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The Relationship of Leadership to Profitability and Performance

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ABSTRACT

This study examines how leadership influences profitability and organizational performance through identifiable transmission channels, exploring whether its impact is direct or mediated by firm-level capabilities and behaviors. The paper synthesizes cross-study evidence integrating leadership perspectives—including transformational, transactional, digital, entrepreneurial, and ambidextrous—with performance-management frameworks to trace effects from leader behaviors to process, market, and financial outcomes. Drawing on empirical studies from 2022–2025, the review finds that leadership quality rarely affects profitability directly; instead, its effects operate through mediators such as affective commitment, organizational citizenship behavior, innovation capacity, organizational learning, agile practices, and management accounting systems. Contextual moderators, including competition intensity, incentive design, institutional legitimacy, and cross-level dynamics, can amplify or dampen these effects. Methodologically, the study identifies consistent pathways, for example: leadership influences engagement, innovation, and agility, which enhance performance and ultimately improve profitability. The main contribution is a coherent value chain linking leadership to operational excellence and customer value, providing a practical blueprint for aligning leadership design with organizational systems, culture, and performance metrics to drive sustainable financial outcomes.

Keywords: *Affective Commitment, Organizational Citizenship Behavior, Profitability, Transformational Leadership.*

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1. | INTRODUCTION

Leadership remains one of the most discussed constructs in management studies due to its wide-ranging impact on organizational outcomes, including profitability, performance, and employee behavior. Recent research has emphasized that leadership effects are often indirect, mediated by variables such as affective commitment, organizational citizenship behavior, and innovation capacity, rather than direct influences on financial performance. The study presented in this paper seeks to position itself within this evolving scholarly discussion and provides an integrative framework that explores the relationship between different leadership styles and organizational performance outcomes.

Leadership and its link to performance must be addressed for three reasons. First, organizations are under constant pressure to justify how leadership practices actually create value, not only in terms of employee morale but in measurable indicators such as productivity, service quality, and ultimately profitability. Without clarifying this chain of impact, leadership remains a "soft" concept and managers cannot defend investments in leadership development, culture-building, or digital transformation initiatives. Second, scholars have not remained silent on this issue: recent studies show that leadership rarely influences financial outcomes directly, but operates through mediating mechanisms such as affective commitment, organizational citizenship behavior, innovation capability, learning climate, and agile work systems. These studies also point to contextual contingencies such as market competition, incentive design, and institutional requirements that may strengthen or weaken the leadership-performance link.

Building on that body of work, this article responds in two ways. It first synthesizes diverse leadership perspectives (transformational, transactional, digital, entrepreneurial, ambidextrous) into a single process view that traces how leader behaviors travel through people, processes, and systems before showing up in financial results. It then clarifies where prior findings diverge, especially on the question of direct versus indirect effects and proposes an integrative framework that specifies the mediators and moderators that most consistently appear across recent empirical studies. In doing so, the paper not only positions itself within the current academic conversation but also offers practitioners a practical value chain for aligning leadership design with performance management and profitability goals.

This article pursues five interrelated objectives. First, it aims to clarify how leadership contributes to organizational performance and profitability not merely through direct effects, but primarily through a chain of mediating variables such as affective commitment, organizational citizenship behavior, innovation capability, learning climate, and agile work systems. Second, it synthesizes diverse leadership perspectives such as transformational, transactional, digital, entrepreneurial, and ambidextrous into a single process-oriented view that traces how leadership behaviours travel through people, processes, and systems before materializing in financial outcomes. Third, it identifies and explains the sources of divergence in prior empirical findings, particularly concerning the question of direct versus indirect leadership effects. Fourth, it proposes an integrative framework that specifies the mediators and moderators most consistently reported in recent studies. Finally, it offers a practical value-chain logic that managers can use to align leadership design with performance management and profitability goals.

Methodologically, this paper adopts a conceptual, integrative literature-review approach. Rather than reporting primary survey or experimental data, it systematically collects and analyses recent scholarship on leadership and organizational performance, with a particular emphasis on studies that model mediation and moderation effects. The literature is then organized into a pathway model connecting leadership inputs to performance processes and, ultimately, to financial results. This approach is intended to produce a theoretically robust yet empirically testable framework that future researchers can operationalize in quantitative studies such as SEM, PLS-SEM, or multi-level designs in different organizational contexts.

Based on the foregoing, the core research problems can be formulated as follows: (1) How do contemporary leadership styles relate to organizational performance in recent empirical studies? (2) To what extent is the leadership–profitability link direct, and to what extent is it transmitted through behavioural and organizational mechanisms? (3) Which mediating and moderating variables appear most consistently across the literature to explain variation in the strength of this link? and (4) How can these variables be structured into a coherent, value-creating leadership–performance framework that is useful for both scholars and practitioners?

The contribution and relevance of the article are twofold. Theoretically, it addresses a persistent gap in leadership research, namely the tendency to assert performance effects without specifying the mechanisms, boundary conditions, or contexts under which such effects hold. By making the chain of influence explicit, the article helps to reconcile mixed empirical results and advances a more contingent, process-based view of leadership. Managerially, it responds to organizations' recurring need to justify investments in leadership development, culture-building, and digital-transformation initiatives by connecting them to observable performance indicators (productivity, service quality, employee retention) and, ultimately, to profitability. This makes the framework particularly relevant for service-intensive and regulation-heavy sectors such as banking, state-owned enterprises, and financial services, where accountability for non-financial initiatives is high.

In terms of expected outcomes, the study is intended to (i) provide a conceptual model that can be directly tested in subsequent empirical research; (ii) guide HR, OD, and line managers in designing leadership interventions that are performance-linked rather than merely competency-based; (iii) enable cross-context comparisons (for example, banking versus manufacturing; profit centres versus support units); and (iv) strengthen the positioning of leadership as a strategic rather than purely "soft" construct. By doing so, the article aspires to contribute to the ongoing international conversation on how leadership creates value in measurable, defensible, and context-sensitive ways.

2. | LITERATURE REVIEW

This article positions leadership within a value-creation chain that runs from leader behaviours to people and processes, then to capabilities, and only thereafter to performance and profitability. Recent studies converge on the view that leadership effects on performance are predominantly indirect, travelling first through human and organizational mechanisms such as affective commitment, work engagement, organizational citizenship behavior (OCB), learning climate, project agility, and innovation capability (Ansari, Abouraia, El Morsy, & Thumiki, 2024; Mollah, Ibrahim, Al Masud, & Chowdhury, 2024).

Evidence from project and service settings shows that both transformational and transactional leadership enhance project success because they induce agile practices and crossfunctional collaboration; leadership is therefore "translated" into better processes before it is visible in business outcomes (Ansari et al., 2024). In sales and medical-representative contexts, ambidextrous leadership improves performance by strengthening work engagement and employees' ability to balance exploration and exploitation; talent management further reinforces this pathway (Nasution, Soemaryani, Yunizar, & Hilmiana, 2024).

Similar patterns appear in learning- and innovation-oriented firms: strong leadership competences raise organizational learning and innovation, and through these two channels business performance improves (Mai, Do, & Nguyen, 2022). A second stream of studies underscores the bridging role of innovation and management-information/management-accounting systems. Transformational leadership was found to increase innovation capacity; innovation capacity, in turn, encouraged the use of broad-scope management accounting systems, and the combination led to better firm performance (Tran, Chau, & Pham, 2025). This explains why many empirical papers report weak direct effects of leadership on performance: the causal chain is long and depends on whether intermediate capabilities are activated. The same logic holds in digital-transformation contexts. Digital leadership does not automatically improve competitive performance; it does so only when it succeeds in creating employees' affective commitment to change and embedding a digital culture supported by strategic agility (Mollah et al., 2024). Put differently, leaders must first build psychological readiness and behavioural alignment before expecting improvements in productivity, service quality, or profit.

Several studies also document serial or multiple mediation. Entrepreneurial leadership in hospitality drives employee creativity; creativity strengthens competitive advantage; and competitive advantage, in turn, raises hotel performance (Otache, Mejabi, Alogwuja, & Umar, 2025). Green, transformational, or transactional leadership aimed at sustainability likewise affects performance only after it increases OCB and organizational legitimacy, which then enable green innovation to flourish (Zhao, Renxi, Giglio, & Appolloni, 2025). At the same time, the literature is clear that the strength of the leadership-performance link is context dependent. Market competition, incentive design, and institutional or regulatory demands can amplify or weaken the pathway (Klein, 2023; Mollah et al., 2024; Zhao et al., 2025). In highly competitive markets, leadership that builds agility, innovation, and learning is more quickly converted into advantage. In highly regulated or public-service environments such as banking, SOEs, or financial services, leaders must connect behavioural and cultural change to formal performance-management systems and accountability mechanisms before the effect on profitability becomes defensible.

Taken together, the reviewed literature yields three key implications for this article. First, the claim that "leadership affects performance" must always be accompanied by through which variables the effect occurs most consistently commitment, OCB, innovation, learning, and agile work systems (Ward, 2012; Tirdasari & Dhewanto, 2012). Second, seemingly different leadership styles (transformational, transactional, digital, entrepreneurial, ambidextrous) can in fact be mapped into one process view: leader behaviour affect people/process strengthening affect capability activation affect performance affect profit. Third, contextual moderators explain why some studies find direct effects while others find only indirect ones; hence the need for an integrative framework that makes the leadership–performance value chain explicit and testable in sectors such as banking and public services.

3. | RESEARCH METHOD

This study employs a conceptual integrative literature review design. The aim is not to test hypotheses empirically but to assemble, compare, and integrate recent evidence on the leadership-performance-profitability relationship, and from that synthesis to propose an explicit value-creation pathway. This approach is appropriate when prior empirical studies report fragmented, partly inconsistent findings, some showing direct effects, others only indirect effects through mediators (Tran, Chau, & Pham, 2025; Mollah, Ibrahim, Al Masud, & Chowdhury, 2024; Zhao, Renxi, Giglio, & Appolloni, 2025).

Data sources and selection. The review focused on peer-reviewed journal articles (Scopus/WoS–indexed where available) published mainly in 2022–2025 on topics of transformational, transactional, digital, entrepreneurial, and ambidextrous leadership; mediators such as affective commitment, OCB, innovation capability, learning climate, agile/project practices; and outcomes such as organizational, competitive, or financial performance. Articles were retained when they (i) modelled mediation and/or moderation, or (ii) explicitly discussed why leadership did not show a strong direct effect on performance (Ansari, Abouraia, El Morsy, & Thumiki, 2024; Nasution, Soemaryani, Yunizar, & Hilmiana, 2024).

Analytical procedure. The selected studies were read and coded on four dimensions: (1) leadership type used; (2) mediating variables reported; (3) moderating/contextual variables reported; and (4) performance indicators used (service quality, innovation performance, project success, business/financial performance). After coding, overlapping variables were grouped to identify recurrent mediators (commitment, OCB, innovation, learning, agility) and recurrent moderators (market competition, incentive design, institutional/regulatory pressure). These groups were then arranged into a process view such as leader behaviours affect people/process mechanisms affect capability activation affect performance affect profitability which forms the model proposed in this article.

Rigor and limitations. To improve conceptual validity, the review privileged studies that (i) used multivariate/SEM approaches, or (ii) tested more than one mediator, because such designs are better able to “show” the indirect route of leadership (Tran et al., 2025; Otache, Mejabi, Alogwuja, & Umar, 2025). Nevertheless, because the present paper does not collect primary data, all causal inferences remain theory-driven and should be tested in future quantitative research (example: SEM, PLS-SEM, or multi-level models) in banking or other service sectors.

4. | RESULTS AND DISCUSSION

The integrative review identifies three main empirical patterns regarding the relationship between leadership, performance, and profitability. First, the reviewed studies show that leadership has only limited direct effects on financial outcomes. Its impact is mainly transmitted through mediating variables at the individual, process, and capability levels. Typical mediators include affective commitment, job satisfaction, organizational citizenship behaviour (OCB), work engagement, organizational learning, innovation capacity, agile project practices, intrapreneurial behaviour, and the use of broad-scope management accounting systems. Second, different leadership styles such as transformational, transactional, digital, entrepreneurial, ambidextrous, and competency-based leadership can be positioned along a similar value-creation pathway. Leaders influence employee attitudes and behaviours, innovation and learning processes, and project and process quality. These mechanisms improve operational performance, customer value, and competitive advantage, which then translate into business and financial performance. In several studies, multiple or serial mediation is reported, confirming that the leadership–profitability link is multi-stage rather than immediate. Third, the strength of this pathway is contingent on contextual moderators. Market competition, incentive schemes, digital maturity, institutional pressures, crisis conditions, and cross-level leadership interactions all shape how effectively leadership is converted into performance outcomes. In more competitive or innovation-intensive contexts, leadership that supports agility and innovation is more quickly reflected in performance indicators. In regulated or public-service settings, leadership results are more visible when aligned with formal management systems and accountability requirements.

Overall, the findings can be summarised in a value-chain model: Leadership behaviours and competencies affect people and process mechanisms affect capability activation affect operational and market performance affect profitability. This pathway represents the main empirical result of the conceptual-integrative review.

The results indicate that leadership cannot be treated as a simple, direct driver of financial performance. Instead, leadership operates through a chain of mediating mechanisms and under specific boundary conditions. This process-based view helps explain why previous studies have sometimes produced inconsistent findings regarding the strength and direction of the leadership-performance relationship. Studies that omit key mediators or contextual factors are more likely to find weak or non-significant effects.

From a theoretical perspective, the proposed value-chain model is consistent with the Resource-Based View and Dynamic Capability Theory. Leadership contributes to performance by building and activating capabilities such as innovation, learning, and ambidexterity, which are difficult for competitors to imitate. The model is also compatible with performance-management frameworks that link learning and internal processes to customer and financial outcomes. By integrating these perspectives, the article shifts attention from "which leadership style is best" to "which mechanisms are activated, and under what conditions".

The findings emphasise the importance of contextual fit. Transformational, entrepreneurial, and ambidextrous leadership appear particularly relevant in competitive and innovation-driven environments, where exploration and rapid adaptation are critical. In regulated or public-sector contexts, leadership needs to be supported by appropriate incentives, governance structures, and information systems in order to influence performance indicators credibly. This is relevant for service-intensive and state-owned organisations, where leaders must align behavioural change with formal accountability and profitability targets.

Managerially, the study suggests that organisations should design leadership as a package. Effective leadership development combines: (1) behaviours that enhance engagement, OCB, innovation, and learning; (2) organisational support and incentive systems that reinforce these behaviours; and (3) information and control systems that capture and monitor their performance impact. When these elements are aligned, leaders can more clearly demonstrate how their actions contribute to productivity, service quality, and ultimately profitability.

5. | CONCLUSION

This article set out to clarify how leadership relates to organisational performance and profitability, and through which mechanisms and conditions this relationship operates. Based on a conceptual integrative review of recent empirical studies, the main conclusion is that leadership affects profitability primarily indirectly, through a sequence of individual, process, and capability-based mediators. Direct effects on financial outcomes are the exception rather than the rule.

The review identifies a set of recurrent mediators such as affective commitment, OCB, work engagement, organisational learning, innovation capacity, agile practices, and intrapreneurial behavior as key conduits between leadership and performance. It also shows that diverse leadership styles can be integrated into a common, process-oriented model: Leadership behavior and competencies affect people and process mechanisms affect capability activation affect operational and market performance affect profitability. This model offers a clearer explanation of why leadership sometimes appears to have strong financial effects and sometimes does not, depending on whether the relevant mediators and contextual moderators are taken into account.

The study contributes conceptually by making explicit the mechanisms and boundary conditions linking leadership to profitability, and by offering a testable value-chain framework for future empirical work. Practically, the model provides managers especially in service-intensive and highly regulated sectors with a logical structure for designing leadership interventions that are explicitly connected to performance and profitability measures.

This study has several limitations. It is based on secondary data from published articles and does not report primary empirical findings. The review period is also limited, focusing mainly on recent publications, so some earlier contributions may not be covered. Future research should test the proposed model empirically using longitudinal or multi-level designs, and explore sector-specific variants of the value chain. Further studies could also examine additional moderators, such as national culture or technological turbulence, to refine understanding of how and when leadership generates measurable value.

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The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement

Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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