

The Relationship of Leadership to Profitability and Performance

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ABSTRACT

This study examines the relationship between leadership, organizational performance, and profitability through a conceptual integrative literature review. The review synthesizes recent empirical studies published primarily between 2022 and 2025, focusing on transformational, transactional, digital, entrepreneurial, and ambidextrous leadership. The findings indicate that leadership does not consistently influence profitability through a direct pathway. Instead, its effects are primarily transmitted through individual, organizational, and capability-based mechanisms, including affective commitment, organizational citizenship behaviour, work engagement, organizational learning, innovation capability, knowledge sharing, and agile practices. The review further shows that leadership outcomes vary according to organizational and environmental conditions, including market competition, organizational support, institutional pressure, and organizational legitimacy. Based on these findings, the study proposes a value-chain perspective in which leadership behaviours and competencies influence people and organizational processes, activate capabilities, and subsequently contribute to operational, market, and financial performance. The study provides a conceptual framework for understanding how leadership creates measurable organizational value while identifying directions for future empirical research.

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, organizational learning, innovation capacity, and agile practices, rather than direct influences on financial performance (Mai et al., 2022; Dubey et al., 2023; Ansari et al., 2024; Mollah et al., 2024). 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. Evidence indicates that leadership competences can contribute to organizational learning, innovation, and business performance, while leadership practices can also influence employee performance through knowledge sharing and related organizational mechanisms (Mai et al., 2022; Yas et al., 2023).

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 (Ansari et al., 2024; Mollah et al., 2024; Tran et al., 2025). For example, transformational and transactional leadership have been associated with agile project success, indicating that leadership can be translated into organizational outcomes through process and behavioral mechanisms (Ansari et al., 2024). Similarly, transformational leadership may influence firm performance through innovation capacity and management accounting systems rather than through a simple direct pathway (Tran et al., 2025). These studies also point to contextual contingencies such as market competition, incentive design, institutional requirements, and organizational legitimacy that may strengthen or weaken the leadership-performance link (Klein, 2023; Zhao et al., 2025).

Building on that body of work, this article responds in two ways. It first synthesizes diverse leadership perspectives (transformational, transactional, digital, entrepreneurial, and ambidextrous) into a single process view that traces how leader behaviors travel through people, processes, and systems before showing up in financial results. Previous research supports the relevance of these different leadership perspectives across organizational contexts, including competitive, public-sector, service, and innovation-oriented environments (Backhaus & Vogel, 2022; Cooper et

al., 2024; Nasution et al., 2024). 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 therefore 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 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 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.

2. | LITERATURE REVIEW

This article positions leadership within a value-creation chain in which leader behaviours influence people and processes, strengthen organizational capabilities, and subsequently contribute to performance and profitability. Recent studies indicate that leadership effects are frequently transmitted through organizational mechanisms rather than occurring only through direct relationships. Mai et al. (2022), for example, found that leadership competences influence organizational learning and innovation, while both mechanisms contribute to business performance. Similarly, Ansari et al. (2024) showed that transformational and transactional leadership contribute to agile project success through mechanisms related to project excellence, team building, management commitment, and agile practices.

The indirect pathway is also evident in studies examining innovation and performance. Tran et al. (2025) found that transformational leadership does not directly affect firm performance but influences it indirectly through innovation capacity and the use of management accounting systems. These findings support the view that leadership must activate intermediate organizational capabilities before its effects become visible in broader performance outcomes.

The same process-oriented perspective applies to digital leadership. Mollah et al. (2024) found that digital leadership had no direct effect on competitive performance, while affective commitment fully mediated the relationship. In contrast, digital culture did not mediate the relationship, and strategic agility did not strengthen the direct relationship between digital leadership and competitive performance. Thus, the

relationship between leadership and performance should not be assumed to operate through every proposed organizational mechanism.

The literature also indicates that contextual factors influence the leadership-performance relationship. Klein (2023) examined environmental competition intensity alongside transformational and transactional leadership, while Zhao et al. (2025) examined organizational citizenship behaviour and organizational legitimacy in relation to green innovation performance. These studies indicate that leadership outcomes depend on organizational and environmental conditions rather than on leadership style alone. The reviewed evidence therefore supports an integrated process view in which leadership influences employee and organizational mechanisms, these mechanisms activate capabilities such as learning, innovation, commitment, and agility, and the resulting capabilities contribute to organizational and financial performance. This perspective provides the theoretical basis for examining how leadership ultimately relates to profitability.

3. | RESEARCH METHOD

This study employs a conceptual integrative literature review design to assemble, compare, and integrate recent evidence on the relationship between leadership, organizational performance, and profitability. The approach is appropriate for synthesizing fragmented empirical findings concerning direct and indirect leadership effects and for identifying the organizational mechanisms through which leadership contributes to performance outcomes. The review focuses primarily on peer-reviewed journal articles published between 2022 and 2025, with Scopus- and Web of Science-indexed publications considered where available. The literature examined transformational, transactional, digital, entrepreneurial, and ambidextrous leadership, together with mediating mechanisms such as affective commitment, organizational citizenship behaviour, innovation capability, organizational learning, work engagement, and agile practices, as well as organizational, competitive, and financial performance outcomes. Studies were retained when they examined mediation or moderation relationships or explicitly addressed the mechanisms through which leadership was associated with organizational performance (Ansari et al., 2024; Mollah et al., 2024; Nasution et al., 2024; Tran et al., 2025).

The selected studies were analyzed and coded according to four dimensions: leadership type, mediating variables, moderating or contextual variables, and performance indicators. The coded variables were then grouped to identify recurring mediators, including affective commitment, organizational citizenship behaviour, innovation, learning, and agility, as well as contextual factors such as market competition, strategic agility, and organizational legitimacy (Klein, 2023; Mollah et al., 2024; Zhao et al., 2025). The findings were subsequently integrated into a process-oriented value chain linking leadership behaviour to people and process mechanisms, capability activation, operational and market performance, and ultimately profitability. Particular attention was given to studies employing multivariate or structural equation

modelling approaches and those examining multiple mediating mechanisms, as these provide greater insight into indirect leadership pathways (Tran et al., 2025). Because this study relies exclusively on published secondary evidence and does not collect primary data, the proposed relationships remain conceptual and should be tested through future empirical research using appropriate quantitative or multi-level designs.

4. | RESULTS

The integrative review identifies several consistent patterns concerning the relationship between leadership, organizational performance, and profitability. Rather than producing a uniform direct effect, leadership contributes to organizational outcomes through behavioral, organizational, and capability-based mechanisms, including organizational learning, innovation, affective commitment, organizational citizenship behaviour, work engagement, agile practices, knowledge sharing, and environmentally proactive strategies.

First, leadership is consistently associated with organizational and employee performance, although the mechanisms and strength of these relationships vary across contexts. Mai et al. (2022) demonstrated that leadership competences contribute to organizational learning and organizational innovation, which subsequently support business performance. Yas et al. (2023) similarly showed that strategic leadership practices are related to employee performance, with knowledge sharing functioning as an important mechanism. Effective leadership is also associated with job satisfaction and organizational citizenship behaviour (Dubey et al., 2023). These findings indicate that leadership influences performance by shaping employee attitudes, behaviours, and organizational capabilities rather than solely through direct financial effects.

Second, the evidence demonstrates the importance of mediating mechanisms. Ansari et al. (2024) found that transformational and transactional leadership contribute to agile project success through agile project practices, team building, management commitment, and project excellence. Jauhari et al. (2024) further showed that transformational leadership influences frontline service delivery behaviours through affective commitment and role-breadth self-efficacy. Nasution et al. (2024) found that ambidextrous leadership, talent management, and individual ambidexterity influence medical representative performance, with work engagement functioning as a mediating mechanism. These findings indicate that leadership effects become more observable when translated into employee engagement, behavioural alignment, and organizational processes.

Third, leadership is connected to innovation and entrepreneurial capability. Klein (2023) found that transformational and transactional leadership are associated with employee intrapreneurial behaviours through organizational support for entrepreneurship, with environmental competition also shaping these relationships. This indicates that leadership effects depend partly on organizational resources and competitive conditions.

Fourth, leadership can influence decision quality and organizational coordination. Cristofaro et al. (2023) found that shared leadership influences decision quality through decision comprehensiveness, while team debate moderates the relationship between shared leadership and decision comprehensiveness. However, individual self-leadership may reduce decision comprehensiveness, demonstrating that leadership effects involve both enabling and boundary mechanisms.

Fifth, the review identifies connections between leadership, profitability, and financial performance. Do and Bui (2022) found that leadership personality traits are associated with profitability and investment in human capital among Vietnamese SMEs. Gošnik et al. (2023) examined the relationship between leadership in business process management and company profitability, while Huang et al. (2023) found that ethical leadership influences financial performance through environmentally proactive strategy, with institutional pressure serving as a moderating condition.

Finally, contextual and organizational conditions shape leadership-performance relationships. Backhaus and Vogel (2022) identified differences in leadership outcomes across public-sector contexts, while Cooper et al. (2024) showed that leadership effects on worker productivity vary across economic contexts. Conde et al. (2025) further demonstrated that leadership characteristics operate differently across hierarchical levels in sales organizations. Overall, these findings indicate that leadership effects cannot be separated from organizational structure and contextual conditions.

Seventh, digital leadership produces performance effects through specific organizational mechanisms rather than automatically generating competitive performance. Mollah et al. (2024) found that digital leadership has no direct effect on competitive performance, while affective commitment fully mediates the relationship. Digital culture did not mediate the relationship, and strategic agility did not strengthen the direct relationship between digital leadership and competitive performance. This finding is important because it demonstrates that proposed mechanisms of leadership effectiveness do not necessarily operate in the same way across organizational contexts.

Eighth, the reviewed evidence also extends the leadership-performance relationship to sustainability and green innovation. Zhao et al. (2025) examined leadership styles, organizational citizenship behaviour, organizational legitimacy, and green innovation performance, showing the importance of behavioural and legitimacy-related mechanisms in explaining green innovation outcomes. Huang et al. (2023) similarly demonstrated that environmentally proactive strategy provides a pathway through which ethical leadership contributes to financial performance, with institutional pressure serving as a contextual condition. These findings indicate that leadership can contribute to financial and organizational outcomes through strategic responses to environmental and institutional demands.

Finally, Tran et al. (2025) provides particularly direct evidence for the proposed value-chain perspective. The study shows that transformational leadership influences firm performance through innovation capacity and management accounting systems

rather than through a simple direct relationship. Taken together with the findings of Mai et al. (2022), Ansari et al. (2024), Mollah et al. (2024), Nasution et al. (2024), and Zhao et al. (2025), the evidence supports an integrated pathway:

Leadership → employee/organizational mechanisms → capability activation → operational/market performance → profitability.

The results indicate that leadership should not be treated as a single direct determinant of profitability. Its contribution operates through multiple mechanisms including commitment, engagement, learning, innovation, agility, knowledge sharing, organizational support, and strategic responses which vary according to organizational and environmental conditions. The evidence therefore supports the proposed conceptual value-chain model linking leadership behaviours and competencies to organizational mechanisms, capability development, performance, and ultimately profitability.

5. | DISCUSSION

The findings of this integrative review indicate that the relationship between leadership, organizational performance, and profitability is primarily process-based rather than consistently direct. Leadership contributes to performance by influencing employee attitudes, organizational behaviours, and capabilities that subsequently affect operational and business outcomes. This interpretation is consistent with Mai et al. (2022), who linked leadership competences with organizational learning and innovation, and with Yas et al. (2023), who highlighted knowledge sharing as an important mechanism connecting strategic leadership practices with employee performance.

The findings further demonstrate that the mechanism through which leadership operates is context dependent. Transformational and transactional leadership can support agile project outcomes, while ambidextrous leadership is associated with employee performance through mechanisms such as work engagement and individual ambidexterity (Ansari et al., 2024; Nasution et al., 2024). Similarly, Jauhari et al. (2024) indicates that transformational leadership can influence service delivery behaviour through employee-level mechanisms. These findings suggest that leadership effectiveness cannot be adequately understood by examining leadership style independently from the processes and capabilities it activates.

The results also clarify why direct relationships between leadership and performance may differ across studies. Tran et al. (2025) found that transformational leadership influences firm performance through innovation capacity and management accounting systems, while Mollah et al. (2024) found that digital leadership has no direct effect on competitive performance and that affective commitment fully mediates this relationship. Importantly, Mollah et al. (2024) also found that digital culture did not mediate the relationship and strategic agility did not strengthen the direct relationship. Thus, the presence of a theoretically plausible mediator should not automatically be assumed to produce an empirical effect.

Contextual conditions provide another explanation for variation in leadership outcomes. Klein (2023) identified environmental competition as relevant to leadership and intrapreneurial behaviour, while Zhao et al. (2025) demonstrated the importance of organizational citizenship behaviour and organizational legitimacy in the context of green innovation. Backhaus and Vogel (2022) further showed that leadership outcomes in the public sector vary across contextual and methodological conditions.

Overall, the findings support a value-chain interpretation in which leadership influences people and organizational processes, activates capabilities such as learning, innovation, commitment, and agility, and subsequently contributes to performance and profitability. This interpretation provides a more nuanced explanation than treating any single leadership style as a universal determinant of organizational success.

6. | CONCLUSION

This study examined the relationship between leadership, organizational performance, and profitability through a conceptual integrative review of recent empirical literature. The findings indicate that leadership does not consistently influence profitability through a direct pathway. Instead, its contribution is primarily transmitted through individual, organizational, and capability-based mechanisms, including affective commitment, organizational citizenship behaviour, work engagement, organizational learning, innovation capability, knowledge sharing, and agile practices.

The reviewed evidence also demonstrates that different leadership approaches—including transformational, transactional, digital, entrepreneurial, and ambidextrous leadership can be understood within a common process-oriented framework. Leadership behaviours and competencies influence people and organizational processes, which activate capabilities and subsequently contribute to operational, market, and financial performance. However, the strength and direction of these relationships vary according to organizational and environmental conditions, such as competition, organizational support, institutional pressure, and legitimacy.

The main contribution of this study is therefore the development of a value-chain perspective that connects leadership with measurable organizational and financial outcomes through identifiable mechanisms. This perspective provides a conceptual basis for understanding why leadership may produce different performance outcomes across organizational contexts. As the study is based on secondary literature and does not involve primary empirical testing, future research should empirically examine the proposed relationships using quantitative, longitudinal, or multi-level research designs.

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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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