DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

THE INFLUENCE OF TRANSFORMATIONAL LEADERSHIP AND ISLAMIC WORK ETHICS ON EMPLOYEE PERFORMANCE THROUGH ORGANIZATIONAL COMMITMENT IN ISLAMIC FINANCIAL INSTITUTIONS

Salsabilla[1]
Universitas Islam Negeri Sumatera Utara, Medan, Indonesia
salsa12122015@gmail.com

Marliyah[2]
Universitas Islam Negeri Sumatera Utara, Medan, Indonesia
marliyah@uinsu.ac.id

Nuri Aslami[3]
Universitas Islam Negeri Sumatera Utara, Medan, Indonesia
nuriaslami@uinsu.ac.id

Abstract

This study aims to examine the effects of transformational leadership and Islamic work ethics on employee performance, with organizational commitment serving as a mediating variable in Islamic financial institutions in North Sumatra, Indonesia. A quantitative research approach was employed using a survey method involving 200 employees from various Islamic financial institutions. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to simultaneously examine the relationships among the study variables. The findings reveal that transformational leadership has a positive and significant effect on both employee performance and organizational commitment. Similarly, Islamic work ethics significantly enhance organizational commitment and employee performance, indicating the importance of ethical values in promoting positive workplace outcomes. Furthermore, organizational commitment exerts a positive and significant influence on employee performance and mediates the relationships between transformational leadership and employee performance, as well as between Islamic work ethics and employee performance. These results suggest that the integration of transformational leadership practices with Islamic work ethics fosters stronger organizational commitment, which in turn contributes to higher employee performance. The study provides empirical evidence supporting the strategic role of leadership and ethical values in improving organizational effectiveness within Islamic financial institutions. The findings offer practical implications for managers and policymakers seeking to strengthen employee commitment and optimize organizational performance by cultivating transformational leadership behaviors and reinforcing Islamic ethical principles in the workplace.

Keywords: Transformational Leadership, Islamic Work Ethics, Organizational Commitment, Employee Performance, Islamic Financial Institutions

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

INTRODUCTION

Islamic financial institutions represent one of the fastest-growing sectors in the global financial industry. This growth has been driven by increasing public demand for a financial system that is not solely profit-oriented but also upholds the principles of justice, transparency, and social responsibility in accordance with Islamic values (Nasution & Rafiki, 2020). Globally, the Islamic finance industry has experienced remarkable expansion, with total assets reaching approximately USD 3.374 trillion and operating in more than 75 countries, while maintaining an annual growth rate of around 15–20% (Soage, 2020; LSEG, 2021). This rapid development indicates that the success of Islamic financial institutions depends not only on financial performance but also on the quality of human resources responsible for organizational operations (Akbar et al., 2023).

Human resources constitute a strategic factor in determining organizational success, particularly in enhancing employee performance. Employee performance refers to the work outcomes achieved by individuals in carrying out their assigned duties and responsibilities, both in terms of quality and quantity (Ramadhani & Nurbaiti, 2022). In the context of Islamic financial institutions, performance is evaluated not only by the achievement of work targets but also by the extent to which employees' behavior aligns with Islamic ethical values (Aflah et al., 2021). However, at both the national and regional levels, including North Sumatra, the growth of the Islamic financial industry has not been fully accompanied by improvements in employee performance quality. Various challenges remain, including low work productivity, suboptimal customer service, and the insufficient internalization of Sharia values in employees' work behavior (Dewi et al., 2025). These findings are consistent with the study of Rubbab et al. (2024), which identified the limited availability of human resources who are not only technically competent but also possess a strong understanding of Islamic values as one of the major challenges facing the development of Islamic financial institutions.

This condition reflects a gap between the macro-level growth of the Islamic finance industry and the quality of human resources at the organizational level. Employee performance plays a crucial role in achieving organizational strategic objectives and is defined as the results attained by individuals in fulfilling their duties and responsibilities, both quantitatively and qualitatively (Ramadhani & Nurbaiti, 2022). In Islamic financial institutions, performance is assessed not only through the achievement of work targets but also through behavioral conformity with Sharia values (Aflah et al., 2021). One factor that may influence employee performance is transformational leadership, which enables leaders to inspire, motivate, provide individualized consideration, and stimulate employees intellectually, thereby encouraging higher levels of performance (Bass & Riggio, 2005; Anandani & Aslami, 2023).

Islamic work ethics and organizational commitment also play a crucial role in enhancing employee performance. Islamic work ethics emphasize the values of trustworthiness (amanah), honesty, responsibility, and diligence, viewing work as an act of worship and a means of fulfilling religious obligations (Ali & Al-Owaihan, 2008; Atiya et al., 2024). Meanwhile, organizational commitment reflects employees' psychological attachment to and identification with their organization, encouraging them to contribute more effectively toward achieving organizational goals (Meyer & Allen, 1997). Previous studies have consistently demonstrated that transformational leadership, Islamic work ethics, and organizational commitment positively influence employee loyalty, productivity, and overall job performance (Gheitani et al., 2018; Han et al., 2016; Jiatong et al., 2022; Chong & Zainal, 2024).

According to the 2025 Islamic Banking Statistics published by the Indonesian Financial Services Authority (OJK), North Sumatra Province is home to 34 operational headquarters/branch offices and 98 sub-branch offices/Sharia service units. These figures indicate the continuous expansion of the Islamic financial industry in the region, creating an increasing demand for highly competent human resources capable of implementing Sharia principles in their daily work practices. The expansion of service networks must therefore be accompanied by improvements in employee performance to ensure sustained productivity, high-quality customer service, and public trust in Islamic financial institutions (OJK, 2025).

This study focuses on three Islamic financial institutions located in Medan City: BMT Serumpun Sharia Cooperative, BPR Syariah Bank Al Washliyah, and Bank Syariah Indonesia (BSI). These institutions were purposively selected because they represent different categories of Islamic financial institutions, namely an Islamic microfinance institution, an Islamic rural financing bank, and a full-fledged Islamic commercial bank. Moreover, all three institutions operate actively in North Sumatra and possess organizational characteristics that are highly relevant to the variables examined in this study.

Despite the industry's rapid growth, improving human resource performance remains a major challenge for Islamic financial institutions. The 2024 Annual Report of Bank Syariah Indonesia (BSI) indicates that although the bank has implemented a structured performance management system, several internal challenges persist, including suboptimal employee and branch productivity, as well as relatively low levels of Islamic financial literacy among employees (BSI, 2024). Similar findings were reported by Fadhil et al. (2025), who revealed that employee productivity in Baitul Maal wat Tamwil (BMT) institutions remains below expectations and that human resource competencies require further development to enhance organizational effectiveness.

These findings are consistent with the results of the preliminary observations and a pre-survey conducted with 30 employees from the three participating Islamic financial institutions. The pre-survey revealed that only 60% of employees consistently achieved their assigned performance targets, while the remaining 40% experienced difficulties in meeting organizational performance expectations. Furthermore, approximately 38% of respondents were categorized as having moderate levels of work productivity. Regarding Islamic work ethics, only 57% of employees reported consistently demonstrating discipline and punctuality, whereas 43% acknowledged inconsistencies in fulfilling their work responsibilities (Researcher's Pre-survey, 2026). These findings suggest that employee performance in Islamic financial institutions remains below the expected standard and requires further improvement. This situation highlights the need to investigate the influence of transformational leadership and Islamic work ethics on employee performance, with organizational commitment serving as a mediating variable, within Islamic financial institutions in North Sumatra.

Previous studies generally indicate that transformational leadership, Islamic work ethics, and organizational commitment play important roles in enhancing employee performance. Chong and Zainal (2024) found that transformational leadership improves

DANADYAKSA
POST MODERN ECONOMY JOURNAL

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

employee performance through increased motivation and work engagement. Likewise, Gheitani et al. (2018) and Nasution and Rafiki (2020) demonstrated that Islamic work ethics and the integration of Islamic values within organizations positively influence employee performance. These findings are further supported by Masruroh et al. (2024), who reported that Islamic work ethics and Islamic leadership enhance employee performance, as well as Rizal et al. (2023), who found that organizational commitment has a significant positive effect on employee performance.

However, findings regarding the role of organizational commitment remain inconsistent. Han et al. (2016), Ibnu et al. (2025), and Hardiani and Sugiarto (2023) found that organizational commitment mediates or strengthens the effects of transformational leadership and Islamic work ethics on employee performance. In contrast, Jalil et al. (2026) reported that organizational commitment has no significant effect on employee performance and does not mediate the relationship between transformational leadership, Islamic work ethics, and employee performance. Similarly, Ridha T. et al. (2025) only confirmed the influence of transformational leadership on organizational commitment without examining its impact on employee performance. These inconsistent findings indicate the existence of an empirical gap concerning the consistency of organizational commitment as a mediating variable.

Previous studies have predominantly been conducted in the public sector and non-Islamic financial organizations, while research integrating transformational leadership, Islamic work ethics, organizational commitment, and employee performance within Islamic financial institutions in Indonesia remains limited. In North Sumatra, despite the implementation of an Islamic work culture and transformational leadership practices, several challenges persist, including suboptimal achievement of work targets, low productivity, inconsistent service quality, and limited employee loyalty. These conditions reveal a contextual gap between theoretical expectations and empirical realities. This study offers novelty by examining organizational commitment as a mediating variable in the relationship between transformational leadership, Islamic work ethics, and employee performance within Islamic financial institutions in North Sumatra. Based on the foregoing discussion, this study aims to analyze the effects of transformational leadership and Islamic work ethics on employee performance, with organizational commitment serving as a mediating variable in Islamic financial institutions. The findings are expected to provide empirical contributions to the development of Sharia-based human resource management while offering practical insights for Islamic financial institutions to improve employee performance in a sustainable manner.

REVIEW OF LITERATURE

Transformational Leadership

Transformational leadership is one of the most extensively discussed leadership concepts in the fields of organizational behavior and modern management. The concept was first introduced by Bass (1998), who distinguished between two primary leadership styles: transactional leadership and transformational leadership. Transactional leadership emphasizes an exchange relationship between leaders and followers through reward and punishment mechanisms, whereas transformational leadership focuses on the leader's ability

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

to inspire and transform followers' values, motivation, and aspirations, enabling them to achieve higher goals beyond personal interests (B. Bass, 1998; Burns, 1978; Kuhnert & Lewis, 1987; Reid & Dold, 2018). Unlike transactional leadership, transformational leadership emphasizes a deeper process of change through inspiration, intellectual stimulation, and individualized consideration of followers. Transformational leaders not only manage organizational tasks but also establish strong emotional relationships and foster commitment to organizational goals (B. Bass, 1998; Kuhnert & Lewis, 1987; Ruggieri & Abbate, 2013). Through this approach, leaders are expected to enhance employee motivation, loyalty, and engagement in achieving organizational objectives. According to Bass (1998), transformational leadership is an interactive process between leaders and followers that enhances the motivation and morality of both parties. Leaders not only satisfy followers' basic needs but also encourage them to achieve self-actualization through a meaningful shared vision. Further development of this concept by Bass and Riggio (2005) explains that transformational leadership consists of four core dimensions: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. These four dimensions serve as key indicators for assessing the effectiveness of transformational leadership within organizations.

Transformational leadership also possesses a strong ethical dimension because it emphasizes moral values, integrity, and social responsibility. Transformational leaders prioritize ethical principles over merely achieving pragmatic outcomes, thereby fostering an organizational culture that is guided by values and ethics (Groves & LaRocca, 2011). This makes transformational leadership particularly relevant in the context of Islamic financial institutions, where organizational performance must be integrated with Islamic values. Numerous empirical studies have demonstrated that transformational leadership positively influences employee performance, organizational commitment, and job satisfaction. Zhu et al. (2011) found that transformational leadership enhances employees' moral identity and promotes positive work behavior. Similarly, Alghusin and Al-Ajlouni (2020) reported that transformational leadership significantly improves employee performance through increased organizational commitment. Other studies have also shown that organizational commitment mediates the relationship between transformational leadership and employee performance (Indriasari et al., 2023; Maulana & Perkasa, 2025).

However, these ideal conditions have not been fully realized in practice, particularly within Islamic financial institutions in North Sumatra. Although organizational leaders have sought to implement leadership practices that provide motivation and guidance, employee performance has yet to reach its optimal level. This is reflected in the failure to consistently achieve work targets, relatively low productivity, and inconsistent service quality. Furthermore, the internalization of Islamic work ethics has not been fully achieved, as indicated by inadequate employee discipline, responsibility, and dedication. These conditions contradict the findings of previous studies. Chong and Zainal (2024) reported that transformational leadership positively affects employee performance by enhancing work motivation and employee engagement. Likewise, Gheitani et al. (2019) found that Islamic work ethics improve employee performance through job satisfaction and organizational commitment, while Nasution and Rafiki (2020a) emphasized the importance of integrating Islamic values into leadership practices to improve employee performance. Furthermore,

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

although organizational commitment has been theoretically recognized as a mediating variable (Meyer & Allen, 1997a; Han et al., 2016), empirical evidence from the field indicates that employee loyalty and organizational attachment remain relatively low, accompanied by a high tendency toward employee turnover.

These findings suggest that the mechanism linking transformational leadership, Islamic work ethics, and employee performance through organizational commitment has not functioned optimally. Therefore, transformational leadership theory is adopted in this study because it provides an appropriate theoretical framework for explaining the gap between ideal organizational conditions and empirical realities. This study aims to examine the extent to which transformational leadership, together with Islamic work ethics, influences employee performance, with organizational commitment serving as a mediating variable. Accordingly, this research is expected to contribute to the advancement of leadership and organizational behavior theories while offering practical recommendations for improving employee performance in Islamic financial institutions.

Islamic Work Ethic

The Islamic Work Ethic (IWE) is a work ethic concept derived from Islamic teachings that emphasizes the importance of hard work, responsibility, honesty, and dedication in carrying out one's duties. From an Islamic perspective, work is regarded not merely as an economic activity to earn income but also as an act of worship (ibadah) and devotion to Allah SWT. Therefore, every task should be performed professionally, honestly, and responsibly, as it is considered a trust (amanah) for which individuals are morally and spiritually accountable (Ali & Al-Owaihan, 2008b). Conceptually, the Islamic Work Ethic asserts that work activities possess a strong spiritual dimension. A sincere intention (niyyah) in performing one's work transforms worldly activities into acts of worship, motivating individuals to work diligently, with integrity and responsibility, as an expression of obedience to Allah SWT (Hidayat & Suraijiah, 2025). Consequently, work serves not only as a means of achieving material well-being but also as a pathway to attaining moral and spiritual values.

The fundamental principles of the Islamic Work Ethic include honesty (sidq), integrity, trustworthiness (amanah), diligence (ijtihad), and commitment to one's responsibilities. The Qur'an and Hadith emphasize the importance of earning a lawful (halal) livelihood and upholding honesty in all work-related activities (Khairullah et al., 2022). Furthermore, every individual is expected to perform their duties professionally because work is regarded as a trust for which they will ultimately be accountable before Allah SWT (Asyhari et al., 2024). Within the context of modern organizations, the implementation of the Islamic Work Ethic contributes to the development of an ethical, harmonious, and productive work environment. Values such as justice, cooperation, and social responsibility foster healthy workplace relationships while enhancing trust and solidarity among organizational members (Ali & Al-Owaihan, 2008b). Consequently, the Islamic Work Ethic serves as an essential foundation for cultivating a values-based organizational culture, particularly within Islamic financial institutions.

Empirical evidence has consistently demonstrated that the Islamic Work Ethic significantly influences employee performance. Gheitani et al. (2019) found that the Islamic Work Ethic positively affects job satisfaction and organizational commitment, which ultimately lead to improved employee performance. Similarly, Nasution and Rafiki (2020a) showed that integrating Islamic values into organizational practices enhances both organizational commitment and employee performance. Furthermore, Aflah et al. (2021) confirmed that the Islamic Work Ethic contributes to improved employee performance through increased work motivation and job satisfaction. However, these ideal conditions have not been fully realized in practice, particularly within Islamic financial institutions in North Sumatra. Although the principles of the Islamic Work Ethic have been introduced within these organizations, many employees have yet to fully internalize these values. This is reflected in relatively low levels of work discipline, limited responsibility, and suboptimal dedication to work. As a result, organizational performance remains below expectations, as evidenced by the inability to consistently achieve work targets, relatively low productivity, and inconsistent service quality.

These findings are inconsistent with previous studies, which have reported that the Islamic Work Ethic positively influences employee performance through enhanced organizational commitment and job satisfaction (Gheitani et al., 2019). Moreover, from a theoretical perspective, the Islamic Work Ethic should foster ethical work behavior characterized by integrity and should contribute to sustainable improvements in employee performance. Nevertheless, the empirical reality indicates that these values have not yet become deeply embedded within the organizational culture. Furthermore, the relationship among the Islamic Work Ethic, transformational leadership, and organizational commitment has not functioned optimally. Previous studies have suggested that organizational commitment serves as a mediating variable that strengthens the influence of both the Islamic Work Ethic and transformational leadership on employee performance (Meyer & Allen, 1997a; Han et al., 2016). However, evidence from the field indicates that organizational commitment remains relatively low, as reflected in limited employee loyalty and organizational attachment, along with a high tendency toward employee turnover.

Theoretically, the Islamic Work Ethic should enhance employee performance both directly and indirectly through organizational commitment. In practice, however, the implementation of these values has not yet fully translated into improved employee performance within Islamic financial institutions. Therefore, the Islamic Work Ethic theory is adopted in this study because it provides a relevant theoretical framework for explaining the gap between the ideal conditions proposed in the literature and the realities observed in practice.

Organizational Commitment

Organizational commitment is a fundamental concept in organizational behavior that describes the extent of employees' psychological attachment to the organization in which they work. It reflects the degree to which employees identify with the organization, actively participate in organizational activities, and intend to remain members of the organization (Meyer & Allen, 1997b). Accordingly, organizational commitment represents the psychological bond between individuals and their organization, which influences employees' attitudes, work behaviors, and the sustainability of the employment relationship (Effendi & Aslami, 2023). Conceptually, organizational commitment is understood as a multidimensional construct comprising several key dimensions. O'Reilly and Chatman (1986) proposed that organizational commitment is reflected in three forms of attachment: compliance,

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

identification, and internalization. Subsequently, Meyer and Allen (1997b) developed the widely recognized three-component model of organizational commitment, consisting of affective commitment, continuance commitment, and normative commitment. Affective commitment refers to employees' emotional attachment to the organization, continuance commitment is associated with employees' evaluation of the costs and benefits of leaving the organization, and normative commitment reflects a sense of moral obligation to remain with the organization. Among these three dimensions, affective commitment is considered the most influential because it is directly associated with employees' emotional attachment, engagement, and loyalty (Mercurio, 2015; Nguyen & Ngo, 2020).

The level of organizational commitment is influenced by various psychological and workplace factors, including employee empowerment, psychological well-being, and individual work experiences within the organization. Previous studies have shown that employees' sense of competence, the meaningfulness of their work, and organizational support strengthen their attachment to the organization (Ibrahim, 2020; Li et al., 2024). In values-based organizations such as Islamic financial institutions, organizational commitment is also influenced by the congruence between organizational values and the religious values upheld by employees (Nazli et al., 2022; Siregar et al., 2021). This suggests that integrating spiritual values into organizational practices plays a crucial role in fostering strong organizational commitment. Empirical evidence consistently demonstrates that organizational commitment has a positive influence on employee performance. Employees with higher levels of organizational commitment tend to exhibit stronger loyalty, greater work engagement, and superior job performance (Meyer & Allen, 1997b; Hakim et al., 2023). Furthermore, Nasution and Rafiki (2020a) found that the Islamic Work Ethic is positively associated with organizational commitment in Islamic financial institutions. Other studies have also indicated that spiritual values strengthen employees' affective commitment while enhancing loyalty and job satisfaction (Raza et al., 2024a; Aman-Ullah & Mehmood, 2023).

Furthermore, organizational commitment serves as a mediating variable linking transformational leadership and the Islamic Work Ethic to employee performance. Han et al. (2016) found that organizational commitment strengthens the influence of leadership on employee performance. This finding suggests that organizational commitment functions not only as an independent variable but also as an underlying mechanism through which leadership practices and work values are translated into improved employee performance. However, these ideal conditions have not been fully realized in practice, particularly within Islamic financial institutions in North Sumatra. Although organizational commitment is theoretically expected to enhance employee performance, relatively low levels of organizational commitment are still evident in practice. This is reflected in limited employee loyalty, weak organizational attachment, and a high tendency toward employee turnover. These conditions have also contributed to suboptimal employee performance, as indicated by relatively low productivity, the failure to consistently achieve work targets, and inconsistent service quality. From a theoretical perspective, organizational commitment should serve as a key mechanism that strengthens the effects of transformational leadership and the Islamic Work Ethic on employee performance. In reality, however, its mediating role has not yet functioned effectively in enhancing employee performance within Islamic financial

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

institutions.

Therefore, organizational commitment theory is adopted in this study because it provides an appropriate framework for explaining the gap between the ideal conditions proposed in theory and the realities observed in practice. This study aims to examine the mediating role of organizational commitment in the relationship between transformational leadership, the Islamic Work Ethic, and employee performance. Accordingly, the findings are expected to contribute to the advancement of Sharia-based human resource management theory while providing practical implications for strengthening organizational commitment and improving employee performance in a sustainable manner.

Employee Performance

Employee performance refers to the work outcomes achieved by individuals in carrying out the duties and responsibilities assigned by an organization within a given period. It reflects the extent to which employees perform their jobs effectively and efficiently, as well as their contribution to the achievement of organizational objectives (Campbell & Wiernik, 2015). In the field of human resource management, employee performance is commonly assessed using several key indicators, including work quality, work quantity, timeliness, and the ability to collaborate effectively with team members (Muhammad Hasby & Nurbaiti, 2023). Employees with high levels of performance are generally capable of completing their tasks effectively, possess strong work motivation, and demonstrate a high level of organizational commitment (Koopmans et al., 2014). Research in human resource management has consistently shown that Human Resource Management (HRM) practices play a crucial role in improving employee performance. Dewi et al. (2025) reported that HRM practices including effective employee selection, empowerment, participation in decision-making, and continuous training have a positive impact on employee job performance. Likewise, Manzoor et al. (2019) found that these practices significantly enhance employees' work outcomes. Furthermore, employee involvement in organizational decision-making has been shown to improve managerial and stakeholder perceptions of overall organizational performance (Johansen & Sowa, 2019).

The effectiveness of HRM practices largely depends on the synergistic integration of organizational elements. HRM systems that are not well integrated may create organizational dis-synergy, leading to lower job satisfaction and weaker workplace relationships (Ho & Kuvaas, 2020). Therefore, organizations should adopt an integrated approach that focuses not only on technical aspects of human resource management but also on psychological factors and organizational values that influence employee behavior, including leadership, work ethics, and organizational commitment (White & Bryson, 2013; Otoo, 2019). Within the context of Islamic financial institutions, employee performance is inherently more complex because it is evaluated not only in terms of work productivity but also according to compliance with Sharia principles and Islamic values. Consequently, employee performance is considered a multidimensional construct encompassing professionalism, integrity, and behavioral conformity with Islamic ethical principles (Sodiq et al., 2024). Accordingly, transformational leadership, the Islamic Work Ethic, and organizational commitment are regarded as critical factors in explaining employee performance within Sharia-based organizations.

Numerous studies have demonstrated that values-based leadership, particularly

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

transformational leadership, enhances employee performance by fostering an inspiring organizational culture and strengthening employees' intrinsic motivation (Abdelwahed et al., 2025; Rabbad et al., 2024). Likewise, the Islamic Work Ethic contributes to the development of positive work behaviors, increases job satisfaction, and strengthens organizational commitment, all of which ultimately improve employee performance (Atmojo, 2012). Organizational commitment itself has been recognized as a strategic mediating variable that strengthens the relationships between organizational factors and employee performance (Raza et al., 2024b; Suryani et al., 2023). However, empirical evidence indicates that these theoretical relationships have not yet been fully realized in practice. Within Islamic financial institutions, particularly in North Sumatra, employee performance remains below the expected level despite various managerial initiatives aimed at improving organizational outcomes. This is reflected in the failure to consistently achieve work targets, relatively low productivity, and inconsistent service quality. Moreover, although the principles of the Islamic Work Ethic have been introduced within these organizations, they have not yet been fully internalized into employees' work behavior, as evidenced by shortcomings in discipline, responsibility, and dedication.

Based on these observations, the application of employee performance theory is highly relevant to this study, as it provides a framework for explaining how employee performance is influenced by transformational leadership and the Islamic Work Ethic, both directly and indirectly through organizational commitment as a mediating variable. Accordingly, this study is expected to provide a more comprehensive understanding of the determinants of employee performance in Islamic financial institutions while contributing to the development of a more contextual and practically applicable theory of Sharia-based human resource management.

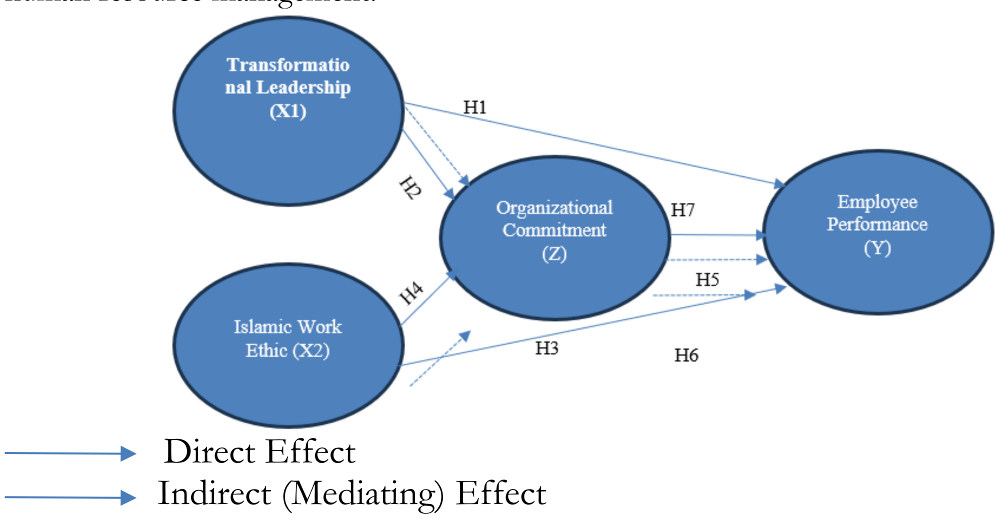

Figure 1.
Conceptual Research Model
Source: Prepared by the Authors (2026)

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

RESEARCH METHOD

This study employed a quantitative approach with an explanatory research design to examine the causal relationships among transformational leadership, Islamic Work Ethic, organizational commitment, and employee performance (Henseler et al., 2016; Sarstedt et al., 2021). The scope of the study focused on Islamic financial institutions, with the research object being employees' organizational behavior related to leadership, Islamic work values, organizational commitment, and employee performance (Ali & Al-Owaihan, 2008; Bass & Riggio, 2005; Meyer & Allen, 1997). The research was conducted among employees of three Islamic financial institutions located in Medan City, North Sumatra Province, Indonesia: Bank Syariah Indonesia (BSI), BMT Serumpun, and PT BPRS Al Washliyah Medan. These institutions were purposively selected because they represent the three principal categories of Islamic financial institutions in Indonesia, namely Islamic commercial banks, Islamic microfinance institutions, and Islamic rural financing banks.

The selection of the research location was based on the development of the Islamic banking industry in North Sumatra. According to the Islamic Banking Statistics (SPS) published by the Financial Services Authority (OJK) in January 2025, North Sumatra Province had 34 Operational Head Offices/Branch Offices (KPO/KC) and 98 Sub-Branch Offices/Sharia Service Units (KCP/UPS), indicating a high level of Islamic banking activity in the region. The study population consisted of all employees working in Islamic financial institutions within the study area (Sekaran & Bougie, 2016). The sample was selected using purposive sampling, with respondents required to have a minimum employment tenure of one year. The sample size ranged from 150 to 300 respondents, which is considered adequate for structural equation modeling analysis (Bass & Riggio, 2005; Meyer & Allen, 1997; Etikan, 2016).

The research model comprised four latent constructs: transformational leadership, Islamic Work Ethic, organizational commitment, and employee performance. Transformational leadership was measured using four dimensions: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Harsono & Imran, 2025; Henseler et al., 2016b; Sarstedt et al., 2021b). The Islamic Work Ethic was assessed using indicators of hard work, honesty, responsibility, cooperation, and dedication. Organizational commitment was measured through its three dimensions: affective commitment, continuance commitment, and normative commitment. Employee performance was evaluated using indicators of work quality, work quantity, timeliness, and teamwork.

Data were collected using a structured questionnaire with a five-point Likert scale as the primary research instrument. The measurement instrument was developed based on validated indicators adopted from previous studies to ensure the validity and reliability of the measurement model (Sarstedt et al., 2021). Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. The analysis consisted of two stages: evaluation of the measurement model to assess construct validity and reliability, followed by evaluation of the structural model to examine the relationships among the latent variables (Nitzl et al., 2016; Sarstedt et al., 2021b). Hypothesis testing was performed using the bootstrapping procedure to evaluate the significance of both direct and indirect effects, including the mediating role of organizational commitment in the

DANADYAKSA
POST MODERN ECONOMY JOURNAL

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

relationships between transformational leadership, Islamic Work Ethic, and employee performance.

RESULTS AND DISCUSSION

Convergent Validity

Convergent validity was assessed to determine the extent to which the indicators representing each construct were highly correlated with one another. This assessment was conducted by examining the outer loading values and the Average Variance Extracted (AVE). According to Sarstedt et al. (2021b), an indicator is considered valid if it has an outer loading greater than 0.70, while an AVE value exceeding 0.50 indicates adequate convergent validity.

Table 3.
Results of Convergent Validity and Reliability Assessment

Construct	Indicator	Outer Loading	AVE	Composite Reliability
Transformational Leadership	TL1	0.850		
	TL2	0.829		
	TL3	0.829		
	TL4	0.845		
	TL5	0.863	**0.721**	**0.954**
	TL6	0.860		
	TL7	0.859		
	TL8	0.857		
Islamic Work Ethic	IWE1	0.821		
	IWE2	0.881		
	IWE3	0.810		
	IWE4	0.851		
	IWE5	0.819	**0.704**	**0.943**
	IWE6	0.834		
	IWE7	0.854		
Organizational Commitment	OC1	0.820		
	OC2	0.848		
	OC3	0.860		
	OC4	0.871		
	OC5	0.832	**0.725**	**0.954**

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

Construct	Indicator	Outer Loading	AVE	Composite Reliability
	OC6	0.861		
	OC7	0.866		
Employee Performance	EP1	0.843		
	EP2	0.850		
	EP3	0.836		
	EP4	0.841		
	EP5	0.860	**0.721**	**0.949**
	EP6	0.846		
	EP7	0.869		
	EP8	0.847		

Source: Developed by the Authors (2026).

The measurement model evaluation indicates that all indicators of the transformational leadership, Islamic Work Ethic, organizational commitment, and employee performance constructs have outer loading values greater than 0.70, indicating that they are valid measures of their respective constructs. Furthermore, all Average Variance Extracted (AVE) values exceed the recommended threshold of 0.50, with transformational leadership (0.721), Islamic Work Ethic (0.704), organizational commitment (0.725), and employee performance (0.721). These results demonstrate that each construct explains more than 50% of the variance in its indicators, thereby confirming adequate convergent validity. In addition, the Composite Reliability (CR) values for all constructs are above 0.90, namely transformational leadership (0.954), Islamic Work Ethic (0.943), organizational commitment (0.954), and employee performance (0.949). Therefore, it can be concluded that all constructs exhibit excellent internal consistency, indicating that the research instrument is highly reliable and appropriate for subsequent analysis.

Discriminant Validity

Discriminant validity aims to ensure that each construct in the research model is empirically distinct from the other constructs. In this study, discriminant validity was assessed using the Heterotrait–Monotrait Ratio (HTMT), as recommended by Henseler et al. (2015). An HTMT value of less than 0.90 indicates that the constructs demonstrate adequate discriminant validity.

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

Table 4.
Results of the Discriminant Validity Assessment (HTMT)

Construct	**Islamic Work Ethic**	**Transformational Leadership**	**Employee Performance**	**Organizational Commitment**
Islamic Work Ethic	—			
Transformational Leadership	0.371	—		
Employee Performance	0.522	0.475	—	
Organizational Commitment	0.310	0.336	0.551	—

Source: SEM–PLS Data Analysis Results (2026).

Discriminant Validity

The assessment of discriminant validity was conducted using the Heterotrait–Monotrait Ratio (HTMT) to verify that each construct in the research model represents a distinct concept. The results show that all HTMT values are below the recommended threshold of 0.90, indicating that the constructs have adequate discriminant validity. The highest correlation value was found between organizational commitment and employee performance (0.551), followed by Islamic Work Ethic and employee performance (0.522), while the lowest value was observed between Islamic Work Ethic and organizational commitment (0.310). These findings confirm that each variable has sufficient conceptual uniqueness and that there is no significant overlap among the constructs.

Table 4.
Discriminant Validity Assessment Using HTMT

Construct	**Islamic Work Ethic**	**Transformational Leadership**	**Employee Performance**	**Organizational Commitment**
Islamic Work Ethic	—			
Transformational Leadership	0.371	—		
Employee Performance	0.522	0.475	—	
Organizational Commitment	0.310	0.336	0.551	—

Source: SEM–PLS Data Analysis Results (2026).

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

Reliability Assessment

Construct reliability was evaluated using Cronbach's Alpha and Composite Reliability (CR). According to Hair et al. (2019) and Sarstedt et al. (2021), a construct is considered reliable when both values exceed 0.70. The results demonstrate that all constructs achieved reliability values above the required threshold. Transformational Leadership obtained the highest internal consistency with Cronbach's Alpha of 0.945 and Composite Reliability of 0.954, followed by Employee Performance with similar reliability values. Overall, these results indicate that the measurement instruments used in this study possess excellent reliability and consistently represent each construct.

Table 5.
Construct Reliability Assessment

Construct	Cronbach's Alpha	Composite Reliability	Interpretation
Islamic Work Ethic	0.930	0.943	Reliable
Transformational Leadership	0.945	0.954	Reliable
Employee Performance	0.945	0.954	Reliable
Organizational Commitment	0.937	0.949	Reliable

Source: SEM–PLS Data Analysis Results (2026).

Structural Model Evaluation (Inner Model)

After confirming that the measurement model met validity and reliability requirements, the structural model was evaluated to examine the explanatory capability and relationships among latent variables. The assessment involved evaluating the coefficient of determination (R^2), predictive relevance (Q^2), effect size (f^2), and hypothesis testing through the bootstrapping procedure.

Coefficient of Determination (R^2) and Predictive Relevance (Q^2)

The R^2 value was used to determine the extent to which exogenous variables explain variations in endogenous constructs. Meanwhile, Q^2 was applied to assess the predictive relevance of the structural model. The results indicate that organizational commitment has weak explanatory power, while employee performance demonstrates weak-to-moderate explanatory capability. Both constructs have Q^2 values greater than zero, confirming that the model has acceptable predictive relevance.

Table 6.
R^2 and Q^2 Predictive Relevance Results

Endogenous Construct	R^2	Q^2 Predictive Relevance	Category
Organizational Commitment	0.142	0.133	Weak
Employee Performance	0.441	0.432	Weak–Moderate

Source: SEM–PLS Data Analysis Results (2026).

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

Effect Size (f^2)

The effect size analysis was conducted to evaluate the contribution of each exogenous construct to endogenous variables. The findings show that transformational leadership and Islamic Work Ethic have small effects on organizational commitment. Meanwhile, Islamic Work Ethic and organizational commitment provide moderate contributions to employee performance. Organizational commitment demonstrates the strongest effect on improving employee performance.

Table 7.
Effect Size (f^2) Results

Relationship	Effect Size (f^2)	Category
Transformational Leadership → Organizational Commitment	0.063	Small
Islamic Work Ethic → Organizational Commitment	0.045	Small
Transformational Leadership → Employee Performance	0.077	Small
Islamic Work Ethic → Employee Performance	0.142	Medium
Organizational Commitment → Employee Performance	0.193	Medium

Source: SEM–PLS Data Analysis Results (2026).

Hypothesis Testing

Hypothesis testing was performed using bootstrapping in PLS-SEM. A relationship was considered significant when the t-statistic exceeded 1.96 and the p-value was below 0.05. The results demonstrate that all proposed hypotheses (H1–H7) are supported.
Transformational Leadership positively affects employee performance ($\beta = 0.229$) and organizational commitment ($\beta = 0.249$). Similarly, Islamic Work Ethic significantly influences employee performance ($\beta = 0.307$) and organizational commitment ($\beta = 0.209$). Organizational commitment shows the strongest direct influence on employee performance ($\beta = 0.358$). Furthermore, organizational commitment significantly mediates the relationships between transformational leadership and employee performance ($\beta = 0.089$), as well as between Islamic Work Ethic and employee performance ($\beta = 0.075$). These findings indicate that employee performance is improved through both direct organizational factors and the indirect mechanism of strengthening organizational commitment.

Table 8.
Hypothesis Testing Results (Path Coefficients)

Hypothesis	Relationship	β (Original Sample)	t-statistic	p-value	Decision
H1	Transformational Leadership → Employee Performance	0.229	4.023	0.000	Supported
H2	Transformational Leadership → Organizational	0.249	3.364	0.001	Supported

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

Hypothesis	Relationship	β (Original Sample)	t-statistic	p-value	Decision
	Commitment				
H3	Islamic Work Ethic → Employee Performance	0.307	5.482	0.000	Supported
H4	Islamic Work Ethic → Organizational Commitment	0.209	3.096	0.002	Supported
H5	Organizational Commitment → Employee Performance	0.358	6.570	0.000	Supported
H6	Transformational Leadership → Organizational Commitment → Employee Performance	0.089	3.028	0.002	Supported
H7	Islamic Work Ethic → Organizational Commitment → Employee Performance	0.075	2.733	0.006	Supported

Source: SEM–PLS Data Analysis Results (2026).

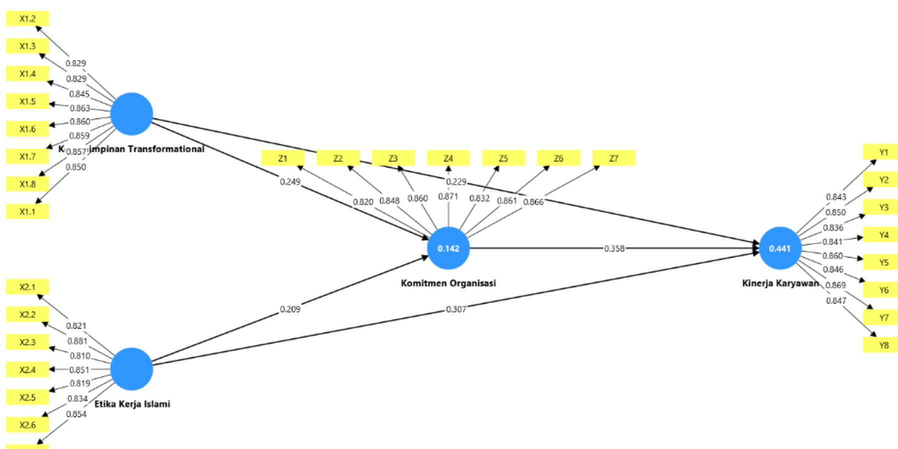

Figure 2.
Structural Path Model
Source: SEM–PLS Data Analysis Results (2026)

Discussion

The findings demonstrate that transformational leadership and the Islamic Work Ethic both have positive and significant effects on employee performance and organizational commitment in Islamic financial institutions in North Sumatra. Transformational leadership enhances employee performance by inspiring, motivating, and supporting employees, while simultaneously strengthening their emotional attachment and loyalty to the organization. Similarly, the Islamic Work Ethic, which emphasizes values such

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

as honesty, responsibility, discipline, hard work, and trustworthiness (amanah), contributes significantly to higher employee performance and stronger organizational commitment. These findings are consistent with the theories of Bass and Riggio (2005), Meyer and Allen (1997), and Ali and Al-Owaihan (2008), as well as previous empirical studies highlighting the importance of leadership and Islamic ethical values in improving organizational outcomes.

Among the direct relationships examined, organizational commitment exerts the strongest positive effect on employee performance, indicating that committed employees are more loyal, engaged, and willing to contribute to organizational success. Furthermore, organizational commitment serves as a significant mediating variable, strengthening the effects of both transformational leadership and the Islamic Work Ethic on employee performance. This suggests that leadership practices and Islamic ethical values improve employee performance not only directly but also indirectly by fostering stronger organizational commitment. Overall, the results emphasize the strategic importance of integrating transformational leadership, Islamic work values, and organizational commitment to achieve sustainable improvements in employee performance within Islamic financial institutions.

CONCLUSION

This study examined the effects of transformational leadership and the Islamic Work Ethic on employee performance, with organizational commitment serving as a mediating variable, in Islamic financial institutions in North Sumatra. The findings indicate that transformational leadership and the Islamic Work Ethic both have positive and significant effects on employee performance and organizational commitment. Furthermore, organizational commitment significantly enhances employee performance and mediates the relationships between transformational leadership, the Islamic Work Ethic, and employee performance, highlighting its crucial role in improving organizational outcomes.

The study contributes theoretically by reinforcing the roles of transformational leadership, the Islamic Work Ethic, and organizational commitment in explaining employee performance. Practically, it suggests that Islamic financial institutions should strengthen transformational leadership practices, promote the internalization of Islamic ethical values, and foster organizational commitment through leadership development, organizational culture, and employee engagement initiatives. This study is limited by its regional focus, cross-sectional design, and the variables included. Future research is recommended to extend the geographical scope, adopt longitudinal research designs, and incorporate additional variables such as work engagement, organizational culture, and job satisfaction to develop a more comprehensive research model.

REFERENCES

Abdelwahed, N. A. A., Al Doghan, M. A., Saraih, U. N., & Soomro, B. A. (2025). Unleashing potential: Islamic leadership's influence on employee performance via Islamic organizational values, organizational culture and work motivation. International Journal of Law and Management, 67(2), 165–190. https://doi.org/10.1108/IJLMA-

01-2024-0019
Aflah, K. N., Suharnomo, S., Mas'ud, F., & Mursid, A. (2021). Islamic Work Ethics and Employee Performance: The Role of Islamic Motivation, Affective Commitment, and Job Satisfaction. Journal of Asian Finance, Economics and Business, 8(1), 997–1007. https://doi.org/10.13106/jafeb.2021.vol8.no1.997
Alghusin, N., & Al-Ajlouni, M. I. (2020). Transformational leadership as an antecedent for organisational commitment and job performance in the banking sector of Jordan. International Journal of Productivity and Quality Management, 30(2), 186–213. https://doi.org/10.1504/IJPQM.2020.107814
Ali, A. J., & Al-Owaihan, A. (2008). Islamic work ethic: A critical review. Cross Cultural Management: An International Journal, 15(1), 5–19. https://doi.org/10.1108/13527600810848791
Aman-Ullah, A., & Mehmood, W. (2023). Role of Islamic work ethics in shaping employees' behaviour: Evidence from the banking sector in Azad Jammu and Kashmir. Journal of Islamic Accounting and Business Research, 14(7), 1033–1047. https://doi.org/10.1108/JIABR-12-2021-0309
Atmojo, M. (2012). The Influence of Transformational Leadership on Job Satisfaction, Organizational Commitment, and Employee Performance. International Research Journal of Business Studies, 5(2), 113–128. https://doi.org/10.21632/irjbs.5.2.113-128
Banks, G. C., McCauley, K. D., Gardner, W. L., & Guler, C. E. (2016). A meta-analytic review of authentic and transformational leadership: A test for redundancy. The Leadership Quarterly, 27(4), 634–652. https://doi.org/10.1016/j.leaqua.2016.02.006
Bass, B. M., & Riggio, R. E. (2005). Transformational Leadership (2nd ed.). Psychology Press. https://doi.org/10.4324/9781410617095
Burns, J. M. (1978). Leadership. Harper & Row.
Campbell, J. P., & Wiernik, B. M. (2015). The Modeling and Assessment of Work Performance. Annual Review of Organizational Psychology and Organizational Behavior, 2(1), 47–74. https://doi.org/10.1146/annurev-orgpsych-032414-111427
Chong, Y. K., & Zainal, S. R. M. (2024). Employee agility's mediating role on the link between employee vitality, digital literacy and transformational leadership with job performance. Cogent Business & Management, 11(1). https://doi.org/10.1080/23311975.2024.2337447
Gheitani, A., Imani, S., Seyyedamiri, N., & Foroudi, P. (2019). Mediating effect of intrinsic motivation on the relationship between Islamic work ethic, job satisfaction, and organizational commitment in banking sector. International Journal of Islamic and Middle Eastern Finance and Management, 12(1), 76–95. https://doi.org/10.1108/IMEFM-01-2018-0029
Hair, J. F., Babin, B. J., Anderson, R. E., & Black, W. C. (2019). Multivariate Data Analysis (8th ed.). Pearson.
Han, S., Seo, G., Li, J., & Yoon, S. W. (2016). The mediating effect of organizational commitment and employee empowerment. Human Resource Development International, 19(2), 98–115. https://doi.org/10.1080/13678868.2015.1099357
Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

validity in variance-based structural equation modeling. Journal of the Academy of Marketing Science, 43(1), 115–135. https://doi.org/10.1007/s11747-014-0403-8

Henseler, J., Ringle, C. M., & Sarstedt, M. (2016). Testing measurement invariance of composites using partial least squares. International Marketing Review, 33(3), 405–431. https://doi.org/10.1108/IMR-09-2014-0304

Indriasari, R., Permatasari, M., Khair, O. I., Yusuf, A., Susi, S., & Luthfi, A. (2023). The Impact of Transformational Leadership on Employee Performance: An Intermediary Function of Organizational Commitment and Job Satisfaction. Kawanua International Journal of Multicultural Studies, 4(1), 29–34. https://doi.org/10.30984/kijms.v4i1.580

Isbahi, M. B., Zuana, M. M. M. ., & Mariana, E. R. . (2022). The Technology Strategy in Website Communication Media in Improving Business Activities. *Majapahit Journal of Islamic Finance and Management*, *1*(2), 126–138. https://doi.org/10.31538/mjifm.v1i2.17

Koopmans, L., Bernaards, C. M., Hildebrandt, V. H., De Vet, H. C. W., & Van Der Beek, A. J. (2014). Measuring individual work performance: Identifying and selecting indicators. Work, 48(2), 229–238. https://doi.org/10.3233/WOR-131659

Mercurio, Z. A. (2015). Affective Commitment as a Core Essence of Organizational Commitment. Human Resource Development Review, 14(4), 389–414. https://doi.org/10.1177/1534484315603612

Meyer, J. P., & Allen, N. J. (1997). Commitment in the Workplace: Theory, Research, and Application. Sage Publications. https://doi.org/10.4135/9781452231556

Nasution, F. N., & Rafiki, A. (2020). Islamic work ethics, organizational commitment and job satisfaction of Islamic banks in Indonesia. RAUSP Management Journal, 55(2), 195–205. https://doi.org/10.1108/RAUSP-01-2019-0011

Nitzl, C., Roldan, J. L., & Cepeda, G. (2016). Mediation analysis in partial least squares path modelling. Industrial Management & Data Systems, 116(9), 1849–1864. https://doi.org/10.1108/IMDS-07-2015-0302

O'Reilly, C. A., & Chatman, J. (1986). Organizational Commitment and Psychological Attachment. Journal of Applied Psychology, 71(3), 492–499. https://doi.org/10.1037/0021-9010.71.3.492

Rabbad, R., Astuti, H. J., Tubastuvi, N., & Pratama, B. C. (2024). The effect of Islamic leadership, organizational culture, motivation, work environment, and job satisfaction on employee performance. International Journal of Research in Business and Social Science, 13(3), 205–222. https://doi.org/10.20525/ijrbs.v13i3.3402

Reid, W. M., & Dold, C. J. (2018). Burns, Senge, and the Study of Leadership. Open Journal of Leadership, 7(1), 89–116. https://doi.org/10.4236/ojl.2018.71006

Riketta, M. (2002). Attitudinal organizational commitment and job performance: A meta-analysis. Journal of Organizational Behavior, 23(3), 257–266. https://doi.org/10.1002/job.141

Rokhman, W., Rivai, H. A., & Adewale, A. (2011). An examination of the mediating effect of Islamic work ethic on the relationships between transformational leadership and work outcomes. Gadjah Mada International Journal of Business, 13(2), 125–142.

Vol. 4 No. 1, (2026), 1147–1168 e-ISSN: 3025-8545

https://doi.org/10.22146/gamaijb.5487

Sarstedt, M., Ringle, C. M., & Hair, J. F. (2021). Partial Least Squares Structural Equation Modeling. In Handbook of Market Research. Springer. https://doi.org/10.1007/978-3-319-57413-4_15

Udin, U., Dananjoyo, R., Shaikh, M., & Vio Linarta, D. (2022). Islamic Work Ethics, Affective Commitment, and Employee's Performance in Family Business: Testing Their Relationships. SAGE Open, 12(1). https://doi.org/10.1177/21582440221085263

Zhu, W., Riggio, R. E., Avolio, B. J., & Sosik, J. J. (2011). The effect of leadership on follower moral identity: Does transformational/transactional style make a difference? Journal of Leadership & Organizational Studies, 18(2), 150–163. https://doi.org/10.1177/1548051810396714