of their ability to raise concerns, offer suggestions, and report failures. Ethical leadership embodies ethical standards with fairness and integrity. There is a considerable body of literature showing that both factors positively affect employees' job performance and commitment (Edmondson & Bransby, 2022; Kim & Vandenberghe, 2021). They also improve the quality and quantity of knowledge sharing in the workplace (Edmondson & Bransby, 2022). The banking industry is no exception to this research gap regarding the psychological dimensions of ethical leadership and psychological safety.

Burnout has many facets; one is emotional exhaustion. This condition leaves employees both emotionally and physically drained. Employees experiencing this exhaustion participate less and create less, and they reduce their willingness to share expertise (Zhang et al., 2024; Zhou, 2022). Within conservation of resources (COR) theory, researchers consider both psychological safety and ethical leadership as workplace resources (Ashfaq et al., 2021).

This study will examine psychological safety and ethical leadership, specifically investigating how these two factors uniquely interact to shape employees' performance, organizational commitment, creativity, and willingness to share knowledge in the banking industry. This study will explore the roles of climate and leadership in banking institutions and their influence on emotional exhaustion as a mediating variable. In addition, this research will understand unusual behavioral tendencies of banking employees due to climate and leadership and will provide tailored recommendations to improve organizational effectiveness, based on the findings.

## Literature Review and Hypotheses Development

### Psychological Safety

An environment is described as having psychological safety when employees feel they can share their opinions and concerns without fear of blame or retaliation. The concept was introduced by Schein and Bennis (1965), while Edmondson (1999) defined psychological safety as a shared belief that the team is safe for interpersonal risk-taking (Wouters-Soomers et al., 2022).

According to the Conservation of Resources Theory, psychological safety serves as a valuable organizational resource that helps employees manage their energy and cope with stress (Wang et al., 2021). The banking industry, in particular, has employees who find themselves in a highly competitive, performance-driven, and highly regulated environment (Hassan et al., 2024). The presence of psychological safety across the organization will create an environment that enhances participation and innovation, reduces stress, and fosters a positive attitude toward feedback.



### Psychological Safety and Job Performance

Workplace psychological safety enables employees to voice worries, identify issues, and learn from mistakes without fear of derision. Psychological safety enables employees to build a more constructive and efficient workplace. Studies indicate a positive relationship between psychological safety and employee performance in high-pressure organizational environments (Edmondson & Bransby, 2022).

*H1: Psychological Safety is positively associated with Job Performance among banking employees.*

### Psychological Safety and Organizational Commitment

Psychological safety encompasses trust, respect, and a sense of belonging within the workplace. Psychological safety fosters the strongest bonds among employees in the workplace. Within the scope of Social Exchange Theory, employees reciprocate loyalty and commitment when they perceive support from their organization (Laurent et al., 2021).

*H2: Psychological Safety is positively associated with Organizational Commitment among banking employees.*

### Psychological Safety and Knowledge Sharing Behavior

Knowledge sharing depends on an individual's willingness to share useful information or experiences. Creating a supportive work environment fosters open communication and reduces employees' fear of being belittled or dismissed, making them more willing to share sensitive knowledge. Psychological safety is a major factor that encourages knowledge sharing among employees in the banking industry (Figueiredo et al., 2025; Nguyen et al., 2021).

*H3: Psychological Safety is positively associated with Knowledge Sharing Behavior among banking employees.*

### Psychological Safety and Employee Creativity

Workplace creativity is of utmost importance and requires the implementation of ingenious ideas, the construction of which involves a certain degree of interpersonal risk (Richard et al., 2021). Psychological safety helps to combat the fear of failure (Richard et al., 2021). This leads to the creation of supportive environments, which help employees to experiment and create new ideas, a critical aspect of innovation (Richard et al., 2021). Creativity and innovation arise from minimizing the fear of failure (Richard et al., 2021). For this reason, psychological safety is strongly associated with employee creativity (Kyambade et al., 2024).

*H4: Psychological Safety is positively associated with Employee Creativity among banking employees.*

### ETHICAL LEADERSHIP

Ethical leadership is defined by integrity and fairness and is characterized by modeling ethical behavior, making principled choices, and clearly communicating and reinforcing these standards. Brown and colleagues (2005) emphasize that ethical leaders both set benchmarks and consistently uphold the organization's values, thereby establishing the foundation for an ethical culture (Aftab et al., 2021).

According to the literature, the Conservation of Resources theory is frequently utilized as a theoretical lens to investigate ethical leadership (Hoang et al., 2023). Ethical leadership is also greatly influenced by social learning theory (Hoang et al., 2023). Social learning theory posits that individuals begin to demonstrate desired behaviors by



observing and imitating the behavior of important role models. As such, ethical leadership strongly promotes trust and positive workplace relationships (Hoang et al., 2023).

Due to the banking sector's strict regulatory framework, the role of ethical leadership becomes that much more crucial. It provides the ethical and professional guidance necessary to meet high customer expectations, ensures compliance, and fosters an open, honest, and constructive workplace environment, benefiting both employees and the organization.

#### **Ethical Leadership and Job Performance**

Ethical leadership establishes benchmarks and fosters a positive atmosphere in which individuals are driven to achieve their best. Ethical leaders fulfill the requirements and responsibilities of their roles while remaining committed and engaged. Employees can recognize ethical leadership and are therefore more likely to trust their leaders. Many studies have shown that ethical leadership positively influences employee performance (Aftab et al., 2021).

*H5: Ethical Leadership is positively associated with Job Performance among banking employees.*

#### **Ethical Leadership and Organizational Commitment**

One primary function of ethical leadership is to foster organizational loyalty, emotional attachment, and trust among employees. In return, emotional attachment to and concern for the leaders' ethical disposition toward employees create a sense of belonging and attachment to the organization. As postulated in Social Exchange Theory, employees exhibit greater attachment to the organization in response to ethical treatment by leaders (Kim & Vandenberghe, 2021).

*H6: Ethical Leadership is positively associated with Organizational Commitment among banking employees.*

#### **Ethical Leadership and Knowledge Sharing Behavior**

Ethical leadership provides an approachable atmosphere characterized by trust and equity (Wu, 2021). Employees are more inclined to share and use their knowledge within such an environment (Mansoori et al., 2025). The banking industry illustrates the importance of ethics in leadership, as integrating and collaborating on learning are essential for effective joint decision-making.

*H7: Ethical Leadership is positively associated with Knowledge Sharing Behavior among banking employees.*

#### **Ethical Leadership and Employee Creativity**

Creativity among employees is often a by-product of responsive, psychologically safe work environments, bolstered by constructively challenging organizational policies and practices. Ethical leaders have the additional advantage of providing both resources and psychologically safe leadership. Empirical evidence suggests that creativity occurs as a function of ethical leadership, largely due to the leader's capacity to foster an atmosphere of open communication (Hanaysha et al., 2022).

*H8: Ethical Leadership is positively associated with Employee Creativity among banking employees.*

#### **Emotional Exhaustion**

Brought on by chronic stress, emotional exhaustion is characterized by fatigue and depletion of psychological energy (Zhang et al., 2022). Emotional exhaustion is the first stage of burnout as described by Maslach and Jackson (1981) (Zhang et al., 2022). Emotional



exhaustion not only results in low motivation and productivity but also in high work absenteeism and deterioration of employees' mental health(Lee et al., 2022).

According to the Conservation of Resources (COR) Theory, employees experience emotional exhaustion in work situations characterized by chronic loss of emotional and psychological resources and no opportunities for recovery(Li & Peng, 2022). Emotional exhaustion is detrimental to employees' well-being and the overall effectiveness of an organization.

#### **Psychological Safety and Emotional Exhaustion**

Psychological safety climate is negatively correlated with emotional exhaustion, suggesting it serves as a protective factor for employees (Galanti et al., 2024). Numerous studies also report a negative relationship between psychological safety and burnout, further suggesting that employees experience less emotional exhaustion (Galanti et al., 2024).

*H9: Psychological Safety is negatively associated with Emotional Exhaustion among banking employees.*

#### **Ethical Leadership and Emotional Exhaustion**

Research indicates that ethical leadership is negatively associated with emotional exhaustion, a relationship explained by the Conservation of Resources theory (Zhou et al., 2022).

*H10: Ethical Leadership is negatively associated with Emotional Exhaustion among banking employees.*

#### **Emotional Exhaustion and Job Performance**

Emotional exhaustion is a unique type of fatigue that affects not only your emotions but also your physical body(Li & Peng, 2022). Emotional fatigue decreases the engagement and productivity of the individual experiencing it and interferes with the quality of work they accomplish(Wei et al., 2024). Studies on emotional exhaustion have observed various effects on employees, and one of the most prominent effects has been the decline in employees' work performance(Wei et al., 2024).

*H11: Emotional Exhaustion is negatively associated with Job Performance among banking employees.*

#### **Emotional Exhaustion and Organizational Commitment**

Employee commitment is largely the emotional bond employees have with the organization. One key factor that weakens that bond is emotional exhaustion(Koç et al., 2022). This is caused by stress and leads to diminished psychological investment by the employee in achieving the organization's goals(Mostafa et al., 2023). Studies show that employees experiencing emotional exhaustion exhibit low organizational commitment and strong tendencies to withdraw(Xu et al., 2022).

*H12: Emotional Exhaustion is negatively associated with Organizational Commitment among banking employees.*

#### **Emotional Exhaustion and Knowledge Sharing Behavior**

Effectively sharing knowledge requires time and psychological investment from employees. Employees experience a loss of emotional resources and, in response, withdraw economic resources, including their willingness to share knowledge(Zhang et al., 2024). As a consequence, collaboration and knowledge sharing might be negatively impacted in an organization.

*H13: Emotional Exhaustion is negatively associated with Knowledge Sharing Behavior among banking employees.*



### Emotional Exhaustion and Employee Creativity

Cognitive flexibility, drive, and psychological stamina are critical components of creativity. These resources can be impacted by emotional exhaustion. Consequently, employees may be less inclined and less able to be creative and to participate in activities that require innovation. Employee creativity has been negatively affected by emotional exhaustion, as shown in prior research (Zhao et al., 2025).

*H14: Emotional Exhaustion is negatively associated with Employee Creativity among banking employees.*

### Mediating Role of Emotional Exhaustion

Although previous studies have examined the effects of psychological safety and ethical leadership on employee outcomes, limited research has explored the psychological mechanisms underlying these relationships. Emotional exhaustion is the draining of the emotion and psychological state of a worker due to a build-up of work-related stress. This is considered to be the primary component of burnout (Li & Peng, 2022).

According to the COR Theory, the organization has psychological safety and ethical/praiseworthy leadership as the important resources to help employees retain their emotional energy and deal with the organization's requirements. When employees have psychological safety, and are under supportive leadership, emotional exhaustion is less likely to occur (Li & Peng, 2022). When employees experience less emotional exhaustion, they perform their jobs effectively, show loyalty, and are more inclined to assist colleagues and engage in constructive behavior (Xu et al., 2022).

Psychological safety is when employees are able to express their concerns, request assistance, and acknowledge their mistakes without negative repercussions (Li & Peng, 2022). Such conditions reduce workplace stress and emotional depletion, allowing employees to maintain higher levels of well-being and effectiveness. Therefore, emotional exhaustion is expected to explain how psychological safety influences employee outcomes.

*H15: Emotional Exhaustion mediates the relationship between Psychological Safety and Job Performance among banking employees.*

*H16: Emotional Exhaustion mediates the relationship between Psychological Safety and Organizational Commitment among banking employees.*

*H17: Emotional Exhaustion mediates the relationship between Psychological Safety and Knowledge Sharing Behavior among banking employees.*

*H18: Emotional Exhaustion mediates the relationship between Psychological Safety and Employee Creativity among banking employees.*

### Emotional Exhaustion as a Mediator of Ethical Leadership and Employee Outcomes

By balancing employees' needs, ethical leadership that is fair and transparent develops a considerate and supportive work environment. Employees who recognize ethical leadership are more likely to feel organizational support, which reduces work-related stress and supports them during periods of stress and uncertainty. As such, ethical leadership can function as a buffer to the erosion of emotional resources and the subsequent emotional exhaustion of employees (Zhou et al., 2022).

According to the COR theory, employees' emotional and psychological stability is maintained by ethical leadership, a significant organizational resource (Zhou et al., 2022). Employees who receive support and fairness from ethical leaders can better cope with workplace demands and are less likely to experience emotional exhaustion (Zhou et al.,



2022). This, in turn, enhances employees' effectiveness in performing their duties, their commitment to the organization, and their support for it, which can manifest in work-related collaboration such as knowledge sharing and creative problem-solving (Albdareen et al., 2023).

Ethical leadership results in workplace engagement (Buonomo et al., 2021). Positive workplace cultures with ethical leadership demonstrate an investment in employees' mental well-being, ultimately reducing emotional exhaustion (Zhou et al., 2022). I attempt to fill the following gaps with the following hypotheses:

*H19: Emotional Exhaustion mediates the relationship between Ethical Leadership and Job Performance among banking employees.*

*H20: Emotional Exhaustion mediates the relationship between Ethical Leadership and Organizational Commitment among banking employees.*

*H21: Emotional Exhaustion mediates the relationship between Ethical Leadership and Knowledge Sharing Behavior among banking employees.*

*H22: Emotional Exhaustion mediates the relationship between Ethical Leadership and Employee Creativity among banking employees.*

### 3. Methodology

#### Research Design

A quantitative, cross-sectional, explanatory research design was employed in this study. The described approach was useful for identifying relationships among psychological safety, ethical leadership, emotional exhaustion, job performance, organizational commitment, knowledge-sharing behavior, and employee creativity. A cross-sectional design, as the name suggests, focuses on collecting research data from a defined study population (or sample) at a single point in time. The explanatory design was used to understand psychological safety and ethical leadership and their roles in various employee outcomes resulting from emotional exhaustion, both directly and indirectly.

#### Population and Sampling

Public- and private-sector bank employees comprised the population for this research. Bank employees were the study subjects of interest, as they operate in an environment with higher job demands, such as customer interaction, work performance pressure, and job-related regulation. They provide an ideal context for studying the various elements of a work environment and their associated employee outcomes. Data were collected on a convenience basis; employees from various bank branches and departments were invited to participate in the study.

The sample size was set at 300 employees to enable multiple regression analysis, as this is the smallest sample size that ensures the analysis is statistically significant.

#### Inclusion Criteria

- Employees of the public or private sector banks.
- Employees who have worked for at least 6 months.
- Employees who agreed to participate in the study.

#### Exclusion Criteria

- Employees on temporary contracts.
- Employees with fewer than six months of experience
- Surveys with incomplete responses.



### Measurement Instruments

Data were collected using a structured questionnaire based on previously validated scales. All items were measured on a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

Variable	Source
Psychological Safety	Edmondson (1999)
Ethical Leadership	Brown et al. (2005)
Emotional Exhaustion	Maslach & Jackson (1981)
Job Performance	Williams & Anderson (1991)
Organizational Commitment	Meyer & Allen (1997)
Knowledge Sharing Behavior	Bock et al. (2005)
Employee Creativity	Zhou & George (2001)

### Data Collection Procedure

Data collection commenced upon receipt of the required approvals from the relevant banking authorities. Questionnaires (both paper-based and electronic) were distributed to the participants. The study participants were informed about the study, the confidentiality of their responses, and their right to withdraw from the study without any repercussions. Participants provided their informed consent and were instructed to complete the survey based on their experiences at their current employment. Responses were scanned for missing items and closure prior to the intended analyses.

### Ethical Considerations

Each criterion related to the ethics of research was adequately addressed. Participants were fully informed about the study and provided their consent. There were no means of participant identification, and data were stored and were to be used exclusively for research. Participants were informed of their right to withdraw from the study at any time and for any reason.

### Data Analysis Strategy

The data were analyzed using the Data Analysis feature of IBM SPSS Statistics, Version 27. Prior to running the main analyses, the data were checked for outliers, missing data, and errors.

Analysis of the study, using univariate and bivariate analyses of the data and their demographic characteristics, was complemented by descriptive statistics (frequencies, percentages, means, and standard deviations). The reliability of the scales was measured using Cronbach's alpha, with values of 0.70 or higher considered acceptable.

The study variables were analyzed using Pearson's correlation. The influence of psychological safety and ethical leadership on emotional exhaustion, job performance,



organizational commitment, knowledge-sharing behavior, and employee creativity was analyzed using multiple regression analyses.

To test the mediation of emotional exhaustion, Hayes' PROCESS Macro (Model 4) was utilized, with a bootstrap sample of 5,000. The mediation was tested by checking if the indirect effects fell within a 95% confidence interval.

The other analyses were conducted under the same confidence level.

### Results

*Table 1 shows the Demographic Profile of Respondents (N = 300)*

Variable	Category	Frequency	Percentage
Gender	Male	178	59.3
	Female	122	40.7
Age	21-30 Years	104	34.7
	31-40 Years	126	42.0
	41-50 Years	54	18.0
	Above 50 Years	16	5.3
Education	Bachelor's Degree	122	40.7
	Master's Degree	154	51.3
	MPhil/MS	24	8.0
Experience	Less than 5 Years	96	32.0
	5-10 Years	123	41.0
	Above 10 Years	81	27.0

Table 1 summarizes the relevant characteristics of the study's respondents. Of the 300 respondents to the survey, 178 (59.3%) were males, and 122 (40.7%) were females. Respondents were predominantly in the 31 to 40 age group (42.0%), with the next highest age group being the 21 to 30 group (34.7%). Respondents, overall, generally comprised the early and mid-career age groups. Respondents with a master's degree comprised 51.3% of the respondents, 40.7% had a bachelor's degree, and 8.0% had an MPhil/MS. Respondents in the 5-to-10-year range of work experience comprised the highest percentage of respondents (41.0%), the next highest was the group with experience of less than 5 years (32.0%), and the group with experience of more than 10 years (27.0%) was the lowest. The respondents to the survey had a banking background with high education and work experience. It was appropriate to use this sample to test the study hypotheses.



*Table 2 shows Means, Standard Deviations, Correlations, and Reliability*

Variable	Mean	SD	1	2	3	4	5	6	7	Cronbach Alpha
1. Psychological Safety	3.91	0.61	—							.89
2. Ethical Leadership	3.87	0.66	.58**	—						.93
3. Emotional Exhaustion	2.45	0.72	-.49**	-.54**	—					.91
4. Job Performance	4.02	0.59	.52**	.56**	-.46**	—				.88
5. Organizational Commitment	3.84	0.63	.48**	.61**	-.53**	.57**	—			.92
6. Knowledge Sharing Behavior	3.92	0.57	.50**	.54**	-.42**	.51**	.55**	—		.87
7. Employee Creativity	3.86	0.62	.57**	.49**	-.45**	.58**	.49**	.53**	—	.90

**p < .01**

Table 2 shows the basic data statistics, reliability coefficients, and correlations of the study variables. As seen in the descriptive data, most participants reported high levels of psychological safety (M = 3.91) and reported even higher levels of ethical leadership (M = 3.87) and job performance (M = 4.02); as well as higher levels of organizational commitment (M = 3.84), knowledge -sharing behavior (M = 3.92), and employee creativity (M = 3.86). Participants reported the lowest levels of emotional exhaustion (M = 2.45), which may be interpreted as moderate.

Regarding the results of the correlation analysis, psychological safety and ethical leadership exhibited positive and significant correlations with job performance, organizational commitment, knowledge -sharing behavior, and employee creativity ( $p < .01$ ). Emotional exhaustion exhibited a negative correlation with all the employee outcomes, thus the higher the emotional exhaustion the lower the job performance, organizational commitment, knowledge -sharing behavior, and employee creativity. The strongest positive correlation ( $p < .01$ ) was observed between ethical leadership and organizational commitment ( $r = .61$ ), while emotional exhaustion and ethical leadership showed the strongest negative correlation ( $r = -.54$ ,  $p < .01$ ).



Reliability analysis confirmed excellent internal consistency across all assessed constructs, with Cronbach's alpha values ranging from .87 to .93. Thus, all research instruments used in this study were deemed reliable and valid for the analytical processes.

**Table 5:** *Results of Multiple Regression Analyses for Direct Effects*

Hypothesis	Relationship	B	t	p	Decision
H <sub>1</sub>	PS → JP	.28	4.81	< .001	Supported
H <sub>2</sub>	PS → OC	.21	3.94	< .001	Supported
H <sub>3</sub>	PS → KSB	.25	4.17	< .001	Supported
H <sub>4</sub>	PS → EC	.31	5.36	< .001	Supported
H <sub>5</sub>	EL → JP	.34	5.92	< .001	Supported
H <sub>6</sub>	EL → OC	.42	7.15	< .001	Supported
H <sub>7</sub>	EL → KSB	.29	5.03	< .001	Supported
H <sub>8</sub>	EL → EC	.23	4.26	< .001	Supported
H <sub>9</sub>	PS → EE	-.31	-5.44	< .001	Supported
H <sub>10</sub>	EL → EE	-.39	-6.87	< .001	Supported
H <sub>11</sub>	EE → JP	-.24	-4.18	< .001	Supported
H <sub>12</sub>	EE → OC	-.30	-5.23	< .001	Supported
H <sub>13</sub>	EE → KSB	-.21	-3.84	< .001	Supported
H <sub>14</sub>	EE → EC	-.27	-4.61	< .001	Supported

**Note.** PS = Psychological Safety, EL = Ethical Leadership, EE = Emotional Exhaustion, JP = Job Performance, OC = Organizational Commitment, KSB = Knowledge Sharing Behavior, EC = Employee Creativity.

#### Interpretation

Table 5 presents the results from conducting multiple regression analyses of the study variables. Psychological safety was noted to predict and enhance job performance (B = .28, t = 4.81, p < .001), and organizational commitment (B = .21, t = 3.94, p < .001). It further predicted positive knowledge sharing (B = .25, t = 4.17, p < .001), and creativity (B = .31, t = 5.36, p < .001). The findings therefore supported H<sub>1</sub>-H<sub>4</sub>.



Ethical leadership was also noted to predict and influence job performance ( $B = .34$ ,  $t = 5.92$ ,  $p < .001$ ) and strengthen commitment to the organization ( $B = .42$ ,  $t = 7.15$ ,  $p < .001$ ). This was further noted to positively influence knowledge sharing ( $B = .29$ ,  $t = 5.03$ ,  $p < .001$ ) and creativity ( $B = .23$ ,  $t = 4.26$ ,  $p < .001$ ) with the most significant influence being the commitment to the organization (H5 to H8 were further supported).

Both psychological safety and ethical leadership predicted significant reductions in emotional exhaustion. Psychological safety was noted to negatively predict emotional exhaustion ( $B = -.31$ ,  $t = -5.44$ ,  $p < .001$ ) and ethical leadership was noted to negatively predict emotional exhaustion more ( $B = -.39$ ,  $t = -6.87$ ,  $p < .001$ ). Therefore, H9 and H10 were supported.

Emotional exhaustion had a negative and significant impact on job performance ( $B = -.24$ ,  $t = -4.18$ ,  $p < .001$ ), organizational commitment ( $B = -.30$ ,  $t = -5.23$ ,  $p < .001$ ), knowledge sharing ( $B = -.21$ ,  $t = -3.84$ ,  $p < .001$ ), and creativity ( $B = -.27$ ,  $t = -4.61$ ,  $p < .001$ ). These findings confirmed H11 to H14 and showed that emotional exhaustion has a negative impact on performance, commitment, knowledge sharing, and creativity.

**Table 6:** *Results of Mediation Analysis Using PROCESS Macro (Model 4)*

Hypothesis	Indirect Effect	B	t	p	Decision
H15	PS $\rightarrow$ EE $\rightarrow$ JP	.07	3.22	.001	Supported
H16	PS $\rightarrow$ EE $\rightarrow$ OC	.09	3.87	< .001	Supported
H17	PS $\rightarrow$ EE $\rightarrow$ KSB	.06	2.94	.003	Supported
H18	PS $\rightarrow$ EE $\rightarrow$ EC	.08	3.55	< .001	Supported
H19	EL $\rightarrow$ EE $\rightarrow$ JP	.09	4.11	< .001	Supported
H20	EL $\rightarrow$ EE $\rightarrow$ OC	.12	4.92	< .001	Supported
H21	EL $\rightarrow$ EE $\rightarrow$ KSB	.08	3.68	< .001	Supported
H22	EL $\rightarrow$ EE $\rightarrow$ EC	.11	4.37	< .001	Supported

**Note.** PS = Psychological Safety, EL = Ethical Leadership, EE = Emotional Exhaustion, JP = Job Performance, OC = Organizational Commitment, KSB = Knowledge Sharing Behavior, EC = Employee Creativity.

#### Interpretation

Table 6 demonstrates the use of Hayes' (2018) PROCESS plugin (model 4) for SPSS 27 to conduct mediation analyses. To assess the mediation of emotional exhaustion in the context of the interplay among psychological safety, ethical leadership, and a range of employee outcomes, the presence of indirect effects was examined using bootstrapping.

Emotional exhaustion was found to significantly mediate the impact of psychological safety on employee outcomes of job performance ( $B = .07$ ,  $t = 3.22$ ,  $p = .001$ ), commitment to the organization ( $B = .09$ ,  $t = 3.87$ ,  $p < .001$ ), knowledge-sharing behavior



( $B = .06$ ,  $t = 2.94$ ,  $p = .003$ ), and creativity ( $B = .08$ ,  $t = 3.55$ ,  $p < .001$ ). Hence, the study's outcomes supported Hypotheses H15-H18. Psychological safety positively impacts the above employee outcomes by alleviating employees' emotional exhaustion.

Emotional exhaustion was also found to significantly mediate the effect of ethical leadership on the employee outcomes of job performance ( $B = .09$ ,  $t = 4.11$ ,  $p < .001$ ), commitment to the organization ( $B = .12$ ,  $t = 4.92$ ,  $p < .001$ ), knowledge-sharing behavior ( $B = .08$ ,  $t = 3.68$ ,  $p < .001$ ), and creativity ( $B = .11$ ,  $t = 4.37$ ,  $p < .001$ ). Hence, the study's outcomes supported Hypotheses H19-H22. The indirect effect of ethical leadership on emotional exhaustion and organizational commitment was the most significant.

## 5. Discussion

This study examined how psychological safety and ethical leadership affect employees in the banking sector, and how emotional exhaustion might influence this relationship. The study's findings stated that all hypotheses were accurate, further supporting the Conservation of Resources (COR) Theory. It stated that in this context, psychological safety and ethical leadership are vital workplace resources that help reduce emotional exhaustion and enhance employee outcomes.

As for the study results concerning Hypotheses 1 - 4 (H1 - H4), the presence of psychological safety improved employees' performance at work, their organizational commitment, and their readiness to participate in creativity-based activities. This study found that the presence of psychological safety in the workplace improved employees' engagement and their willingness to participate in collaborative activities and adopt a creative approach. A strong correlation between psychological safety and employees' willingness to learn (Naghshbandi et al., 2025). Employees in psychologically safe environments are more likely to provide feedback, discuss and identify mistakes, and engage in activities geared toward solving a particular problem. These activities directly and positively impact employees' performance at work, their commitment to the organization, their engagement, and their creativity. The results of this study indicate that psychological safety significantly improved employees' commitment and performance.

Again, results confirmed H5 through H8, demonstrating a positive effect of ethical leadership on all four outcomes. While variations in employee behavior should be expected due to the learning process, some behaviors, such as a lack of professionalism, may negatively affect some employees' behaviors (Kuiper, 2025). Leadership that positively demonstrates fairness, honesty, and integrity, and concern for employees' best interests, in turn, positively impacts the development of trusting relationships and constructive behaviors within an organization (Kuiper, 2025). As a result, employees exhibit not only constructive behaviors but are also more engaged, supportive, and cooperative in organizational activities and efforts. In the field of banking, where ethical leadership is essential for developing and maintaining trust, it is vital to foster positive employee attitudes and behaviors (Adaga et al., 2024).

Results for H9 and H10 were also confirmed. Ethical leadership and the creation of a psychologically safe work environment reduce emotional exhaustion and, due to resource loss, COR Theory posits that ethical leadership is a valuable resource (Ali et al., 2025). Employees, especially in the banking sector, work in a high-ethical-leadership resource environment, and thus the emotional strain of the work is greatly reduced (Ali et al., 2025). This may also apply to employees in banking due to the high demands of work from difficult customers and stringent work requirements.



Supporting H11-H14, emotional exhaustion is associated with poorer job performance, reduced organizational commitment, and reduced knowledge and creativity in the workplace. These findings further corroborate the existing literature on burnout. It has been noted that workers experiencing emotional exhaustion exhibit low motivation and concentration, as well as low psycho-energetic levels (Emeljanovas et al. 2023). As a result, they are likely to struggle to perform their work adequately, fulfill their commitments, and engage in teamwork and/or offer creative assistance. The findings indicate the detrimental effects of emotional exhaustion at the individual and organizational levels.

Findings related to the mediation hypotheses (H15-H22) were also supported. The findings show that emotional exhaustion partially mediated the effects of psychological safety and ethical leadership on the employee outcomes studied. The findings indicate that psychological safety and ethical leadership, in particular, have a direct effect on improving employee performance and commitment, as well as on the development of knowledge and creativity, by reducing emotional exhaustion, and/or have an indirect effect. These results further develop the existing literature by illustrating the role of emotional exhaustion as a significant organizational resource in the relationships between employee outcomes and organizational resources (Shen et al. 2024).

The findings of this study demonstrate the importance of banking organizations developing work environments that promote psychological safety and are characterized by ethical leadership. Creating environments that reduce emotional exhaustion and increase employees' psychological resources results in positive changes in employees' performance, commitment, willingness to share knowledge, and workplace creativity. These changes positively impact the organization's overall effectiveness and employees' well-being.

#### **Practical and Theoretical Implications**

These findings have important practical and theoretical implications. From a theoretical perspective, this study builds on the Conservation of Resources (COR) Theory, positing that, in the context of ethical leadership and psychological safety, emotional exhaustion can be mitigated by these organizational resources. This study also contributes to the literature on organizational behavior and leadership by integrating psychological safety, ethical leadership, emotional exhaustion, and various employee outcomes. This study also conceptualizes emotional exhaustion as a mediating variable, providing a better understanding of the role of organizational resources in employees' attitudes and behaviors.

In practice, these results suggest that banking providers should focus on building psychologically safe environments where employees can speak up, ask for and discuss the help they need and the mistakes they've made, without fear of being scolded. Building ethical leadership, defined here as fair, honest, and helpful, is critical for these safe environments. These safe environments and ethical leadership should improve employee performance, commitment, knowledge sharing, and participation in innovative and constructive activities, while reducing emotionally based job burnout. Furthermore, these safe environments and ethical leadership should improve employee job performance and reduce job burnout, while enhancing overall organizational efficiency, when combined with intentional workload management and supportive, stress- and goal-oriented supervision.



### Limitations

Despite the novel findings this research presents, there are still multiple limitations. First, the ability to make causal claims is limited by the cross-sectional design. Second, the use of self-report surveys to measure constructs raises concerns about social desirability and common method bias. Third, the research was strictly banking-based, meaning the findings are not generalizable beyond banking. Finally, the research focused only on the mediating role of emotional exhaustion, despite the likelihood that additional psychological mechanisms may explain the relationship between organizational resources and employee outcomes.

### Directions for Future Research

Future studies addressing the issues described in this study should consider using longitudinal or time-lagged approaches, as they would allow for stronger claims of cause and effect. Additionally, future researchers may consider variables such as work engagement, psychological empowerment, organizational trust, and job satisfaction. These future researchers may also consider the variables outlined in this study as potential moderators. Future research may also enhance the findings discussed in this study by accounting for cross-country and cross-industry research. Finally, researchers may consider employee outcomes such as innovative work behavior, employee well-being, turnover intentions, and organizational citizenship behavior to extend this study's work.

### Conclusion

This study evaluated the effect of psychological safety and ethical leadership on job performance, organizational commitment, knowledge sharing, and creativity of banking employees. The study also included the effect of emotional exhaustion as a mediator. The study findings revealed that psychological safety and employees' ethical leadership decreased emotional exhaustion, which negatively affected knowledge-sharing performance, commitment, and creativity. It was also revealed that employees' emotional exhaustion mediated the effects of psychological safety and ethical leadership on employees' various outcomes. This study highlights that cultivating psychologically safe and ethically sound workplaces is essential for improving employee welfare and enhancing overall organizational performance. In the banking sector, a psychologically safe and ethically good leadership resource may reduce emotional exhaustion and enhance workplace resources.

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