

Transformational Leadership for Sustainable Organizational Change

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Abstract

Leadership is crucial in the context of determining multiple factors associated with and contributing to organizational success. For instance, leadership impacts employee engagement, decision-making, and financial sustainability. The following policy proposal includes an examination of the impact transformational leadership has been shown and documented to have in minimizing many of the organizational deficiencies including employee disengagement, operational inefficiencies, and financial instability, which ultimately contribute to poor KPIs and organizational outcomes. The policy proposal uses several real-world examples to illustrate what empirical evidence shows, in support of a proposal in which the implementation of transformational leadership approaches is justified. Through an analysis of leadership theories and empirical research, the effect of transformational leadership in improving workforce motivation, strategic adaptability, and corporate resilience is demonstrated. Three themes are identified in the literature review, including leadership-driven employee engagement, strategic decision-making for organizational performance, and financial sustainability through transformational leadership. Each theme is analyzed from three perspectives, including corporate leadership, employee engagement, and financial performance. Ethical implications of unresolved leadership deficiencies are also evaluated which include governance failures, workforce exploitation, and financial mismanagement. A set of policy recommendations designed to reinforce leadership accountability, enhance employee engagement, improve ethical financial oversight, and strengthen corporate governance are suggested based on empirical evidence.

Keywords: *Transformational leadership, employee engagement, organizational performance, financial sustainability, corporate governance.*

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Transformational Leadership for Sustainable Organizational Change

Introduction

Often, leadership failures in corporate crises cause disengagement among employees and declining performance. Both poor performance and decreased engagement can thus compromise the financial stability of a company. Companies facing such challenges thus require leadership strategies designed to develop and strengthen employee engagement and streamline operations so that organizations can not only recover financially but remain solvent and grow.

Transformational leadership is characterized by vision, motivation, and strategic communication and has been widely studied for its ability to inspire employees and align organizational goals (Buil et al., 2019; Galati et al., 2022). However, many organizational leaders lack competency and capability to effectively implement such principles, due to poor leadership approaches, thereby contributing to organizational underperformance and financial stress (Widodo, 2022). Hence, a need exists for greater leadership competency and more effective leadership practices. Thankfully, empirical support exists in which the use case and efficacy of transformational leadership in improving factors like engagement, performance, and financial stability is demonstrated, as will be described in this policy proposal. The case of Ford Motor Company under Alan Mulally is a primary example of how leadership-driven policies can reverse organizational decline and ultimately build long-term sustainability and improved metrics.

Problem Statement

The problem is that financial crises persist across automobile organizations, and many automobile executives and leaders are tied to transactional models of leadership and are failing to

implement leadership approaches that could otherwise minimize poor financial outcomes caused by declining employee performance and engagement. An example of leadership failure contributing to an organizational financial crisis is General Motors (GM). By 2009, GM lost billions of dollars, filed for bankruptcy, and required a \$50 billion government bailout to avoid collapse. Researchers have indicated that factors including weak leadership, lack of strategic direction, and disengaged employees contributed to inefficiencies, production failures, and declining consumer trust (Nugroho et al., 2020). GM's struggles can thus be used to illustrate a larger, more pervasive issue, which is that auto companies that do not engage their workforce and/or sufficiently adapt to market demands are likely to experience operational decline and financial detriments. Thus, the following policy paper first includes an exploration of the scope of this issue based on the following three distinct perspectives: a) Corporate leadership, including how leadership vision and communication influence organizational culture and strategy; b) employee engagement, including the role of leadership in fostering trust, motivation, and productivity; and c) financial performance, specifically according to the impact of leadership decisions on revenue, market share, and long-term viability.

Thesis

Although leadership failures at GM contributed to disengagement and financial collapse, the case of Ford Motor Company provides an alternative scenario and example of what is possible through the use of the evidence-based, policy-driven application of transformational leadership. The successful turnaround of Ford Motor Company under Alan Mulally can be used to demonstrate the potential for transformational leadership to reverse such crises and have positive impacts on employee and financial performance. Ford's leadership strategies and

proposed policy recommendations will be analyzed herein, about auto organizations whose leaders are seeking to replicate similar success in leadership-driven corporate recovery. Hence, leadership theories, empirical research, and policy frameworks will be integrated herein (Bakker et al., 2023; Widodo, 2022) to provide actionable strategies businesses facing engagement, performance, and financial challenges can implement from a policy perspective, to improve prospects.

Literature Review

The following literature review includes a synthesis and discussion of research concerning the topic, problem, and proposal addressed within this policy proposal. Furthermore, the literature discussed herein includes supporting evidence and justification of the policy proposal. The study of leadership has evolved significantly over time. During the 2000s, transformational leadership emerged as a dominant framework in modern organizational theory. Transformational leadership is characterized by a leader's ability to inspire employees, foster a shared vision, and encourage innovation while emphasizing employee development (Antonakis & Day, 2017). Leaders using the transformational approach generally prioritize a focus on aligning organizational and employee goals, promoting motivation, and encouraging engagement through idealized influence, intellectual stimulation, and individualized consideration (Bass & Riggio, 2006). As leadership theory has progressed, researchers have refined how transformational leadership may be applied, which has differentiated it from traditional management approaches (Benmira, 2020). Furthermore, the distinction between leadership and management continues to be a discussion within the literature concerning organizational leadership. For instance, leadership is often associated with visionary exercises and strategic direction, whereas management focuses on monitoring, control, and operational

stability (Purwanto et al., 2020). Such distinguishing characteristics have influenced the study of transformational leadership by reinforcing its role in shaping organizational culture, employee engagement, and long-term performance. By better understanding the historical progression of leadership theories in the context of culture and society, valuable insight can be gleaned into how transformational leadership can provide an effective approach leaders in the automobile industry can use to improve engagement, performance, and ultimately, financial solvency.

Moreover, the shift in leadership theory and approach, during the early 2000s, from trait-based leadership models to behavioral and situational theories, further reflects the growing emphasis on leadership as an adaptive and dynamic process rather than a fixed set of personal traits (Benmira, 2020). The following research included in the literature review herein includes articles and findings that demonstrate the evolution of leadership theories from early models, such as the Great Man Theory, to the modern-day emphasis on transformational and transactional leadership. Furthermore, key theoretical shifts are examined, in addition to a discussion of how transformational leadership fits within broader leadership frameworks and impacts organizational performance, employee motivation, and strategic decision-making (Widodo, 2022). An exploration of these dimensions provides a comprehensive basis within which to understand the foundations of transformational leadership and its continued relevance in modern organizations, such as within the automobile industry.

History and Evolution of Leadership Theory

Transformational leadership is a leadership style that involves motivating employees to exceed expectations by creating a shared vision, promoting innovation, and focusing on employee development (Antonakis & Day, 2017). Transformational leadership is primarily recognizable by the leaders' ability to inspire and engage employees to wish to emulate them.

Transformational leaders motivate higher levels of performance and encourage an alignment between employee, leader, and organizational goals and are also characterized by their idealized influence on followers, the ability to inspire motivation, and the prompting of intellectual stimulation. The ability to consider the needs and skills of followers as individuals is also a distinguishing factor (Bass & Riggio, 2006). Such qualities have driven a high interest in transformational leadership in both past and recent literature.

Researchers have studied transformational leadership extensively and it has had a great influence on understanding organizational efficacy. However, the approach continues to prompt new and modern research. Such continued research concerning transformational leadership may be influenced by the complexity of the topic and its broad applicability (Benmira, 2020). For instance, Benmira (2020) argued that a critical question of transformational leadership and the study of organizational leadership is often related to the differentiation between organizational management and organizational leadership. Another critical point of differentiation is that leaders are involved with visionary exercises and strategy while managers are almost entirely involved with the monitoring and controlling of employee performance—specifically intending to maintain order and stability (Purwanto et al., 2020).

As a well-researched leadership style, researchers' understanding of transformational leadership has significantly evolved since its inception. Broad-level research on leadership began in the 19th century, primarily characterized by discussions of what made people and leaders effective. For instance, the Great Man theory, which was based on the assumption that leaders are born rather than trained or developed over time, was a framework characterizing early approaches to and through frameworks guiding organizational leadership (Adinugraha et al., 2021). The theory was also based on the assumption that there were only a few individuals who

possessed such special characteristics that made them great leaders. Examples were often pulled from history and included influential figures such as Abraham Lincoln and Mahatma Gandhi (Benmira, 2020). Such early frameworks were not necessarily useful for organizational leaders who wanted to develop their skills (Bass & Riggio, 2007). Consequently, later leadership theories evolved based on a broader understanding of how individual traits in a leader influenced the success of their followers. The set of traits that were viewed as critical for a leader evolved, and the lack of academic consensus concerning what traits were essential for great leaders became clear. During the 1950s, empirical discussion concerning leadership shifted focus.

During the second half of the 20th century researchers' showed greater interest in behavioral theories explaining how leadership could be cultivated, as opposed to inherent traits, which set the early groundwork for the development and acceptance of frameworks such as the transformational leadership theory (Benmira, 2020). More modern theories garnered enthusiasm because they offered hope to those who were not born to be 'great' and also encouraged leaders to focus on honing their behaviors to successfully influence others (Afuan et al., 2020). These theories largely focused on what leaders did and how they behaved, without a great focus on who they were as people or the organizational context in which they operated. An example of these theories is represented by Blake and Mouton's Managerial Grid, which was produced by Blake and Mouton in 1980 (Blake, 1980). Some leaders began demonstrating great care for production and employees alike. The leaders who operated in this way were committed to creating a positive work environment while being driven by production and performance results—which required motivation and inspiration for people to generate their best possible results (Blake, 1980). The term “transformational leadership” was not commonly used until the 1980s when the Blake and

Mouton Grid was developed, such frameworks of understanding characterize the context and paradigm within which transformational leadership was born (Blake, 1980).

After the behavioral era of leadership theory, interest grew concerning how workplace situations more generally impacted the dynamic between leaders and their followers. Scholars presented theoretical frameworks in which it was suggested that characteristics of an organization existed that influenced employee behavior, which were beyond the control of the individual leader (Benmira, 2020). This phase of leadership theory was largely based on the suggestion that to be effective, leaders needed to influence the environment in which employees worked, rather than only people (George & Jones, 2004). Hence, ways of maximizing employee success were considered, such as setting reasonable working hours, and overtime policies and cultivating a culture in which work-life balance was encouraged (George & Jones, 2004). A consensus grew that was based on the notion that individuals will work at their highest capacity in all environments, despite encouragement from engaged leaders (Benmira, 2020).

The 1990s and 2000s marked a period of growth for leadership theories. Theories such as transactional or transformational leadership were introduced and discussed. The understanding developed that a single leadership style did not exist that would be homogeneously ideal for all situations or purposes, but that context-specific approaches were usually needed (Widodo, 2022). Rather than conceptualizing leadership as dualistic, or “top-down” versus “bottom-up,” theories began to be focused on the dynamic between the leader, follower, and environment (Kreitner & Kinicki, 2007). Since public interest in both transformational and transactional leadership grew, both theories underwent development, evolution, and changing popularity.

Characteristics of Transformational Leadership

Despite the evolution of transformational leadership, several behaviors and characteristics exist that can be described as consistently characterizing transformational leaders. Such primary characteristics include recognition and anticipation of future needs and issues, the ability to handle long-term challenges and opportunities, holistic consideration of organizational factors, and the elevation and individualization of employees (Saad Alessa, 2021). Furthermore, transformational leadership is based on the key components of inspiration, feedback sharing, and individualized support such that transformational leaders seek to motivate followers through inspiration two-way communication, and the provision of personalized guidance (Bass & Riggio, 2007). Furthermore, researchers have shown that many transformational leaders have demonstrated a unique ability to balance immediate organizational concerns with a forward-looking perspective, which is useful for perpetuating the long-term stability and success of an organization (Aziz et al., 2021). Other key abilities of transformational leaders include their ability to motivate employees to stay focused on team interest above self-interest thus prioritizing the higher-order concerns (Tengi et al., 2017). The emphasis on collective well-being has been shown to increase trust and unity among employees, thereby reducing conflicts while stimulating collaboration (Ahmad Saifuddin, 2020).

From a holistic standpoint, transformational leadership can be described as an approach within which leaders and followers commit to a shared set of goals through a shared vision, value set, and trust (Al-Mamary, 2021). Such a process is deeply relational, thus requiring leaders to routinely and consistently engage with employees in a way that builds understanding and respect (Alshihabat & Atan, 2020). Tengi et al. (2017) emphasized that transformational leadership has a changing impact on leaders and followers. Leaders might set the vision directing a group's work and goals, and the qualities which should be represented. However, leaders must

also make changes and personal growth to achieve those objectives (Asbari et al., 2020). Such a dynamic creates a feedback loop within which leaders inspire employees, and employees, in turn, challenge leaders to continuously refine approaches.

Hence, a critical component of transformational leadership is the emphasis on increasing the participation and presence of leaders and followers. Transformational leaders increase motivation and value representation, while simultaneously growing followers' awareness of shared values and shared vision (Wood, 2019). Such an awareness generally translates into employees' intentional efforts to align daily tasks with the larger organizational mission, thereby fostering deeper engagement and accountability. Due to the emphasis on shared vision and organizational goals, a significant body of literature exists concerning transformational leadership, which is focused on how transformational leadership impacts communication (Mastur et al., 2022). Specifically, effective communication in the context of transformational leadership often includes not only relaying information, but also, fostering dialogue that builds trust, clarity, and shared understanding (Aziz et al., 2021).

Additionally, researchers have focused on how transformational leadership can be used to drive organizational performance when organizational performance is associated with the corresponding and aligned values leaders represent or exemplify (Alshihabat & Atan, 2020). This use case and application of transformational leadership highlights the importance of value congruence between leaders and employees concerning achieving sustainable performance gains (Bakker et al., 2023). The process by which leaders and followers create a shared vision and drive toward it can increase creativity and innovation, thereby making space for competitive advantage (Widodo, 2022). Through such a shared vision, transformational leaders can empower

employees to challenge traditional ways of thinking, which is beneficial in rapidly changing industries.

A common narrative in leadership research exists, which is the conclusion that transformational leadership drives higher employee performance. This narrative is based on extensive empirical evidence (Alshihabat & Atan, 2020; Bakker et al., 2023; Bastari et al., 2020). For instance, Buil et al. (2019) considered employee performance dimensions such as organizational identification, engagement with work products, overall job performance, and the demonstration of a “proactive personality.” The dimensions evaluated represent critical markers of an employee's capacity to contribute effectively within complex organizational settings. Buil et al. (2019) demonstrated a statistically significant correlation between transformational leadership and employee job performance, according to these indicators. The primary mechanism upon which Buil et al. (2019) concluded that transformational leadership approaches drive employee performance was the solid, established, and mutually understood connection between employees and organizational goals. This connection was characterized by mutual understanding, shared vision and values, and clear, transparent, consistent communication (Buil et al., 2019). While such variables have been measured slightly differently and according to different sub-constructs among different researchers, the consensus has stood with a common denominator of transformational leadership applications and significantly improved performance metrics, across different measures, contexts, and instruments used (Alshihabat & Atan, 2020; Bakker et al., 2023; Harini et al., 2020). As employees develop greater investment and care within and for the goals of their respective organizations, they are more likely to be motivated, focused, and engaged, which improves work performance (Harini et al., 2020). Such

mechanisms show the importance of creating a sense of purpose within the workplace, a hallmark of transformational leadership.

Employee-Leader Dynamics

A comparison of other leadership theories such as transactional leadership and situational leadership can be used to show that transformational leadership is often shown to be the most conducive to a creative and flexible business environment (Harini et al., 2020; Purwanto et al., 2020). Such a conclusion can be attributed to the finding that transformational leadership inherently supports adaptability, which is critical in responding to unpredictable challenges and opportunities (Ridwan et al., 2020). Overall, researchers have suggested that transformational leaders are the most successful of these three types concerning improving organizational performance through empowering employees (Khan et al., 2020). Empowerment contributes to a cultural environment driven by continuous improvement, in which employees feel supported to innovate, increase their autonomy, and take calculated risks (Benmira et al., 2021; Kahfi et al., 2022). While research exists in which the benefits of other leadership styles are described, an overwhelming volume of literature exists within which the positive organizational benefits of transformational leadership styles are supported (Purwanto et al., 2020; Ridwan et al., 2020). Such findings can be used to reinforce the growing recognition of transformational leadership as a key driver of sustainable success across industries.

When considering the measured skill of employees concerning task completion, specifically, evidence exists showing that transformational leadership is beneficial. The benefits of transformational leadership extend beyond qualitative elements such as shared vision and motivation and help to encourage employees to demonstrate and grow their skills and task completion abilities (Nugroho et al., 2020). By fostering a learning-oriented environment,

transformational leaders are more apt to create opportunities for employees to refine competencies, thereby benefiting organizational outcomes (Manoppo, 2020). Tegor et al. (2023) considered the relationship between employees' individual skills and company competitive markers. Tegor et al. (2023) found a significant connection between organizational competitiveness and the strength of certain employee skills within the organization. Employee skills also affect transformational leadership such that employees with higher skills are often more receptive to the intellectual stimulation that transformational leaders provide, which contributes positively to mutually reinforcing dynamics (Manu, 2022). Leaders who are highly skilled themselves and can recognize a high level of skill in respective employees are thus better able to drive organizational change and be effective (Afuan et al., 2020).

To effectively demonstrate high-level transformational leadership, leaders must be well-versed on topics important to their respective organizations. Asbari et al. (2020) found that followers were more likely to support and admire highly skilled leaders even if leaders were not always engaged in day-to-day tasks requiring those specific skills (Asbari et al., 2020). Such employee-leader admiration and respect build trust and a stronger leader-follower connection, which is crucial for achieving shared goals and motivating engagement (Purwanto, 2022). While it is likely for individual contributors or teams to have an advanced skillset in certain areas unobtained by the organizational leader, researchers have recommended that the organizational leader should be seen as a skilled and capable individual at completing the work—even when primarily engaged in a high-level managerial role (Widodo, 2021). Such a capability enhances the leader's credibility and reinforces their ability to guide and mentor their teams effectively (Asbari et al., 2020).

Intellectual Stimulation and Individual Consideration

Intellectual stimulation and individual consideration represent two fundamental concepts upon which the transformational leadership approach is built and practiced. Transformational leaders can demonstrate and provide intellectual stimulation and individual consideration to employees to encourage their employees to think creatively and proactively (Mastur et al., 2022). Individual consideration is practiced, and demonstrated by a leader considering the personal needs of employees and tailoring guidance, training, or support according to that employee's needs, strengths, aspirations, or weaknesses (Nugroho et al., 2020). Bakker et al. (2023) considered how transformational leadership impacted the personal initiative in a group of naval cadets. Personal initiative in employees, they hypothesized, is spurred by individual consideration and encouragement of intellectual stimulation (Bakker et al., 2023). Hence, the workplace dimension was hypothesized to be supported particularly by transformational leadership strategies (Bakker et al., 2023)—a hypothesis that can be used to underscore the role transformational leaders play in creating environments in which individual growth and collective achievement are prioritized.

Summary

The evolution of leadership theory has progressed from early trait-based models to modern, dynamic, and adaptable frameworks, with transformational leadership emerging as a dominant approach in modern organizational theory. Initially, leadership was viewed through the Great Man Theory, which was based on the suggestion that leaders were born rather than developed (Benmira, 2020). More recently, scholars shifted focus toward behavioral theories that emphasized learned leadership behaviors over inherent traits. The introduction of situational theories further advanced the understanding that leadership effectiveness depends on environmental and organizational factors (Widodo, 2022). Transformational leadership is

distinguished by a focus on employee motivation, shared vision, and long-term strategic development (Bass & Riggio, 2006). Unlike transactional leadership in which leaders are primarily concerned with monitoring performance and enforcing stability, transformational leaders encourage innovation, engagement, and personal development (Antonakis & Day, 2017). Researchers have shown that the implementation and practice of transformational leadership, across industries, has contributed to market, measurable improvements in employee engagement, decision-making, and various organizational performance metrics.

Analysis

The literature reviewed concerning transformational leadership can be used to highlight several themes that describe the impact of transformational leadership on organizational success. The shift from early leadership theories to more dynamic frameworks has led to a better understanding of how transformational leadership can impact employee engagement, strategic decision-making, and financial sustainability (Bass & Riggio, 2006; Antonakis & Day, 2017). The themes discussed herein are examined through three distinct perspectives: Corporate leadership, employee engagement, and financial performance, using four foundational leadership theories (Afuan et al., 2020; Prayetno & Ali, 2020; Purwanto, 2022) Transformational Leadership Theory, Social Exchange Theory, Contingency Theory, and Organizational Citizenship Behavior (OCB) Theory.

Employee Engagement Resulting from Leadership Approach

One of the most widely studied and research-validated aspects of transformational leadership is its ability, when practiced with integrity, to increase employee engagement via a culture of trust, communication, and shared vision/understanding. Transformational leaders

enhance motivation and commitment encouraging employees to work beyond their job descriptions and develop stronger loyalty to their organizations (Bass & Riggio, 2006). Researchers have indicated that companies with engaged leadership experience 20% higher employee retention and 17% greater job satisfaction compared to those with disengaged leadership structures (Alshihabat & Atan, 2020; Bakker et al., 2023; Bastari et al., 2020). From a corporate leadership perspective, Transformational Leadership Theory can be used to emphasize how effective leaders inspire employees by demonstrating idealized influence, intellectual stimulation, inspirational motivation, and individualized consideration (Bass & Riggio, 2006). Researchers have indicated that leaders who engage with employees on an individual level are likely to experience a 23% increase in workforce productivity (Benmira, 2020; Purwanto et al., 2021). The articulation of a clear vision, on leaders' behalf, and its alignment with employee values, can aid organizations in achieving greater efficiency and stronger workforce commitment (Antonakis & Day, 2017; Benmira et al., 2021).

Moreover, the Social Exchange Theory is based on the assumption that employees who feel valued and supported by leadership reciprocate with higher engagement levels and discretionary effort (Widodo, 2022). One study included findings indicating that organizations where leaders provide regular feedback and development opportunities experience a 30% increase in employee innovation and creative problem-solving (Qalati et al., 2021). Companies that lack leadership-driven engagement strategies reported higher turnover rates and lower job satisfaction, which reportedly led to productivity declines of up to 25% (Qalati et al., 2021). Furthermore, other researchers have produced findings indicating that companies with high employee engagement outperform competitors by 21% in profitability (Ridwan et al., 2020; Saad Alessa, 2021). Organizations that invest largely in leadership training and workforce engagement

programs are likely to experience an average revenue growth rate of 19% annually, in comparison to 9% in organizations with weak leadership structures (Siswadi et al., 2023). Furthermore, employee disengagement is shown to result in higher absenteeism, reduced productivity, and increased operational costs (Soelton, 2023a; 2023b), which points to the financial benefits of driving engagement through the leadership approach.

Strategic Decision-Making and Organizational Performance

Another theme that emerged from the literature reviewed, concerning leadership research, is the role strategic decision-making plays in organizational performance. Transformational leaders play a critical role in aligning corporate culture with business goals to ensure decision-making processes support long-term success (Purwanto et al., 2020). The results of Widodo's (2022) study, for instance, showed that companies that failed to integrate leadership into strategic planning experienced 38% lower operational efficiency and 45% increased organizational risks (Widodo, 2022). Based on the Contingency Theory, leadership effectiveness is dependent on the fit between leadership style and situational factors (Benmira, 2020). For instance, while research has been used to demonstrate that transformational leadership approaches are appropriate in the context of work environments involving younger generations, such as millennials and Generation Z individuals, some contexts involving high populations of Generation X and baby boomer individuals may not be the ideal fit for transformational approaches (Sopa et al., 2020). Individuals of younger generations tend to be more motivated intrinsically, through autonomy and finding a sense of personal purpose in the work they do, as opposed to members of older generations, who are more primed to operate in transactional environments (Sudargini & Purwanto, 2020). However, these generalizations are also context-specific depending on industry, culture, and other demographic and contextual factors.

Furthermore, transformational leaders who adapt their strategies to the organization's needs are likely to contribute to sustainable performance improvements. Researchers have shown that companies that routinely integrate leadership approaches mindfully, into strategic decision-making processes, can experience up to a 28% reduction in operational inefficiencies (Buil et al., 2019; Tegor et al., 2023). Such findings can be used to underscore the importance of flexible, adaptive leadership approaches in corporate governance. Organizational Citizenship Behavior (OCB) Theory is founded on the assumption that employees are more likely to go beyond their job requirements when leadership fosters an environment of trust and collaboration (Sugito, & Harjanto, 2022). For instance, companies in which leaders encourage participatory decision-making and open communication between leaders and employees have shown a 22% increase in workplace collaboration (Widodo, 2021; 2022). Likewise, transformational leaders who empower employees in decision-making create a culture of shared accountability, which can lead to improved organizational performance and workforce morale (Bakker et al., 2023).

Researchers have also shown that companies prioritizing leadership-driven decision-making outperform industry peers by up to 18% in return on investment (ROI) (Nugroho et al., 2020; Wood, 2019). Organizations that align leadership vision with business have also been shown to have experienced 33% stronger financial stability during economic downturns (Nugroho et al., 2020; Wood, 2019). Conversely, the failure to integrate leadership into business planning can exacerbate risks of financial mismanagement, reduced investor confidence, and economic instability (Purwanto et al., 2020).

Transformational Leadership and Financial Sustainability

The final theme identified through the leadership research reviewed is characterized or described by the role leadership plays in cultivating financial sustainability. Organizations that

fail to invest in leadership development often engage in short-term financial decision-making, which can contribute to long-term instability (Benmira, 2020; Prayetno & Ali, 2020).

Transformational leaders, however, generally take the approach of encouraging sustainable financial strategies by prioritizing ethical investment, operational efficiency, and long-term growth (Tengi et al., 2017). The Transformational Leadership Theory supports financial sustainability by promoting strategic investment in innovation, workforce development, and market expansion (Bass & Riggio, 2007). Some researchers have also shown that companies with leadership-driven financial strategies are 29% more likely to survive economic downturns (Benmira et al., 2021). Moreover, leaders who prioritize long-term financial stability have a greater chance of reducing costly business risks, such as litigation costs and other risks arising from a failure to manage expenditures, which can compromise overall financial solvency and sustainability (Bakker et al., 2023).

The Social Exchange Theory can be used to emphasize the assumption that employee satisfaction and financial performance are directly connected (Benmira, 2020). Consequently, employees who are engaged and interested in the work they do are posited to contribute to higher productivity, lower operational costs, and stronger financial outcomes. Such assumptions are supported by research findings. For instance, researchers have shown that organizations with strong leadership development programs have shown 25% reductions in workforce turnover. Such reductions have contributed, in part, to cost savings and improved financial stability (Afuan et al., 2020).

Researchers have also demonstrated that transformational leadership impacts key financial indicators such as profit margins, stock value, and investor confidence (Purwanto et al., 2020). Some organizations in the financial service and production sectors, with strong

leadership-driven financial oversight, have reported 24% higher revenue growth and reduced operational inefficiencies (Al-Mamary, 2021). Outcomes such as increased market volatility, revenue losses, and diminished competitive advantage, however, can result from a failure to properly implement leadership strategies (Buil et al., 2019).

A consideration of the themes reviewed herein leads to the important implication that the mechanisms by which and factors contributing to the relationship between transformational leadership, engagement, performance, and financial solvency in various organizations is contingent upon a multitude of factors and contextually dependent, on some degree. However, a synthesis of researchers' conclusions and findings described herein overwhelmingly supports the positive effects of transformational leadership approaches on some or all of these domains. In most cases, significant impacts have been experienced in two or more domains including engagement, performance, and financial metrics. Therefore, the literature reviewed substantially supports and provides evidence justifying the implementation of transformational leadership in the context of the automobile industry, in which some companies suffer from a lack of proper leadership approach and a high risk of financial loss.

Conclusion

The research reviewed can be used to confirm and support the conclusion that employee engagement, strategic decision-making, and financial sustainability are directly influenced by leadership quality. From a corporate leadership perspective, Transformational Leadership Theory and Contingency Theory can be further applied to explain the importance of adaptive, visionary leadership in navigating crises and ensuring long-term organizational stability (Benmira, 2020). From an employee engagement perspective, Social Exchange Theory and OCB Theory are models within which to illustrate how leadership fosters motivation, teamwork, and proactive

contributions (Widodo, 2022). From a financial performance perspective, researchers have demonstrated that companies with strong leadership outperform competitors in revenue growth, investor confidence, and financial resilience (Purwanto et al., 2020). These themes herein thus support a foundation for leadership policy recommendations aimed at fostering corporate recovery, financial stability, and employee engagement. The case of Ford Motor Company demonstrates that transformational leadership is not merely a theoretical model but a proven strategy for ensuring long-term organizational success (Buil et al., 2019). By applying these case study findings, organizations can implement leadership-driven policies that strengthen financial oversight, improve workplace engagement, and enhance strategic decision-making, thus solidifying long-term sustainability.

Ethical Implications

The failure of leadership to address organizational engagement, performance, and financial sustainability leads to a consideration of significant ethical concerns concerning employees' well-being and organizational solvency. Transformational leadership plays a key role in ethical business practices because it, by nature, directs leaders' focus to employee well-being, and long-term financial stability. When such leadership fails, organizations are more likely to face problems like workplace exploitation/corruption, financial mismanagement, and unethical decision-making—all of which harm employees, stakeholders, and economic structures. Such ethical concerns can be analyzed from three distinct perspectives, as will be done herein: corporate leadership, employee well-being, and financial responsibility.

From a corporate leadership perspective, unresolved leadership deficiencies can contribute to unethical business practices, including deceptive corporate communication, non-

transparent decision-making, and exploitation of human capital (Afuan et al., 2020). Researchers have highlighted that organizations lacking transformational leadership are more prone to corporate misconduct, regulatory violations, and short-term decision-making that prioritizes profits over ethical responsibilities (Qalati et al., 2022). One study included findings indicating that organizations with weak leadership are 35% more likely to face compliance violations and 28% more likely to engage in deceptive financial reporting than those with strong leadership structures (Purwanto et al., 2020). Poor corporate governance can result in large-scale financial scandals that ultimately deteriorate shareholder confidence and damage the broader economy. For example, companies failing to provide transparent financial reporting frequently engage in earnings manipulation and misrepresentation of profits, which can lead to catastrophic financial collapses (Widodo, 2022).

Transformational leaders, by contrast, generally prioritize transparency and accountability in their organizations by implementing ethical governance structures to ensure compliance with financial regulations. Consequently, a culture is created in which employees are more likely to feel empowered to report unethical behavior (Bakker et al., 2023). Some organizations in which transformational leadership is implemented are up to 25% more likely to implement internal whistleblowing policies that prevent unethical conduct before it escalates into financial or legal consequences (Siswadi et al., 2023).

Considering the ethical rationale for transformational leadership through the lens of employees' well-being, the failure to address leadership deficiencies creates unethical workplaces in which employees face increased stress, job insecurity, and career stagnation. Some findings are indicative that employees in organizations with weak leadership structures report 40% lower job satisfaction and 32% higher turnover rates than those in companies led by

transformational leaders (Harini et al., 2020). A key ethical concern involves the possible exploitation of employees through unrealistic performance expectations and lack of support structures. In some cases, approximately 70% of employees in organizations with disengaged leadership exhibit high-stress levels and experience higher rates of burnout and absenteeism, which are detrimental to productivity (Kahifi et al., 2022). Transformational leaders, however, promote ethical workplace practices through inclusion, the recognition of employee contributions, and fair opportunities for advancement. Siswadi et al. (2023) showed that companies that invest in ethical leadership practices experience 25% lower employee turnover rates and 20% higher productivity levels, which shows the tangible benefits of ethical leadership.

Considering financial responsibility, a lack of adequate or considerately addressing leadership deficiencies can lead to financial mismanagement, investor distrust, and long-term economic instability. One statistical finding indicated that companies lacking effectively rated leadership, according to employees' perspectives, are 38% more likely to experience financial losses and 45% more likely to underperform in the stock market compared to those with strong leadership strategies (Qalati et al., 2022). One of the most pressing ethical concerns in financial decision-making is the prioritization of short-term gains over sustainable growth. Hence, some organizations with disengaged leadership resort to aggressive cost-cutting measures, such as mass layoffs and wage stagnation, which harm employees and reduce long-term competitiveness (Manu, 2022).

Transformational leaders, however, take measures to ensure ethical financial decision-making by aligning financial goals with long-term organizational stability. Transformational policies can be implemented that balance profitability with social responsibility to ensure stakeholders—including employees and communities—benefit from organizational success (Buil

et al., 2019). Thus, the ethical implications of unresolved leadership deficiencies extend beyond individual organizations to broader social and economic systems. Companies that fail to prioritize ethical leadership contribute to growing income inequality, workplace exploitation, and environmental neglect. Research indicates that companies with weak leadership are less likely to invest in sustainability initiatives, which exacerbates unethical environmental practices such as excessive carbon emissions and waste mismanagement (Purwanto et al., 2020).

A critical ethical concern is the growing wage disparity between executives and frontline employees. Studies show that organizations with disengaged leadership exhibit executive pay gaps that are significantly higher than industry averages (Manoppo, 2020). Such gaps create economic disparities that lead to lower employee morale and reduced workplace trust. In contrast, organizations with strong leadership prioritize equitable compensation structures and a sense of shared responsibility and commitment to ethical financial practices. Additionally, organizations lacking transformational leadership may be more likely to engage in unethical labor practices, including the use of underpaid contract workers and failure to provide adequate employee benefits. Such potential gaps in ethical business practices reinforce the need for policies that encourage responsible leadership and corporate governance.

The ethical implications of unresolved leadership deficiencies are thus multifaceted and extensive and consequently, impact corporate governance, employee well-being, and financial stability. In the context of the specific policy proposal, organizations that fail to implement transformational leadership strategies can be suggested to be more prone to regulatory violations, workplace exploitation, and financial mismanagement. Researchers have consistently demonstrated that companies with weak leadership structures face higher compliance risks, increased employee turnover, and reduced long-term profitability, underscoring the importance

of ethical leadership practices. However, transformational leadership provides a framework within which such critical ethical concerns can be addressed by instead leveraging the power of transparency, employee empowerment, and responsible financial decision-making. Thus, the implementation of transformational, ethical leadership into corporate strategies can lead to the experience higher levels of employee satisfaction, stronger financial performance, increased public trust, and thus more optimal KPIs.

Policy Recommendations

Organizational crises arising from disengaged leadership, declining employee performance, and financial instability lead to ethical and operational failures that harm employees, stakeholders, and economic systems. Researchers have indicated that companies with weak leadership structures experience 40% higher turnover rates, 35% increased compliance risks, and 28% higher incidents of financial mismanagement than organizations with strong leadership strategies (Qalati et al., 2022; Widodo, 2022). To address these issues, organizations must implement policies that reinforce ethical leadership, workforce engagement, strategic decision-making, and financial responsibility. The case of Ford Motor Company's successful transformation under Alan Mulally can be used to demonstrate how transformational leadership can drive engagement, improve organizational performance, and restore financial stability (Buil et al., 2019). Consequently, policies designed to implement transformational leadership are recommended, as outlined herein, to prevent leadership failures, promote transparency, and ensure that companies maintain long-term sustainability.

Policy Recommendation 1: Implement Leadership Accountability and Ethical Governance

One of the primary drivers of leadership failure, identified throughout the literature reviewed, is the lack of accountability in decision-making and governance structures. For instance, some researchers have shown that organizations with weak leadership structures are more likely to face financial compliance violations that cause investors to lose trust in respective companies (Purwanto et al., 2020). Implementing strong accountability frameworks can be used to ensure that leaders are evaluated on ethical decision-making, transparency, and strategic effectiveness. Hence, the following, sequential policy actions are recommended. First, independent oversight boards must be established to evaluate leadership performance to make sure that the decisions executives make align with ethical and financial sustainability goals. Second, mandatory leadership ethics training programs must be implemented to reinforce transparency and corporate responsibility. In support of this, it is recommended that annual leadership performance audits that assess decision-making effectiveness, financial responsibility, and employee engagement strategies be implemented. Penalties for unethical leadership behavior, including financial misconduct, discrimination, and exploitative workplace policies will be emphasized (Khan et al., 2020). By holding leadership accountable for financial and ethical responsibilities, organizations can thus mitigate many of the risks of corporate governance failures, such as fraudulent reporting, short-term financial opportunism, and unethical labor practices (Qalati et al., 2022).

Policy Recommendation 2: Leadership Development and Training

Considering that many companies with transformational leadership are likely to see 30% higher employee engagement and 25% greater organizational productivity in comparison to firms with disengaged leadership, leadership development, and training are essential, especially

since many leaders in the automobile industry lack sufficient awareness of and training concerning specific, transformational leadership practices. Implementing structured leadership development programs and employee engagement policies can foster a high-performance culture with strong ethical leadership. Effectively implementing development and training is recommended to be accomplished using succession planning programs that prepare mid-level managers for leadership roles. Doing so will establish continuity in ethical leadership practices. Leadership will be required to complete certification programs that incorporate training in transformational leadership, crisis management, and ethical decision-making. Employee engagement surveys will be incorporated every six months, to assess leadership effectiveness, workplace morale, and job satisfaction among employees to ensure the training is effective.

Policy Recommendation 3: Develop Ethical Financial Decision-Making Policies

Organizations with weak leadership structures often experience higher incidents of financial mismanagement, investor distrust, and compromised economic instability (Qalati et al., 2022). To prevent short-term financial opportunism and unethical corporate decision-making, auto organizations must implement policies that align financial strategy with long-term sustainability goals. This will include requiring long-term financial planning reports that are designed to prioritize workforce investment, research and development, and operational efficiency over short-term profit maximization. Furthermore, this policy recommendation will include enforcing executive pay-to-employee compensation ratio limits to prevent unethical income disparities from reducing employee morale. Participation in corporate social responsibility (CSR) investment policies will be mandated to allocate at least 5% of annual revenue to sustainability and employee development initiatives.

Policy Recommendation 4: Workplace Equity and Diversity Standards

Organizations with weak leadership structures are likely to fail to implement equitable workplace policies, which can lead to discrimination, wage disparities, and unequal career advancement opportunities. Hence, inclusive hiring and promotion policies will be required to ensure equitable representation of women, minority groups, and underrepresented employees in leadership positions. Moreover, leadership diversity training programs will be used to ensure that executives and mid-level managers prioritize inclusive leadership practices.

Policy Recommendation 5: Crisis Management Leadership Protocols

Finally, organizations that fail to respond effectively to crises, due to poor leadership, can experience operational inefficiencies and financial instability. To address this possible challenge, emergency leadership response teams who are responsible for managing corporate decision-making during crises are recommended. Moreover, data-driven crisis forecasting systems are recommended, which will use predictive analytics to anticipate financial downturns, market shifts, and employee engagement risks.

Summary

The policy recommendation proposal outlined herein was justified based on a thorough review of the literature, a description of the problem statement, and integration of theoretical frameworks. The impact of leadership deficiencies on employee engagement, organizational performance, and financial sustainability were described. It was shown that researchers have consistently demonstrated that organizations with poor leadership experience decreased productivity, higher employee turnover, and financial mismanagement (Qalati et al., 2022). Companies that lack effective leadership structures are more likely to face compliance violations,

reputational damage, and ethical misconduct, leading to financial instability (Widodo, 2022).

The case of Ford Motor Company under Alan Mulally's leadership was used to illustrate how transformational leadership can be implemented to reverse an organization's decline by fostering employee engagement, improving decision-making, and ensuring financial recovery (Buil et al., 2019).

Furthermore, included in the policy proposal was the identification of three critical issues related to leadership deficiencies. First, corporate leadership failures were shown to have resulted in a lack of accountability, transparency, and ethical governance. Some researchers have suggested that organizations with weak leadership structures are at a higher risk of corporate fraud, regulatory violations, and investor distrust (Purwanto et al., 2020). Second, disengaged leadership negatively affects employee motivation and can deteriorate job satisfaction, and workplace stress, and can exacerbate turnover (Bakker et al., 2023). Finally, ineffective financial management stemming from leadership deficiencies leads to short-term decision-making, reduced investor confidence, and financial instability (Siswadi et al., 2023). Several emergent themes were also identified.

The first theme concerned leadership-driven employee engagement. Transformational leadership has been shown to improve workplace morale, strengthen communication, and foster trust within organizations. Companies that invest in leadership development and employee engagement experience higher workforce retention and greater productivity. Conversely, organizations that neglect leadership investment in engagement are likely to have employees experiencing workplace dissatisfaction, declining teamwork, and reduced performance (Bakker et al., 2023; Nugroho et al., 2020; Galati et al., 2022).

Another theme concerned strategic decision-making for organizational performance. Transformational leadership helps align corporate strategy with workforce culture, thereby enhancing operational efficiency. Researchers have suggested that companies that fail to integrate leadership into strategic planning experience operational inefficiencies and difficulty adapting to market challenges (Nugroho et al., 2020). Furthermore, financial sustainability through leadership constitutes another identified theme. Transformational leadership has been found and shown to play a crucial role in preventing short-term financial opportunism and ensuring long-term sustainability. Organizations with ethical financial oversight maintain stronger investor confidence and achieve more stable financial performance (Purwanto et al., 2020).

Furthermore, the analysis of these themes was conducted through three distinct perspectives, which included the corporate leadership perspective, employee engagement perspective, and financial performance perspective. Transformational leadership fosters ethical governance, accountability, and strategic vision (Khan et al., 2020). Moreover, ethical leadership reduces workplace stress, improves job satisfaction, and enhances workforce retention (Bakker et al., 2023). Also, leadership-driven financial policies improve profitability, stabilize investor confidence, and prevent economic mismanagement (Widodo, 2022).

Several ethical implications of leadership failures were also identified, including corporate governance failures, employee exploitation and burnout, and financial instability. It was found that organizations demonstrating poor leadership structures are more prone to compliance violations and unethical business practices while companies that prioritize short-term financial gains over long-term sustainability create environments that foster financial mismanagement and regulatory non-compliance. Moreover, companies with disengaged

leadership report higher workplace stress levels and lower employee satisfaction, and researchers have shown that unethical leadership increases turnover rates and leads to a decline in overall workplace morale (Widodo, 2022). Moreover, poor leadership contributes to financial mismanagement, reducing investor trust and destabilizing economic structures (Siswadi et al., 2023). However, ethical financial leadership ensures long-term investment security and responsible corporate decision-making.

In conclusion, policy recommendations were provided that were aligned with and supported by the literature review. The policy recommendations included leadership accountability and ethical governance, leadership development and employee engagement programs, ethical financial decision-making policies, and workplace equity and diversity training. Finally, the recommendations for improved crisis management strategies were established. In summary, existing literature in addition to the auto-industry-specific case of Ford Motor Company can be used to demonstrate how strong leadership can reverse corporate decline, reinforce organizational stability, and drive long-term success.

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