

Integration of leadership styles and its impact on work motivation and managerial effectiveness in Islamic banking

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ABSTRAK

Introduction

In today's dynamic and competitive organizational landscape, leadership is a critical determinant of work behavior, motivation, and managerial effectiveness. In the Indonesian Islamic banking sector, leadership presents unique challenges due to the need to balance operational efficiency with Islamic ethical and spiritual values. Despite asset growth, reports from the Financial Services Authority (OJK) highlight stagnation in organizational effectiveness attributed to weak employee motivation and commitment. While Islamic leadership has shown potential to enhance work culture and motivation, its integration into management practices remains inconsistent.

Objectives

This study aims to empirically examine the effects of transformational and transactional leadership styles on managerial effectiveness, mediated by Islamic leadership and work motivation, within the context of Indonesian Islamic banking. The study addresses gaps in the literature regarding the mediating role of Islamic values and work motivation and compares the effectiveness of two dominant leadership styles in a religious-based organizational setting.

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Method

Using a quantitative explanatory research design, the study surveyed employees from three Islamic bank branches in Kendari, Southeast Sulawesi, Indonesia. The total sample consisted of 57 respondents selected through purposive total sampling. Data were collected via a structured questionnaire using validated Likert-scale instruments. Data analysis employed Structural Equation Modeling–Partial Least Squares (SEM–PLS) using SmartPLS to evaluate both measurement and structural models, ensuring robustness for small sample sizes and non-normal data distributions.

Results

The analysis revealed that both transformational and transactional leadership significantly influenced managerial effectiveness, with Islamic leadership and work motivation acting as partial mediators. Transformational leadership demonstrated a stronger direct and indirect effect compared to transactional leadership. Islamic leadership emerged as a pivotal mediating variable that bridged modern leadership styles with religious organizational contexts, enhancing motivation and managerial outcomes.

Implications

The findings provide theoretical insight by introducing a new conceptual model positioning Islamic leadership as a core mediating construct in leadership dynamics. Practically, the study offers actionable strategies for Islamic bank leaders to align spiritual values with performance targets, informing policy development and training programs on Islamic leadership capacity building.

Originality/Novelty

Despite growing interest in leadership models in Islamic organizations, few studies have systematically examined the mediating roles of Islamic leadership and work motivation in linking transformational and transactional leadership styles to managerial effectiveness—particularly within the Indonesian Islamic banking sector. Moreover, comparative evaluations of these two leadership styles in religious-based institutions remain underexplored. Addressing this gap, the present study proposes an integrative model that reflects both the spiritual context of Islamic organizations and modern leadership theory.

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INTRODUCTION

In the dynamic and increasingly competitive landscape of modern organizations, leadership plays a pivotal role in shaping employee behavior, enhancing work motivation, and improving managerial effectiveness (Bass & Riggio, 2006; Robbins & Judge, 2019; Yukl, 2013). Recent empirical studies have reaffirmed that specific leadership styles—particularly transformational, transactional, and democratic—have significant and consistent impacts on employee engagement, intrinsic motivation, and overall organizational performance across diverse sectors and cultural contexts (Baig et al., 2021; Haryanto et al., 2022; Kanat-Maymon et al., 2020). Structural transformations, rapid technological advancements, and generational shifts in the workforce further underscore the need for leaders who are adaptive, inspirational, and capable of strategically mobilizing organizational resources. In the context of Indonesia's Islamic banking sector, leadership demands are even more complex, as they require the integration of organizational efficiency with deeply rooted Islamic ethical and spiritual values (Nasution & Rafiki, 2019; Oroh et al., 2024; Verawati & Wulan, 2024).

Although the Islamic banking industry shows positive asset growth, the Financial Services Authority (OJK) report indicates stagnation in organizational effectiveness due to weak employee motivation and commitment. Previous studies (Muchran B. L., 2016; Muchran B. L. & Muchran, 2017; Nurodin et al., 2023) emphasize that leadership plays an important role in influencing HR performance, but its implementation in the Islamic banking ecosystem is not yet optimal. While Islamic leadership has been proven to improve organizational culture and work motivation (Abdelwahed et al., 2025; Prasetyo et al., 2021), many institutions have not yet fully implemented it comprehensively and consistently in management (Afif et al., 2022).

Previous studies have highlighted that there is still a gap between the ideal vision of sharia leadership and practices in the field (Hamzah et al., 2021; Nasution & Rafiki, 2019). In fact, Islamic values in leadership have the potential as a mediating mechanism in increasing work motivation and managerial effectiveness (Abdelwahed et al., 2025). However, research that explicitly tests the relationship between transformational and transactional leadership styles on work motivation and managerial effectiveness through Islamic leadership as a mediating variable is still very limited, especially in the context of Islamic banking (Jaya & Widadi, 2025; M. A. Khan et al., 2020). This condition reinforces the argument that the effectiveness of leadership styles is strongly influenced by the organizational context and the values it upholds (Cherry, 2023). In the case of Sharia-based organizations, leadership effectiveness is assessed not only through financial performance, but also by the degree to which Islamic principles are embedded in decision-making processes and human resource management practices (Laiqkafana & Rozikan, 2023; Maulida & Firdaus, 2025; Qalati et al., 2022; Sabila & Abadiyah, 2024).

Based on the review above, several specific research gaps—both theoretical and practical—can be identified. First, there is a lack of recent empirical research examining



work motivation as a mediating variable between leadership styles and managerial effectiveness, particularly within Islamic financial institutions. Integrated models that explicitly capture motivational pathways grounded in Islamic values remain limited (Maulida & Firdaus, 2025; Sabila & Abadiyah, 2024). Second, while Islamic banks are growing in asset size and outreach, they still face performance stagnation, particularly in human capital motivation and managerial consistency—often attributed to the incomplete integration of Islamic ethical values into everyday business operations. This highlights a phenomenological gap between expected and observed performance outcomes in Islamic financial institutions (Maulida & Firdaus, 2025).

Third, the literature remains dominated by studies in conventional banking, which often fail to accommodate the ethical, spiritual, and institutional distinctiveness of Islamic banks. As a result, leadership models built in secular or value-neutral contexts lack contextual relevance when applied to sharia-compliant institutions (Naouar et al., 2024; Rani et al., 2024). Fourth, while recent conceptual developments offer useful frameworks (Cherry, 2023), there is a lack of empirical comparison between transformational and transactional leadership styles within Islamic value-based organizations (Laiqkafana & Rozikan, 2023). This reflects a theoretical gap, as most leadership theories emphasize individual performance and structural efficiency, rather than spiritual responsibility or religious ethics. Fifth, although interest in Islamic leadership and work ethics is increasing, few studies have examined how intrinsic motivation rooted in religious principles mediates the relationship between leadership style and managerial effectiveness (Laiqkafana & Rozikan, 2023; Sabila & Abadiyah, 2024). Lastly, the limited scope of analysis units continues to constrain generalizability. Many studies are based on isolated institutions and small samples, with minimal incorporation of holistic Islamic performance frameworks such as Maslahah or Maqashid al-Shariah, which could offer more accurate benchmarks of success (Maulida & Firdaus, 2025).

In response to the identified research gap, this study seeks to empirically explore how transformational and transactional leadership styles impact managerial effectiveness, with Islamic leadership and work motivation serving as mediating variables within the unique setting of Indonesia's Islamic banking sector. This research not only bridges contemporary leadership theories with Islamic ethical frameworks but also provides a comparative lens through which the effectiveness of both leadership styles can be evaluated in religiously grounded institutions.

In response to the identified research gaps, this study seeks to empirically examine how transformational and transactional leadership styles influence managerial effectiveness, with Islamic leadership and work motivation acting as mediating variables within the unique setting of Indonesia's Islamic banking sector. This approach not only bridges contemporary leadership theories with Islamic ethical frameworks but also responds to the practical need for more value-driven leadership models in faith-based financial institutions. By placing Islamic leadership as a central mediating construct, the study introduces a structural model that integrates spiritual values with

organizational outcomes—an approach that remains underexplored in existing literature ([Abdelwahed et al., 2025](#); [Prasetyo & Zakik, 2024](#)).

The novelty of this research lies in three critical areas: (1) the contextual focus on Indonesia's Islamic banking industry, which requires harmonization between religious values and professional management; (2) the dual mediation model that tests the indirect influence of leadership styles through Islamic leadership and work motivation on managerial effectiveness; and (3) the comparative assessment of transformational and transactional leadership within Islamic organizations, which offers fresh insights into the effectiveness of leadership practices in religiously grounded settings. Theoretically, this research contributes to the advancement of value-based leadership models that are spiritually inclusive and context-sensitive. Practically, the findings may inform leadership development policies and training initiatives tailored to the ethical and organizational demands of Islamic financial institutions.

LITERATURE REVIEW

Leadership in Islamic Banking

Leadership remains a critical determinant in shaping the direction, motivation, and effectiveness of modern organizations. In contemporary literature, two prominent leadership paradigms are transformational and transactional leadership ([Alghamdi, 2018](#); [Marbawi et al., 2019](#)). Transformational leadership is defined by the leader's ability to inspire, motivate, and enact change through a shared vision and value-based influence. It emphasizes dimensions such as inspirational motivation, intellectual stimulation, and individualized consideration—attributes that foster long-term engagement and innovation within teams ([Qalati et al., 2022](#)). Conversely, transactional leadership centers on structured exchanges between leaders and subordinates, where compliance is achieved through rewards and sanctions aligned with performance metrics ([Cherry, 2023](#)). This model is often suitable for short-term stability and rule-based organizations.

However, in Islamic financial institutions—where organizational identity is closely tied to spiritual and ethical values—conventional leadership models are insufficient to reflect the moral and transcendental aspirations embedded in daily operations. In response to this, Islamic leadership has emerged as an integrative framework that blends managerial competence with values such as tauhid (oneness of God), amanah (trust), syura (consultation), adl (justice), and ihsan (excellence). Leaders in this context serve not only as administrators, but also as ethical role models (*uswah hasanah*) and moral guides, responsible for harmonizing strategic decisions with religious accountability ([Abdelwahed et al., 2025](#); [Laiqkafana & Rozikan, 2023](#)).

This value-driven leadership paradigm aligns with recent efforts to elevate sharia-based performance metrics and spiritual integrity in Islamic banking practices ([Maulida & Firdaus, 2025](#)). Furthermore, integrating Islamic leadership with transformational and transactional styles has shown potential in enhancing employee motivation and ethical work behavior, thereby contributing to more sustainable



organizational outcomes (Afif et al., 2022; Sabila & Abadiyah, 2024). As such, the incorporation of Islamic leadership into modern leadership discourse provides a holistic model—one that addresses both organizational efficiency and moral responsibility in faith-based institutions.

Work Motivation

In value-based organizations such as Islamic banking, work motivation is not only derived from material rewards or formal incentives but also encompasses deep spiritual and moral dimensions. From an Islamic perspective, work is viewed as both a form of worship (ibadah) and a moral obligation rooted in the human role as a caliph (khalifah) on earth. Motivation, therefore, emerges from faith, sincere intention, and the consciousness of serving both the organization and society as part of divine accountability (Abdelwahed et al., 2025).

This concept positions motivation as intrinsically linked to values such as amanah (trust), ikhlas (sincerity), adl (justice), and ihsan (excellence). Employees are not only responsible for achieving organizational goals but also for upholding ethical standards in alignment with Islamic teachings (Laiqkafana & Rozikan, 2023). Empirical evidence suggests that Islamic value-based motivation contributes significantly to work performance and commitment when internalized as part of daily organizational behavior (Afif et al., 2022; Jaya & Widadi, 2025).

Furthermore, the synergy between Islamic leadership and spiritually grounded work motivation fosters an organizational environment that is not only productive but also ethically resilient. Leadership that exemplifies moral conduct and provides inspirational direction reinforces employees' intrinsic drive, especially when aligned with shared religious values (Sabila & Abadiyah, 2024). This integrated approach enriches contemporary human resource management discourse in religious organizations and contributes meaningfully to the contextual development of leadership and motivation theories.

Managerial Effectiveness

Managerial effectiveness in Islamic banking cannot be solely assessed through operational achievements or conventional financial indicators. In sharia-based institutions, effectiveness also encompasses dimensions such as adherence to Islamic principles, ethical governance, and the spiritual development of human resources. Effective managers are expected not only to lead business processes efficiently but also to embody Islamic values such as amanah (trust), adl (justice), and social responsibility in their leadership conduct (Abdelwahed et al., 2025).

Recent studies emphasize that managerial effectiveness aligned with Islamic principles involves a strong commitment to ethical leadership, nurturing organizational trust, and fostering employee loyalty through shared moral values (Jaya & Widadi, 2025; Laiqkafana & Rozikan, 2023). In this view, managerial roles are not limited to technical competencies, but also extend to being uswah hasanah—moral role models who integrate professionalism with religious integrity.

Therefore, managerial effectiveness in Islamic banking must be understood as a multidimensional construct—combining strategic capability, ethical integrity, and spiritual commitment. This approach not only strengthens the institutional identity of Islamic banks but also contributes to the development of an Islamic management paradigm that is economically competitive and socially accountable (Maulida & Firdaus, 2025). By aligning managerial performance with religious and ethical mandates, Islamic financial institutions are better positioned to fulfill their dual mission of financial sustainability and moral stewardship.

Conceptual Model and Hypothesis

Based on theoretical studies and previous findings, it can be concluded that transformational and transactional leadership styles have a significant relationship to the formation of Islamic leadership values in sharia-based organizations. Islamic leadership in this context does not stand as a separate approach, but as a conceptual and normative bridge that allows modern leadership styles to be internalized in Islamic values that are the spirit of sharia organizations. In addition, Islamic leadership is also thought to have a direct contribution to increasing work motivation and managerial effectiveness, because it fosters a deep sense of spiritual and ethical responsibility in employees. In line with that, strong work motivation is believed to be an important determinant in achieving optimal managerial effectiveness.

To test these relationships empirically, this study uses a quantitative approach with an explanatory research type, which aims to explain the causal relationship between the variables studied. The quantitative approach was chosen because it allows objective measurement, numerical testing of structural models, and drawing conclusions based on data. This study will simultaneously test the direct and indirect effects of transformational and transactional leadership styles on managerial effectiveness, with Islamic leadership and work motivation as mediating variables.

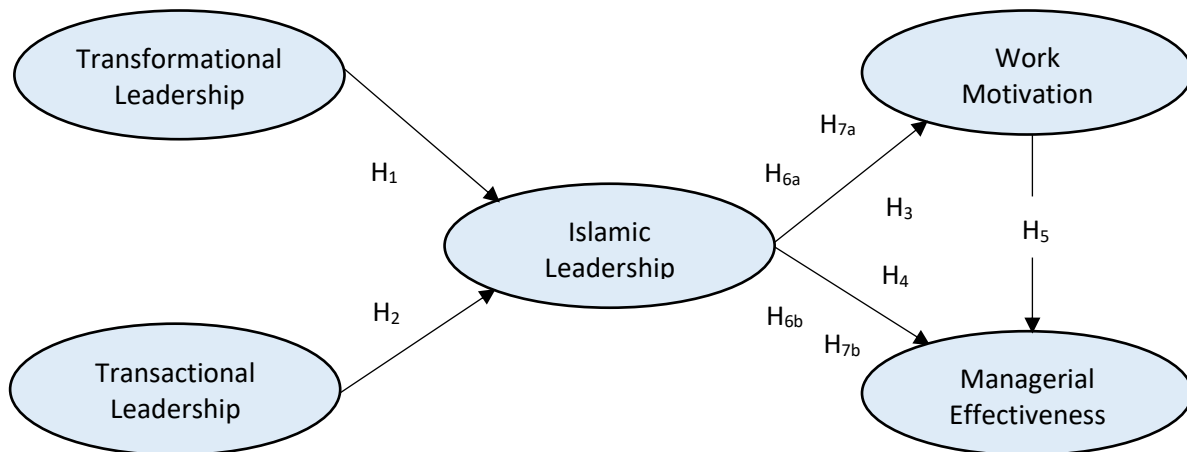
Each hypothesis proposed in this study is built upon the theoretical framework and research gaps identified in the introduction. Drawing from both conventional leadership theories and Islamic organizational principles, this study formulates an integrative model that incorporates Islamic leadership and work motivation as key mediators. Prior research has shown that transformational and transactional leadership styles influence subordinate attitudes and performance through mechanisms such as motivation and ethical leadership (Qalati et al., 2022; Cherry, 2023). However, few studies have explored how these relationships manifest in Islamic banking contexts.

Islamic leadership—grounded in values such as amanah, adl, syura, and ihsan—has been shown to enhance work ethics and internal drive among employees (Abdelwahed et al., 2025; Laiqkafana & Rozikan, 2023). Furthermore, when work motivation is based on intrinsic spiritual values, it contributes significantly to both individual performance and organizational effectiveness (Afif et al., 2022; Jaya & Widadi, 2025). This study also posits that Islamic leadership may serve as a bridge between modern leadership styles and value-based managerial practices, especially within faith-based institutions (Sabila et al., 2024; Maulida & Firdaus, 2025).

Therefore, the conceptual model visualized in Figure 1 reflects the structural relationships examined in this study, and the hypotheses listed below are developed based on those theoretical and empirical foundations. Based on the theoretical study and conceptual framework that has been prepared, this study builds seven hypotheses which are conceptually shown in Figure 1.

Figure 1

Conceptual Model and Research Hypothesis



Source: Authors' analysis.

METHOD

This study uses a quantitative approach with an explanatory research type. The quantitative approach was chosen because it is able to measure and analyze the relationship between variables numerically and objectively through statistical testing. Meanwhile, the explanatory research type is used because this study aims to explain the causal relationship between leadership style variables (transformational and transactional), work motivation, and managerial effectiveness, as well as to test the mediating role of work motivation in the model (Creswell & Creswell, 2023; Saunders et al., 2023).

The study was conducted at three Islamic Bank offices in Kendari City, Southeast Sulawesi, namely: Bank Syariah Indonesia – on Street Jenderal M.T. Haryono; Bank Syariah Indonesia KC Kendari – on Street A. Silondae 1; and Bank BTN Syariah KCPS Kendari. Kendari City was chosen as the research location because it is the center of regional economic growth with a relatively larger number of Islamic Bank offices compared to the surrounding areas. The study was conducted for three months in 2024, covering the stages of initial observation and coordination (first month), questionnaire distribution (second month), and data collection and analysis (third month).

The population in this study consisted of all employees working at three Islamic bank branches, totaling 57 individuals. Given the relatively small population size, a total sampling technique was used, in which the entire population was included as the research sample. All respondents were assumed to have adequate knowledge of the

organizational structure and work system, as they were full-time employees engaged in daily operational activities.

This study analyzes the effect of transformational and transactional leadership styles on work motivation and managerial effectiveness, with Islamic leadership as a mediating variable. These five variables are classified as follows:

1. Exogenous (Independent) Variables

Transformational Leadership: A leadership style that encourages positive change through inspiration, individual attention, and intellectual stimulation ([Bass & Riggio, 2006](#)). The indicators used are: Idealized influence, Inspirational motivation, Intellectual stimulation, and Individualized consideration.

Transactional Leadership: A leadership style based on rewards and performance monitoring ([Judge & Piccolo, 2004](#)). The indicators include: Contingent reward, Active management by exception, and Passive management by exception.

2. Mediating Variables

Islamic Leadership: As a leadership style that integrates leadership principles based on Islamic values, which influence work motivation and managerial effectiveness. The definition and indicators of Islamic Leadership need to be explained in more detail according to the literature used (eg: values of justice, amanah, shiddiq, tabligh, fathanah). Indicators are ([Abdelwahed et al., 2025](#); [Laiqkafana & Rozikan, 2023](#)): Amanah (trustworthiness), Adl (justice and fairness), Shiddiq (truthfulness and integrity), Fathanah (wisdom and competence), Tabligh (communication and transparency), and Leading by example (uswah hasanah)

3. Endogenous (Dependent) Variables

Work Motivation: Internal and external drives that influence employee work behavior ([Deci & Ryan, 2000](#)). The indicators include ([Afif et al., 2022](#); [Jaya & Widadi, 2025](#)): Intrinsic motivation (based on ikhlas, purpose, and values), Extrinsic motivation (recognition, performance targets), and Motivation to fulfill social and religious responsibility

Managerial Effectiveness: The ability of managers to achieve organizational goals efficiently and empower employees ([Armstrong & Taylor, 2023](#); [Yukl, 2013](#)). The indicators are ([Maulida & Firdaus, 2025](#); [Armstrong & Taylor, 2023](#)): Goal achievement and productivity, Ethical decision-making, Employee development and empowerment, and Compliance with Islamic organizational values.

This study uses a quantitative approach with an explanatory survey design to test the direct and indirect relationships between latent variables in the developed theoretical framework. Primary data were collected by distributing closed questionnaires to respondents who met the inclusion criteria, while secondary data were obtained from internal documents of banking institutions, reports from the Financial Services Authority (OJK), and relevant academic literature.

The study population consisted of employees and managers in the Islamic banking sector, with a sampling technique using purposive sampling, resulting in a total of 57 respondents. Inclusion criteria include: a minimum of two years of work experience, holding a structural position, and having an understanding of the leadership system applied.

The questionnaire utilized in this study was constructed based on theoretically established indicators, drawing upon insights from prior scholarly works (Beekun & Badawi, 1999; Deci & Ryan, 2000). To capture respondents' perceptions, each construct was assessed using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

To ensure instrument validity, the Pearson correlation approach (Corrected Item-Total Correlation) was employed. An item was deemed valid when the calculated correlation coefficient exceeded the critical r -value at a 5% significance level (Hair et al., 2021). Reliability was assessed using Cronbach's Alpha, with coefficients above 0.60 interpreted as evidence of satisfactory internal consistency (Hair et al., 2021; Taber, 2018).

The dataset was analyzed using the SEM-PLS approach via SmartPLS software (Ringle et al., 2024). This technique was selected due to its advantages in: (a) handling complex model structures; (b) being robust to non-normal data distributions; and (c) providing reliable parameter estimates even when sample sizes are relatively small to moderate (Hair et al., 2021; Sarstedt et al., 2014). The analysis consisted of several stages: (a) assessment of the measurement model (outer model) to evaluate construct and indicator validity; (b) assessment of the structural model (inner model) to examine hypothesized relationships among latent variables; and (c) hypothesis testing using the bootstrapping procedure with 5,000 resamples to generate robust t -statistics and p -values (Yang et al., 2023).

RESULTS

Descriptive Statistics

Descriptive statistics were conducted to provide a preliminary overview of respondents' perceptions regarding each research variable. The descriptive results, presented in Table 1, summarize the mean, standard deviation, minimum, and maximum values of each variable measured using a five-point Likert scale.

Table 1

Descriptive Statistics of Research Variables

Variable	N	Mean	Standar Deviation	Minimum	Maximum
Transformational Leadership	57	4.12	0.48	3.00	5.00
Transactional Leadership	57	3.89	0.53	2.75	5.00
Islamic Leadership	57	4.25	0.45	3.20	5.00
Work Motivation	57	4.30	0.40	3.50	5.00

Variable	N	Mean	Standar Deviation	Minimum	Maximum
Managerial Effectiveness	57	4.18	0.46	3.00	5.00

Source: Primary data. Authors' estimation.

As shown in Table 1, the mean values range from 3.89 to 4.30, indicating that respondents generally held positive perceptions toward the constructs measured. The variable Islamic Leadership has the highest mean score (4.25), suggesting a strong recognition of value-based leadership practices among employees in the Islamic banking sector. Conversely, Transactional Leadership records the lowest mean (3.89), which may reflect a lower tendency toward exchange-based leadership behaviors. The standard deviation values across all variables range between 0.40 and 0.53, indicating moderate response consistency and low dispersion from the mean. These results confirm that the sample exhibits relatively homogeneous perceptions and provides a solid basis for subsequent structural equation modeling analysis.

Evaluation of Measurement Model (Outer Model)

The purpose of evaluating the measurement model is to determine how well the observed indicators represent the underlying latent variables in a valid and reliable manner. Within the framework of PLS-SEM, the outer model assessment focuses on three critical dimensions: convergent validity, discriminant validity, and construct reliability.

Convergent Validity

Convergent validity indicates the degree to which indicators assigned to a specific construct are in agreement or share a high level of commonality. This is typically assessed using the Average Variance Extracted (AVE), where a construct is considered to have adequate convergent validity if the AVE exceeds the threshold of 0.50. A summary of the convergent validity results can be found in Table 2.

Table 2

Convergent Validity Results

Construct	AVE	Information
Transformational Leadership (TFL)	0.684	Valid
Transactional Leadership (TSL)	0.659	Valid
Islamic Leadership (IL)	0.701	Valid
Work Motivation (WM)	0.738	Valid
Managerial Effectiveness (ME)	0.692	Valid

Source: Primary data. Authors' estimation.

Based on Table 2, all constructs in this model meet the convergent validity criteria because the AVE value of each construct exceeds the threshold of 0.50. The Transformational Leadership construct has an AVE value of 0.684, indicating that the indicators in this construct consistently measure aspects of transformational leadership. The Transactional Leadership construct is also declared valid with an AVE value of 0.659. Meanwhile, the Islamic Leadership construct recorded an AVE of 0.701,

indicating a good measurement of leadership values based on Islamic principles. Work Motivation shows the highest AVE of 0.738, indicating a very strong correlation between indicators in measuring the construct. Managerial Effectiveness is also valid with an AVE value of 0.692.

Discriminant Validity (Fornell–Larcker Criterion)

Discriminant validity serves to verify that each latent construct in the model is truly distinct from the others. One commonly used method for this assessment is the Fornell–Larcker criterion. This approach involves comparing the square root of the Average Variance Extracted (AVE), which is positioned along the diagonal of the construct correlation matrix, to the inter-construct correlations. Discriminant validity is considered satisfactory when the $\sqrt{\text{AVE}}$ value for each construct exceeds the correlation coefficients it shares with other constructs in the same row and column. The outcome of this analysis is presented in Table 3.

Table 3

Fornell–Larcker Criterion Validity Results

Construct	TFL	TSL	IL	WM	ME
Transformational Leadership (TFL)	0.827				
Transactional Leadership (TSL)	0.591	0.812			
Islamic Leadership (IL)	0.522	0.538	0.837		
Work Motivation (WM)	0.498	0.511	0.573	0.859	
Managerial Effectiveness (ME)	0.479	0.493	0.562	0.548	0.832

Source: Primary data. Authors' estimation.

From Table 3, it can be seen that all values on the diagonal (marked in bold) have greater values compared to the correlation between other constructs in the same row and column. For example, the Transformational Leadership construct has a $\sqrt{\text{AVE}}$ value of 0.827, which is higher than its correlation with other constructs such as Transactional Leadership (0.591) or Islamic Leadership (0.522). Likewise, Work Motivation has a $\sqrt{\text{AVE}}$ value of 0.859, higher than its highest correlation with Islamic Leadership (0.573). Thus, it can be concluded that all constructs in this model have adequate discriminant validity and do not show any overlap in measurement between constructs.

Construct Reliability

Construct reliability evaluates the internal consistency of the indicators associated with a particular latent variable. In the context of PLS–SEM, two primary metrics are commonly used: Cronbach's Alpha (CA) and Composite Reliability (CR). A construct is considered to exhibit adequate reliability when both CA and CR values exceed the threshold of 0.70. The detailed results of this reliability assessment are presented in Table 4.

Table 4*Construct Reliability Results*

Construct	Cronbach's Alpha (CA)	Composite Reliability (CR)	Information
Transformational Leadership (TFL)	0.861	0.911	Reliable
Transactional Leadership (TSL)	0.844	0.894	Reliable
Islamic Leadership (IL)	0.877	0.920	Reliable
Work Motivation (WM)	0.892	0.933	Reliable
Managerial Effectiveness (ME)	0.884	0.925	Reliable

Source: Primary data, Authors' estimation.

Table 4 shows that all constructs have Cronbach's Alpha and Composite Reliability values above 0.70. The Transformational Leadership construct has a CA of 0.861 and a CR of 0.911, indicating that the measurement instrument in this construct is very consistent. Transactional Leadership recorded a CA of 0.844 and a CR of 0.894, which also indicates high reliability. The Islamic Leadership construct has a CA of 0.877 and a CR of 0.920, indicating the stability and consistency of the indicators in measuring leadership values based on Islamic principles. Work Motivation and Managerial Effectiveness also show very high values with CRs of 0.933 and 0.925, respectively.

Based on the analysis of the outer model, it can be inferred that all latent variables have successfully fulfilled the criteria for convergent validity, discriminant validity, and construct reliability. Consequently, the measurement model is deemed appropriate for advancing to the next phase namely, the evaluation of the structural model (inner model) to examine the hypothesized relationships among constructs as outlined in the study's conceptual framework.

Evaluation of the Structural Model (Inner Model)

The assessment of the inner model is conducted to examine the hypothesized causal links among latent variables that have previously met validity and reliability standards in the outer model analysis. This stage involves several key steps: analyzing the coefficient of determination (R^2), evaluating predictive relevance (Q^2), testing the statistical significance of direct paths (direct effects), and assessing the influence of mediating variables (indirect effects). This approach is in accordance with the SEM-PLS analysis guidelines developed by Hair et al. (2021) and Henseler et al. (2009), which recommend layered testing to avoid structural misinterpretation.

The coefficient of determination (R^2) reflects the proportion of variability in the endogenous variable that is explained by the influencing exogenous variables included in the model. In this model, the R^2 value on the Islamic Leadership (IL) construct of 0.624 indicates that transformational leadership and transactional leadership together explain 62.4% of the variation in Islamic leadership. Meanwhile, Work Motivation (WM) has an R^2 value of 0.491, which means that this construct can be explained by IL by 49.1%. Finally, Managerial Effectiveness (ME) shows an R^2 of 0.667, which indicates that IL and WM simultaneously explain 66.7% of the variance in managerial effectiveness.

According to Chin (1998), an R^2 value above 0.26 can be categorized as strong, so this model has adequate structural exploration power.

Direct Effects Significance Test

Testing the relationship between latent constructs was conducted through bootstrapping analysis with 5,000 resampling samples. The results of the analysis in Table 5 show that Transformational Leadership (TFL) has a positive and significant influence on Islamic Leadership (IL) ($\beta = 0.406$, $t = 4.899$, $p < 0.001$), as well as Transactional Leadership (TSL) on IL ($\beta = 0.312$, $t = 3.672$, $p < 0.001$). This strengthens the finding of previous studies (Bass, 1994; Christian et al., 2022; Druskat, 1994; Twigg & Parayitam, 2007) stating that transformational and transactional leadership are two main styles that can form a specific leadership style, including in a religious context.

Table 5

Significance of Direct Effects

Hypothesis	Relationship Path	Path Coef. (β)	t-statistic	p-Value	Information
H1	TFL \rightarrow IL	0.406	4.899	0.000	Significant
H2	TSL \rightarrow IL	0.312	3.672	0.000	Significant
H3	IL \rightarrow WM	0.538	6.034	0.000	Significant
H4	IL \rightarrow ME	0.183	1.642	0.104	Not Significant
H5	WM \rightarrow ME	0.584	7.281	0.000	Significant

Source: Primary data. Authors' estimation.

Furthermore, Islamic Leadership (IL) has a positive and significant effect on Work Motivation ($\beta = 0.538$, $t = 6.034$, $p < 0.001$), which is consistent with Islamic motivation theory that emphasizes the spiritual dimension as a driver of work (Ali, 2009; Azimi, 2024; Islamy, 2019; M. B. Khan & Sheikh, 2012; Soleman et al., 2025). Work Motivation (WM) is also proven to have a significant effect on Managerial Effectiveness (ME) ($\beta = 0.584$, $t = 7.281$, $p < 0.001$), supporting Robbins & Judge's (2019) theory that work motivation is the main determinant of organizational effectiveness. However, the direct effect of IL on ME is not significant ($\beta = 0.183$, $t = 1.642$, $p = 0.102$), indicating that IL does not have a direct effect on managerial effectiveness in this context.

Mediation Test (Indirect Effects)

The test results in Table 6 show that the mediation path shows significant results. TFL \rightarrow IL \rightarrow WM ($\beta = 0.219$, $p < 0.001$), and TSL \rightarrow IL \rightarrow WM ($\beta = 0.168$, $p = 0.001$) indicate that both transformational and transactional leadership affect work motivation through the internalization of Islamic values in leadership. Likewise, the indirect effects of TFL \rightarrow IL \rightarrow ME ($\beta = 0.074$, $p = 0.045$) and TSL \rightarrow IL \rightarrow ME ($\beta = 0.057$, $p = 0.048$) indicate partial mediation. These results confirm that Islamic Leadership plays a role as a transformative mechanism in transferring influence from general leadership style to managerial organizational outcomes.

Table 6*Mediation Test (Indirect Effects)*

Hypothesis	Mediation Path	Indirect β	t-statistic	p-Value	Information
H6a	TFL \rightarrow IL \rightarrow WM	0.219	4.367	0.000	Significant
H6b	TFL \rightarrow IL \rightarrow ME	0.074	2.009	0.045	Significant
H7a	TSL \rightarrow IL \rightarrow WM	0.168	3.297	0.001	Significant
H7b	TSL \rightarrow IL \rightarrow ME	0.057	1.981	0.048	Significant

Source: Primary data. Authors' estimation.

Predictive Relevance (Q^2)

The Q^2 test was conducted using the blindfolding method to measure the model's predictive ability against observational data. The Q^2 value for IL = 0.411, WM = 0.366, and ME = 0.514. According to Hair et al. (2017), a Q^2 value above 0.35 indicates high predictive ability, so this model is stated to be relevant in practical and theoretical contexts.

Effect Size (f^2)

Effect size (f^2) is used to see the strength of the contribution of exogenous constructs to endogenous ones. The results show that TFL has a moderate effect on IL ($f^2 = 0.228$), TSL contributes little ($f^2 = 0.144$), and IL has a large effect on WM ($f^2 = 0.402$). However, IL on ME only has a small effect ($f^2 = 0.049$), supporting previous findings that the direct effect of IL on ME is less strong, but is strengthened through mediation by WM. This emphasizes that managerial effectiveness is more influenced by work motivation resulting from an Islamic leadership style, compared to its direct effect.

Most of the proposed hypotheses (H1, H2, H3, H5, H6a, H6b, H7a, and H7b) are empirically supported, while hypothesis H4 is not directly significant. This suggests that Islamic Leadership needs to be interpreted as a transformational mechanism that indirectly influences organizational outcomes, especially through increased work motivation. This model not only supports contemporary leadership literature within an Islamic framework, but also integrates classical and modern approaches in the study of organizational behavior.

DISCUSSION

The results of this study generally confirm that transformational, transactional, and Islamic leadership styles have an important role in shaping work motivation and managerial effectiveness in organizations. This finding enriches the discourse on leadership by placing Islamic Leadership (IL) as a strategic mediating variable in bridging the influence between conventional leadership (transformational and transactional) on managerial performance outcomes.

The Influence of Transformational and Transactional Leadership on Islamic Leadership

Empirical findings of this study reveal that both transformational leadership (TFL) and transactional leadership (TSL) significantly influence the strengthening of Islamic leadership (IL) dimensions in Islamic banking organizations. This suggests that IL is not



an isolated construct divorced from conventional leadership paradigms, but rather a synergistic model that integrates essential elements from both transformational and transactional styles.

This result supports prior findings by Qalati et al. (2022), who highlighted the effectiveness of transformational leadership in shaping employee behavior through vision and inspiration. It also aligns with Cherry (2023), who emphasized that transactional leadership—through structured rewards and performance control—remains relevant in achieving short-term organizational goals. Within the Islamic context, Laiqkafana & Rozikan (2023) demonstrated that Islamic leadership behavior is positively shaped by leaders who exhibit both moral integrity and structural clarity, which resonates with the mechanisms found in both TFL and TSL.

Furthermore, empirical findings from contemporary leadership research support the view that leadership styles—particularly transformational, transactional, and democratic—are significant predictors of employee engagement and motivation in both conventional and Islamic organizational settings (Baig et al., 2021; Haryanto et al., 2022; Kanat-Maymon et al., 2020; M. A. Khan et al., 2020; Koeswayo et al., 2024).

Building on these empirical insights, Islamic leadership can be understood as a value-integrated leadership framework that selectively adopts the strategic vision and ethical charisma of TFL, and the operational discipline of TSL, while embedding them within Islamic ethical principles such as amanah, adl, shiddiq, tabligh, and fathanah (Abdelwahed et al., 2025). It serves as a conceptual bridge between modern leadership theory and Islamic spiritual values, particularly relevant in Islamic financial institutions that demand alignment between performance outcomes and religious compliance. These findings expand on earlier conceptual works by providing empirical validation of the compatibility between mainstream leadership models and the principles of Islamic leadership (Ali, 2009; Egel & Fry, 2017; Gümüşay, 2019; Ruhullah & Ushama, 2024), confirming that Islamic leadership can function as an adaptive paradigm in the governance of sharia-based organizations.

Islamic Leadership as a Determinant of Work Motivation

The analysis results demonstrate that Islamic Leadership (IL) exerts a strong and significant influence on employee work motivation (WM). This finding supports the intrinsic value orientation in Islamic teachings, where work is not merely a means to earn material reward, but is viewed as a form of worship (ibadah) and a vehicle for contributing to societal welfare. This aligns with Abdelwahed et al. (2025) and Qomariah et al., (2022), who argue that Islamic leadership enhances employee motivation by embedding spiritual values into managerial practices.

Islamic leadership, in this context, promotes a work environment characterized by sincerity (ikhlas), trustworthiness (amanah), and excellence (ihsan), which serve as psychological triggers for intrinsic motivation. Similar findings were also reported by Afif et al. (2022), who highlighted that leadership grounded in Islamic ethics fosters employee enthusiasm and self-driven behavior in sharia-compliant institutions. Additionally, Laiqkafana & Rozikan (2023) found that Islamic leaders significantly

influence work ethics and internal motivation, especially through moral modeling and value-based decision-making.

The role of IL in fostering work motivation goes beyond productivity metrics; it contributes to shaping ethical orientations and spiritual commitment in professional life. Leaders who embody Islamic principles such as balance between dunya and akhirah responsibilities create a climate of meaningful engagement, where employees perceive their work as both professionally valuable and religiously purposeful. This supports the broader argument that IL strengthens psychological attachment to work through existential alignment and moral leadership.

These findings reinforce the relevance of Islamic leadership as a cornerstone in the design of human resource management systems within Islamic financial institutions. By integrating spiritual purpose with performance orientation, IL provides a sustainable foundation for cultivating motivated, value-driven human capital.

The Insignificance of the Direct Effect of Islamic Leadership on Managerial Effectiveness

Interestingly, the direct effect of Islamic Leadership (IL) on managerial effectiveness (ME) was found to be statistically insignificant. This suggests that the ethical and spiritual values embodied in IL are not immediately reflected in measurable managerial performance outcomes. Two plausible explanations can be proposed. First, as suggested by Afif et al. (2022), Islamic values may be embraced at the cultural or symbolic level, but not yet structurally embedded in managerial systems and performance metrics. Second, consistent with Neck & Houghton (2006), value-based leadership approaches often operate through deeper psychological processes, requiring internalization over time before manifesting in organizational outcomes.

Despite the weak direct relationship, the indirect effect of IL through work motivation was significant, indicating a full mediation mechanism. This implies that Islamic leadership exerts its influence on effectiveness primarily by first enhancing intrinsic and value-driven motivation among employees. This is aligned with the two-stage mediation model proposed by Baron & Kenny (1986), and refined in the conditional process modeling framework by Hayes (2022).

Similar patterns have been reported by Jaya & Widadi (2025), who found that Islamic leadership had limited direct impact on performance, but significantly improved motivation and behavioral outcomes. Likewise, Laiqkafana & Rozikan (2023) emphasized that the strength of Islamic leadership lies in its ability to cultivate work meaning and commitment, which in turn shapes performance in the long run.

This finding highlights an important implication: the effectiveness of Islamic leadership is not always immediately visible at the managerial level, but rather depends on its capacity to foster internal motivation, spiritual engagement, and ethical commitment as mediating pathways. Therefore, managerial systems in Islamic institutions should not only adopt value-based leadership formally, but also operationalize it through employee engagement and motivational strategies.



The Mediation Role of Islamic Leadership: Theoretical Contribution

The mediation analysis in this study confirmed that Islamic Leadership (IL) plays a crucial mediating role between both transformational leadership (TFL) and transactional leadership (TSL) toward work motivation (WM) and managerial effectiveness (ME). This finding suggests that IL functions not only as a spiritual or ethical construct, but as a transformational conduit that channels and reinterprets the influence of conventional leadership styles within an Islamic value framework.

IL enhances the motivational effects of vision, inspiration, and structured incentives brought by TFL and TSL, while filtering them through religious principles such as amanah, adl, and ihsan. This filtering process strengthens internal motivation by framing work as both professional responsibility and spiritual devotion, aligning managerial actions with Islamic norms of justice and accountability. This is in line with Abdelwahed et al. (2025) and Laiqkafana & Rozikan (2023), who found that IL fosters work ethics and motivation by embedding religious meaning into daily organizational life.

The model developed in this study contributes to the expansion of the full-range leadership theory (Bass & Riggio, 2006) by integrating a religious dimension as a contextual moderator within Muslim organizational environments. While previous studies have acknowledged the importance of ethical or servant leadership, few have structurally embedded Islamic leadership into a mediated framework connecting modern leadership theory with motivation and effectiveness—particularly in the context of Islamic financial institutions.

This approach reflects a paradigmatic shift from universalist models of leadership to a value-based framework that is culturally and spiritually grounded. As emphasized by Maulida & Firdaus (2025), performance in Islamic banking must align not only with efficiency but also with maqashid-oriented goals. Hence, the theoretical contribution of this study lies in its integrative model that bridges managerial pragmatism with spiritual imperatives—positioning IL as a strategic mechanism to balance modern organizational effectiveness with the moral demands of Muslim societies.

Theoretical Implications

This study offers a significant theoretical contribution by extending leadership theory into the domain of Islamic organizational culture and spirituality. By empirically confirming the mediating role of Islamic Leadership (IL) in linking transformational and transactional leadership styles to work motivation and managerial effectiveness, the study broadens the conventional scope of Full Range Leadership Theory (Antonakis et al., 2003; Antonakis & House, 2013; Bass & Avolio, 1994; Guhr et al., 2019) by embedding it in a faith-based institutional context.

First, this study reinforces the notion that religiously grounded leadership is not detached from modern leadership dynamics. Rather, IL integrates inspirational and structural aspects of transformational and transactional leadership into a framework of Islamic ethics and moral governance. This supports recent findings by Abdelwahed et al. (2025) and Laiqkafana & Rozikan (2023), who argue that Islamic leadership



effectively operationalizes modern leadership principles through a value-anchored and spiritually enriched approach. Such integration contributes to the development of a culturally responsive leadership theory that adapts global frameworks to local Islamic contexts.

Second, the finding that IL influences managerial effectiveness indirectly through work motivation supports the value mediation perspective, where leadership effectiveness is achieved through psychological and motivational processes rather than direct behavioral control. This aligns with Afif et al. (2022), who noted that Islamic motivation and leadership must first be internalized before manifesting in performance, and it echoes the broader theories of internal motivation as proposed by Deci & Ryan (2000) and Neck & Houghton (2006).

Third, these findings reinforce the legitimacy of Islamic Leadership as a standalone theoretical construct that merits further investigation—not only as a mediator, but also as a potential moderator or independent variable in studies of organizational behavior in Muslim-majority settings. In line with Maulida & Firdaus (2025), who emphasize the integration of spiritual values in performance measurement, this study opens new theoretical pathways for embedding Islamic values into mainstream leadership and management models.

Practical Implications

The practical implications of this study are highly relevant for organizations, particularly those operating in the education, government, and socio-religious sectors. Firstly, the findings highlight the critical importance of strengthening Islamic leadership within managerial training programs. Organizations should move beyond merely enhancing technical and structural competencies by also internalizing Islamic values such as amanah (trustworthiness), sincerity, justice, and moral responsibility in their leadership development initiatives. Secondly, adopting a balanced leadership approach that integrates transformational, transactional, and Islamic leadership styles has been shown to be more effective in fostering high levels of work motivation. Consequently, organizations are encouraged to design comprehensive leadership training models that encompass visionary and inspirational elements (transformational leadership), clarity of tasks and reward systems (transactional leadership), and the ethical and spiritual dimensions characteristic of Islamic leadership.

Furthermore, since the influence of Islamic leadership on managerial effectiveness is mediated through work motivation, it is essential for managers and organizational leaders to prioritize strategies that enhance intrinsic motivation rather than relying solely on material incentives. This can be achieved by cultivating a work culture that views labor as a form of worship and creating an environment conducive to both the spiritual and professional actualization of employees. In the context of developing countries with Muslim-majority populations such as Indonesia, reinforcing Islamic leadership values serves as a strategic approach to building organizational systems grounded in integrity and sustainability. Lastly, both public and private organizations can leverage the insights from this study to develop recruitment and promotion policies



based on value-centered leadership, and to implement managerial performance evaluations that incorporate spiritual and social dimensions, moving beyond purely economic or administrative criteria.

CONCLUSION

This study concludes that both transformational and transactional leadership styles have a positive and significant influence on Islamic leadership. These findings confirm that Islamic values can be internalized through general leadership practices when properly contextualized. Furthermore, Islamic leadership significantly enhances work motivation, though it does not directly affect managerial effectiveness—suggesting that its impact is more effective when mediated by psychological and motivational processes.

The structural mediation analysis reveals that Islamic leadership acts as a key mediating variable linking transformational and transactional leadership to both work motivation and managerial effectiveness. This highlights the strategic role of value-based leadership in shaping organizational outcomes within Islamic financial institutions. The significant indirect effects through work motivation support the notion that intrinsic motivation serves as a bridge between leadership behavior and performance outcomes. In addition, the high Q^2 predictive relevance scores across all constructs confirm that the proposed conceptual model offers strong explanatory power—both theoretically and practically.

Theoretically, this study contributes to the expansion of full-range leadership theory by embedding Islamic leadership as a spiritual and ethical mediator within modern leadership frameworks. It advances the idea that faith-based leadership can coexist and interact meaningfully with conventional paradigms in culturally embedded settings.

Practically, the findings suggest that Islamic organizations—especially Islamic banks—should strengthen leadership development programs that integrate sharia-based values into daily managerial practices. Such integration is essential for enhancing employee motivation and achieving effective, value-aligned organizational performance.

Limitations and Recommendations for Future Research

This study, while offering meaningful theoretical and practical contributions, is not without limitations. First, the sample was limited to employees from three Islamic banks in Indonesia, which may constrain the generalizability of the findings to broader cultural or organizational contexts. Second, the use of cross-sectional data restricts the ability to capture dynamic causal relationships among variables over time. Third, although this study employed robust statistical techniques (PLS-SEM), it focused primarily on linear relationships and did not examine possible moderating influences or contextual nuances such as organizational climate, leadership tenure, or employee personality traits.

These limitations offer directions for future research. First, expanding the research context by testing the proposed model across various industrial sectors and cultural settings would enhance the external validity and applicability of the Islamic leadership model. Second, the finding that Islamic leadership does not have a statistically significant direct effect on managerial effectiveness ($\beta = 0.183$, $t = 1.642$, $p = 0.102$) suggests that its influence may operate through mediating variables. This calls for a more comprehensive model incorporating mediators and/or moderators—such as work motivation, job satisfaction, or organizational commitment—to better understand the mechanism of influence.

Additionally, future studies should consider longitudinal designs to examine how these relationships evolve over time, and explore contextual factors such as organizational values, leadership styles at different managerial levels, or structural differences in sharia-compliant versus conventional organizations. These expansions would contribute to a more holistic and context-sensitive understanding of how Islamic leadership can effectively enhance managerial outcomes.

Author Contributions

Conceptualization	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.	Resources	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.
Data curation	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.	Software	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.
Formal analysis	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.	Supervision	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.
Funding acquisition	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.	Validation	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.
Investigation	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.	Visualization	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.
Methodology	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.	Writing – original draft	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.
Project administration	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.	Writing – review & editing	S.B., W.O.A.Z., L.O.S., I.H., H.B., & H.

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Informed Consent Statement

Informed consent was obtained before respondents filled out the questionnaire for this study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.



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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work, the authors used ChatGPT, DeepL, Grammarly, and PaperPal to translate from Bahasa Indonesia into American English and improve the clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and took full responsibility for the content of the published article.

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