

M05 – ORGANISATIONAL BEHAVIOUR & LEADERSHIP

Leadership Styles and Organisational Performance

Critical Project Report

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Submission Date : 13.09.2026

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Abstract

Leadership is one of the most influential organisational factors shaping employee behaviour, organisational culture and business performance. This report critically examines the relationship between leadership approaches and organisational outcomes, focusing on transformational, transactional, situational, servant and authentic leadership. It evaluates how these approaches influence employee motivation, engagement, creativity, organisational commitment and productivity, while also considering the conditions under which particular leadership behaviours are likely to be effective. The analysis adopts a secondary qualitative methodology based on established leadership research, organisational behaviour literature and selected real-world business cases. The evidence indicates that leadership effectiveness cannot be reduced to the use of one universally superior style. Transformational leadership can stimulate intrinsic motivation, innovation and commitment, while transactional leadership can provide clarity, structure and performance accountability. Situational leadership highlights the importance of adapting behaviour to employee capability and task circumstances. Servant and authentic leadership emphasise trust, ethical conduct, employee development and psychological safety. However, each approach also has limitations when applied rigidly. Overall, effective leadership is a critical driver of organisational performance, but its impact is mediated by organisational culture, employee needs, industry conditions and the wider business environment.

1. Introduction

Organisational behaviour (OB) examines how individuals and groups behave within organisations and how organisational systems influence that behaviour. Leadership is a central component of OB because leaders shape expectations, allocate resources, influence organisational culture and affect how employees interpret organisational goals. In contemporary organisations, leadership is increasingly important because firms operate in environments characterised by technological disruption, global competition, demographic diversity, hybrid working and changing employee expectations.

Leadership can be understood broadly as a process of influencing individuals and groups toward the achievement of shared objectives. This definition goes beyond formal managerial authority. Effective leadership depends on the ability to influence behaviour, create meaning, develop relationships and mobilise people. Leadership therefore has direct and indirect implications for organisational performance. Direct effects include goal setting, decision-making, coordination and performance management. Indirect effects include employee motivation, trust, engagement, psychological safety and organisational culture.

This report critically analyses five major leadership approaches: transformational, transactional, situational, servant and authentic leadership. It examines their theoretical foundations and evaluates their implications for employee motivation, engagement, creativity, commitment and productivity. The report also considers the relationship between leadership style and organisational performance, using real-world business examples to illustrate both effective and problematic leadership practices.

The report is guided by the argument that no leadership style is universally effective. Leadership effectiveness depends on the alignment between leadership behaviour and organisational context. Transformational leadership may be particularly valuable when organisations need innovation and strategic change, whereas transactional practices may be

useful when clear standards, compliance and short-term performance are essential. Situational leadership suggests that leaders should adapt their behaviour according to employee capability and task requirements. Servant and authentic leadership can strengthen trust, ethical behaviour and employee commitment, but may need to be balanced with decisive strategic action.

2. Literature Review

The literature on leadership has moved from trait-based and purely behavioural explanations toward approaches that recognise context, relationships and organisational systems. Transformational leadership focuses on vision, inspiration, intellectual stimulation and individualised consideration (Bass & Riggio, 2006). It can support intrinsic motivation, creativity and organisational commitment, although strong vision can become problematic if it creates leader dependence or is not supported by effective execution.

Transactional leadership is based on exchanges between leaders and followers through rewards, targets, monitoring and corrective action. It can be effective where roles are clearly defined and performance is measurable. However, excessive emphasis on rewards and control may reduce autonomy and discourage experimentation. Judge and Piccolo (2004) found that transformational and transactional leadership both have useful relationships with performance, supporting the view that the approaches should not be treated as simple opposites.

Situational leadership proposes that leaders should adapt their behaviour according to circumstances and follower development (Hersey & Blanchard, 1969). Its major strength is flexibility, although the model can oversimplify complex organisational relationships and the assessment of follower readiness can be difficult.

Servant leadership emphasises listening, empathy, stewardship, community and employee development (Greenleaf, 1977). It can strengthen trust, engagement and commitment, but leaders must still retain accountability and make difficult decisions when necessary.

Authentic leadership focuses on self-awareness, transparency, balanced processing and internalised moral standards (Avolio & Gardner, 2005). Authentic behaviour can strengthen trust and psychological safety, but authenticity should not be confused with unrestricted personal expression. Ethical standards remain essential.

Leadership also interacts with employee motivation. Self-Determination Theory highlights autonomy, competence and relatedness as important psychological needs (Deci & Ryan, 2000). Transformational leadership can provide meaning and challenge; transactional leadership can provide external incentives; servant and authentic leadership can strengthen relatedness and trust; and situational leadership can help balance direction and autonomy.

Organisational performance is broader than financial results and includes productivity, innovation, quality, customer satisfaction, retention and organisational capability. Leadership can influence these outcomes through strategy, culture and employee behaviour, but leadership should be viewed as an enabling factor rather than a guarantee of performance.

3. Methodology

This report uses a secondary qualitative research methodology. The approach is appropriate because the assignment requires critical analysis of established organisational behaviour and leadership theories alongside real-world organisational examples. Academic books and peer-reviewed journal literature were used to identify theoretical concepts and evaluate their implications.

The literature was analysed thematically. The principal themes were leadership style, motivation, employee engagement, creativity, commitment, productivity, organisational culture and performance. The analysis compared the assumptions, strengths and limitations of transformational, transactional, situational, servant and authentic leadership.

Real-world business examples are used illustratively rather than as controlled experiments. Organisational cases cannot establish that a leadership style alone caused success or failure because performance is influenced by strategy, market conditions, resources, technology, regulation and many other factors. A further limitation is that secondary research depends on the quality and interpretation of existing evidence. Despite these limitations, the methodology provides a suitable basis for synthesising leadership theory and applying it to contemporary business practice.

4. Findings/Analysis

The analysis indicates that different leadership styles produce different employee experiences. Transformational leadership is particularly associated with meaning, inspiration and intellectual stimulation. These characteristics can support engagement and creativity when employees have opportunities to participate in decision-making.

Transactional leadership provides clarity and predictability and is particularly useful where performance standards are measurable. However, its emphasis on exchange can limit intrinsic motivation if employees perceive work primarily as a means of obtaining rewards.

Situational leadership provides adaptability by allowing leaders to adjust direction and support. Servant leadership can strengthen trust and commitment by prioritising employee development and wellbeing. Authentic leadership can similarly improve trust through transparency and ethical consistency.

Creativity is influenced by autonomy, psychological safety and the treatment of mistakes. Transformational leaders can stimulate innovation by challenging established assumptions and communicating a compelling future state. Authentic and servant leadership can complement innovation by encouraging open communication and respect for different perspectives. Transactional leadership can encourage focused effort, but excessive control can discourage experimentation.

Leadership also affects organisational commitment and retention. Supportive leadership, recognition and development opportunities can increase commitment, while poor communication and perceived unfairness can encourage turnover. However, leadership cannot compensate indefinitely for poor pay, excessive workload or limited career opportunities.

Microsoft under Satya Nadella is frequently discussed as an example of cultural transformation, with emphasis on learning, collaboration and a growth-oriented

organisational culture. Apple under Steve Jobs illustrates the potential of visionary and demanding leadership for innovation, while also demonstrating the risks associated with highly leader-centric cultures. Enron provides a contrasting example in which aggressive performance expectations and weak ethical governance contributed to destructive organisational behaviour. These cases demonstrate that leadership interacts with organisational systems and governance rather than operating in isolation.

5. Discussion

The findings support a contingency perspective on leadership. Transformational leadership is valuable for strategic change, innovation and employee inspiration, but it should not replace operational discipline. Transactional leadership provides structures for accountability, but excessive reliance on external rewards may weaken intrinsic motivation. Situational leadership offers an important principle of adaptability, although its diagnostic assumptions can be difficult to apply. Servant and authentic leadership strengthen trust and employee relationships, but they must be combined with decisiveness and accountability.

The most effective contemporary leadership approach is likely to be integrative rather than exclusive. Leaders may communicate a transformational vision while using transactional systems to establish clear performance expectations. They may demonstrate servant behaviours toward employees while adopting situational responses to different levels of experience. Authenticity and ethical consistency can provide the foundation that makes these behaviours credible.

Organisational culture is a key mediator. Leadership behaviours become embedded through norms, routines, reward systems and communication practices. If leaders claim to value innovation but punish every failure, employees will learn that experimentation is unsafe. Similarly, if leaders promote wellbeing but reward only excessive working hours, employees are likely to distrust stated values.

Modern business conditions strengthen the case for adaptive leadership. Hybrid work requires intentional communication and trust. Digital transformation requires leaders who can manage uncertainty and encourage learning. Diverse workforces require leaders to recognise different perspectives rather than assuming one motivational approach will suit everyone.

Ethics is fundamental. Leadership that achieves short-term financial performance by encouraging manipulation, discrimination or unsafe practices cannot be considered

effective in a sustainable sense. Overall, leadership contributes significantly to organisational performance, but the strongest outcomes arise when leadership behaviour is aligned with organisational strategy, culture, employee needs and external conditions.

6. Recommendations

1. Develop leaders who can use multiple leadership behaviours rather than relying on a single style. Leadership development should include transformational vision, transactional performance management, situational adaptability, servant behaviours and authentic self-awareness.
2. Strengthen employee voice through regular engagement surveys, team discussions and psychologically safe feedback mechanisms. Feedback should lead to visible action.
3. Align reward systems with desired leadership and cultural outcomes. If innovation, collaboration and ethical behaviour are strategic priorities, performance systems should recognise them alongside financial and productivity targets.
4. Strengthen ethical leadership and governance. Leaders should be trained to identify conflicts of interest, challenge unrealistic performance pressures and understand wider consequences of decisions.
5. Develop adaptive leadership capabilities for hybrid and changing workplaces. Leaders should learn how to maintain trust, clarify expectations and support autonomy in distributed teams.
6. Evaluate managers on employee outcomes as well as financial performance. Measures such as voluntary turnover, engagement, internal mobility, employee development and psychological safety can provide a broader picture of leadership effectiveness.
7. Treat leadership as an organisational capability rather than the responsibility of a small group of executives. Opportunities for leadership at team and project levels can reduce dependence on individual charismatic leaders and build resilience.

7. Conclusion

This report has critically examined the relationship between leadership approaches, employee outcomes and organisational performance. Transformational, transactional, situational, servant and authentic leadership each offer valuable insights, but none provides a universally effective solution.

Transformational leadership can encourage motivation, commitment and innovation by creating meaning and challenging employees to think differently. Transactional leadership provides clarity, accountability and performance discipline. Situational leadership highlights the importance of adapting behaviour to circumstances. Servant leadership emphasises employee development and wellbeing, while authentic leadership promotes transparency, self-awareness and ethical consistency.

The analysis demonstrates that leadership style influences engagement, creativity, commitment and productivity. However, these effects depend on organisational culture, task characteristics, employee expectations, reward systems and external conditions. Real-world examples further demonstrate that strong leadership can support transformation and innovation, while poorly governed leadership can contribute to ethical failure and organisational decline.

The central conclusion is that effective leadership is a critical driver of organisational performance, but leadership effectiveness is fundamentally contextual. Modern organisations should develop leaders capable of combining inspirational, supportive, ethical and performance-oriented behaviours. Sustainable organisational performance requires leaders who can create trust, develop people, encourage innovation, maintain accountability and make ethical decisions.

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Appendix A · Leadership Comparison Matrix

Leadership Style	Focus	Strengths	Risks
Transformational	Vision, inspiration and change	Engagement, innovation and commitment	Leader dependence, unrealistic vision
Transactional	Targets, rewards and accountability	Clarity, consistency and short-term performance	Reduced autonomy, limited experimentation
Situational	Adapting to context and follower readiness	Flexibility and appropriate direction/support	Diagnosis can be difficult; inconsistent application
Servant	Employee development and service	Trust, wellbeing and commitment	May be perceived as slow or insufficiently decisive
Authentic	Self-awareness, transparency and ethics	Trust, credibility and ethical behaviour	Authenticity alone does not guarantee effectiveness