Islamic leadership and work-life balance: Impact on Generation Z performance

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Abstract

Purpose – This study examines the impact of Islamic leadership styles, including transformational, transactional, and charismatic approaches, on Generation Z employees' performance. Rooted in ethical and moral paradigms, Islamic leadership underscores principles that resonate with the importance of work-life balance, a key priority for Generation Z.

Methodology – Adopting a quantitative research methodology, this study evaluates the mediating role of work-life balance and the moderating influence of Islamic work ethics on the interplay between leadership styles and employee performance. Data were gathered through structured questionnaires completed by 101 Generation Z employees across diverse organizational settings.

Findings – The findings reveal that charismatic leadership significantly enhances employee performance, with Islamic work ethics serving as a crucial moderating factor that strengthens the relationship between charismatic leadership and work-life balance. Conversely, transformational and transactional leadership styles demonstrate no significant impact on performance, highlighting Generation Z's preference for flexible and relational leadership.

Implications – These results provide valuable insights for organizations aiming to integrate Islamic values into their leadership frameworks, fostering a unified and performance-driven work environment tailored to the aspirations of the modern workforce.

Originality – This study uniquely explores the impact of Islamic leadership styles on Generation Z employees, emphasizing their distinct work-life balance priorities. It also introduced Islamic work ethics as a moderating factor, offering fresh insights into culturally relevant leadership practices.

Introduction

Generation Z, encompassing individuals born between 1997 and 2012, has emerged as a dominant demographic in Indonesia's workforce. According to the 2020 Population Census, this generation accounted for 27.94% of the nation's total population, representing approximately 75.49 million people. Forecasts suggest that Generation Z is poised to remain a substantial segment of the workforce decades ahead (Biro Pusat Statistik, 2020). This demographic shift has not only reshaped workplace dynamics but also necessitates adjustments in human resource management practices. As a highly technology-savvy cohort, Generation Z exhibits distinct expectations regarding work environments compared to previous generations. Technology plays an integral role in daily life by

fostering adaptability to change and innovation. Nevertheless, their pronounced preference for work-life balance remains a key determinant in their decision to remain with an organization.

The issue of work-life balance extends beyond a mere trend among modern employees; it has emerged as an increasingly critical necessity, particularly for Generation Z, who prioritizes flexibility in managing their personal and professional lives. As illustrated in Figure 1, recent data from a 2022 survey conducted by Data Indonesia revealed that 37.2% of Generation Z employees in Indonesia opted to resign from their jobs due to insufficient work-life balance. Furthermore, 56.9% of the participants reported irregular working hours, often leading to fatigue and burnout (Data Indonesia, 2022). These circumstances present significant challenges for organizations striving to retain talent from this generation, whose expectations regarding work-life equilibrium markedly differ from those of previous generations.
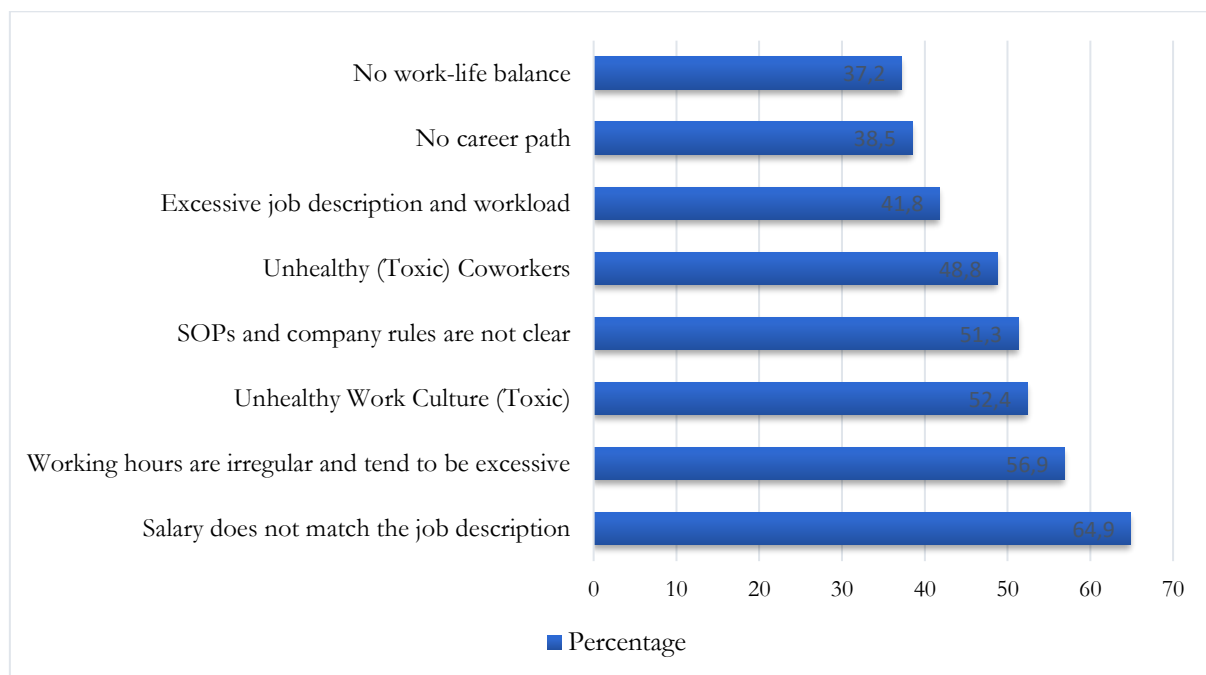

Figure 1. Reasons Gen Z resigned from the workplace
Source: dataindonesia.id (November, 2022)

Human resource performance has emerged as a critical determinant of organizational competitiveness in the context of rapid technological advancement and intensified global competition. Organizations that succeed in sustaining high employee performance are better positioned to thrive and expand in increasingly competitive markets (Zameer et al., 2014). Skilled, motivated, high-quality human resources are fundamental assets required to achieve corporate objectives. Furthermore, optimal employee performance has consistently been linked to organizational success. Fostering a conducive work environment that supports work-life balance has become a critical approach to enhancing employee performance, especially within the context of Generation Z. Work-life balance is widely regarded as a critical determinant of employee performance. Research by Lukmiati (2020) and Wulandari and Hadi (2021) indicates that employees with a well-maintained balance between their professional and personal lives exhibit higher productivity and job satisfaction.

However, conflicting perspectives exist, Kembuan et al. (2021) suggest that work-life balance may have a negligible effect on performance, particularly in high-pressure environments. These inconsistencies necessitate further research to clarify the relationship, especially for Generation Z, whose work habits differ significantly from those of the previous generations. Beyond work-life balance, leadership style is a crucial factor in shaping employee performance. Leaders play a strategic role in fostering work environments that support employee well-being and productivity. Effective leadership not only facilitates goal achievement but also enhances

motivation and organizational commitment. Empirical studies Suyatin (2019) affirm that leadership styles that emphasize clear directions and employee support significantly enhance workplace performance. However, some studies argue that leadership styles do not consistently impact performance across different organizational cultures and industries (Poluan, 2018).

Leadership style remains a topic of extensive academic debate, with scholars examining its varying impacts on employee performance. Research Kalambayi et al. (2021) underscores a strong connection between leadership approaches and performance outcomes, although some findings highlight inconsistencies across organizational contexts. These variations indicate the need for further investigation, particularly regarding leadership styles that are most effective in managing Generation Z employees. Given Indonesia's predominantly Muslim workforce, the integration of Islamic leadership principles has gained attention in human resource management. Islamic leadership encompasses three primary styles: transformational, transactional, and charismatic. Transformational leadership focuses on inspiring employees; transactional leadership emphasizes performance-based rewards; and charismatic leadership fosters trust and loyalty (Bass, 1997). These approaches align with Islamic ethical principles, which emphasize holistic well-being and organizational success.

This study examines the impact of transformational, transactional, and charismatic leadership on work-life balance and employee performance among Generation Z employees in Indonesia. Given the unique characteristics and expectations of this generation—particularly their emphasis on flexibility, purpose-driven work, and psychological well-being—understanding which leadership styles are most effective becomes increasingly important. The study also incorporates Islamic work ethics as a moderating variable to assess how value-based leadership enhances the relationship between leadership style and employee outcomes. Islamic work ethics rooted in the principles of fairness, integrity, and responsibility may strengthen the impact of leadership by aligning organizational behavior with employees' moral expectations. By integrating Islamic leadership principles, this study seeks to provide strategic insights for organizations to foster an ethical and productive work environment suited to the needs of Generation Z.

Literature Review

Islamic leadership styles

Islamic leadership integrates moral and spiritual dimensions derived from the Qur'an and Sunnah, fostering a leadership approach that emphasizes the ethical guidance, accountability, and well-being of subordinates (Harjoni et al., 2023). Unlike conventional leadership paradigms that primarily focus on performance outcomes and organizational goals, Islamic leadership extends its influence on the holistic welfare of employees, including their work-life balance. By incorporating principles, such as justice (*adl*), consultation (*shura*), and compassion (*rahmah*), Islamic leadership promotes an equitable work environment that reduces stress and enhances overall life satisfaction (Abdelwahed et al., 2024). The Prophet Muhammad (peace be upon him) exemplified these values by fostering a leadership culture rooted in trust, emotional support, and work-life harmony. Consequently, Islamic leadership not only enhances organizational commitment and performance but also plays a pivotal role in maintaining a sustainable work-life balance among Generation Z employees, who increasingly value workplace flexibility and well-being (Udin, 2024).

Transformational leadership

Transformational leadership plays a pivotal role in shaping employees' work-life balance by fostering motivation, innovation, and individualized support. Leaders who exhibit Idealized Influence establish trust and ethical guidance, which enhances employees' sense of security and reduces work-related stress (Al-Amin, 2017; Bass et al., 2003; Kumar, 2019; Riyanto & Endri, n.d.). Inspirational Motivation encourages a shared vision, aligning personal and professional aspirations, and thereby creating a more balanced and fulfilling work environment (Li et al., 2019). Intellectual Stimulation fosters problem-solving autonomy, enabling employees to manage workloads more effectively and reducing conflicts between work and personal responsibilities. Finally,

Individualized Consideration ensures that employees' unique needs are acknowledged, facilitating flexible work arrangements that improve overall well-being. By integrating these dimensions, transformational leadership not only enhances organizational performance but also optimizes work-life balance, leading to higher employee satisfaction and retention (Wuryaningrat et al., 2024).

Transactional leadership

Transactional leadership (Bass, 1997) relies on structured rewards and corrective actions to improve performance. While contingent rewards enhance motivation and financial security, fostering work-life balance through reduced stress and clear expectations, management by exception presents challenges (Perkasa Alam et al., 2023). Active management, by exception, increases pressure due to constant oversight, limiting the autonomy essential for balance (Putu et al., 2019; Sanda & Arthur, 2017). Meanwhile, passive management by exception fosters uncertainty, forcing employees to remain highly alert even outside work (Bass, 1997). Although transactional leadership ensures efficiency, its rigid mechanisms can disrupt work-life harmony (Desti Febrian et al., 2023). The balance between performance enforcement and employee well-being depends on leaders' flexibility in applying incentives and corrective measures. If applied rigidly, it may compromise long-term sustainability, despite short-term gains (Bass, 1997).

Charismatic leadership

Charismatic leadership fosters strong emotional bonds and inspires followers to commit fully to shared goals (Salloum et al., 2024). By aligning values and instilling confidence, charismatic leaders enhance motivation and job satisfaction, indirectly promoting work-life balance. Their clear vision and inspirational influence create a sense of purpose, reduce work-related stress, and enhance their engagement (Conger & Kanungo, 1987). However, intense emotional attachment and high performance expectations can blur the boundaries between work and personal life, potentially leading to burnout (Luu, 2023; Salem et al., 2025). Followers may feel compelled to prioritize collective goals over personal well-being, diminishing work-life balance (Tuan & Thao, 2018). While charismatic leadership drives extraordinary performance, its impact on work-life integration depends on the leader's ability to balance ambition with employee well-being (Conger & Kanungo, 1987).

Work-life balance

Work-life balance significantly influences employee performance by fostering well-being, reducing stress, and enhancing job satisfaction (Fisher, 2001). Employees who effectively manage their professional and personal responsibilities experience greater motivation, productivity, and engagement (Crompton & Lyonette, 2006). Conversely, an imbalance can lead to burnout, reduced efficiency, and lower commitment, ultimately impairing organizational outcomes (Fisher, 2001; Imran et al., 2025). Clark (2000) argued that optimal balance minimizes role conflict, allowing individuals to excel in both spheres. Similarly, Runtu et al. (2022) emphasized the need for personal fulfillment alongside career success to sustain long-term performance. Thus, organizations must facilitate policies that support work-life balance and ensure that employees remain both productive and satisfied. A well-balanced workforce enhances retention, innovation, and overall performance, benefiting both individuals and organizations (Al Harbi, 2020; Anggraeni & Mulyana, 2021; Kara et al., 2018; Sani & Adisa, 2024).

Employee performance

Employee performance is a multidimensional construct that encompasses not only individual productivity, but also the broader effectiveness of an organization. It is shaped by various factors, including organizational support systems, managerial competence, employee motivation, and individual skills (Eliyana & Ma'arif, 2019; Kumar et al., 2023; Perkasa Alam et al., 2023). Thus, performance assessment should go beyond mere task completion by integrating indicators such as process efficiency, innovation, responsiveness to change, and collaborative engagement (Al Harbi,

2020; Oringo et al., 2020; Zameer et al., 2014). In this context, leadership plays a pivotal role in creating an environment that is conducive to growth, autonomy, and accountability. Leaders capable of aligning organizational goals with individual aspirations often enhance both job satisfaction and performance outcomes. Therefore, a holistic evaluation of performance requires a framework that captures not only tangible results, but also the qualitative dimensions of work behavior, including adaptability, initiative, and value alignment (Rumondang et al., 2022). These considerations are particularly relevant in contemporary, diverse workplaces, where generational preferences and ethical orientations shape performance expectations.

Islamic work ethics

Islamic work ethics (IWE) profoundly influence transformational, transactional, and charismatic leadership by embedding ethical principles derived from the Qur'an and Sunnah into leadership practices. Transformational leaders, guided by IWE, emphasize justice, transparency, and the collective well-being of followers, fostering an ethical and inspiring work environment(Ahmad & Owoyemi, 2012). In transactional leadership, IWE reinforce fairness in rewards and accountability, ensuring that leaders maintain integrity while maintaining structured performance expectations(Ali & Al-Owaihan, 2008). For charismatic leadership, IWE cultivate moral authority, where leaders gain influence not only through vision but also through their commitment to ethical business practices, justice, and service to the Ummah. Ultimately, IWE enhances leadership effectiveness by aligning work as a virtuous duty with strategic and ethical decision making.

Hypotheses development

Leadership plays a central role in shaping employee performance, motivation, and broader dynamics of the workplace. In Islamic organizational contexts, leadership that integrates ethical values and prioritizes holistic well-being is critical. This study explores the effects of three leadership styles—transformational, transactional, and charismatic—on employee performance, incorporating IWE as a moderating variable and work-life balance (WLB) as a mediator. Transformational leadership is known for its ability to transcend transactional exchanges by fostering a sense of shared vision, intrinsic motivation, and ethical commitment (Bass et al., 2003; Wuryaningrat et al., 2024). Within an Islamic framework, transformational leaders are expected not only to motivate employees but also to uphold principles such as justice, trust, and collective well-being (Eliyana & Ma'arif, 2019; Indriasari et al., 2023; Li et al., 2019). This alignment between leadership behavior and Islamic values is theorized to reinforce organizational commitment, enhance creativity, and cultivate a value-driven work environment that supports long-term performance. In line with this theoretical framework, this study proposes the following hypothesis:
H_1: Transformational leadership positively influences employee performance.

Transactional leadership is fundamentally rooted in structured reward systems and performance-based incentives, which ensure clarity in expectations and reinforce accountability (Bass, 1997; Putu et al., 2019). This leadership approach is particularly effective in structured and task-oriented environments, in which employees respond well to tangible rewards and performance metrics (Bass et al., 2003; Desti Febrian et al., 2023). Although it may not stimulate innovation to the same degree as transformational leadership, transactional leadership remains a key determinant of employee performance, especially in contexts that prioritize efficiency and goal achievement (Bass, 1997; Perkasa Alam et al., 2023; Wuryaningrat et al., 2024). Based on the preceding discussion, this study formulated the following hypothesis:
H_2: Transactional leadership positively influences employee performance.

Charismatic leadership is characterized by a leader's ability to inspire and mobilize employees through personal vision, unwavering confidence, and emotionally compelling communication. This leadership style emphasizes the relational and motivational dimensions of influence, making it particularly effective in environments in which personal connections and

shared values are prioritized. Within Islamic organizational settings, charismatic leaders who embody strong ethical and moral convictions can elevate employee commitment by cultivating a collective sense of purpose grounded in spiritual and social responsibility (Conger & Kanungo, 1987; Luu, 2023; Salloum et al., 2024; Tuan & Thao, 2018). Such leaders tend to create emotionally resonant workplaces where followers feel valued, heard, and inspired, which is conducive to enhanced job satisfaction and performance. The emotional depth of charismatic leadership not only enhances intrinsic motivation but also strengthens trust, fostering a high-performance culture that aligns with the ethical expectations of a predominantly Muslim workforce. Accordingly, this study proposes the following hypotheses:

H3: Charismatic leadership positively influences employee performance.

Islamic work ethics (IWE) emphasize sincerity, honesty, fairness, and social responsibility (Ali & Al-Owaihan, 2008). These ethical principles play a crucial role in reinforcing leadership effectiveness, particularly in promoting employee well-being and work-life balance (Sani & Adisa, 2024). When coupled with transformational leadership, IWE may enhance employees' intrinsic motivation and overall well-being, fostering a more balanced integration of professional and personal life. Employees who operate under transformational leadership and adhere to Islamic ethical principles are likely to experience higher job satisfaction and a healthier work-life balance (Ali & Al-Owaihan, 2008; Gomes et al., 2024). To reflect the relationships described earlier, this study proposes the following hypotheses:

H4: Islamic work ethics strengthen the relationship between transformational leadership and work-life balance.

Similarly, transactional leadership, which is largely driven by performance-based incentives and extrinsic motivation, can be significantly influenced by Islamic work ethics (IWE). While this leadership style traditionally relies on structured exchanges, such as contingent rewards and corrective mechanisms, IWE introduces a moral compass that emphasizes fairness, accountability, and justice in leader-subordinate interactions (Ahmad & Owoyemi, 2012). When transactional mechanisms are guided by ethical values, employees are more likely to perceive reward systems as equitable and trustworthy, which can reduce workplace stress and foster a healthier work-life balance (Ali & Al-Owaihan, 2008; Gomes et al., 2024). In such contexts, employees tend to feel respected and valued, as performance evaluations are perceived as not only objective, but also morally sound. This ethical alignment may significantly enhance the psychological well-being of employees, particularly within Islamic organizational cultures. In light of these considerations, the following hypothesis was formulated:

H5: Islamic work ethics strengthen the relationship between transactional leadership and work-life balance.

Charismatic leadership, when practiced within the framework of Islamic work ethics, has the potential to cultivate a work environment that transcends transactional motivations and emphasizes intrinsic values. Leaders who embody charisma while upholding Islamic ethical principles such as sincerity, justice, and compassion can create a deeply supportive and morally anchored organizational culture (Ahmad & Owoyemi, 2012). Such leaders tend to inspire a sense of trust and emotional connection, which, in turn, fosters psychological safety and strengthens employee well-being. Within this context, work-life balance emerges not merely as a policy goal but as a cultural norm, encouraged by leaders who model empathy and ethical responsibility (Conger & Kanungo, 1987; Luu, 2023; Salloum et al., 2024; Tuan & Thao, 2018). Employees who perceive their leaders as ethically grounded and genuinely concerned with their holistic development are more likely to achieve an equilibrium between personal and professional domains. Building on these insights, the following hypothesis is proposed.

H6: Islamic work ethics strengthen the relationship between charismatic leadership and work-life balance.

Work-life balance has been widely acknowledged as a crucial factor in sustaining employee productivity, reducing burnout, and enhancing job satisfaction (Wuryaningrat et al., 2024). Leadership styles that promote well-being and personal development are more likely to indirectly enhance employee performance by facilitating a better work-life balance (Kembuan et al., 2021; Poluan, 2018; Safria, 2022). Transformational leadership, which inherently fosters personal growth and motivation, may contribute to improved work-life balance, which in turn positively affects employee performance. Employees who experience a sense of purpose and alignment between their work and personal values are likely to demonstrate enhanced productivity (Wuryaningrat et al., 2024). Based on the literature and conceptual reasoning, the following hypothesis is proposed.

H₇: Work-life balance mediates the relationship between transformational leadership and employee performance.

Transactional leadership, with its focus on clearly defined tasks and performance-based rewards, may indirectly influence employee performance through its effect on work-life balance. Although this leadership style emphasizes efficiency and compliance, it can also promote predictable work structures that contribute to role clarity and reduce job ambiguity. When such systems are accompanied by ethical practices and considerations for employee well-being, they can foster a work environment that allows individuals to maintain healthier boundaries between work and personal life (Wuryaningrat et al., 2024). Previous studies have shown that employees who achieve this balance are more likely to report lower stress levels and demonstrate greater productivity (Kembuan et al., 2021; Poluan, 2018; Safria, 2022). Thus, work-life balance may function as a critical intermediary mechanism that enhances the positive outcomes of transactional leadership. Based on this reasoning, this study formulated the following hypothesis:

H₈: Work-Life Balance mediates the relationship between Transactional Leadership and Employee Performance.

Through its emotionally engaging and visionary approach, charismatic leadership fosters a work environment that naturally supports employee well-being and engagement. Leaders who inspire trust, communicate a compelling vision, and demonstrate empathy are more likely to cultivate a culture in which employees feel valued and supported. Such a climate contributes significantly to work-life balance, as employees experience psychological safety and flexibility in managing both personal and professional responsibilities (Conger & Kanungo, 1987; Luu, 2023; Salloum et al., 2024; Tuan & Thao, 2018). Balanced individuals are not only more satisfied with their jobs but also tend to exhibit higher levels of energy, creativity, and persistence, which are factors that drive optimal performance. Previous research confirms that work-life balance serves as a crucial mediating variable linking charismatic leadership with enhanced employee outcomes (Kembuan et al., 2021; Poluan, 2018; Safria, 2022). Accordingly, we propose the following hypothesis:

H₉: Work-life balance mediates the relationship between charismatic leadership and employee performance.

Conceptual framework

Building on the theoretical framework outlined above, this study seeks to examine the relationships between Islamic leadership styles, work–life balance, employee performance, and Islamic work ethics within the context of Generation Z employees. As depicted in Figure 2, this study explored both the direct and indirect relationships among the key variables. Specifically, it examines how various Islamic leadership styles—transformational, transactional, and charismatic —directly impact employee performance. Additionally, the research delves into the indirect effects of these leadership styles on performance, with work-life balance serving as a mediator. Furthermore, Islamic work ethics were incorporated as moderating variables to enhance the impact of Islamic leadership styles on employee performance.
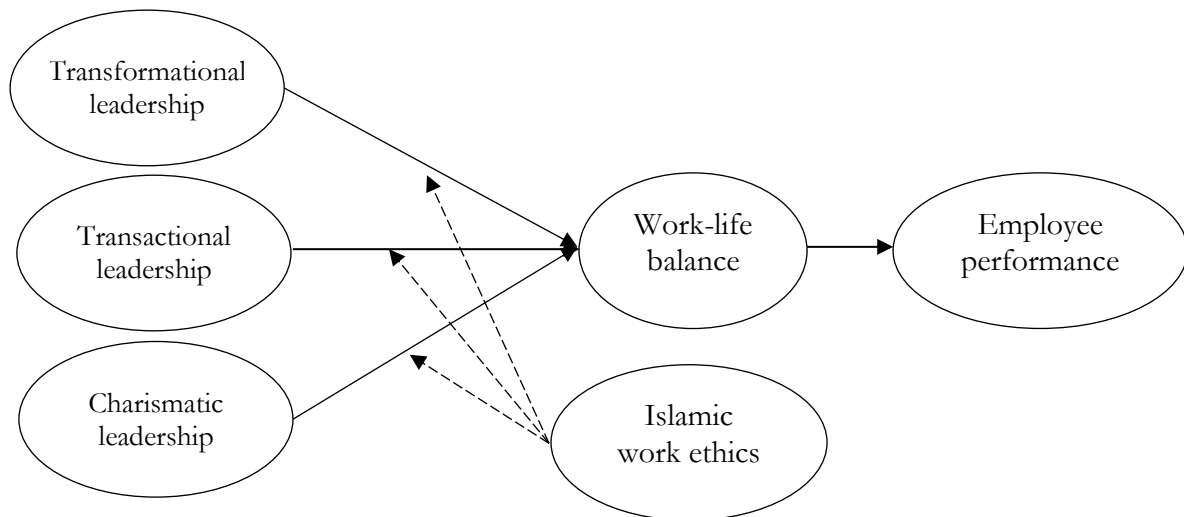
Figure 2. Conceptual framework
Source: Author's own, 2024

Research Methods

This study employed a quantitative research methodology within a positivist paradigm to systematically examine the relationship between Islamic leadership styles, work-life balance, and employee performance among Generation Z employees in Islamic Financial Institutions (IFIs) (Sugiyono, 2014). A purposive sampling technique was utilized to select participants who met specific criteria, including an age range of 15–27 years and a minimum of one year of work experience in IFIs, ensuring sufficient exposure to workplace dynamics (Bougie & Sekaran, 2019). Data were collected through an online survey distributed via Google Forms over two weeks in November 2024, yielding 101 responses. After filtering out nine responses that did not meet the inclusion criteria, 92 valid responses were analyzed. As outlined in Table 1, the study's operational framework Bougie and Sekaran (2019) emphasizes the importance of precisely defining and measuring abstract constructs such as leadership styles, work-life balance, and employee performance through structured indicators.

Table 1. Operational definition of variables

Variables	Definition	Indicators
Independent variables		
Transformational leadership	Leadership styles that effectively motivate and guide followers toward achieving established goals are characterized by the precise communication of roles and task expectations (Rivai, 2004).	a. Attributes of Idealized Influence b. Behaviors of Idealized Influence c. Motivational Inspiration d. Intellectual Empowerment e. Personalized Attention (Safria, 2022)
Transactional leadership	This leadership approach focuses on accomplishing organizational objectives by implementing a well-defined system of rewards and penalties. Bass (1997) identifies three core elements that define transactional leadership.	a. Monitors errors needing corrections b. Tells me what to do to get reward c. Focused on irregularities and mistakes d. Talk optimistic about special rewards e. Keeps track of mistakes f. Point out future reward for performance g. Negotiate reward for performance h. Alert of failure (Ahmad & Fontaine, 2011)

Variables	Definition	Indicators
Charismatics leadership	A leadership style in which leaders are adept at recognizing opportunities in uncertain environments and motivating their followers to attain extraordinary results (Conger & Kanung, 1987).	a. The leader articulates a visionary framework that captivates and motivates the team to commit to a shared goal. b. Strong and expressive communication methods are employed when presenting the vision. c. The leader demonstrates personal commitment by taking significant risks and making sacrifices to achieve the vision. d. High expectations are set for team members, fostering an atmosphere of excellence. e. A consistent display of trust in the capabilities of subordinates is maintained by the leader. f. The leader serves as a role model, exhibiting behaviors that align with the vision. g. The leader actively manages subordinates' perceptions of their leadership. h. A sense of belonging and identification with the team or organization is intentionally fostered by the leader. i. Empowerment is granted to subordinates, enabling them to take initiative and make decisions. (Setiawan, 2014)
Mediating variable		
Work-life balance	A framework of values and belief systems, rooted in the Qur'an and Sunnah, offers foundational guidance regarding the role of work and diligence in human existence (Ahmad & Owoyemi, 2012).	a. WIPL (Work Interference with Personal Life) b. PLIW (Personal Life Interference with Work) c. WEPL (Work Enchancement of Personal Life) d. PLEW (Personal Life Enchancement of Work) (Safria, 2022)
Dependent variable		
Employee performance	The level of accomplishment in completing a task or target set by the company (Eliyana & Ma'arif, 2019).	a. Volume of tasks performed b. Standard of output c. Autonomy in execution d. Proactiveness in decision making e. Flexibility in response to change f. Collaborative engagement (Musoli & Yamini, 2020)
Moderating variable		
Islamic work ethics	The dedication, sincere intent, fairness, generosity, creativity, discipline, and independence in work are regarded as virtues (Ali & Al-Owaihan, 2008).	a. *Al-Istiqamah* (Dedication and Responsibility) b. *Al-Adl wa Ihsan* (Justice and Kindness) c. *An-Niyyah Shalihah* (Good Intention) d. *At-Tanmiyah wa Al-Ibda'* (Self Development and Creativity) e. *Al-Jiddiyyah wa Al-Injaz fi Al-Waqt* (Hard Work and Punctuality) (Musoli & Yamini, 2020)

Source: Author's own, 2024

This study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 3, which was selected for its suitability in handling small sample sizes and non-normal data distributions (Ghozali & Latan, 2015). The analysis comprised two stages: the outer model, which assessed indicator reliability and construct validity, and the inner model, which tested structural relationships using path coefficients, t-statistics, and p-values. Moderating effects were

analyzed using interaction terms and evaluated based on the effect size. Descriptive statistics were used to support the interpretation of the data. PLS-SEM was deemed appropriate because of its ability to model complex relationships and provide robust estimations within exploratory research frameworks that involve latent constructs.

Results and Discussion

Results

Respondent characteristics
The study employed an online survey via Google Forms, initially collecting 101 responses from employees at various Islamic financial institutions. After filtering out nine respondents who did not meet the inclusion criteria, such as not belonging to Generation Z or lacking a minimum of one year of work experience, the final analysis included 92 valid responses processed using Smart PLS 3. The data analysis followed a two-stage approach: the measurement model (outer model) and the structural model (inner model). Given that Partial Least Squares Structural Equation Modeling (PLS-SEM) is well suited for small-to-moderate samples in exploratory research (Hair et al., 2017), the sample size was deemed sufficient. Moreover, the study adhered to the 10-times rule (Kock & Hadaya, 2018), which requires at least ten times the highest number of indicators per construct. As a variance-based method, PLS-SEM is less sensitive to small samples than covariance-based SEM (CB-SEM), thus ensuring statistical robustness (Vinzi et al., 2010).

Table 2. Description of the respondent's character

Variable	Description	Frequency	Percentage
Gender	Male	48	47,53%
	Female	53	52, 43%
Age	< 22 Years	3	2,97%
	22-27 Years	92	91,09%
	> 27 Years	6	5,94%

Source: Data processed

Table 2 outlines respondents' demographic characteristics. The gender distribution was relatively balanced, with 52.43% females and 47.53% males, reflecting proportional representation. In terms of age, 91.09% of participants were between 22 and 27 years old, indicating a dominance of early career individuals, while 2.97% were under 22, and 5.95% were over 27. This suggests that the sample is largely representative of Generation Z, which is typically in the transition to or early in their professional careers. Initially, 101 responses were collected; however, nine did not meet the inclusion criteria and were excluded. These eliminations were necessary to ensure sample validity, resulting in a final dataset of 92 qualified respondents being used in the subsequent analysis phase.

In addition, the respondents in this study came from various regions in Indonesia, reflecting the diversity of their domicile. Respondents' domicile areas include various cities and districts, such as Bojonegoro, Ngawi, Magetan, Madiun, Sukoharjo, Kediri, Ponorogo, Sragen, Blora, Solo, Surakarta, Karanganyar, Boyolali, Salatiga, Klaten, Tuban, Nganjuk, Jombang, Surabaya, Magelang, Pasuruan, Lamongan, Mojokerto, Wonogiri, Grobogan, Sidoarjo, Malang, and Lumajang. This diversity shows that the sample in this study is not concentrated in one particular area but rather reflects a wide geographical distribution, thus strengthening the generalizability of the research results.

Validity and reliability test results
Validity and reliability tests confirm the robustness of the measurement model. Most indicators exhibited strong convergent validity, with factor loading values exceeding 0.7, except for CL1, CL2, CL4, EP1, TF1, TS1, TS7, and WB1, which were excluded because of low loadings. Discriminant validity was established as the square root of the Average Variance Extracted (AVE) for each construct surpassing the inter-construct correlations. The composite reliability and Cronbach's

alpha values exceeded 0.7 across all constructs, indicating strong internal consistency. Subsequently, the structural model was assessed using R-squared values to measure the predictive accuracy and path coefficient analyses to evaluate the significance of the relationships. These results confirm the model's reliability and predictive power, reinforcing its suitability for hypothesis testing.

Table 3. Convergence validity and construct reliability results

Variables	Indicators	Factor loading	Composite reliability	Cronbach alpha	AVE
Transformational leadership	TF2	0.833	0.893	0.840	0.676
	TF3	0.796			
	TF4	0.843			
	TF5	0.816			
Transactional leadership	TS2	0.750	0.900	0.866	0.600
	TS3	0.827			
	TS4	0.800			
	TS5	0.732			
	TS6	0.780			
	TS8	0.753			
Charismatics leadership	CL3	0.808	0.908	0.877	0.621
	CL5	0.808			
	CL6	0.746			
	CL7	0.792			
	CL8	0.853			
	CL9	0.715			
Work-life balance	WB2	0.712	0.847	0.728	0.651
	WB3	0.885			
	WB4	0.814			
Employee performance	EP2	0.800	0.894	0.852	0.628
	EP3	0.839			
	EP4	0.791			
	EP5	0.820			
	EP6	0.707			
Islamic work ethics	IWE1	0.798	0.890	0.845	0.618
	IWE2	0.767			
	IWE3	0.784			
	IWE4	0.792			
	IWE5	0.788			
Moderating effect 1	Transformational leadership * Islamic work ethics	1.306	1.000	1.000	1.000
Moderating effect 2	Transactional leadership * Islamic work ethics	1.339	1.000	1.000	1.000
Moderating effect 3	Charismatic leadership * Islamic work ethics	1.306	1.000	1.000	1.000

Source: Data processed

As shown in Table 3, all constructs in this study satisfied the criteria for convergent validity and construct reliability. The factor loadings for all indicators exceeded the threshold of 0.70, the composite reliability values ranged from 0.847 to 0.908, and Cronbach's alpha values fell between 0.728 and 0.877. Additionally, all Average Variance Extracted (AVE) values were above the recommended threshold of 0.50, indicating that constructs such as transformational leadership, transactional leadership, charismatic leadership, work–life balance, employee performance, and Islamic work ethics are both valid and reliable. Moreover, the moderating interaction constructs between Islamic Work Ethics and the three leadership styles demonstrated excellent reliability, suggesting that the interaction terms were adequately modeled to test moderation effects within the structural framework.

Table 4. Discriminant validity

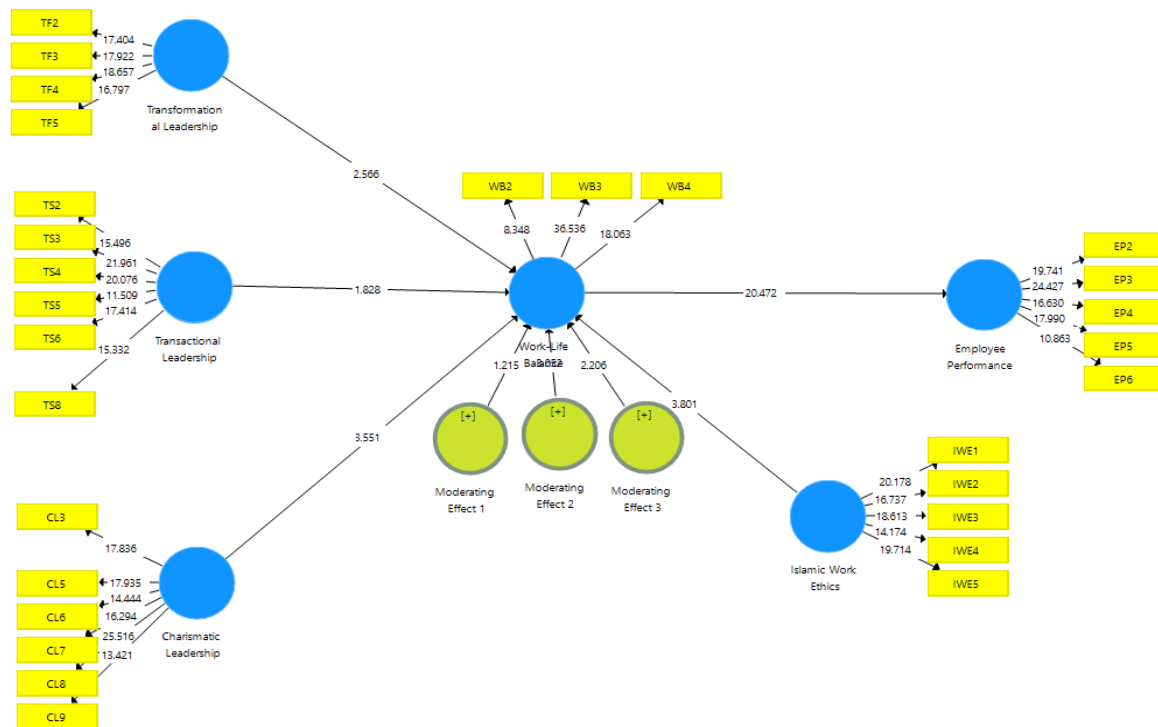|	Charismatic leadership	Employee performance	Islamic work ethics	Moderating effect 1	Moderating effect 2	Moderating effect 3	Transactional leadership	Transformational leadership	Work-life balance
Charismatic leadership	0.788								
Employee performance	0.790	0.793							
Islamic work ethics	0.729	0.854	0.786						
Moderating effect 1	-0.034	-0.008	0.019	1.000					
Moderating effect 2	0.015	0.069	0.101	0.904	1.000				
Moderating effect 3	0.008	0.067	0.097	0.862	0.929	1.000			
Transactional leadership	0.851	0.778	0.764	-0.054	0.004	0.015	0.774		
Transformational leadership	0.738	0.559	0.637	-0.014	-0.055	-0.035	0.768	0.822	
Work-life balance	0.774	0.800	0.769	-0.025	0.007	0.057	0.754	0.562	0.807

Source: Data processed

As shown in Table 4, the cross-loading values presented above are part of the discriminant validity assessment, and the results indicate that each indicator exhibits the highest loading on its respective construct compared to other constructs, thereby fulfilling the criteria for discriminant validity. For instance, indicators related to charismatic leadership, employee performance, and islamic work ethics demonstrate the strongest correlations with their corresponding constructs, signifying that the measurement instruments are capable of clearly distinguishing between the different constructs. Furthermore, the correlation values of the moderating constructs (Moderating Effects 1–3) with the other constructs are notably low, suggesting that these moderating variables are conceptually distinct and do not overlap with the primary variables. While the correlations among the different leadership styles are moderate, they remain within acceptable limits, reinforcing that each leadership construct is measured independently and maintains conceptual distinctiveness.

Varians analysis (R^2) or determination test
The Coefficient of Determination (R^2) analysis demonstrated that transformational, transactional, and charismatic leadership collectively explained 64% of the variance in employee performance, with the remaining 36% being attributable to unexamined factors. Similarly, leadership styles accounted for 73.3% of the variance in work-life balance, underscoring their crucial role in shaping employees' ability to manage professional and personal responsibilities. The adjusted R^2 values—0.636 for employee performance and 0.711 for work-life balance—further confirmed the model's robustness by mitigating potential overfitting. These findings highlight the significant influence of leadership on employee outcomes and well-being, thus reinforcing the critical role of effective leadership in Islamic Financial Institutions.

Hypothesis test analysis
Hypothesis testing was conducted using the bootstrapping method within the PLS-SEM framework to evaluate the structural relationships among the constructs. This technique is widely used because of its ability to generate robust statistical inferences without assuming normal data distribution. Hypotheses were assessed based on T-statistics, P-values, and beta coefficients, with a T-value exceeding 1.96 and a P-value below 0.05 considered statistically significant. A positive beta coefficient further indicates the direction and strength of the relationship. These criteria ensured analytical rigor in determining whether each proposed hypothesis could be supported empirically. The detailed results of the hypothesis testing are summarized in Table 5, and the corresponding structural model visualization is provided in Figure 3 to enhance interpretability.

Figure 3. Conceptual framework
Source: Author's own, 2024

Table 5. Hypotheses test

	Original sample	T Statistics	P Values	Desc.
Transformational leadership → Employee performance	-0.191	2.484	0.013	Supported
Transactional leadership →Employee performance	0.182	1.784	0.075	Not supported
Charismatic leadership → Employee performance	0.358	3.473	0.001	Supported
Transformational leadership*Islamic work ethics → Work-life balance	0.141	1.215	0.225	Not supported
Transactional leadership*Islamic work ethics → Work-life balance	-0.420	3.050	0.002	Supported
Charismatic leadership*Islamic work ethics → Work-life balance	0.272	2.206	0.028	Supported
Transformational leadership → Work-life balance → Employee performance	-0.191	2.484	0.013	Supported
Transactional leadership → Work-life balance → Employee performance	0.182	1.784	0.075	Not supported
Charismatic leadership → Work-life balance → Employee performance	0.358	3.473	0.001	Supported

Source: Data processed, 2024

The findings, as shown in Table 5, indicate that transformational leadership negatively affects employee performance (β = -0.191, t = 2.484, p = 0.013), diverging from prior studies that predominantly highlight its benefits. This deviation may stem from Generation Z's preference for flexibility, personal recognition, and direct engagement over abstract, visionary leadership. Additionally, work-life balance negatively mediates this relationship (β = -0.191, t = 2.484, p = 0.013), suggesting that the broad, long-term focus of transformational leadership may impose work-related pressures that disrupt employees' equilibrium, ultimately diminishing performance. Conversely, transactional leadership does not exhibit a statistically significant effect on employee performance (β = 0.182, t = 1.784, p = 0.075). As Generation Z prioritizes intrinsic motivation

over material rewards, the result-based reward system characteristic of transactional leadership appears ineffective in enhancing performance.

Similarly, work-life balance does not mediate the relationship between transactional leadership and employee performance (β = 0.182, t = 1.784, p = 0.075), underscoring the limitations of transactional leadership in fostering a supportive and sustainable performance environment. This result suggests that transactional mechanisms, while effective in enforcing compliance, may not sufficiently address the relational and psychological needs of Generation Z employees. Conversely, charismatic leadership had a significant positive effect on employee performance (β = 0.358, t = 3.473, p = 0.001), reinforcing earlier research that highlights the motivational strength of interpersonal trust and inspirational vision. Additionally, work-life balance significantly mediates this relationship (β = 0.358, t = 3.473, p = 0.001), suggesting that charismatic leaders contribute to employee well-being by creating emotionally engaging and ethically grounded work environments, which ultimately enhance performance outcomes.

The moderating role of Islamic work ethics enhances the link between charismatic leadership and work-life balance (β = 0.272, t = 2.206, p = 0.028), highlighting the synergy between Islamic values, interpersonal leadership, and holistic well-being. However, these ethics do not moderate the relationship between transformational leadership and work-life balance (β = 0.141, t = 1.215, p = 0.225), possibly due to a misalignment between collectivist Islamic principles and the individualistic nature of transformational leadership. Notably, Islamic work ethics negatively moderated the relationship between transactional leadership and work-life balance (β = -0.420, t = 3.050, p = 0.002), suggesting that the mechanistic, materialistic orientation of transactional leadership conflicts with the ethical emphasis on a balanced worldly and spiritual responsibilities, ultimately disrupting the work-life balance of employees adhering to Islamic values.

Discussion

Charismatic leadership and employee performance

The findings of this study indicate a significant and positive relationship between charismatic leadership and employee performance, emphasizing the critical role of leadership style in shaping employee behavior and outcomes. Charismatic leadership—defined by a leader's capacity to articulate an inspiring vision, demonstrate confidence, and foster emotional connections—has been shown to enhance employees' intrinsic motivation, commitment, and ultimately their job performance. This is especially pertinent in the context of today's workforce, where younger generations such as Generation Z seek meaning, authenticity, and emotional resonance in professional interactions (Babcock-Roberson & Strickland, 2010; Dangmei & Singh, 2016).

Charismatic leaders inspire higher levels of employee engagement by aligning personal and organizational values (Conger & Kanungo, 1998). When employees feel emotionally connected and inspired, they are more likely to invest discretionary effort in their work, leading to superior performance outcomes. The findings of this study are consistent with this theoretical framework, highlighting how charismatic leadership can serve as a motivational catalyst, particularly in knowledge-intensive, dynamic work environments. Moreover, this study extends the conversation by demonstrating that charismatic leadership not only influences performance but also has a significant association with work-life balance. Leaders who exhibit empathy and emotional intelligence tend to be attuned to the personal challenges of their subordinates.

Such leaders foster a culture of psychological safety and flexibility, enabling employees to navigate both their professional demands and personal obligations more effectively (Avolio et al., 2009; Malik & Dhar, 2017). This equilibrium enhances job satisfaction and long-term productivity. These findings align with and reinforce previous empirical evidence Herlina et al. (2024), Kusnadi et al. (2024), Saeed et al. (2014), and Ul Haq et al. (2016), all of which affirm the positive impact of charismatic leadership on performance. In addition, this study contributes to the literature by highlighting the dual function of charismatic leadership in boosting performance and promoting a sustainable work-life balance—a factor of increasing importance in modern organizational behavior studies.

The moderating role of Islamic work ethics on the relationship between charismatic leadership and work-life balance

The present study reveals that Islamic work ethics significantly moderate the relationship between charismatic leadership and work-life balance. This suggests that the presence of strong ethical values grounded in Islamic teachings enhances the positive influence of charismatic leadership on employees' ability to maintain an equilibrium between their professional responsibilities and personal life. Islamic work ethics emphasizes principles such as fairness, responsibility, diligence, and the integration of spiritual and worldly obligations (Ali & Al-Owaihan, 2008). These values closely align with the relational and emotionally intelligent nature of charismatic leadership, which focuses on creating a meaningful and supportive environment. When both leadership style and ethical orientation are present, their synergy creates a more holistic work culture—one that values not only productivity, but also well-being and spiritual fulfilment.

This finding supports and extends the conclusions of previous studies by Endayani and Putri (2024), Walsh et al. (2024), and Ghoniyah et al. (2024), which highlight the role of Islamic ethics in enhancing organizational outcomes. Islamic work ethics may function as a psychological framework that helps employees interpret leadership behaviors through a moral lens, thereby increasing trust and emotional engagement with the organization (Abbas et al., 2020; Yousef, 2001). Consequently, employees are more likely to internalize the leader's vision and feel supported in balancing their professional goals with personal and family commitments.

Furthermore, the moderating role of Islamic work ethics contributes to an understanding of leadership effectiveness in culturally and religiously embedded contexts. In predominantly Muslim work environments, employees may respond more positively to leaders who are not only charismatic, but also perceived as ethically grounded. This congruence between personal values and organizational culture strengthens employees' psychological well-being, reduces work-family conflict, and improves overall job satisfaction (Khan et al., 2015). The contribution of this study lies in its demonstration that leadership effectiveness is not solely dependent on behavioral traits (e.g., charisma) but is also influenced by employees' ethical climate and cultural values. This highlights the importance of incorporating religious ethics into leadership and HR practices, especially in organizations where Islamic values are central to employee identity and motivation.

Transformational leadership and employee performance

Contrary to the prevailing literature, this study found a significant negative relationship between transformational leadership and employee performance among Generation Z employees in Islamic financial institutions. Although transformational leadership is traditionally associated with enhanced employee motivation, innovation, and organizational commitment Bass and Riggio (2006), this finding indicates that its effects may not be universally positive across generational cohorts or organizational contexts. One possible explanation is the unique values and work preferences of Generation Z. This cohort, born between 1997 and 2012, prioritizes autonomy, immediacy, psychological safety, and personalized feedback over abstract, long-term visions typically championed by transformational leaders (Ozkan & Solmaz, 2015; Schroth, 2019).

In this regard, transformational leadership's focus on idealized influence and intellectual stimulation may feel overly abstract or even misaligned with the more pragmatic and balance-driven expectations. Instead of feeling inspired, they may perceive such leadership as emotionally distant from or disconnected from their immediate professional needs. Transformational leadership often involves advocating for change and innovation, which can create perceived instability or ambiguity in the workplace. While such traits might empower more experienced workers or those in creative roles, they can be counterproductive for younger employees who are still building their professional identities and may crave clarity, consistency, and emotional support (Park & Gursoy, 2012; Twenge, 2010). These dynamics may be amplified in Islamic financial institutions, where organizational culture is often rooted in ethical clarity, structure, and communal values, in contrast to the individualistic thrust of transformational leadership.

The findings of this study are consistent with those of Rafia et al. (2020), who found that transformational leadership does not significantly influence individual performance, particularly in

institutions that emphasize hierarchical respect and moral leadership. Similarly, Endayani and Putri (2024) various leadership styles, including transformational leadership, had no substantial impact on job satisfaction, especially in the younger employee segments. Mustaqfirin et al. (2021) further supports this, emphasizing that leadership models must be customized for generational characteristics to be effective. From a practical standpoint, these results suggest that a one-size-fits-all approach to leadership may be inadequate for today's multigenerational workforce. For Generation Z, leadership that offers authenticity, emotional intelligence, and two-way communication may be more impactful than the transformative rhetoric or visionary abstraction.

Transactional leadership and employee performance

The present study found that transactional leadership does not have a statistically significant effect on employee performance, particularly within the context of Generation Z employees. Transactional leadership is traditionally characterized by its reliance on structured exchanges, such as contingent rewards and corrective actions, to maintain organizational stability and goal achievement (Bass, 1997). While this leadership style may be effective in settings that prioritize efficiency and routine tasks, it appears to fall short of fostering the intrinsic motivation and engagement needed to enhance performance among younger, more value-driven generations. Generation Z employees, who are rapidly becoming a dominant force in the global workforce, tend to prioritize meaning, flexibility, and emotional resonance in their professional experiences (Dangmei & Singh, 2016; Schroth, 2019). Their preference for relational and purpose-oriented work environments may clash with the transactional model's emphasis on extrinsic rewards and hierarchical control. This may explain the insignificance of this study, as the transactional approach may not adequately address the expectations and psychological needs of this generational cohort.

Supporting these findings, Sujith and Udayanga (2024) transactional leadership often fails to produce meaningful improvements in organizational productivity, especially when innovation, creativity, and adaptability are needed. Similarly, Wuryaningrat et al. (2024) argued that transactional leadership lacks the emotional engagement necessary for fostering employee well-being and long-term commitment, key factors that are increasingly recognized as critical to performance outcomes in modern organizational settings. In light of this, our findings contribute to the growing body of literature that questions the applicability of transactional leadership in today's evolving workplace dynamics. Particularly for Generation Z, leadership approaches must go beyond transactional exchanges and incorporate elements of emotional intelligence, participatory decision-making, and individualized support (García-Morales et al., 2012; Kiersch & Peters, 2017).

Conclusion

This study provides empirical evidence that charismatic leadership exerts a significant positive influence on employee performance (H3 supported), whereas transformational leadership has a significant negative impact (H1 supported), and transactional leadership does not exhibit a significant effect (H2 not supported). These findings suggest that among Generation Z employees, leadership styles that emphasize personal influence and emotional connections are more effective in enhancing performance than those centered on transformation or structured exchanges. Regarding the moderating role of Islamic work ethics, the results indicate that it strengthens the relationship between charismatic leadership and work-life balance (H6 supported). However, it does not significantly moderate the link between transformational leadership and work-life balance (H4, not supported). In contrast, Islamic work ethics negatively moderate the relationship between transactional leadership and work-life balance (H5 supported), suggesting that adherence to Islamic work ethics may inadvertently restrict employees' ability to maintain a healthy work-life balance.

Furthermore, the mediating analysis reveals that work-life balance significantly mediates the relationship between charismatic leadership and employee performance (H9 supported), reinforcing the notion that charismatic leadership indirectly enhances performance through improved work-life balance. Conversely, work-life balance does not mediate the relationship between transactional leadership and performance (H8 is not supported). Notably, in the case of

transformational leadership, work-life balance serves as a significant negative mediator of employee performance (H7 supported), implying that the way transformational leadership interacts with work-life balance may not be conducive to optimizing employee outcomes.

These findings provide important theoretical and practical insights. Theoretically, this study expands the discourse on leadership effectiveness in contemporary workplaces by emphasizing the critical role of charismatic leadership in accommodating the needs of Generation Z employees. Practically, organizations aiming to enhance employee performance and foster a more balanced work-life environment should consider adopting charismatic leadership approaches while integrating Islamic work ethics into corporate culture. However, this study had certain limitations, including generational focus, cross-sectional design, and cultural specificity. Future research should explore these relationships using longitudinal approaches, cross-generational samples, and diverse industrial sectors to enhance the generalizability of the findings.

Author contribution

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