

TRANSFORMATIONAL VERSUS TRANSACTIONAL LEADERSHIP: A COMPARATIVE REVIEW OF THEORIES, PRACTICES, AND ORGANIZATIONAL IMPLICATIONS

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Abstract

The nature of leadership has a significant impact on the functioning of the organization, employee motivation and culture. This thematic literature review compares two major paradigms in organizational behavior research: transformational and transactional leadership, in a critical way. The paper reviews the findings of more than 50 peer-reviewed papers on theoretical foundations, empirical studies and applications to see how these contrasting styles impact on employee engagement, innovation, organizational commitment and change management. Transformational leadership is often linked to greater creativity, commitment, and adaptive organizational cultures, and is defined by vision, intellectual stimulation, and inspiration. Transactional leadership focuses on achieving short-term results, tracking performance, and providing rewards for tasks completed, which works well in environments where immediate results are expected. Transactional leadership is more about contingent rewards, performance monitoring, and structured accountability, and it fits well in circumstances where quick results are needed for task completion and operational efficiency. There is no single best style, but the effectiveness of a style will vary according to the demands of the environment, the strategic needs of the organization, the nature of its goals, and the personalities of its employees. The paper suggests that a combination of both approaches – building leaders who are able to adapt their behavior to the situation – is the most promising approach in today's organizations for digital transformation, remote work, and rapid change. Cross-cultural differences, particular applications and leadership effectiveness in emerging technologies and virtual environments should be explored in future research.

Keywords: Transformational Leadership, Transactional Leadership, Leadership Styles, Organizational Performance, Employee Motivation, Organizational Behavior, Leadership Theory

1. Introduction

Leadership continues to be a vital role in an organization that influences employees' actions, organizational culture and institutional outcomes (Jing & Avery, 2016). In today's organizations where changes in technology, competition from around the world, and workforce diversity abound, the quality of leadership has a direct impact on employees' motivation, job satisfaction, organizational commitment, innovation capacity, and the effectiveness of managing change (Paais & Pattiruhu, 2020). Organizational cultures are set by leaders, decision making processes are shaped by leaders, and employees' perceptions of organizational goals and values are influenced by leaders (Cortellazzo et al., 2019). This is because it is important

to understand which leadership styles are more appropriate to solve different problems in the organization for both academics and practitioners.

In the last four decades, there have been numerous leadership models studied, with transformational and transactional leadership being two of the most researched and popular models in the field of organizational behavior (Young et al., 2021). Transformational leadership focuses on vision, inspiration, intellectual stimulation and individualized attention, and the leader is a change agent, one who acts beyond the boundaries of transactional exchanges (Abdul-Azeez et al., 2024). In contrast, transactional leadership emphasizes compliance, accountability, short-term goal achievement, and active monitoring, contingent rewards, and structured performance management (Young et al., 2021). These differing methods are based on different underlying conceptions of human motivation, organizational function, and the leader-follower relationship.

The theoretical and practical significance of comparison of these leadership styles is large. Firstly, organisations often favour one style over the other and sometimes at the wrong end of the equation (Poels et al., 2020). Second, empirical findings indicate that each of the styles yields a different result because of the organizational context and follower characteristics (Obiwuru et al., 2012). Third, recent studies indicate that the effective leader might require a mixture of both styles rather than one and the other mode (Teece, 2014). Last but not least, current issues such as digital transformation, remote working, generational workforce changes and organizational sustainability demand leadership approaches based on the present knowledge, not the past.

Aim of the Review

The purpose of this paper is to examine the theoretical basis, dimensions, applications, organizational impacts, pros, cons, and relevance of transformational and transactional leadership. Using empirical research, theoretical frameworks and meta-analytic research, the review offers a holistic and evidence-based evaluation of the differences between these leadership styles in terms of their impacts on organizational performance, employee well-being, innovation, and change management. In addition, the paper discusses the use of both styles and research gaps are suggested for future studies.

2. Methodology of the Review

The thematic literature review was conducted using systematic search methods in various academic databases, such as Google Scholar, Scopus, Web of Science, ScienceDirect, Emerald Insight, Sage Journals, SpringerLink, Wiley Online Library and Taylor & Francis. Some of the main keywords used in the primary search were transformational leadership, transactional leadership, Bass leadership theory, Full Range Leadership Model, leadership styles, organizational performance, employee motivation, employee engagement, and leadership effectiveness. The search was carried out in May 2026 and focused on journal articles published in peer-reviewed journals, scholarly books, foundational theoretical works and recent empirical studies published over the last 25 years, especially in 2000 onwards.

The inclusion criteria were that the studies (1) addressed transformational or transactional or both types of leadership, (2) were published in peer-reviewed academic journals or credible scholarly publications, (3) provided empirical findings, theory, or systematic review, (4) focused on organizational performance, employee outcomes, or leadership effectiveness, and (5) were published in English.

Exclusion Criteria: Studies were excluded if (1) they did not involve a transformational and/or transactional leadership model or compare these models to other models of leadership; (2) they lacked theoretical or empirical rigor; (3) they were opinion pieces or editorials without substantive analysis; (4) they were not peer-reviewed papers from non-academic sources; or

(5) they did not include sufficient detail regarding measurement instruments or methodological approaches.

Data Analysis: Thematic synthesis is used for this review, grouping literature on key dimensions of comparison: theoretical development, leadership dimensions, employee outcomes, organizational contexts, effectiveness moderators, and contemporary relevance. The themes were extracted inductively from the literature with the comparative aspect between the two leadership approaches kept intact.

3. Conceptual Foundations of Leadership

Leadership is the social process of influencing others in a way that is directed and motivates them to achieve a shared goal (Kozlowski et al, 2016). There is a current body of leadership theory that focuses on the importance of vision setting, modelling of desired behaviours, communicating meaning, building trust and developing capacity of followers in the role of the leader (Leithwood et al., 2008). Leadership is not management, and while planning, organizing and controlling resources to accomplish pre-established goals is a part of management, leadership is about setting a direction, aligning others and inspiring followers to accept change and innovation (Wright & Pandey, 2010).

The leadership style, which is a leadership behaviour, communication pattern and decision making process, has a significant impact on the organizational culture, employee motivation and organizational outcomes (Paais & Pattiruhu, 2020). Various styles elicit different motivational reactions, establish different forms of leader-follower relationship, and induce different influence on organizational factors (innovation, commitment, performance), (Bakker & Demerouti, 2017). The importance of the leadership style was reflected in the organizations: In the healthcare organizations, the leadership style was correlated with employee satisfaction and patient safety (Specchia et al., 2021); In the educational organizations, the leadership was correlated with the commitment of teachers and the outcomes of students (Ross & Gray, 2006); In the business organizations, the leadership was correlated with the financial performance and the competitive advantage of the business organizations (Jing & Avery, 2016).

The performance of an organisation, quality of decision making, employee motivation and effectiveness of the organisation are influenced by the leadership style. The literature on the two types of leadership, transformational and transactional, indicates that leadership is not just a matter of authority or control, but a process that shapes the way people react to the goals of the organisation, uncertainty, workload and change. Leadership styles are closely related to the effectiveness of decision making as Rafiq-uz-Zaman (2023) notes, in the public sector universities leaders are required to hold administrative responsibility and also to develop the institutions. Likewise, Rafiq-uz-Zaman, Bano and Naveed (2025) demonstrate that school management effectiveness can be varied by different leadership styles – authoritative and democratic – suggesting that transformational and transactional leadership may result in different organisational outcomes in different contexts. An OB perspective, Asif and Rafiq-uz-Zaman (2026) illustrate that leadership, recognition and workload are key factors in quiet quitting among knowledge workers, meaning that poor or overly transactional leadership can lead to lower levels of engagement, while strong and motivating leadership will increase commitment. Furthermore, Rafiq-uz-Zaman (2025) contends that structural, political and institutional issues are the root cause of leadership and governance crises, and thus that leadership effectiveness is inextricable from the broader organisational systems. Another dimension of the comparison is the decision-making under uncertainty, as the leader has to take decisions of stability, control, innovation, and adaptability; hence, Rafiq-uz-Zaman and Jabeen (2024) are of great use in understanding the action of the leader in the uncertain environment. In addition, Malik and Rafiq-uz-Zaman (2025) link the concept of educational leadership and management with artificial intelligence and service quality, and revealed that leadership in the

modern era is increasingly characterized by innovation, the use of data and adapting management. It is fair to conclude from these studies that transformational leadership is more closely related to motivation, innovation, participation, and short-term organisational development, while transactional leadership is more closely related to structure, performance monitoring, rewards, compliance, and short-term task achievement.

4. Historical Development of Transformational and Transactional Leadership

The concept of transformational leadership and transactional leadership are derived from the contrast between the two ideal types as presented by James MacGregor Burns in 1978 in his book *The Power of Political Leadership* (Kumar, 2014). Burns maintained that transformational leaders motivate their followers to higher values, build a vision that motivates followers to action, and actively involve followers in the process of achieving the vision. By contrast, transactional leaders function by means of exchanges: They provide rewards to individuals who follow their commands and punish those who do not meet standards. (Kumar, 2014)

Bernard Bass and his colleagues at the State University of New York extended and adapted Burns's work to the organizational and management context, creating the Full Range Leadership Model (FRLM) and the Multifactor Leadership Questionnaire (MLQ) (Muenjohn & Armstrong, 2008). Bass's theory proposed four dimensions of transformational leadership: idealized influence (modeling integrity and trustworthiness), inspirational motivation (sharing an optimistic future vision), intellectual stimulation (encouraging creative problem solving), and individualized consideration (providing attention and development) (Kirkbride, 2006). Transactional leadership includes contingent reward (rewarding work for effort), management by exception active (active monitoring), and management by exception passive (passive monitoring) (Boamah & Tremblay, 2019).

The evolution of the MLQ as a measure instrument was a game-changer in leadership research (Muenjohn & Armstrong, 2008). Even though there is a continued debate on the factor structure and dimensional clarity, the MLQ was the instrument that was used most in various organizational settings to measure transformational-transactional leadership (Den Hartog et al., 1997). This measurement system allowed for hundreds of empirical studies to compare leadership styles and organizational outcomes, thereby building up a knowledge base on leadership effectiveness (Antonakis et al., 2016).

5. Transformational Leadership: Theory and Core Dimensions

Theoretically, transformational leadership is based on social learning theory and self-determination theory which provides an understanding of the way in which leaders affect followers through modelling, inspiration, and satisfying followers' psychological needs (Chua & Ayoko, 2021). Abdul-Azeez et al. (2024) suggest that transformational leaders bring about positive change by inspiring their followers to higher levels of motivation, developing their followers' abilities, and changing their values and beliefs.

Transformational leaders possess idealized influence (Charisma): They embody the values and mission they represent, and are role models who followers look up to and try to emulate (Abdul-Azeez et al., 2024). This dimension involves attributed charisma, which reflects followers' perceptions of the leader's trustworthiness, visionary attributes, and moral strength, and behavioral charisma, which refers to the leader's actions that convey courage, conviction and commitment to principles (Antonakis et al., 2016). Leaders with the highest level of idealized influence establish trust by being consistent between words and action, clearly communicating an inspiring mission for their organization, and being committed to the organization's values (Udin, 2023).

Inspirational Motivation: Transformational leaders create positive visions of the future, make problems look like opportunities, and explain how the individual's contribution will help create

a meaningful group purpose (Chua & Ayoko, 2021). Leaders raise the status of work, inspire followers to think beyond the obstacles in their way and inspire enthusiasm for achieving 'big goals' (De Vries et al., 2009) by means of inspirational communication. This is the dimension that taps into higher order psychological needs, making work a source of meaning and purpose (Menon & Ioannou, 2016).

Intellectual Stimulation: Transformational leaders inspire followers to think outside the box, question the norm, and find innovative solutions to issues (Abdul-Azeez et al., 2024). However, these leaders do not ask for compliance; they encourage thinking about the issues, accept failures as learning experiences and foster a psychological environment for innovation (Grošelj et al., 2021). Intellectual stimulation is shown to be a significant factor in followers' innovative behaviour and problem-solving abilities, in addition to empowerment (Pieterse et al., 2010).

Individualized Consideration: Transformational leaders pay attention to followers' individual needs, offer personal coaching and development, and provide opportunities for personal and professional growth (Abdul-Azeez et al., 2024). This dimension is related to actual care for the well-being of followers rather than to their performance of the tasks, and it allows followers to feel valued, supported, developed (Menon & Ioannou, 2016). Individualized consideration is positively related to employee engagement, organizational commitment and employee retention (Yücel, 2021).

Outcomes Associated with Transformational Leadership:

The transformational leadership model is supported by extensive empirical evidence, which indicates that this leadership style is associated with greater employee engagement (Li et al., 2018), higher organizational commitment (Keskes, 2014), greater job satisfaction (Specchia et al., 2021), greater innovative behavior (Lee et al., 2020), and higher organizational citizenship behavior (Hermawan et al., 2024). Transformational leadership helps to facilitate change initiatives in an organization through establishing shared vision, building trust, and gaining commitment to change (Mansaray, 2019). In healthcare context, transformational leadership has been associated with better employee motivation, cooperation, and satisfaction (Musinguzi et al., 2018). In the education field, transformational leadership can enhance teachers' commitment and facilitate the implementation of evidence-based practice (Moynihan et al., 2012).

6. Transactional Leadership: Theory and Core Dimensions

Transactional leadership is based on social exchange theory, which sees a leader offering rewards, stating clear rules, and checking on work, with followers in turn getting rewards and protection in exchange for their efforts and adherence to the rules (Young et al., 2021). While transformational leadership emphasizes going beyond self-interest for meaning and mission, transactional leadership recognizes that followers are driven to receive tangible rewards and security (Young et al., 2021).

Contingent Reward: Leaders who use contingent reward make clear what performance is expected, set up reward systems based on performance, and reward performance (Lee et al., 2020). This dimension represents explicit exchanges, meaning that if followers meet the standards and attain the goals, they will be rewarded with promised. (Young et al., 2021) Contingent reward may be motivating if followers appreciate the reward given and feel that their performance will lead to receiving the reward (Young et al., 2021). There is some research that indicates contingent reward has positive associations with performance and satisfaction under certain conditions (Torlak & Kuzey, 2019).

Management-by-Exception (Active): Active monitoring leaders actively look for deviations from performance standards, take corrective action before problems get out of hand, and have systems in place to monitor performance (Oswald et al., 2022). This approach helps improve consistency, minimise errors, and ensures consistency with procedures and standards (Young

et al., 2021). Active management-by-exception is especially helpful under high-risk situations and/or when standardized procedures are important for safety and quality (Musinguzi et al., 2018).

Management-by-Exception (Passive): Passive managers only step in when issues get serious or performance significantly falls short of expectations (Young et al., 2021). This is a reactive approach and can leave uncertainty, can lead to small problems escalating into larger ones and will generally be associated with poorer performance than active management by exception (Mbe Howell & Avolio, 1993).

Outcomes Associated with Transactional Leadership:

Transactional leadership shows positive relationships with short-term task performance in stable situations and in situations where rules and procedures must be followed (Obiwuru et al., 2012). The contingent reward dimension in particular is associated with effort and compliance (Torlak & Kuzey, 2019), but with less impact on commitment, satisfaction and long-term performance than the transformational approaches (Waldman et al., 1987). The findings consistently indicate that transactional leadership has less positive impact on employee engagement (Li et al., 2018), organizational commitment (Keskes, 2014) and innovative behavior (Pieterse et al., 2010) than transformational leadership. But transactional leadership might be better suited to a routine situation where there is a need to follow a procedure (Obiwuru et al., 2012).

7. Comparative Analysis of Transformational and Transactional Leadership

7.1 Leadership Focus and Orientation

Transformational leaders are interested in vision, meaning and organisational transformation (Abdul-Azeez et al., 2024) try to raise followers' awareness of the purpose of the organisation and their own role in that purpose. These are the leaders who focus on value creation over the long term, adaptability and continuous improvement (Bakker & Albrecht, 2018). By contrast, transactional leaders are more concerned with structure, performance expectations, and task completion (Young et al., 2021), providing clear role expectations, measurable outcomes, and procedures. Transformational leaders seek answers to the questions “Why do we exist?” and “What could we become?” Transactional leaders ask “What are we expected to do?” and “How will performance be measured?” (Paais & Pattiruhu, 2020).

7.2 Leader-Follower Relationship

Transformational leadership establishes a relationship of emotional commitment, trust and mutual growth (Zhu et al., 2012). Followers internalize values and goals of the leader and organization, and come to identify with them (Zhu et al., 2012). The relationship goes beyond the transaction of employment to include personal growth and meaning-making (Arghode et al., 2022). The transactional relationships, on the other hand, are still contractually oriented and transactional (Young et al., 2021). Followers play to be paid and the relationship ends when the play is no longer rewarding to the follower. The nature of transactional relationships is that they are friendly and respectful but do not have the emotional connection and commitment found in transformational relationships (Young et al., 2021).

7.3 Motivation Approach

Transformational leaders tap the inner pull for autonomy, competence, purposeful work, and contribution to a worthy cause (Chua & Ayoko, 2021). Transformational leaders create a sense of purpose, autonomy and growth and show authentic care, meeting the basic psychological needs (Van den Broeck et al., 2010). These efforts cultivate commitment based on values identified, not external contingencies (Chua & Ayoko, 2021). Transactional leaders use mainly external motivation via contingent rewards and monitoring of performance (Young et al., 2021). Despite the fact that extrinsic incentives can encourage behaviour, studies show that they can have a detrimental effect on intrinsic motivation if used excessively, especially for

more complex and creative tasks (Gneezy et al., 2011). In essence, the motivational strategies are quite different; transformational leaders stimulate internal motivational factors, whereas transactional leaders create external conditions (Paais & Pattiruhu, 2020).

7.4 Decision-Making and Empowerment

Participative and empowering decision making is a hallmark of transformational leadership (Li et al., 2018). They seek followers' input, share relevant authority and allow followers autonomy and initiative (Zhu et al., 2012). This method builds followers' capability and commitment, but can have a negative effect on the speed of decision-making in the short term (Li et al., 2018). Transactional leaders tend to make decisions through more directive and hierarchical processes, and have clear-cut differences in authority and decision-making follows a set of procedures (Young et al., 2021). This is a structured way of working that makes it easier to implement but might constrain the development of followers and innovation (Pieterse et al., 2010).

7.5 Communication Patterns

Transformational leaders use inspirational, purposeful communication to link the present to the future and to values of the organization (De Vries et al., 2009). They communicate in a visionary, possible, and collective way (De Vries et al., 2009). Transactional leaders use directive, task-oriented communication with a focus on performance expectations, standards and procedures (De Vries et al., 2009). The communication differences are based on different underlying assumptions: transformational leaders make it a priority to get followers to think about the meaning and possibilities, while transactional leaders think that followers act in response to clear expectations and contingent outcomes (De Vries et al., 2009).

7.6 Innovation and Creativity

It can be seen from the existing literature that there is a strong body of empirical evidence that suggests that transformational leadership is more effective in fostering innovation and creativity (Lee, et al., 2019). The intellectual stimulation dimension stimulates creative thinking directly, while trust and consideration of the individual in the psychological safety dimension allows followers to present and explore new ideas (Grošelj et al., 2021). In contrast, transactional leadership fosters efficiency and uniformity, but not innovation (Lee et al., 2020). The focus on procedures and external contingencies could also be counterproductive in terms of creative risk taking (Pieterse et al., 2010). Nevertheless, there are some contexts where contingent reward for innovation has been found to have positive associations with innovative behavior (Hansen & Pihl-Thingvad, 2019).

7.7 Employee Performance and Organizational Outcomes

A study showed that different leadership styles have different impacts on different performance aspects. The transactional leadership approach can sometimes result in satisfactory or even better short-term performance in situations that involve following procedures (Obiwuru et al., 2012). Transformational leadership is more likely to lead to better performance results for complex, creative tasks that demand innovation and adaptation (Lee et al., 2020). With respect to discretionary effort and long-term commitment—behaviors beyond the job's demands—transformational leadership always had greater impacts (Zhu et al., 2012). In the context of employee engagement, transformational leadership has a significantly greater impact (Li et al., 2018). These differences indicate that the effectiveness of the leadership is dependent on the nature of the task and the desired outcome (Obiwuru et al., 2012).

7.8 Organizational Culture

Transformational leaders create learning cultures, cultures that foster continuous improvement, cultures that are adaptive, and cultures that have a shared purpose, a culture of psychological safety (Totterdill & Exton, 2014). Staff are given the freedom to question the 'rules', to try things out and to learn from their mistakes (Totterdill & Exton, 2014). Transactional leadership

is the type of leadership that develops a culture that values order, discipline, accountability, and performance based on measurable standards (Paais & Pattiruhu, 2020). These cultures might feel more under control but less innovative (Paais & Pattiruhu, 2020). Where organisations are overly reliant on transactional approaches, individuals can become compliant and not genuinely motivated to be excellent (Totterdill & Exton, 2014).

7.9 Crisis and Change Management

A transformational leadership style is helpful during times of organizational change, uncertainty, and transformation (Mansaray, 2019). The vision setting, trust building and meaning making skills enable followers to deal with ambiguity and embrace challenges (Mansaray, 2019). On the other hand, when facing a crisis where a quick and disciplined implementation of protocols is needed, transactional leadership's focus on clarity, procedure, and accountability can offer value (Young et al., 2021). The contrast is based on situational needs: Transformational approaches enable organizations to manage strategic shifts, transactional approaches are used to execute existing procedures under pressure.

7.10 Ethical and Practical Considerations

There are ethical issues and practical constraints associated with both leadership styles. Within the realm of transformational leadership, dependency can creep in when followers become dependent on the leader's vision and lose their ability to make their own decisions (Eisenbeiß & Boerner, 2013). Charisma may be abused by dishonorable leaders (Antonakis et al., 2016). Furthermore, the transformational leaders have to ensure the resources and support that are necessary to bring their visions to fruition, or they may find themselves disappointed (Chen et al., 2018). When used excessively, transactional leadership can lead to mechanical and controlling cultures that inhibit initiative and learning (Young et al., 2021). Moreover, external contingencies might also be detrimental to intrinsic motivation and organizational commitment (Gneezy et al., 2011).

Table 1: Comparative Summary Table

Dimension	Transformational Leadership	Transactional Leadership	Organizational Implication
Focus	Vision, meaning, transformation	Structure, performance, efficiency	Need to clarify strategic goals before selecting leadership approach Different
Motivation	Intrinsic; higher purpose	Extrinsic; contingent rewards	motivational profiles for different employee groups
Relationship	Emotional commitment, development	Contractual exchange	Determines sustainability of follower engagement Affects speed of implementation vs.
Decision-making	Participative, empowering	Directive, hierarchical	follower development Shapes
Communication	Inspirational, visionary	Task-focused, directive	organizational meaning-making Critical for
Innovation	Strongly supported	Weakly supported	knowledge-based organizations

Dimension	Transformational Leadership	Transactional Leadership	Organizational Implication
Performance	Long-term commitment, discretionary effort	Short-term compliance, task completion	Requires alignment with organizational objectives
Culture	Adaptive, learning-oriented	Controlled, compliance-based	Influences ability to adapt and innovate
Change management	Supports transformation, adaptation	Supports crisis response, procedure execution	Requires different approaches at different organizational stages
Ethical risks	Charisma dependency, unfulfilled promises	Excessive control, motivation undermining	Requires ethical guardrails regardless of style

8. Strengths of Transformational Leadership

Building Vision and Direction: Transformational leaders develop a powerful vision of the organization's purpose and future state, and give direction that inspires followers and unites effort (Abdul-Azeez et al., 2024). The right communication of vision generates meaning and connection to broader goals (Moynihan et al., 2012).

Enabling Innovation and Creativity: Transformational leaders foster environments in which the followers think creatively to solve problems and offer new ideas (Lee et al., 2020). Transformational leadership in organizations is associated with increased innovation capacity (Lee et al., 2020).

Improving Employee Engagement: Transformational leadership is positively and strongly related to employee engagement, which is defined as a positive motivational state that involves energy, dedication and absorption in the job (Li et al., 2018). People who are engaged at work are more productive, are less likely to turnover, and have a higher level of commitment to the organization (Bakker & Albrecht, 2018).

Building Trust: Transformational leaders foster trust, gain shared understanding of the need for change, and drive commitment to new strategies in the context of transformation efforts (Mansaray, 2019). They are able to make change meaningful which helps to engage followers and minimize resistance (Mansaray, 2019).

Developing Followers: Through individualized consideration and intellectual stimulation, transformational leaders invest in follower development (Zhu et al., 2012). Followers become more capable, confident, and committed (Zhu et al., 2012).

Enhancing Commitment and Trust: Transformational leaders value and demonstrate trustworthiness by consistently demonstrating values and concern for followers, which foster deep trust and organizational commitment (Bottomley et al., 2016). Followers are personally involved in the organization's mission and leadership (Zhu et al., 2012).

9. Limitations of Transformational Leadership

Leadership Charisma: Leader charisma and personal magnetism are often important for the effectiveness of transformational leadership (Antonakis et al., 2016). This makes the organisation vulnerable when charismatic leaders leave, and it can curtail development of leadership in the organization (Eisenbeiß & Boerner, 2013).

Bureaucratic Systems: In a very structured, hierarchical, formal and traditional organization, it may be hard to implement transformational leadership, as there are lots of rules and procedures to follow, and the decisions are taken by the people in the higher level of the

hierarchy (Wright & Pandey, 2010). The organization itself can limit the effectiveness of transformational leaders (Wright & Pandey, 2010).

Lack of Operational Control: Other transformational leaders with a strong emphasis on vision and innovation may neglect operational aspects, efficiency, and the control of routines (Young et al., 2021). Inspiration and execution capability are needed for organizations (Young et al., 2021).

Unfulfilled Expectations: If transformational leaders are unable to provide a compelling vision, but fail to secure the necessary resources, alignment and realistic timelines, followers become disillusioned and cynical (Chen et al., 2018). Ambitious promises with little or no backing hurt credibility (Chen et al., 2018).

Limited Value in Routine Settings: When there is a high degree of routine and consistency in the environment, transformational leadership might have little impact and be unnecessary for effectiveness (Obiwuru et al., 2012).

Context Dependency: The effectiveness of transformational leadership is significantly dependent on the culture of the organization, industry, characteristics of followers and the environment (Wright & Pandey, 2010). However, any universal application may be ineffective or not meet the needs of the organization (Obiwuru et al., 2012).

10. Strengths of Transactional Leadership

Giving Structure and Clarity: Transactional leaders set expectations and standards for roles, and reward systems are clear (Young et al., 2021). This clarity diminishes uncertainty and allows followers to understand what success entails (Young et al., 2021).

Supporting Performance Monitoring: Transactional leaders have structured monitoring and feedback mechanisms in place, which allow them to stay aware of performance, detect deviations, and take corrective action (Oswald et al., 2022). This systematic approach helps to ensure consistency and minimise errors (Young et al., 2021).

Effectiveness in Stable Environments: Transactional leadership is effective in stable, routine environments where there is already a set of procedures to follow, standardization, and consistent performance is important (Obiwuru et al., 2012). Adherence to procedure is important for reliability and predictability (Obiwuru et al., 2012).

Promoting accountability: Transactional leadership focuses on personal accountability for performance and provides clear rewards for good or bad performance (Young et al., 2021). This helps with accountability and measurement of performance (Young et al., 2021).

Compliance, task completion and short-term performance: Transactional leadership can yield short-term results (Obiwuru et al., 2012). Rewards for the contingent can drive work towards certain objectives (Young et al., 2021).

In settings where procedures are paramount (healthcare, nuclear power plants, aviation), transactional leadership's focus on monitoring and compliance becomes especially essential, particularly in ensuring safety and quality (Musinguzi et al., 2018).

11. Limitations of Transactional Leadership

Depression and loss of motivation: The focus on following rules and procedures or relying on outside contingencies could lead to reduced creative risk taking and innovative problem solving (Pieterse et al., 2010). For organizations that need to be innovative, transactional leadership may not be enough (Lee et al., 2020).

Overreliance on External Rewards and Monitoring: Overreliance on external rewards and monitoring can lead to a decrease in intrinsic motivation, especially in creative and complex tasks (Gneezy et al., 2011). Work is not necessarily enjoyable, and may be seen as a way to earn something else (Gneezy et al., 2011).

Limited Emotional Commitment: Transactional relationships may be cordial but usually do not lead to as much emotional commitment and organizational loyalty as transformational

relationships (Zhu et al., 2012). Followers might not feel strongly about the organizational mission (Zhu et al., 2012).

Less Employee Autonomy: In transactional leadership, the directive style and outside control can reduce followers' autonomy and self-determination (Zhu et al., 2012). This can lead to a decrease in followers' sense of agency and capability over time (Zhu et al., 2012).

Ineffectiveness during Transformation: When organizations need to make significant changes, innovations, or adaptations, the focus of transactional leadership on existing procedures and stability are not enough. (Mansaray, 2019). One thing followers require during transformation is not only direction but meaning making and vision (Mansaray, 2019).

Compliance-based Culture: In a culture that is largely compliance-based, employees may be performing procedures, but not motivated to be excellent or successful at work (Totterdill & Exton, 2014). This yields compliance and gives no commitment (Totterdill & Exton, 2014).

A potential downside of contingent rewards is when they are not aligned with the follower values, or are not perceived as sufficient when compared with effort, thus causing a reduction in follower motivation (Gneezy et al., 2011).

12. Organizational Implications and Context-Specific Effectiveness

The vast amount of research on leadership shows that transformational and transactional leadership is not always better; effectiveness is a function of multiple organizational factors (Obiwuru et al., 2012).

Transformational leadership has been found to predict employee motivation and job satisfaction more consistently (Li et al., 2018), whereas transactional leadership has been found to predict employee motivation and job satisfaction depending on whether the rewards offered are aligned with employee values or not (Young et al., 2021). Organizations with a focus on engagement should focus on transformative engagement strategies while organizations with a focus on specific, measurable performance targets may use transactional engagement strategies (Paais & Pattiruhu, 2020).

Organizational Commitment: Transformational leadership has a greater impact on affective organizational commitment (emotional attachment to the organization and mission) (Keskes, 2014). Transactional leadership can lead to an increase in continuance commitment (staying due to a lack of other options) but it does not generally create affective commitment (Keskes, 2014).

Team Performance and Collaboration: Transformational leadership builds team cohesion, collaboration and collective efficacy (Schippers et al., 2008), whereas transactional leadership focuses more on individual performance and accountability (Young et al., 2021). Transformational approaches for team-based work are beneficial, whereas transactional leadership (Schippers et al., 2008) can be sufficient in individual-contributor roles.

Innovation and Organizational Learning: Transactional leadership can be detrimental to innovation and organizational learning, whereas transformational leadership is pro-innovative and pro-organizational learning (Lee et al., 2020; Pieterse et al., 2010). For organizations in competitive and innovation-driven industries, the focus needs to be on transformational approaches (Lee et al., 2020).

Transformational leadership is significantly more effective when the organization is undergoing a change or transformation of strategy, or it is adapting to the environment (Mansaray, 2019). Transactional leadership is adequate for delivering change that has already been planned, but is not effective for transformational change (Mansaray, 2019).

Organizational Culture: Transformational leadership creates psychologically safe and learning cultures that are adaptive (Totterdill & Exton, 2014). Transactional leadership is associated with controlled, procedure oriented, performance oriented culture (Paais &

Pattiruhu, 2020). There is no inherent superiority in either culture – it is appropriate based on strategic needs (Paais & Pattiruhu, 2020).

Employee Retention: The development, meaningful work, and good relationships offered by transformational leadership contribute to employee retention (Yücel, 2021). A transactional leadership style, which emphasizes transactions over development, offers less benefit for retention (Yücel, 2021).

Ethical Organizational Climate and Organizational Integrity: Transformational leaders model integrity and emphasize values, which fosters ethical climates in the organization (Kumar, 2014). Excessive use of transactional approaches can lead to a culture where the consequences of an action become the only motivator for behavior, and not moral standards (Kumar, 2014).

Transformational leadership is more effective than transactional leadership in healthcare, education, and nonprofit sectors where mission and meaning are more likely to drive employee motivation than pay (Specchia et al., 2021). Balanced approaches that combine both styles work best in private sector, customer service and in some public administration settings (Obiwuru et al., 2012).

13. Integrating Transformational and Transactional Leadership

Leadership research increasingly focuses on situational leadership – meaning that the best leaders do not only use one style of leadership, but adapt to suit the circumstances (Breevaart et al., 2016). The Full Range Leadership Model has laissez-faire as its least effective form of leadership, transactional as moderately effective, and transformational as most effective, and outlines a developmental progression (Kirkbride, 2006). But more detailed studies indicate that the juxtaposition of both strategies in a context-specific fashion can generate the best results (Teece 2014).

Underlying theories of integration include social exchange theory, which explains the motivational processes of transactional leadership, and self-determination theory, which explains transformational approaches to motivational processes (Zhu et al., 2012). Zhu et al. (2012) argue that meaningful exchange relationships and opportunities for autonomy, competence and purpose satisfaction motivate individuals. If leaders only focus on one motivational dimension, they may overlook the potential to motivate followers to their fullest capacity and thus perform optimally (Zhu et al., 2012).

Practical Integration Approaches: Effective leaders integrate transformational and transactional behaviours in an appropriate manner. For example, a leader could set clear expectations and accountability systems (transactional) and cultivate a sense of psychological safety, seek input, and highlight the purpose or significance of work (transformational) (Breevaart et al., 2016). In times of organizational crisis, leaders may focus first on transactional clarity and structure, and begin to incorporate transformational vision and meaning creation as the crisis subsides (Mansaray, 2019). The mix of roles could vary, for example, transactional clarity and responsibility may be more important for frontline supervisors, while transformational vision and strategy may be more important for senior leaders (Kirkbride, 2006).

Adaptive Leadership Contingencies: Research reveals contingencies indicating when each approach is more beneficial. Transformational approaches (Mansaray, 2019) work well in high-uncertainty environments, change initiatives and knowledge work. Transaction approaches work well in routine, stable, high risk settings where adherence to procedure is important (Young et al., 2021). Complex organizations need leader flexibility (Teece, 2014), flexibility in emphasizing transformational approaches for long-term strategy and maintaining transactional oversight of operational execution.

Developmental Progression: Leaders' capabilities can be developed across both dimensions. Leadership development programmes can develop transformational vision and strategic thinking and transactional discipline and accountability (Kirkbride, 2006). Effective programs build leaders' versatility in the range rather than seeing styles as mutually exclusive (Kirkbride, 2006).

14. Contemporary Relevance: Leadership in Modern Organizational Contexts

The significance of understanding transformational and transactional leadership in practice is evident in today's organizational issues (Cortellazzo et al., 2019).

DT (Digital Transformation): Organizations on the path to DT need leaders who not only can articulate the needs for DT, but can also hold a vision of the possibilities and competitive advantage of DT as well (Cortellazzo et al., 2019). A pure transactional focus can be executed without strategic gain and a pure transformational focus can be a visionary without capability to execute (Cortellazzo et al., 2019).

Remote and Hybrid Work: Remote work environments change the leader-follower relationship dynamics, with less informal interaction and more formal forms of communication (Kniffin et al., 2021). In virtual settings (Kniffin et al., 2021), meaningful communication and personalized attention are more important, but more difficult, aspects of transformational leadership. Transactional leadership's clarity and structured accountability provides needed framework for remote work (Kniffin et al., 2021). Effectively combining approaches is crucial for leaders managing hybrid teams (Kniffin et al., 2021).

Artificial Intelligence and Automation: The changing nature of work due to AI and Automation means that employees are increasingly expected to be able to learn continuously, solve problems creatively and think adaptively (Cascio & Montealegre, 2016). These skills are developed in transformational leadership styles that focus on intellectual stimulation and development (Cascio & Montealegre, 2016). At the same time, structures, clarity of roles and accountability are needed to deal with human-AI collaboration (Cascio & Montealegre, 2016).

Global Virtual Teams: Leaders managing globally distributed, culturally diverse virtual teams need the ability to be transformational (to create shared meaning across cultural differences) and transactional (to set up clear expectations and monitor output across time zones) (Cortellazzo et al., 2019).

Knowledge Work and Innovation: Knowledge-intensive organisations need staff members with autonomous decision-making, lifelong learning and innovative contribution, which are supported with transformational approaches (Bakker & Albrecht, 2018). But transactional elements (Bakker & Albrecht, 2018) are needed for accountability, quality standards and clarity of performance.

Employee Well-being: Today, employee well-being, mental health and employee work-life balance are becoming a growing concern in contemporary organizations (Kniffin et al., 2021). Transformational leaders' ability to foster psychological safety, individual consideration, and meaning-making fosters well-being (Hildenbrand et al., 2018). Transactional approaches' emphasis on clear expectations and accountability will avoid inappropriate workload and role conflict (Hildenbrand et al., 2018).

Core transformational elements of diversity, equity, and inclusion—leadership approaches that support diversity and inclusion involve psychological safety, valuing diverse perspectives, and creating belonging (Arghode et al., 2022). At the same time, transactional discipline (Arghode et al., 2022) is needed for accountability of inclusive behaviors and clear standards.

Transformational elements: Leaders who create a compelling vision of responsible business; who make meaningful connections between everyday work and sustainability goals. Implementation will need transactional discipline, with clear metrics and accountability (Evans et al., 2017).

15. Research Gaps and Future Directions

While there has been considerable research on leadership, there are still many unanswered questions. (Jing & Avery, 2016).

Cross-Cultural Leadership Research: Most research on transformational-transactional leadership is from the Western world. There is only limited research that explores how these leadership styles function in non-Western cultures that have different assumptions of hierarchy, communication and motivation (Witt, 2019). More research needs to be conducted on cultural moderators of leadership effectiveness (Witt, 2019).

Leadership in Developing Economies: Most research on transformational-transactional leadership takes place in developed economies. There is limited knowledge about how these approaches work in developing countries with varying institutional and labor market environments and developmental phases (Witt, 2019).

Research on Transformational and Transactional Leadership in Remote and Hybrid Workplaces: There is a need for the significant expansion of research in the area of transformational and transactional leadership in remote and hybrid workplaces as the shift to remote and hybrid work is becoming a permanent reality (Kniffin et al., 2021). There is limited knowledge on how to get the best out of leader/follower interaction patterns in distributed work (Kniffin et al., 2021).

Research on Gender Differences in Leadership Perception and Effectiveness: Studies have focused on the perception of gender differences in leadership (Eagly and Johnson, 1990), and there is limited research on whether there are gender differences in the effectiveness of transformational and transactional leadership or whether follower gender moderates the impact of leadership (Eagly and Johnson, 1990).

Leadership and Artificial Intelligence: The interaction between leadership styles and human-AI collaboration, the impact of AI on organizational culture and follower motivation, and leadership approaches that maximize human-AI team effectiveness are underexplored areas (Cascio & Montealegre, 2016).

Ethical Dilemmas of Charismatic Leadership: Although research shows that charisma can be a source of inspiration, there is little knowledge about the psychological and organizational processes that can push some charismatic leaders into unethical practices (Antonakis et al., 2016). Further research should explore measures to prevent the misuse of charisma (Antonakis et al., 2016).

Research on Public versus Private Sector Leadership: There is limited research on optimal leadership practices for the education, healthcare, nonprofit and government sectors (Specchia et al., 2021).

Longitudinal Leadership Effects: Majority of leadership research uses cross-sectional designs which restrict causal inferences. There is a lack of longitudinal studies to investigate the impact of leadership on organizational performance over time (Jing & Avery, 2016).

Contingency Theories: Contingency theories suggest that leadership strategies vary depending on the context, but little empirical evidence exists on how leaders actually adapt their style to different contexts, and which factors within the organization enable or constrain leader adaptation (Teece, 2014).

The integration of leadership approaches (transformational and transactional) is still at an early stage of research, as is the study of conditions that favour different integrations and developmental trajectories that support such leadership (Breevaart et al., 2016).

16. Conclusion

This extensive review confirms that transformational and transactional leadership are two different but complementary leadership styles that have their own strengths and weaknesses, and contexts for use. Transformational leadership, which includes vision setting, inspirational

communication, intellectual stimulation, and individualized consideration, is especially useful in promoting innovation, commitment to the organization, change initiatives, and employee engagement. The approach encourages intrinsic motivation, enhances follower capacity and fosters an emotionally committed followership. But transformational leadership relies heavily on the leader's personality, is difficult to achieve in a rigidly structured bureaucracy, and can lead to unrealistic expectations if it is not based on the organization's reality.

Transactional leadership is about performance-based rewards and conditions, monitoring, and clear accountability; it is suitable for short-term task completion, operational efficiency, and performance in stable environments. The method is clear, holds people accountable, and is effective in situations of high risk, where it is essential to follow procedures. But transactional leadership can stifle creativity and innovation, can lead to a lack of intrinsic motivation, can create only a short-term emotional connection, and can be inadequate in an organization that is undergoing change or needs to be constantly adapted.

It is rare that any modern institutions are successful solely by one method. Rather, the most effective leaders are flexible, using a transformational leadership style for direction, culture building, and change management, but a transactional leadership style for accountability, clarity and performance standards. Both strategies can be combined in a context-specific way to maximize organizational results in various contexts.

Digital transformation, remote working, globalization, the incorporation of AI and the ever-changing environment add to the complexity of organizations and the need to grasp both leadership models and how they can be best combined. Future research needs to build on current knowledge by expanding it to other contexts than those of predominantly Western developed economies, in order to include global diversity of organizational forms, values and developmental stages. The dynamics of transformational and transactional leadership in virtual environments, and how these styles evolve in the context of human-AI collaboration are still important leadership research questions; as are the ways in which transformational and transactional leadership contribute to organizational sustainability and ethical performance.

The implications for practitioners are clear: organizations should evaluate their strategic priorities, environmental context and follower characteristics when deciding on their leadership emphasis. Transformational capabilities should be developed in organizations that need constant innovation, while keeping a transactional discipline. For those working in stable, routine contexts, focus should be placed on transactional approaches, but with enough transformational vision to continue to maintain meaning and adaptation. Most importantly, adaptive leaders who are able to shift across the entire spectrum of leadership behaviors as needed should be the focus of organizational leadership development strategy.

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