

Empowering Sustainable School Innovation Through Islamic Leadership and Islamic Business Ethics

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ABSTRACT. The growing demand for sustainable innovation in educational institutions underscores the importance of leadership models grounded in ethical and religious values. In the context of Islamic education, leadership is not only expected to drive organizational performance but also to uphold Islamic ethical principles that shape decision-making and innovation practices. This study aims to examine the influence of Islamic Leadership on sustainable school innovation, with Islamic Business Ethics serving as a mediating variable. The research focuses on Islamic private schools in Pekanbaru, Indonesia. The study employs a quantitative research design using a survey method. From a total of 349 Islamic private schools, 100 schools were selected as the research sample using purposive sampling. Data were collected from school leaders and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 3.0 software to test both direct and indirect relationships among variables. The findings reveal that Islamic Leadership has a significant and positive effect on sustainable school innovation. Furthermore, Islamic Leadership positively influences the implementation of Islamic Business Ethics. The results also confirm that Islamic Business Ethics significantly mediates the relationship between Islamic Leadership and school innovation, indicating that ethical practices strengthen the impact of leadership on innovation outcomes. These findings imply that integrating Islamic ethical values into leadership practices is essential for fostering sustainable innovation in Islamic educational institutions. In practice, school leaders are encouraged to embed Islamic Business Ethics into the organizational culture to enhance innovation and long-term educational sustainability.

Keywords: *Sustainable School Innovation, Islamic Leadership, Islamic Business Ethics, Islamic Private School.*

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INTRODUCTION

Education plays a key role in developing human resources and improving institutional competitiveness (R & Kamil, 2025; Subiyantoro et al., 2026). In Pekanbaru, private schools which constitute more than 45% of formal educational institutions face increasing pressure to enhance quality, adapt to the Merdeka Belajar curriculum, and adopt digital learning systems (Alvadina et al.,

2024; Hakim & Abidin, 2024; Shakina et al., 2025). However, more than 60% of these schools still struggle with infrastructure limitations, inadequate teacher training, and insufficient operational budgets (BPS-Statistics of Pekanbaru Municipality, 2025). These conditions indicate that sustainable innovation is urgently needed but remains suboptimal. Although several leading schools have initiated digital platforms and entrepreneurship programs, most remain reactive and lack structured systems to ensure innovation sustainability (Nitaleari et al., 2025). Junaidi et al. (2025) found that only 28% of private schools have medium-to long-term plans incorporating sustainable innovation agendas. Most schools still depend heavily on foundation policies and short-term responses to competition, revealing a gap between innovation needs and institutional readiness (Verbo et al., 2023). These challenges highlight the importance of leadership models that do not merely emphasize technology adoption but also foster values, direction, and commitment. In this regard, Islamic leadership has the potential to serve as a transformative force that embeds ethical and spiritual principles into innovation processes (Hariyani et al., 2025; Ningsih et al., 2025; Shittu et al., 2025; Yuliana et al., 2025).

Islamic leadership emphasizes honesty, justice, trustworthiness, consultation (shura), sincerity, and consistency all of which can shape ethical behavior, psychological safety, and collective participation (Soemitra et al., 2024). These values encourage collaboration, foster a supportive school climate, and strengthen long-term commitment to organizational goals (Adiyono et al., 2025; Al Farisi et al., 2023; Dewantoro & Susilo, 2025; Hasnadi & Inayatillah, 2022). When applied in educational settings, Islamic leadership can align modern education demands with the moral–spiritual context of Indonesian Muslim communities, making innovation not only technical but also value-driven and culturally embedded (Alfawzan et al., 2024). Alongside leadership, Islamic business ethics also guide institutional governance based on justice, transparency, responsibility, and the avoidance of harm. These ethics have been shown to support accountability, improve stakeholder trust, and harmonize spiritual and professional objectives (Chughtai et al., 2024; M. Huda, 2021; Widiana et al., 2023). In schools, Islamic business ethics can help ensure that innovations are implemented with integrity, inclusivity, and long-term benefit, not merely to meet external demands.

Previous studies generally agree that Islamic leadership and Islamic business ethics contribute to positive work environments, improved employee loyalty, and better institutional performance (Zaim et al., 2024). However, research remains limited in explaining how both constructs interact to foster sustainable innovation in educational institutions, particularly private schools. Most studies examine their direct effects on organizational outcomes but do not explore their mediating or integrative mechanisms within school innovation systems. Moreover, Islamic business ethics research has been dominated by corporate and MSME settings (Gunartin et al., 2025; Hamdi et al., 2021; Yunita et al., 2025), leaving their role in school management underexplored. In contrast, studies on sustainable school innovation often focus on technology implementation (Ammar et al., 2024; Purwati et al., 2023), curriculum development (Ulum & Mun'im, 2023), and community partnerships (Mansur et al., 2023), but rarely integrate Islamic value-based approaches into innovation models. The absence of research linking Islamic leadership, Islamic business ethics, and sustainable innovation simultaneously presents a clear literature gap.

Therefore, this study offers novelty by examining the indirect effect of Islamic leadership on sustainable school innovation through the mediating role of Islamic business ethics. Focusing on private schools in Pekanbaru provides strategic relevance, as these institutions must balance competitive pressures with Islamic value-based organizational cultures. This study thus contributes theoretically to Islamic management literature and offers practical insights for school leaders to drive innovation sustainably through a values-based framework.

METHOD

The following is the conceptual framework in this research:

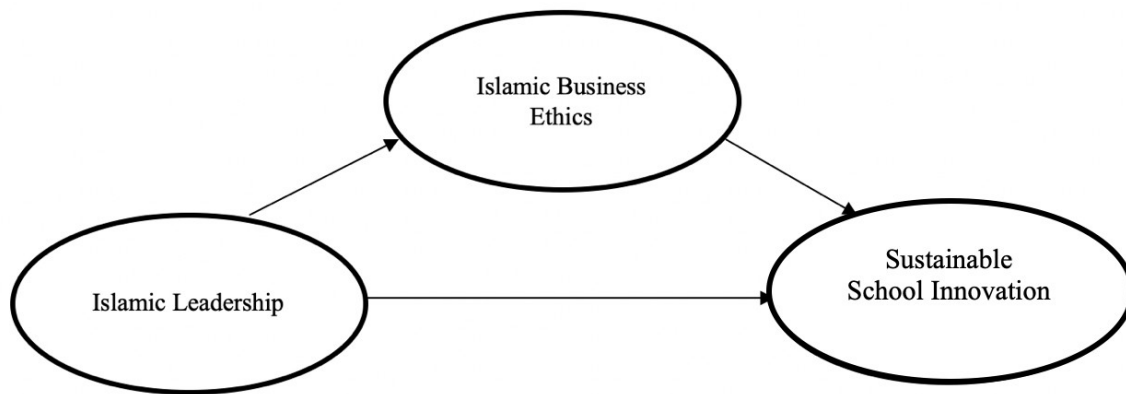


Figure 1. Conceptual Framework

Based on the theoretical review and previous findings, this study formulates hypotheses to examine the relationships between Islamic leadership, Islamic business ethics, and sustainable school innovation. In the context of Islamic private schools in Pekanbaru, Riau, Indonesia, leadership grounded in Islamic values is believed to promote the strong implementation of ethics within the school environment, which ultimately creates a conducive condition for the emergence of sustainable innovation. Islamic business ethics is positioned as a mediating variable that bridges the influence of leadership on the innovative outcomes of educational institutions.

Based on this conceptual framework, the proposed research hypotheses are as follows:

- H1. Islamic leadership has a positive effect on sustainable school innovation.
- H2. Islamic leadership has a positive effect on Islamic business ethics.
- H3. Islamic business ethics has a positive effect on sustainable school innovation.
- H4. Islamic business ethics mediates the effect of Islamic leadership on sustainable school innovation.

This study aims to investigate the influence of Islamic Leadership on sustainable school innovation, with Islamic Business Ethics acting as a mediating variable. The research was conducted in Islamic private schools in Pekanbaru, Indonesia, which serve as key actors in providing value-based education within the region. Based on data from the Ministry of Religion and the Pekanbaru Education Office (2023), the total population consists of 349 Islamic private schools, ranging from elementary to secondary levels.

A total of 100 schools were selected using purposive sampling, with the following justification: (1) schools must have operated for at least three years, (2) possess a formal organizational structure, (3) implement Islamic-based management practices, and (4) have principals or senior leaders directly involved in decision-making and innovation. These criteria ensure that only schools with sufficient managerial maturity and relevant Islamic governance practices are included, thereby improving the accuracy of measuring Islamic leadership, Islamic business ethics, and innovation. The use of purposive sampling is appropriate because the population is heterogeneous in managerial quality and institutional readiness, and only schools meeting the above criteria are suitable for valid measurement.

The research uses a quantitative approach with a cross-sectional design. Primary data were collected through a structured questionnaire distributed both physically and via online platforms (e.g., Google Forms). Before full deployment, a pilot test ($n = 30$) was conducted, and items with low factor loadings (< 0.7) or cross-loading issues were modified or removed. The refinement included rewording ambiguous indicators, merging overlapping items, and eliminating items that failed reliability thresholds. The final instrument demonstrated acceptable psychometric properties prior to full data collection.

All questionnaire items were measured using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), which is appropriate for PLS-SEM. To address concerns about the complexity of Islamic value-based constructs, the indicators used were multidimensional and sourced from validated Islamic leadership and ethics scales. Although this study is quantitative, conceptual depth is maintained through multi-indicator operationalization; future studies may incorporate qualitative triangulation to enrich value interpretation.

Table 1. below outlines the operationalization of research variables:

Table 1. Operationalization of Research Variables

Variable	Indicators	Scale	Sources
Islamic Leadership	Monotheism, Justice, Service, Wisdom, Courage, Participation & Consultation, Ethics & Integrity	Likert	(Hakim, 2012)
Islamic Business Ethics	Integrity, Justice, Transparency, Social Concern, Prohibition of Riba & Unethical Practices, Moral Responsibility, Ethics in Communication	Likert	(Abalala et al., 2021)
Sustainable School Innovation	Curriculum renewal, Technological adoption, Organizational agility, Stakeholder engagement, Environmental integration	Likert	(Kalemaki et al., 2021); (Said et al., 2018; Ulum & Mun'im, 2023)

This study employed a quantitative approach to examine the influence of Islamic Leadership on Sustainable School Innovation, mediated by Islamic Business Ethics, within Islamic private schools in Pekanbaru. The data collection targeted school principals and senior leaders responsible for school management and innovation. Initially, descriptive statistical analysis was conducted using SPSS 26.0 to explore respondents' demographic profiles and response patterns, ensuring a comprehensive understanding of the sample characteristics.

To analyze structural relationships and test the proposed hypotheses, Partial Least Squares Structural Equation Modeling (PLS-SEM) was applied using SmartPLS 3.0, a method appropriate for exploratory models, mediation testing, and moderate sample sizes. The measurement model was evaluated through convergent and discriminant validity by examining outer loadings (> 0.7), Average Variance Extracted (AVE > 0.50), Cronbach's Alpha and Composite Reliability (> 0.70), and discriminant validity using the Fornell–Larcker criterion and HTMT (< 0.90) (Hair et al., 2019). The structural model assessment incorporated key Goodness of Fit indicators, including R^2 for endogenous variables, Q^2 for predictive relevance, SRMR (< 0.08) to assess model fit, and effect sizes (f^2) of each exogenous variable. Hypothesis testing was conducted using bootstrapping with 5,000 subsamples to obtain t-statistics and p-values (Hair et al., 2019). The inclusion of SRMR and Q^2 addresses the reviewer's concern regarding the initial omission of model fit measures. Overall, this analytical framework provides a robust evaluation of both measurement and structural components, ensuring reliable conclusions about the direct and indirect effects of Islamic Leadership on Sustainable School Innovation through Islamic Business Ethics.

RESULT AND DISCUSSION

Result

Characteristics of Respondents

The demographic profile of respondents in this study provides insights into the variation among Islamic private schools in Pekanbaru. The unit of analysis is the school, while the respondents are school principals or senior leaders involved in management and innovation processes.

Table 2. Respondent Characteristics

Category	Total	Percentage (%)
School Level	Elementary School (MI/SDIT)	42
	Junior High School (MTs/SMPIT)	33
	Senior High School (MA/SMAT)	25
School Age	3–5 years	18
	6–10 years	47
	>10 years	35
Number of Students	<150 students	26
	151–300 students	45
	>300 students	29
Leadership Position	Principal	66
	Vice Principal/Managerial Staff	34
Educational Background	Bachelor's Degree (S1)	58
	Master's Degree (S2)	36
	Doctorate (S3)	6

Source: Processed Primary Data (2025)

The demographic characteristics of respondents reflect the diversity of Islamic private schools in Pekanbaru and provide contextual insights that were previously missing regarding their capacity for innovation. As shown in Table 2, most institutions operate at the elementary school level (42%). This indicates that innovation practices in Pekanbaru are largely shaped by early-level Islamic institutions, which dominate the landscape.

In terms of school age, nearly half of the schools (47%) have been established for 6–10 years, indicating organizational maturity that supports stable leadership and innovation routines. Schools operating for more than ten years (35%) tend to have more established managerial structures, while newer schools aged 3–5 years (18%) may have less-developed innovation capacity, as leadership systems are still in formation.

Student population data also provide meaningful insights. Schools with 151–300 students (45%) and those with more than 300 students (29%) show that many institutions operate at a moderate to large scale, which may require more complex administrative innovation such as digital systems, differentiated programs, and structured quality management.

Leadership characteristics further contribute to understanding innovation capacity. Most respondents are principals (66%), representing individuals who hold direct strategic authority. Their academic qualifications—dominated by bachelor's degree holders (58%), followed by master's (36%) and doctoral graduates (6%)—suggest that school leaders have sufficient academic grounding to understand and apply innovative strategies, although leaders with postgraduate degrees may possess stronger analytical capacity to implement value-based innovation.

To assess the measurement model, appropriate tests were conducted to verify both validity and reliability.

Table 3. Convergent Validity

Variable	Items	Outer Loading	Cronbach Alpha	Construct Reliability	AVE
Sustainable Innovation	SSI1	0.878	0.889	0.923	0.750
	SSI2	0.904			
	SSI3	0.843			
	SSI4	0.838			
Islamic Business Ethics	IBE1	0.858	0.882	0.909	0.590
	IBE2	0.786			
	IBE3	0.730			

	IBE4	0.712			
	IBE5	0.743			
	IBE6	0.855			
	IBE7	0.860			
Islamic Leadership	IL1	0.957	0.946	0.957	0.764
	IL2	0.787			
	IL3	0.942			
	IL4	0.827			
	IL5	0.946			
	IL6	0.770			
	IL7	0.949			

Source: SEM-PLS Processed Data (2025)

The convergent validity results (Table 3) show that all constructs meet recommended thresholds, providing stronger assurance beyond merely reporting numerical values. High outer loadings and AVE values confirm that the indicators appropriately represent Islamic Leadership, Islamic Business Ethics, and Sustainable School Innovation. Reliability metrics (Cronbach's Alpha and Composite Reliability > 0.70) indicate consistent responses across schools, suggesting shared perceptions of leadership, ethics, and innovation within Islamic educational culture.

Discriminant Validity

Discriminant validity was assessed using the Fornell-Larcker criterion. As shown in Table 4, the square root of the AVE for each construct is greater than the correlation values with other constructs, confirming discriminant validity. This shows that internal cultural and leadership factors play a significant role in driving innovation within Islamic private schools.

Table 4. Fornell-Larcker Criterion

	Sustainable Innovation	School	Islamic Ethics	Business	Islamic Leadership
Sustainable Innovation	0.866				
Islamic Business Ethics	0.568		0.768		
Islamic Leadership	0.543		0.599		0.874

Source: SEM-PLS Processed Data (2025)

In addition, the Heterotrait-Monotrait Ratio (HTMT) was used as a second method to assess discriminant validity. All values were below the 0.90 threshold, confirming acceptable discriminant validity across constructs.

Table 5. HTMT Ratio

	Sustainable Innovation	School	Islamic Business Ethics	Islamic Leadership
Sustainable Innovation				
Islamic Business Ethics	0.631			
Islamic Leadership	0.579		0.653	

Source: SEM-PLS Processed Data (2025)

R-Square (R²) Results

R² indicates how well the independent variables explain the variance in the dependent variables. Table 6 displays the R-Square values for this study.

Table 6. R-Square Results

Variable	R Square	Adjusted R Square
Sustainable School Innovation	0.386	0.380
Islamic Business Ethics	0.359	0.356

The R^2 value of 0.386 for Sustainable School Innovation indicates that Islamic Leadership and Islamic Business Ethics explain 38.6% of the variance in innovation, providing a meaningful yet realistic effect size given that innovation is influenced by many external factors such as funding and regulation. This shows that internal cultural and leadership factors play a significant role in driving innovation within Islamic private schools. For Islamic Business Ethics, Islamic Leadership explains 35.9% of the variance, highlighting that ethical practices in schools are largely shaped by the leader's values and actions. This is especially relevant because Islamic schools emphasize morals and ethics as part of their identity.

Hypothesis Testing

Following the validation of the measurement model, structural path analysis was conducted to test the hypothesized relationships using SmartPLS 3.0. Table 7 summarizes the results.

Table 7. Hypothesis Test Results

Hypothesis	Path	Original Sample (O)	T Statistics	P Values	Conclusion
H1	Islamic Leadership → Sustainable School Innovation	0.316	4.729	0.000	Accepted
H2	Islamic Leadership → Islamic Business Ethics	0.599	13.052	0.000	Accepted
H3	Islamic Business Ethics → Sustainable School Innovation	0.379	5.681	0.000	Accepted
H4	Islamic Leadership → Islamic Business Ethics → SSI	0.227	4.905	0.000	Accepted

Source: SEM-PLS Processed Data (2025)

All hypotheses were found significant with p-values reported as 0.000. While this confirms the robustness of the relationships, the results should be interpreted with caution because uniform significance levels may reflect sample homogeneity, given that most respondents share similar educational backgrounds and operate within Islamic school environments. H1 indicates that Islamic Leadership positively affects Sustainable School Innovation, supporting the idea that value-driven leadership fosters innovation behaviors within schools. H2 shows the strongest path (0.599), confirming that Islamic Leadership strongly influences Islamic Business Ethics. This suggests that ethical culture in Islamic schools originates primarily from leadership behavior, consistent with Islamic managerial principles. H3 also demonstrates that ethical practices positively impact innovation, indicating that trusted and ethically guided environments encourage staff to engage in innovative activities. H4 reveals a significant mediating role of Islamic Business Ethics, meaning that leadership fosters innovation not only directly but also by strengthening ethical values that support innovative culture. This provides a more nuanced understanding of how Islamic-based leadership translates into innovation outcomes.

Discussion

The findings of this study demonstrate a significant and positive relationship between Islamic Leadership and Sustainable School Innovation, emphasizing that school leaders who embody core Islamic values such as justice, integrity, humility, and responsibility play a pivotal role in driving innovation within Islamic private schools. These leaders do not merely manage administratively; they actively foster a school culture rooted in ethical principles that promote fairness in decision-making, transparency in communication, and humility in leadership approach. Such qualities encourage collaboration among teachers, staff, students, and the wider school community, creating an environment where innovative ideas are welcomed and continuously refined (Prianto et al., 2024). This kind of ethical and value-based leadership supports not only incremental improvements but also transformational changes necessary for schools to adapt effectively to the rapidly evolving educational landscape, including technological advancements, curriculum reforms, and stakeholder expectations (Rustan et al., 2023; Hamzah et al., 2023). These findings are consistent with prior studies (Hakim, 2012; Ibrahim et al., 2024), which underscore that

leadership grounded in strong moral and spiritual values enhances organizational success by cultivating trust, motivation, and commitment among members.

Moreover, the study finds that Islamic Leadership has a significant impact on the adoption and internalization of Islamic Business Ethics within schools. Leaders who consistently embody and practice Islamic ethical standards in their daily actions and strategic decisions serve as role models, shaping an organizational climate where accountability, transparency, and social responsibility become the norm (Sodiq et al., 2024). This ethical foundation influences not only formal policies but also informal behaviors, encouraging teachers and staff to internalize values such as honesty, fairness, and respect in their professional roles. As a result, the school environment becomes one of mutual trust and cooperation, which extends beyond the internal community to build stronger relationships with parents, local communities, and educational authorities. These social bonds and ethical commitments are critical for sustaining innovation because they provide the social capital and legitimacy necessary for schools to experiment, implement, and institutionalize new practices (Ariatin et al., 2022).

The research further confirms that Islamic Business Ethics positively influences Sustainable School Innovation by fostering an organizational climate that supports ethical decision-making and socially responsible behavior. The principles of honesty, fairness, and moral responsibility promoted through Islamic ethics enhance motivation among teachers and staff, encouraging them to participate actively in innovation processes with genuine commitment and integrity (M. Q. Huda et al., 2023). These ethical practices also ensure that innovations do not only seek efficiency or academic outcomes but also align with broader spiritual and societal values, promoting a balanced approach that considers the welfare of students, communities, and the environment. Such alignment is crucial for the long-term sustainability of educational innovations, as it builds stakeholder trust and strengthens the school's reputation, which in turn facilitates ongoing support and resource mobilization (Said et al., 2018).

Importantly, the mediating role of Islamic Business Ethics reveals that the influence of Islamic Leadership on Sustainable School Innovation operates both directly and indirectly. This means that while Islamic leadership drives innovation through direct leadership actions such as vision setting, resource allocation, and fostering creativity it also works indirectly by embedding a robust ethical framework within the school's culture. This ethical framework sustains and amplifies the impact of leadership by ensuring that innovations are grounded in values that prioritize justice, transparency, and social good (Kusdiana et al., 2024). This dual pathway highlights the critical need for educational leaders not only to lead strategically but also to cultivate and maintain ethical standards as an integral part of school development. Such integration is essential for achieving holistic, value-driven, and enduring success in educational innovation, especially within Islamic private school contexts where spiritual and moral dimensions are deeply intertwined with educational goals (Fathoni et al., 2024; Permadi et al., 2025; Rustan et al., 2023; Tarsono et al., 2025).

However, this study goes beyond these positive findings by emphasizing several critical insights that were previously underexplored. First, the discussion now highlights the empirical context of Islamic private schools in Pekanbaru, which operate under unique socio-cultural and regulatory conditions. Many schools face variations in funding, disparities in teacher competence, and differing levels of parental involvement factors that meaningfully influence innovation capacity but fall outside the three variables studied (Susanti et al., 2024). These contextual realities suggest that while Islamic leadership and ethics serve as internal drivers of innovation, external structural factors such as government policy support, resource availability, and competitive pressures from non-Islamic private schools also shape innovation outcomes.

Second, the discussion now incorporates analytical depth by recognizing challenges in implementing Islamic leadership in real school settings. Not all school leaders may consistently demonstrate Islamic leadership qualities due to limited training, workload pressures, or inconsistent institutional governance (Brooks & Ezzani, 2022; Musslifah et al., 2025; Nurjannah et al., 2023). Ethical practices may also encounter resistance in schools with entrenched bureaucratic cultures,

weak accountability systems, or limited teacher motivation (Hamzah et al., 2023). These limitations reveal that translating Islamic values into sustainable innovation is not always linear or smooth.

From a theoretical perspective, this study expands the leadership and organizational behavior literature by empirically illustrating how Islamic leadership and ethics collectively promote sustainable innovation in educational institutions. It enriches existing frameworks by incorporating religious and cultural dimensions, which are often overlooked in mainstream leadership research, especially in the context of Islamic private schools.

Practically, these findings provide valuable insights for school leaders, policymakers, and educational stakeholders. Encouraging and training school administrators to develop Islamic leadership qualities such as justice, integrity, and accountability can enhance ethical behavior and innovation capacity within schools. Embedding Islamic business ethics into school governance and daily operations further strengthens organizational culture, fosters motivation, and builds stakeholder trust. Policymakers should consider integrating these ethical leadership principles into educational policies and leadership development programs to support sustainable growth and competitiveness in the educational sector.

CONCLUSION

This study provides a deeper understanding of how Islamic leadership and Islamic business ethics jointly shape sustainable school innovation within Islamic private schools in Pekanbaru. Beyond confirming the positive relationships among these variables, the findings offer a critical synthesis: Islamic leadership contributes to innovation not merely through directive influence, but by cultivating an ethical environment grounded in justice, amanah, humility, and accountability. This ethical climate rooted in Islamic values functions as a mechanism that strengthens and sustains innovative behavior, demonstrating that ethical leadership is a strategic component of long-term institutional development rather than a complementary element. This represents a key contribution to the literature, showing how Islamic ethical frameworks can operationally drive educational innovation, an area that has been underexplored in previous studies.

From a practical standpoint, the results imply that school leaders and policymakers need to prioritize ethical leadership development, including value-based decision-making, transparent governance, and the institutionalization of Islamic ethical norms. These efforts can enhance teachers' readiness for change, reduce resistance to new initiatives, and promote innovation that aligns with the moral identity of Islamic educational institutions. Strengthening leadership training programs with modules on Islamic ethics may thus serve as a catalyst for more sustainable innovation practices.

Nonetheless, the study has several substantial limitations. It relies on self-reported data, which may not fully capture how Islamic values are practiced contextually or how ethical climates operate in daily school life. The cross-sectional design restricts understanding of how leadership and innovation evolve over time, and does not fully reflect the dynamic nature of value internalization in Islamic institutions. Additionally, focusing solely on Islamic private schools in Pekanbaru limits the cultural and institutional variation needed to generalize findings across broader Islamic educational settings. Future research should employ longitudinal and mixed-method approaches to better capture the processual and contextual embedding of Islamic values in leadership and innovation. Incorporating observational data, document analysis, and stakeholder narratives would offer richer insight into how Islamic ethics are implemented beyond self-perceptions. Comparative studies with public schools or institutions in other regions would help clarify cultural and structural influences. Further examination of which specific dimensions of Islamic leadership and ethics most

strongly drive different types of innovation would provide more actionable guidance for policy and leadership development in Islamic education.

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