Journal of Social Science and Management Studies
Vol. 1, No. 2, Apr - Jun 2025, pp. 20-28
ISSN: 3107-3719 (O), DOI: https://doi.org/10.17051/JSSMS/01.02.03

Transformational Leadership and Employee Productivity: An Empirical Study in Service-Oriented Organizations

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Article Info

Article history:

Received : 07.04.2025
Revised : 06.05.2025
Accepted : 05.06.2025

Keywords:

Transformational Leadership,
Employee Productivity,
SEM,
Job Satisfaction,
Service Sector,
Organizational Behavior.

ABSTRACT

Employee productivity is a key determinant of organizational performance in service-oriented organizations, but the processes that determine how leadership styles affect productivity remain less understood. This paper is intended to test the hypotheses regarding the influence of transformational leadership on employees in various areas, in this case being job satisfaction as the mediating variable. Further, adopting the quantitative research design, the data were sampled among [insert sample size, e.g., 220 employees] employees who work in the service-sector organizations such as [e.g., banking, IT, and healthcare]. To determine the measurement and structural relationships, the proposed research model was analyzed with the help of Partial Least Squares Structural Equation Modeling (PLS-SEM). The results indicate that employee productivity is strongly positively influenced by transformational leadership. Moreover, job satisfaction partly mediates this relationship meaning that those leaders who inspire, motivate, and support employees improve the one-to-one relationship by making employees feel more at ease and inspired to work harder. The model proves to be sufficiently reliable, valid, and predictively relevant, which proves the soundness of the proposed model. Practically, the study illustrates the significance of leadership development programs in service organizations with special focus on transformational leadership behaviors as a strategic tool to improve the productivity of workforce. Managers are also advised to create conducive and encouraging working conditions in order to optimize the performance outcomes of the employees.

1. INTRODUCTION

Leadership in modern service based organizations is very essential in determining the behavior, involvement and the overall performance of the organization. Service industries unlike manufacturing industries are highly dependent on human interaction, sharing of knowledge and commitment by employees that makes the effectiveness of leadership a critical factor in the determination of productivity. Transformational leadership, which is an inspirational motivational style, intellectual stimulation, individualized consideration and idealized influence has been highly acknowledged as a leadership style that improves employee performance and organizational performance [1], [2]. Transformational leaders inspire employees to go beyond what is expected and align their personal goals with those of the organization, by building a vision driven and supportive working environment.

Human capital has continued to assume a central role in improving the levels of productivity in service sectors like banking, medical, and information technology. The productivity of employees in these industries does not only depend on the technical skills of employees but also on the motivation levels, level of satisfaction and their engagement in the organization, which is greatly affected by leadership practices [3], [4]]. In this context in particular transformational leadership works well as it enhances productivity and service quality by making employees innovate, stay committed, and act proactively [5]. With organizations struggling to keep pace with dynamic competitive markets that are customer-driven, it has become necessary to understand the role of leadership in improving human capital outcomes.

Although there has been a lot of research on leadership styles, there is still a gap in the extensive empirical studies that have not been conducted to ascertain the direct and indirect

impacts of transformational leadership on employee productivity in service oriented organisations. Most of the previous studies have concentrated either on the overall performance of an organization or on particular behavioral consequences, which restrict their generalizability to a larger service setting [6], [7]. Moreover, even though the mediation variables, i.e., job satisfaction and motivation are theoretically recognized, their practical confirmation based on sophisticated analytical methods is minimal. Specifically, the use of Structural Equation Modeling (SEM), which enables analysis of complex relationships between latent variables simultaneously, is yet to be taken advantage of in the field [8], [9]. This leaves a big research gap which requires a systematic and methodologically robust study.

To address these gaps, the current study will examine the effects of transformational leadership on the productivity of employees as it also analyzes the mediating effects of job satisfaction. The research design is a quantitative research design and the research uses Partial Least Squares Structural Equation Modeling (PLS-SEM) to assess the measurement relationships as well as the structural relationships. Through this, it aims to give a more in-depth view of the way leadership behaviours relate to productivity outcomes by way of a psychological mechanism underlying this relationship. Key research questions that lead the study include whether the transformational leadership plays a significant role in influencing the productivity of the employees and what are the mediating factors that determine this relationship. Theories and practice The answers to these questions are vital to both theoretical development and practice because they allow organisations to gain a better understanding of the mechanisms by which leadership influences performance outcomes.

This research has a two-fold contribution. Theoretically, it expands on the existing literature on leadership by integrating transformational leadership with mediating variables like job satisfaction in a sound SEM framework, and thus provides more insights into the causal relationships between job satisfaction and employee productivity [1], [10]. In practical terms, the results have provided valuable recommendations to managers and policymakers of service-oriented companies, and it is important to adopt transformational leadership practices to boost employee motivation, satisfaction, and productivity [4], [8].

The most significant contribution of this study is that it adopted a rigorous SEM-based empirical research to investigate simultaneously, direct and mediated relationships between transformational leadership and employee productivity. In contrast to the traditional research, which is based on a simple statistical analysis, this research uses PLS-SEM to reflect the complexity of organizational behavior in service. By determining job satisfaction to be a vital mediating mechanism, the study not only contributes to a better theoretical understanding but also offers practical information on how to design effective leadership development strategies that could make workforce productivity to be greater in the dynamic service-providing environment.

2. LITERATURE REVIEW

Transformational leadership has been well-documented as a paradigm of critical leadership that has a strong aspect in shaping the behavior of employees and organizational performance. Transformational leadership originated in the works of Bass and Avolio and is characterized by the fact that a leader can inspire, motivate and stimulate employees intellectually, in addition to addressing the needs of the individual employees [1], [2]. Four main dimensions are built around this leadership style, they include; idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. Idealized influence is the power of the leader to serve as a role model, gaining the trust and respect of employees. Inspirational motivation refers to the process of presenting a strong vision, which will motivate members of staff to do more than they would have done without the vision. An intellectual stimulation will help develop novel ideas and methods by breaking the traditional way of thinking, whereas individual consideration will assist in providing every employee with personal attention and a sense of development. All these dimensions are associated with positive organizational climate that positively influences employee interest and performance [3], [4].

Productivity of employees in service organizations is a multidimensional concept that goes beyond the traditional output measures to include service quality, efficiency and value creation. Productivity in the banking industry, healthcare, and information technology is also strongly associated with employee behaviour, motivation and interaction with the customers. This means that the issue of leadership becomes a focal point that determines the productivity outcomes. Previous research has also shown that transformational leadership will have an effect on increasing the productivity of the employees as it will increase the levels of commitment, engagement and proactive behavior [5], [6]. Transformational leaders are more likely to make employees realize that their goals are in line with organizational goals which result in enhanced performance by employees and delivery of services [7], [8].

In the recent studies there has been a lot of focus on the role of mediating variables that explain the role of leadership in influencing productivity. One of the most important mediators in this interaction is job satisfaction since it can be seen as the general analysis of employees to assess their level of satisfaction with the workplace and their interactions. Transformational leaders also have a positive influence on job satisfaction because they are supportive, recognized, and offer growth opportunities, which in turn positively impacts the performance of employees [9]. Equally, the motivation of employees is a very important factor that determines how much effort and perseverance employees can invest in their work, and organizational commitment enhances the relationship that exists between the employees and the organization leading to long-term performance results [10], [11]. These mediating variables give a better insight into the processes via which leadership is related to productivity in service settings.

Although there are well-established theoretical relationships between transformational leadership and mediating variables and employee productivity, there is scant empirical validation with advanced analytical methods. The Structural Equation Modeling The Structural Equation Modeling (SEM) is a powerful technique to examine complicated relationships among latent constructs, which can be measured simultaneously as direct and indirect effects [12]. The current research aims to fill this gap and have a unified picture of the mechanisms that leadership could use to affect productivity.

Based on the theoretical and empirical results indicated above, the study hypothesizes that transformational leadership has a positive impact that affects employee productivity as well as improves job satisfaction which then influences better productivity results. In addition, job satisfaction is also likely to serve as a mediating variable that can be used to explain the relationship between transformational leadership and employee productivity. Therefore, the research hypothesis is that transformational leadership positively affects the employee productivity, transformational leadership positively affects the job satisfaction, job satisfaction has a positive effect on the employee productivity and mediating effect of job satisfaction between transformational leadership and employee productivity. The hypotheses formed the basis of the SEM-based empirical analysis, which was undertaken, in this study.

3. RESEARCH METHODOLOGY

The current study will take a quantitative and cross-sectional research design to investigate the relationship between the transformational leadership and the productivity of the employees in the service-based organization. Quantitative approach suits in the study since it will allow the researcher to measure the latent constructs as well as test hypothesized relationships using statistical methods. The cross-sectional design would enable the collection of data on respondents at one point in time, which would provide a snapshot of the respondent perceptions about the leadership practices, job satisfaction, and productivity outcome. A structured survey questionnaire was used to collect data by administering the questionnaire to employees employed in service industries like information technology, banking and healthcare. These industries have been chosen because the industries are based on human capital and employee interaction hence leadership is the important factor that influences productivity. The Likert scale of the questionnaire was decided between 1 to 5 (strongly disagree to strongly agree), where respondents were required to indicate their level of agreement with statements based on the leadership behavior, job satisfaction and productivity. A population size of 150-250 respondents was felt to be sufficient to conduct the analysis. The study sample was chosen through a convenience sampling approach basing on the availability of respondents, and considering representation of various service domains. Table 1 presents the demographic features of the respondents in terms of gender, age, work experience, and industry type to provide a context on the respondents participating in the study.

Table 1. Demographic Profile of Respondents

Variable	Category	Frequency	Percentage (%)
Gender	Male	90	60%
	Female	60	40%
Age	20–30 years	70	46.7%
	31–40 years	50	33.3%
	Above 40	30	20%
Experience	< 2 years	40	26.7%
	2–5 years	65	43.3%
	> 5 years	45	30%

Industry	IT	60	40%
	Banking	50	33.3%
	Healthcare	40	26.7%

The measurement scales that were used in this study are adopted based on the existing and validated scales to maintain consistency and accuracy. Transformational leadership was operationalized with items that indicated leadership behaviours that included inspiration, motivation and encouragement of innovation. The measurement of job satisfaction was conducted with the help of the items that reflected the perceptions of the employees on the job environment, recognition, and overall job experience. The measures of employee productivity were assessed on the self-report, which was in regard to the completion of the tasks, the efficiency, and the effectiveness in performance. The key constructs and sample measurement items are presented in Table 2.

Table 2. Measurement Instruments and Constructs

Construct	Measurement Items (Sample)
Transformational Leadership	My leader inspires me with a clear vision
	My leader encourages innovative thinking
Job Satisfaction	I am satisfied with my current job role
	I feel valued in my organization
Employee Productivity	I consistently meet my performance targets
	I complete my tasks efficiently and effectively

The data obtained were analyzed with the help of the Partial Least Squares Structural Equation Modeling (PLS-SEM), which is well suitable when one needs to study relationships among latent variables and when one has to deal with complex models. The analysis was done in two phases. To measure reliability and validity, first, the measurement model was tested. Second, the structural model was evaluated to test the hypothesised relationships between transformational leadership, job satisfaction and employee productivity. It is a method that will allow taking into account both direct and indirect impacts in the proposed research framework.

4. SEM Model Specification

The current research is based on a Structural Equation Modeling (SEM) framework to test the hypothesis that transformational leadership is positively associated with job satisfaction and negatively with employee productivity in service-oriented organizations. SEM is notably effective in this research since it has the capacity to analyze a variety of relationships between latent constructs, as well as account for measurement error. The proposed model combines direct and indirect relationships so as to offer an in-depth perspective of how transformational leadership affects employee productivity.

The study conceptual model is designed based on transformational leadership being used as an independent construct, employee productivity being used as a dependent construct, and job satisfaction being used as a mediating variable. Transformational leadership is however presumed to directly influence the productivity of employees as a measure of how the leaders can increase the productivity of the employees through inspiration, motivation and support. Besides this direct relationship, the model has an indirect pathway, whereby, the transformational leadership has an indirect relationship with job satisfaction, which indirectly has an indirect relationship with employee productivity. This two-way design allows investigating both straddling and not direct effects under a single analytic umbrella.

The measurement model, also known as outer model defines the relationships between the latent constructs and their observed indicators. Transformational leadership in this study is symbolized using a series of indicators that represent the leadership behaviors (Vision articulation, encouragement of innovation, and individualized support). Measurement of job satisfaction employs indicators that represent the perceptions of the employees about the work environment, recognition, and job overall experience. Employee productivity is measured using indicators that are associated with efficiency, completion of tasks and performance effectiveness. All the constructs are considered to be reflective constructs, in other words, the observed indicators are viewed as being manifestations of the underlying latent variables. Adequacy of the measurement model is determined by reliability and validity tests to ensure that the indicators are consistently and accurately used to measure the intended constructs.

The inner model or the structural model identifies the proposed relationship between the latent

variables. This model has a direct relationship between transformational leadership and employee productivity, a direct relationship between transformational leadership and job satisfaction, and a direct relationship between job satisfaction and employee productivity. The mediating effect of job satisfaction is also analyzed; it analyzes the indirect effect between transformational leadership and employee productivity through job satisfaction. These relationships are also used to obtain the strength of these relationships and the direction of their relationships and give an insight into the level of the effects. This structural design can be used to conduct a detailed analysis of the direct and indirect effects of leadership on employee productivity in service-oriented organizations.

5. Data Analysis (PLS-SEM)

The information obtained out of respondents was analyzed through Partial Least Squares Structural Equation Modeling (PLS-SEM) which are quite common in analyzing complex associations among latent constructs. The SmartPLS software was used to perform the analysis, in which both measurement and structural models could be estimated simultaneously. This method is best applicable to predictive research models and it does not involve the strict conditions of data normality. The testing of the SEM model was done in two phases. The initial step was to evaluate the measurement model to determine the reliability and validity of the constructs. The second stage revolved around testing the structural model and testing the relationship that is postulated between transformational leadership, job satisfaction and employee productivity. The evaluation of the measurement model was based on the multiple criteria, such as Cronbach's alpha, composite reliability, average variance extracted (AVE), and factor loadings. The values of alpha and composite reliability over 0.7 and 0.5, respectively, reflect acceptable internal consistency and convergent validity, respectively. The things that show that the indicators are sufficiently representing the constructs they represent is that the factor loadings are above 0.6. The measurement model assessment results are as presented in Table 3 indicate that all constructs are within the required nooks in terms of reliability and validity.

Table 3. Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Transformational Leadership	0.89	0.92	0.65
Job Satisfaction	0.87	0.90	0.62
Employee Productivity	0.85	0.89	0.60

Besides convergent validity, the discriminant validity was also determined so that the constructs should not be similar to each other. This was measured by the Fornell-Larcker criterion which stipulates that the square root of AVE of any construct should be larger than the correlations of the construct with other constructs. Table 4 demonstrates that the discriminant type of validity is achieved, as all the diagonal values are greater than their inter-construct correlations.

Table 4. Discriminant Validity (Fornell-Larcker Criterion)

Construct	TL	JS	EP
Transformational Leadership	0.81		
Job Satisfaction	0.58	0.79	
Employee Productivity	0.62	0.66	0.77

After validation of the measurement model, structural model was tested to test the hypothesized relationships. Path coefficients were examined to establish the strength and direction of relationships among the constructs. Bootstrapping was done to get the t-values and p-values, which were used to test the statistical significance of the paths. The findings reveal that transformational leadership positively impacts the productivity of the employees in a significant positive way, and also affects job satisfaction significantly. Moreover, employee productivity is positively correlated with job satisfaction with the level of significance is high, and, to a good extent, the variables serve as a mediating factor. R^2values were used to evaluate the explanatory power of the model since the values are proportions of the variance that the independent variables explain. The findings indicate moderate predictive validity to employee productivity in transformational leadership as well as job satisfaction alone make significant contributions to employee productivity results. The effect size (f^2) was also assessed to show the relative impact of each predictor, and predictive relevance (Q^2) was used to ensure that the model has sufficient predictive power. In general, the PLS-SEM analysis shows that the proposed model is reliable and valid, and relationships between the

hypothesized are supported. The results are a solid empiric evidence of the direct and indirect impacts of transformational leadership on employee productivity in service-based organizations.

6. RESULTS AND DISCUSSION

The structural model analysis was done to test the proposed hypotheses and to test the relationship between transformational leadership, job satisfaction, and employee productivity. Bootstrapping processes have been used to ascertain the statistical significance of the path coefficients. Table 5 shows the results of testing the hypothesis.

Table 5. Hypothesis Testing Results

Hypothesis	Relationship	β Value	t-value	p-value	Result
H1	TL → Employee Productivity	0.41	5.87	0.000	Accepted
H2	TL → Job Satisfaction	0.58	8.12	0.000	Accepted
H3	Job Satisfaction → Employee Productivity	0.46	6.45	0.000	Accepted
H4	TL → JS → Employee Productivity	0.27	4.98	0.000	Accepted

Table 5 demonstrates the results of all hypothesized relationships and all the relationships are statistically significant. The positive impact of leadership behaviors described in terms of inspiration, vision and support has a strong positive effect on the employee performance (β = 0.41, p = 0.001) and proves that leader behavior in the form of inspiration, vision and support has a direct positive effect on the performance of the employees. Also, transformational leadership plays a significant positive role in job satisfaction (β =0.58, p < 0.001) implying that good leadership has a strong positive impact on the psychological and emotional engagement of employees in the organization. The level of job satisfaction also has significant positive effect on assessing the productivity of workers (β = 0.46, p = 0.001), such that satisfied workers are more motivated, efficient and committed to the work they undertake. The fact that an indirect relationship exists between transformational leadership and productivity through job satisfaction (β = 0.27, p < 0.001) confirms the existence of a mediating relationship. The results are consistent with a partial mediation model, in which job satisfaction serves as a crucial mediator variable, through which leadership contributes to performance outcomes. The standardized path coefficients, the indicator loadings and the model-explained variance are presented visually in Fig 1. The figure indicates clearly that all the measurement indicators have strong loadings beyond the acceptable thresholds and therefore the constructs are very reliable. The path coefficients illustrated in the model serve as an additional support of the statistical results and the influence of transformational leadership on job satisfaction and its resultant impact on the productivity of the employees.

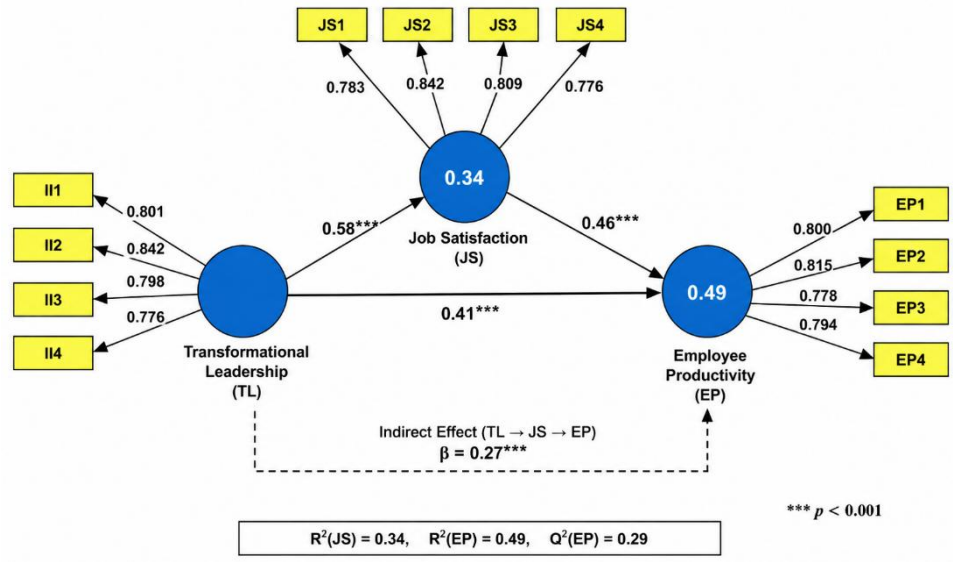


Fig 1. SEM Path Model.

Table 6. Structural Model Evaluation

Construct	R^2	f^2 (Effect Size)	Q^2 (Predictive Relevance)
Job Satisfaction	0.34	0.52	0.21
Employee Productivity	0.49	0.47	0.29

The R^2 values in Table 6 give support to the explanatory power of the model. The value of $R^2$of job satisfaction is 0.34, which means that transformational leadership is able to explain 34% of the variation in employee satisfaction. Likewise, employee productivity has an R2 of 0.49 which implies that almost half its variance is accounted by the combination of transformational leadership and job satisfaction. The values indicate a moderate degree of explanatory power, which is deemed as acceptable in the behavioral and organizational studies. The values of the effect sizes (f^2) indicate that transformational leadership has a significant impact on job satisfaction (0.52) and a moderate impact on the productivity of the employees (0.47), which proves that its influence on the formation of both mental and performance results is significant. In addition, both Q^2values of both constructs are higher than zero which supports the statement that the model has a sufficient predictive relevance and can be used to predict upcoming events.

In general, the results are similar to the expectations of the theory focusing on the fact that transformational leadership allows improving the productivity of the employees both directly and indirectly due to the improvement of the job satisfaction. The close association between leadership and job satisfaction reveals the significance of supportive and reinforcing leadership practices, whereas the strong linkage between job satisfaction and productivity underscores the importance of fostering a supportive and encouraging leadership practice in the workplace. The mediation analysis also supports the significance of psychological processes in the explanation of the impact of leadership on the organizational results. Overall, the findings are a lot of empirical evidence of how the proposed model supports the notions that transformational leadership is an important predictor of employee productivity in service oriented organizations. The presence of a strong mediating effect indicates that companies ought to take on an integrated approach that would combine effective leadership practices with strategy aimed at promoting employee satisfaction to provide optimal performance outcomes.

7. Managerial Implications

The results of this research are of great significance to the managers and decision-makers of service-oriented organizations, and this is because transformational leadership is critical in terms of boosting the productivity of employees operating in service-oriented organizations. Considering the high positive correlations between transformational leadership and job satisfaction as well as productivity, organizations should continue to put the implementation of leadership development program as a priority with the main focus on the development of transformational skills. The training programs must be developed in such a way that it improves the capability of leaders to inspire, motivate and intellectually stimulate employees as well as to create individual consideration. These programs could assist managers to make the working environment supportive and engaging so that employees will feel motivated to do more than expected in their work.

Considering human resource management perspective, the findings point to the necessity to incorporate leadership development in the overall HR strategies. Transformational leadership concepts need to be integrated in the recruitment system, performance appraisal system, and talent management system. As an example, during hiring and promotions, leadership assessment tools can be employed to recruit and promote those with strong transformational capabilities. Also, HR policies must aim at promoting employee satisfaction through recognition programs, career development opportunity and conducive working environments because job satisfaction has been established to have a significant impact on productivity. HR practices can be aligned with leadership development to create a set system that enhances not only the well-being but also the performance of employees.

The study also recommends critical policy level implications to organizations involved in service industry. The management must have clear policies to promote participative leadership, open communication and empowering employees. Jobs can be further improved by organizational policies that support flexibility at workplaces and other organizational engagement policies and continuous feedback mechanisms. Further, the accountability of the leaders to their organizations should become a part of the organizational governance structures, where the managers should be evaluated not merely on the performance results but on their capacity to develop and support their team.

All in all, the findings reveal that employee productivity can be improved through a holistic approach which includes effective leadership habits, strategic human resource management, and enabling organizational policies. Through the

adoption of transformational leadership as a managerial core, service-oriented organizations can be able to improve the level of satisfaction among employees, increase the level of organizational commitment, and effect lasting changes towards increased productivity and performance.

8. LIMITATIONS

Although this study offers important information about the correlation between transformational leadership and the productivity of employees, it is still subject to a number of limitations, which must be taken into consideration. To begin with, the research is founded on a rather moderate size of sample that can be selected among the selected organizations that are service-oriented, which might not be the most appropriate one in terms of generalizability of the findings. The sample size used is sufficient to do an SEM analysis but it would be better to use a larger and more diversified sample that would help in providing a better external validity and stronger conclusions. Second, the research is based on self-reported data obtained by the survey questionnaire, which can lead to the bias in responses. Participants might have given socially desirable responses or subjective ratings of their level of performance and level of satisfaction, which may have impacted the accuracy of the outcomes. Although measures have been implemented to enhance anonymity and minimize bias, the very nature of self-reported measures cannot be completely avoided.

Third, the research area is limited to certain areas of service including information technology, banking and healthcare. Since the organizational dynamics and leadership practices can be different in other industries, the results might not be easily generalized to other industries, such as manufacturing or government administration. Extending the study to cover more industries would allow the generalizability of the findings. All in all, these limitations reveal that one should exercise caution in interpreting the findings and give directions on future research to build on and extend the current study.

9. Future Research Directions

Based on the results of this research a number of avenues into which future research can be provided can be identified in order to further develop the understanding in this area. To begin with, future research ought to contemplate introducing longitudinal research designs to investigate the dynamic nature of the relationship between transformational leadership, job satisfaction and employee productivity over time. A longitudinal design would give more in-depth details of the causal relationship and enable the researcher to capture alterations in employee attitude and performance that occur as a result of long-term leadership practices. Second, the examination of how cultural, economic, and organizational variations affect the efficacy of transformational leadership in service-oriented situations would be beneficial. Because the behaviors of leaders, and the reactions of employees, might differ enormously across geographical locations, the studies carried out in different geographical locations would increase the extent to which findings can be generalized, and contribute more to a more globalized understanding of the effectiveness of leadership.

Lastly, the integration of the latest analysis methods, such as artificial intelligence and machine learning algorithms, to supplement the conventional methods of SEM, can also be considered in the future research. By incorporating AI-based analytics, it may be possible to predictive model employee behavior, identify hidden patterns within large data sets, and provide more accurate and scalable insights into leadership-performance relationships. Integrating SEM with data-based strategies would provide a more detailed framework of organizational phenomenon analysis. On the whole, these guidelines open the prospect to further advance the existing body of knowledge in the field of leadership and organizational performance by addressing the shortcomings provided by them as well as incorporating the innovative approaches that it offers.

10. CONCLUSION

The current paper has discussed how transformational leadership affects employee productivity in service-based organizations and more specifically the mediating role that job satisfaction plays in the two variables. The results demonstrate that transformational leadership can play a very large and positive role in employee productivity both directly and indirectly via job satisfaction. The findings substantiate that transformational leaders who inspire, motivate and encourage their employees as a form of support will create a work environment that is more satisfying and can lead to higher levels of performance. Moreover, the fact that the mediating effect is partial in nature supports the idea that the productivity of employees is not solely influenced by what leaders do but also by psychological and emotional reactions of workers. On balance, the research supports the criticality of transformational leadership as a strategic managerial innovation to enhance employee performance and the overall organizational performance in service-based settings.

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