# The Impact of Leadership Styles on Organizational Performance

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**Abstract.** This article explores the impact of multiple factors on the effectiveness of leadership styles through a comparative analysis of Microsoft's Satya Nadella and WeWork's Adam Neumann. Although both leaders adopted a transformational leadership style, the results were quite different due to background and organizational factors. Satya Nadella successfully utilized cultural change to drive innovation and sustainable growth at Microsoft, transforming the organizational structure and leadership style, which had a positive impact on the company's development. In contrast, Adam Neumann's overly aggressive leadership style at WeWork resulted in rapid expansion, ultimately leading to financial instability and organizational decline, mainly attributed to lack of financial discipline and ethical lapses. The findings highlight that even when the same leadership style is adopted, its effectiveness is affected by contextual adjustments, external environmental factors and organizational culture. The paper concludes that transformational leadership is not generally effective and requires contextual adaptation. Recommendations include matching leadership styles to organizational culture and ensuring ethical governance and cultural fit. The study emphasizes the importance of situational awareness and strategic flexibility in leadership practices.

**Keywords:** Transformational Leadership, Organizational Performance, Contextual Adaptation.

## 1 Introduction

Leadership is crucial in determining the success of an organization, while also being an essential component of the organization's management system. Leadership significantly contributes to employee motivation, strategic direction and overall performance [1]. On the contrary, poor leadership or an inappropriate leadership style can lead to decreased morale, inefficiency and even severe financial losses. Leadership has long been recognized as a critical factor in organizational management, with theories even suggesting the necessity of establishing mechanisms that connect leadership to important organizational and personal achievements [2]. Although leadership as such is an abstract concept, years of business management and related research have


W. Zang and C. Xia (eds.), *Proceedings of the 2025 3rd International Conference on Digital Economy and Management Science (CDEMS 2025)*, Advances in Economics, Business and Management Research 336,
https://doi.org/10.2991/978-94-6463-770-0_54

concluded and defined multiple typical leadership styles to meet the different goals and market conditions of different organizations.

Various leadership styles have emerged over the years, including transformational, transactional, and laissez-faire leadership. In particular, transformational leadership and transactional leadership are said to be two well-researched leadership styles [3]. Transformational leadership aims primarily to inspire employees to exceed expectations and promote innovation. While transactional leadership places the emphasis on structured processes and reward-based performance to ensure stability and efficiency. Laissez-faire leadership is generally characterized by minimal intervention, which, in a sense, can be considered a form of 'free-range rearing'. In some cases, such leadership style does bring certain positive effects to an organization, yet a lack of goals is its typical characteristic.

There has never been a statement that a certain leadership style provides maximum advantages for managing an organization. Transformational leadership has predominantly shaped leadership philosophy over the past two decades [4]. Whereas in highly structured environments, transactional leaders turn out to be more effective. Therefore, no one leadership style fits all organizational management issues. External factors such as organizational culture, industry type and employee diversity all play a significant role in determining the impact of leadership styles on performance.

The aim of this paper is to discuss the relationship between leadership style and organizational performance by analyzing critical leadership theories, reviewing empirical studies, and introducing case studies. The research seeks to investigate how leadership styles affect organizational performance and what contextual factors influence the effectiveness of leadership styles.

By understanding the effect of leadership styles on organizational performance, corporate leaders have the ability to create strategies to optimize their leadership methods and ultimately build a more efficient and successful organization.

## 2 Methodology

### 2.1 Research Design

This study employs a case study approach to explore the impact of transformational and transactional leadership on organizational performance. The case study method is chosen as it allows for detailed and targeted research into leadership behaviour and its impact within a real-world business setting. A qualitative and descriptive research design is adopted to analyze leadership patterns based on existing documentation and theoretical frameworks. Case study methods allow in-depth exploration of leadership behaviors and their impact on productivity, employee engagement, and overall business success without the direct collection of numerical data.

While the case study approach is able to provide some insights into leadership dynamics and situational factors, the lack of quantitative data analysis poses a number of limitations. Since case studies are generally context-specific and they focus on specific organizations or leaders, their lack of statistical data limits the generalizability of the findings and thus restrict the broad applicability of the conclusions. On the other hand, case studies rely on qualitative observations and background descriptions, which in turn introduce researcher bias or subjective interpretations. This lack of objectivity may affect the credibility and reliability of the findings.

### 2.2 Case Selection

A relatively typical company in the financial sector is selected for this study. The selection was based on the following criteria: First, in recent years, the company has undergone a leadership transition between a transactional and transformational style. Second, its track record and leadership strategies have been well documented in industry reports, press releases and academic case studies. Third, the organization is widely recognized for its leadership effectiveness and serves as a prime example for studying the impact of leadership on performance.

### 2.3 Analytical Approach

This study provides an assessment of leadership impact through document analysis and theoretical comparison. The research process included: First, review of existing literature – analysis of previous research on transformational and transactional leadership to establish a theoretical foundation. Second, assessment of company reports and leadership statements – review of annual reports, leadership strategies, and executive interviews obtained via public sources. Third, comparative analysis of leadership periods – comparison of company performance in transformational and transactional leadership stages to identify key differences and outcomes.

### 2.4 Reliability and Validity

To ensure reliability, multiple independent sources such as academic articles, corporate reports, and leadership reviews are analyzed to verify consistency in findings.

By employing this methodology, the study provides a structured and theoretical analysis of how transformational and transactional leadership styles influence organizational performance, relying on existing documentation and theoretical insights rather than direct data collection.

## 3 Findings

### 3.1 Leadership Styles and Their Influences on Organizational Performance

Transformational leadership seeks to inspire followers to commit to organisational goals and achieve performance that exceeds expectations [5]. Research findings indicate that transformational leadership significantly and positively influences innovation, employee engagement and the long-term development of an organisation. As mentioned earlier, transformational leadership has similarities with visionary leadership in that the transformational leader motivates and inspires the members of his organization by setting a clear vision and providing rewards [6]. Members of organizations led by transformational leaders under the influence of leadership tend to be more motivated towards the business while also being more goal-oriented. Combined, it significantly improves overall performance. In general, organizations led by transformational leaders are more adaptable to market changes and technological advances, and also more innovative.

On the contrary, in organizations with a transactional leadership style, the relationship between the leader and followers is closer to an "exchange" where followers are rewarded for meeting certain goals or performance levels, similar to a transaction in the shopping process [6]. Organizations that adopt this style are less flexible and innovative, but significantly more efficient in the short term, especially those with standardized processes [7].

Laissez-faire leadership, which is considered to be a part of the full-range leadership model, once was defined as a leadership style that shirks responsibility [8]. The laissez-faire leadership style lacks supervision and places more reliance on the autonomy and job satisfaction of the organization's members in terms of work efficiency and performance. However, since it lacks a series of supervisory systems such as accountability, decreased work efficiency is what characterizes it most of the time.

### 3.2 Comparative Effectiveness of Leadership Styles

Transformational leadership outperforms other leadership styles in promoting employee engagement, innovation, and long-term operations. Organizations with such leadership are in a constant state of competition, encouraging members to actively pursue a common vision and helping retain high-performing employees. Additionally, transformational leaders are highly adaptable to changes in the external environment due to their ability to inspire effectively [4]. In contrast, transactional leadership proves highly effective in industries where operational efficiency and compliance are critical, as it ensures consistency and achievement of key performance indicators through established policies and adherence. However, Laissez-faire leadership is valid only in specific environments, where employees have autonomy and self-management capabilities. In most current organizational environments, it remains difficult to apply the style, so this article makes no extensive discussion of it.

### 3.3 Factors Moderating the Impact of Leadership on Performance

Some external factors have effects on the role of leadership styles. Leadership styles vary according to the industry. For instance, dynamic industries such as finance or technology are more suitable for transformational leadership styles, while the transactional leadership style is more applicable to conventional industries that rely on standardized processes. On the other hand, the organizational environment, such as the team atmosphere, plays an influential role in the effectiveness of leadership styles. Transformational leadership, for example, fosters the intrinsic motivation of employees, who are then more focused, attentive and committed at work. Additional factors that could be listed include organizational culture, employee diversity, etc [9]. These moderating factors emphasize the importance of situational leadership, in which leadership effectiveness depends on the interplay between organizational structure, industry dynamics, and workforce characteristics.

### 3.4 Discussion of Key Findings in Relation to the Literature

The findings of the study are aligned with existing literature, reinforcing the notion that leadership is not a one-size-fits-all approach. Prior research has demonstrated that transformational leadership is among the most effective in improving employee performance [10]. Research suggests that transformational leadership is also most effective in fostering a high degree of innovation and adaptability [11].

On the contrary, studies have shown that transactional leadership is critical to maintaining operational discipline and achieving short-term business goals. While it can improve efficiency and structured decision-making, its rigid framework has the potential to restrict employees' ability to be innovative [12].

Given the diverse impact of leadership styles, organizations are advised to adopt a situational leadership approach that tailors leadership strategies to the requirements, culture and characteristics of employees, as recommended by situational theorists.

## 4 Case Studies/Examples

### 4.1 Example of A Successful Leader

One of the most well-documented and celebrated cases of successful transformational leadership is Satya Nadella's leadership of Microsoft. On February 4, 2014, Satya Nadella became the new leader of Microsoft. In his view, Microsoft was facing dilemmas such as a rigid corporate culture and a decline in innovation, which urgently required transformation and reform. A transformation was required not only in terms of business, but also in terms of culture and management [13]. Under Nadella's leadership, Microsoft has undergone a major cultural and strategic transformation which has returned it to being one of the world's most valuable and innovative companies.

One of the aims of leading and managing a team is to develop and nurture the talents of employees by giving them autonomy, allowing them to make decisions at work and fully utilise their skills and abilities [14]. Nadella's management style advocates empowering employees, which means arousing the interest and motivation of innovative talent, providing challenges. More significantly, empowerment places greater emphasis on the design of the enterprise organization itself, interactions between people, and collaboration, all of which rely more on corporate culture, as an outstanding corporate culture brings like-minded employees together.

Key elements of Nadella's transformational leadership included cultural reinvention and employee empowerment. One of his first initiatives was to shift Microsoft's corporate culture from a “know-it-all” mindset to a “learn-it-all” approach, emphasizing continuous learning and encouraging employees to embrace change and innovation. This cultural transformation fostered a more collaborative and adaptive organization. Additionally, unlike his predecessor Steve Ballmer's top-down leadership style, Nadella adopted a more inclusive and empathetic management approach. By promoting collaboration and supporting diversity and inclusion initiatives, he created a workplace where employees feel valued and motivated to contribute to innovation.

The new corporate culture of "learn-it-all" brought about by Nadella stems from the theory of "growth mindset", which states that both organizations and individuals are able to achieve progress through learning and adaptation [15]. The transformation resulting from this culture includes both employees as learners and the organization's leadership as learners. The changed positioning of the leadership laid the foundation for a shift in leadership style.

Nadella's case represents more than the successful application of a transformational leadership style. He is not alone in forcing changes to the management style of an organization, instead Nadella has promoted organizational change through various aspects. Among these, relatively significant is the transformation of the organization's corporate culture, which has allowed it to form an internal driving force among employees. Such internal motivation has created a sense of mission and belonging among employees. On the other hand, he has empowered employees by granting them more autonomy and responsibility. By motivating and inspiring employees, the organization's performance and innovation capabilities were also improved. With Nadella's core concept of growth mindset, Microsoft employees gain greater resilience and innovation.

### 4.2 Analysis of A Failed Leadership Approach and Its Consequences

Although transformational leadership is highly praised for inspiring change, driving innovation, and improving organizational performance, it is not immune to failure. Transformational leadership also fails, for instance, when visionary goals exceed actual implementation capacity or ethical considerations are ignored. The case of WeWork co-founder and former CEO Neumann exemplifies the failure of a transformational leadership style. Neumann embodied a number of the qualities of transformational leadership, including a charismatic vision, bold strategic ambition and the stimulation of creativity. However, his overly aggressive growth strategy and lack of ethics resulted in one of the most spectacular corporate collapses.

Key factors contributing to Neumann's leadership failure included:

First, excessive expansion and unsustainable growth are the most obvious failures. Under Neumann's leadership, WeWork adopted an overly aggressive growth strategy, rapidly expanding into international markets and venturing into other businesses unrelated to its main business, such as WeLive (co-living spaces) and WeGrow (educational programs). Operational diversification commonly characterizes many transformational leadership styles, however, when such characteristics unchecked deplete a company's resources and management capabilities, the result is operational inefficiency and financial instability. Neumann's transformational leadership was overly focused on growth while neglecting some of the most fundamental business needs such as sustainable profitability.

Second, too much leadership influence leads to a lack of accountability. Neumann's influence allowed him to dominate strategic decision-making without sufficient checks and balances. Transformational leadership models typically demand a high level of influence from the leadership figure, with the ability to directly influence the way employees perceive things [16]. Since transformational leadership is based on encouraging employees to adopt a common way of thinking to promote the company's success, it is challenging for people to raise any objections. The lack of checks and balances means that the shortcomings of the team's work remain unrecognized. Neumann's cult of personality has created a culture of unquestioning loyalty, with employees being asked to accept his vision without criticism. This lack of accountability has led to undesirable management practices, including conflicts of interest and self-dealing.

Third, ethical Lapses and Leadership Hubris are mistakes to be avoided at all costs. As with transformational leadership in general, Newman is known for grandiose vision statements, including the ambitious goal of "raising world consciousness," which, while inspiring, are typically vague and divorced from achievable business realities. His leadership is full of visions but conceited, with rash decisions and excessive spending on private jets and personal investments. Such lack of moral responsibility and confusion between personal and company finances has led to a loss of investor confidence and ultimately to the failure of overall decision-making [17]. Transformational leaders inspire their employees with vision and values, while leaders with inconsistent actions or ethical failings lead to employees doubting the vision and values [18].

Adam Neumann's failure at WeWork demonstrates the dangers of unfounded transformational leadership with unrealistic visions and ethical lapses [19]. Neumann's overreliance on charisma and vision, combined with reckless growth ambitions and a loss of ethical oversight, resulted in one of the most dramatic corporate collapses in modern history.

### 4.3 Lessons Learned from both Cases or Conclusion

By comparing Satya Nadella's success at Microsoft with Adam Neumann's failure at WeWork, several important leadership lessons emerge:

First, ethical Leadership and Accountability are Essential. Successful transformational leaders uphold ethical standards, ensure accountability, and earn the trust of stakeholders and employees [20]. Nadella's ethical conduct and strategic discipline have boosted investor confidence and employee engagement, while Neumann's ethical lapses and management failures have led to damaged credibility, investor backlash and public scrutiny. Although both of them presented a strong vision, Neumann's words and deeds were undoubtedly divorced. While emphasizing that employees must work towards the same goals as the leadership, he treated himself and his cronies with special privileges, which certainly undermined trust.

Second, charisma should be balanced with collaborative leadership. Charismatic leadership mobilizes teams and attracts investors, while also leading to autocratic decision-making and a lack of accountability. Both Nadella and Neumann possess these leadership traits. Nadella has fostered an inclusive and collaborative culture that encourages feedback and innovation, while Neumann's cult of personality has led to centralized power and poor governance.

Third, The arrogance of leaders leads to organizational collapse. The arrogance of leaders manifests as overconfidence and reckless decision-making, which leads to strategic errors and moral corruption. Neumann's grand vision and extravagant spending undermined investor confidence and caused the decline of WeWork. In a transformational leadership organization, the influence of the leadership is enormous. Compared with the transactional leadership style, transformational leadership requires more of the leader's personal charm and his ability to influence employees. In this case, both the leader's strengths and weaknesses are magnified in the operation of the organization. Neumann's failure ought not to be interpreted as a failure of the transformational leadership style, but rather as a personal failure on his part.

# 5 Recommendations

## 5.1 Employee-Centric Organizational Culture

Cultivate an inclusive and adaptive culture: Nadella has transformed Microsoft's work culture by emphasizing growth mindset, collaboration, and empathy, which has improved employee engagement and innovation. However, Newman's autocratic leadership has caused toxicity and instability at WeWork. For example, Nadella's focus on empathy and empowerment has created a culture of continuous learning and collaboration at Microsoft, driving creativity and productivity. To cultivate a similarly collaborative and adaptive work environment, it is recommended to implement inclusive leadership training programs and establish feedback mechanisms.

Transformational leadership is more effective when it is aligned with organizational maturity, culture and strategic needs. Nadella successfully adapted his leadership style to match the innovative culture he brought to Microsoft, while Neumann's approach clashed with WeWork's startup volatility and aggressive expansion strategy without being adapted. For instance, Nadella cultivated a growth mindset and collaborative culture at Microsoft by leveraging existing talent and resources, whereas Neumann's singular focus on charismatic vision, without an operational foundation, led to cultural misalignment and instability. To avoid such issues, it is recommended to conduct a cultural and strategic assessment before implementing transformational change to ensure leadership style aligns with the organizational context.

## 5.2 Financial Discipline and Ethical Governance

Strengthen financial oversight and risk management: It remains critical to clearly distinguish between ambitious aspirations and financial responsibility. Neumann's leadership failures were due to financial imprudence and governance lapses, most importantly the special treatment he accorded himself. It is recommended to implement a financial risk assessment framework and conduct regular financial audits to ensure leadership vision is aligned with financial stability and investor expectations.

Ethical leadership and transparent governance: Neumann's conflicts of interest and opaque governance damaged WeWork's reputation. By contrast, Nadella promotes transparency, accountability and ethical leadership. The recommendation is to establish ethical norms and governance policies to ensure transparent decision-making and reduce conflicts of interest.

## 6 Conclusion

The study explores how transformational leadership is adopted by two influential leaders, Microsoft's Satya Nadella and WeWork's Adam Neumann, as well as the different results due to various influencing factors. Both environmental and external factors as well as personal factors play an undeniable role in the effectiveness of leadership. Therefore, transformational leadership is definitely not a one-size-fits-all leadership style that can be applied indiscriminately. The ideal leadership theory in this case is Situational Leadership, which means dynamically adjusting one's leadership style according to the development level of employees and task requirements and the personal traits of the leader, taking into account a multitude of factors. The point is that there is no universal leadership style that is applicable to any organization. The so-called transformational leadership is nothing more than a fallacy.

Despite providing valuable insights, some limitations of this study remain. The study is based solely on qualitative case studies without quantitative data. The findings are not generalizable. Case studies are inherently subjective interpretations of leadership narratives. The lack of empirical data increases the risk of researcher bias and selective perception. Additionally, the lack of a longitudinal perspective in the case studies restricts the understanding of how leadership effectiveness changes over time.

To address these limitations and improve understanding of the impact of transformational leadership, future research should be tailored accordingly. For instance, it is important to integrate quantitative data analysis and incorporate more case studies from different industries and organizational types. Building on the previous step, it is also recommended to adopt a longitudinal approach, which can provide dynamic insights into the effectiveness of leadership over time. With the assurance of such methods, moderating factors based on the conclusions of this study should be explored: research on the moderating effect of environmental factors such as organizational culture and industry dynamics on the effectiveness of transformational leadership will provide a more context-sensitive perspective.

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