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Transformational and Transactional Leadership: Their Impact on Sustainable Practices and Green Innovation in Organizations

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Abstract: Various global actors increasingly focus on sustainability and protecting the environment and natural resources. Company leaders play an essential role in this process, whose vision is directly related to the external environment and internal factors, and the future must inevitably be on the path of sustainability. **Objectives** and **Approach:** This study aims to perform a Systematic Literature Review (SLR) to assess the influence of transformational and transactional leadership on adopting sustainable and green practices in enterprises. A Scopus-based search for the keywords "Transactional Leadership" AND "Transformational Leadership" AND "sustainable" OR "green" yielded 35 articles addressing this topic, which will be thoroughly reviewed to assess the impact of different leadership styles on sustainable practices. **Results:** This study examines the effects of transformational leadership, which is primarily concerned with inspiring and motivating individuals and groups to make long-term positive changes, and transactional leadership, which is closely related to implementing sustainability through rewards and clear accountability structures. **Implications:** This study intends to contribute to a better understanding of the impact of these two leadership styles by developing a framework for describing how leadership can shape and benefit sustainable practices and green innovation in modern enterprises.

Keywords: Transformational Leadership; Transactional Leadership; Sustainable Practices; Green Innovation; Systematic Literature Review

JEL Classification: M14; D23

1. Introduction

Organizations' management methods are changing due to changes in the business environment, including new stakeholder demands. Current leaders must strike a balance between the interconnected environmental, social, and economic goals that make up sustainable development (Piwowar-Sulej & Iqbal, 2023).

Rising environmental concerns and social norms drive organizations to adopt more sustainable and responsible practices. Leadership is critical in guiding this transition. Bass and Avolio (1994) define transformational leadership as integrating organizational vision with environmental values, encouraging innovation, and empowering employees to act sustainably. This strategy promotes change. Epstein and

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Buhovac (2017) emphasize transactional leadership, which promotes sustainability by establishing clear performance objectives, accountability procedures, and reward-based mechanisms to support green initiatives. Some recent studies (Bocken & Geradts, 2020; Lozano, 2015) show that leadership styles directly impact how thoroughly sustainability is integrated into companies.

Recent research indicates that leadership philosophies significantly influence how businesses adopt and integrate sustainable practices through various channels. Transactional leaders can enhance sustainability by setting clear expectations and offering measurable rewards. In contrast, transformational leaders are likelier to foster creativity and motivate employees to engage in environmentally friendly behavior. Understanding how these different approaches affect organizational sustainability is crucial, particularly in fast-paced corporate environments where companies face increasing social and environmental responsibilities (Gadelrab, 2024).

This study conducts a systematic literature review (SLR) to critically evaluate the impact of transformational and transactional leadership on sustainable behaviors and green innovation. Combining data from 33 peer-reviewed publications in Scopus, the study aims to identify key trends, theoretical advancements, and methodological strategies connecting leadership with sustainable results. The study highlights important research gaps and delves deeper into how contextual factors, such as industry type and regional dynamics, moderate these linkages.

2. Literature Review

Moving along the same lines as the SDGs, organizations want to be sustainable because this is important to their customers and the general public. Therefore, they have started to improve environmental performance, to maintain a competitive advantage in the long term by reducing hazardous emissions, and to improve green innovation capabilities (Alghfeli et al., 2024).

Recent studies show leadership is crucial in encouraging green innovation in businesses. Through cross-functional coordination, entrepreneurial leadership has a favorable impact on green innovation, especially in dynamic situations (Ali et al., 2022). To successfully adopt green innovation, the top management of government-affiliated businesses needs to be aware of global green demands (Ishak & Ahmad, 2010). The relationship between leadership and green product and process innovations in SMEs is mediated by ethical leadership, which cultivates a green organizational culture (Şengüllendi et al., 2023). Asian nations dominate the study field, according to a systematic review that shows increased interest in the causal linkages between leadership and green innovation/creativity (Arici & Uysal, 2021). Together, these studies highlight the value of several leadership philosophies, such as ethical and entrepreneurial, in promoting green innovation in various organizational settings.

It is acknowledged that the transformational leadership style (TRF) and the transactional leadership style (TRS) significantly impact employee performance, organizational change, and project success (Kebe et al., 2024). Research has revealed complex links between leadership styles and entrepreneurship (Afsar et al., 2016; Öncer, 2013). It impacts the entrepreneurial orientation's innovativeness, risk-taking, and proactiveness components (Öncer, 2013). However, it does not necessarily affect employees' creativity in entrepreneurial organizations (Xifang Ma & Wan Jiang, 2018). Transactional leadership has a detrimental impact on entrepreneurial activity. However, in some situations, it has a favorable relationship with employee innovation (Xifang Ma & Wan Jiang, 2018). Transactional leadership correlates less with sustainable organizational performance and practices in green supply chain management than transformational leadership (Abbas, 2024).

Effective leaders can inspire their team members to be dedicated, go above and beyond, and help achieve performance goals (Kebe et al., 2024). Devoted employees are better at finishing tasks, increasing productivity, and exhibiting a strong commitment to reaching their goals because of these behaviors, which highly motivated employees will support leaders in mobilizing the workforce to achieve their goals.

3. Tools and Methodology

Researchers can discover fields that require mapping and evaluation with a literature study (Tranfield et al., 2003). In order to accomplish the research goal, a thorough literature analysis was determined to be best accomplished through a systematic literature review. Literature reviews take various forms, including narrative, scoping, and systematic reviews. This study used bibliometric and content analysis as part of a systematic literature review methodology (Piwowar-Sulej & Iqbal, 2023). The "Prisma" method examines the circular economy regarding business models. The 2020 Meta-Analysis (PRISMA) publication was created to enable honest reporting of diverse studies and findings by all systematic reviewers. It is a technique that aids in finding, picking, and combining research (Page et al., 2021).
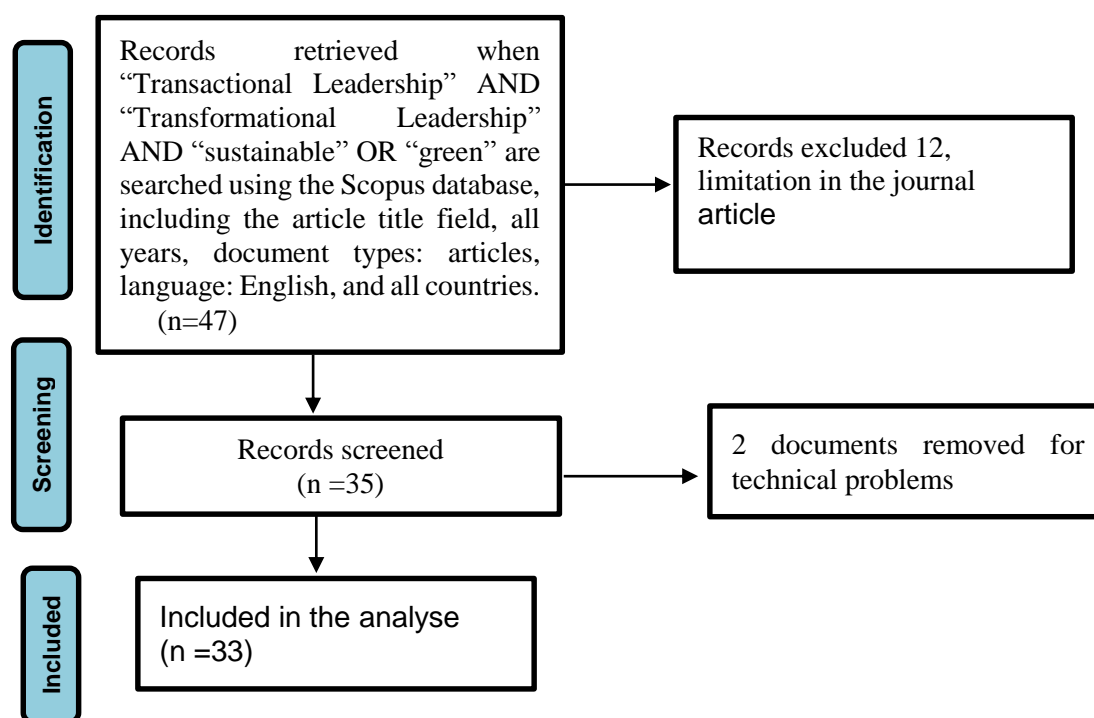

Figure 1. Prisma flow map (data in the Scopus databases on March 12, 2025)

4. Findings

As shown in Figure 2, following a sporadic beginning with just one publication in 2009 and 2017, interest in the topic rose sharply in 2019. The number of publications rose from three in 2019 to five in 2020 and seven in 2023. With 11 publications, 2024 saw the highest number, suggesting a significant increase in scholarly interest in the connection between sustainable practices and leadership philosophies. This trend reflects the increasing emphasis on the role of leadership in promoting green innovation and sustainable organizational development.
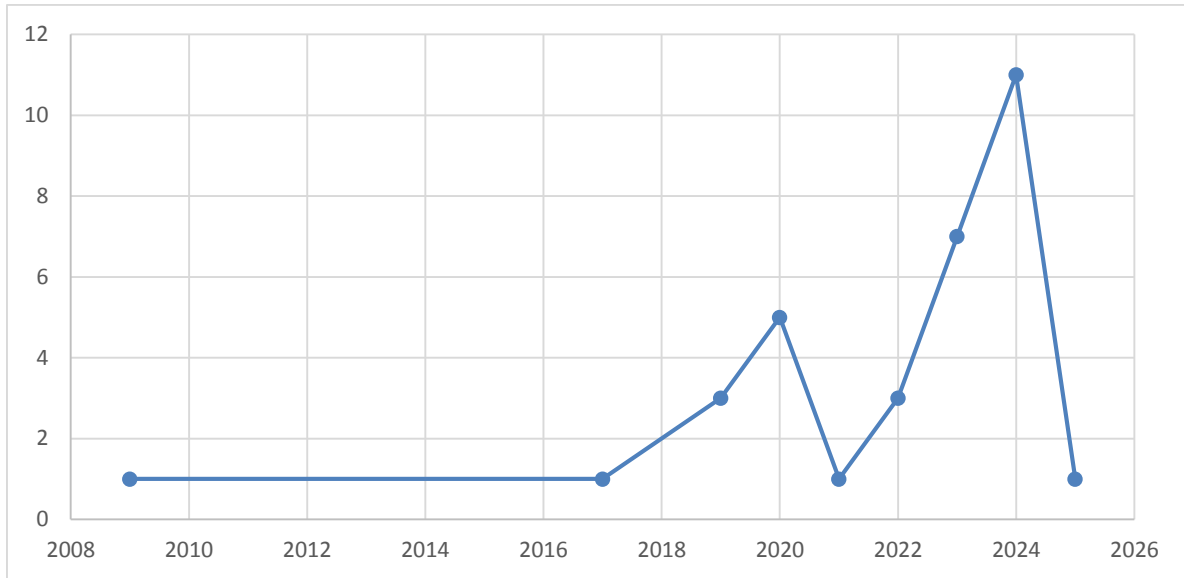
Figure 2. Publications in years

Source: Scopus database

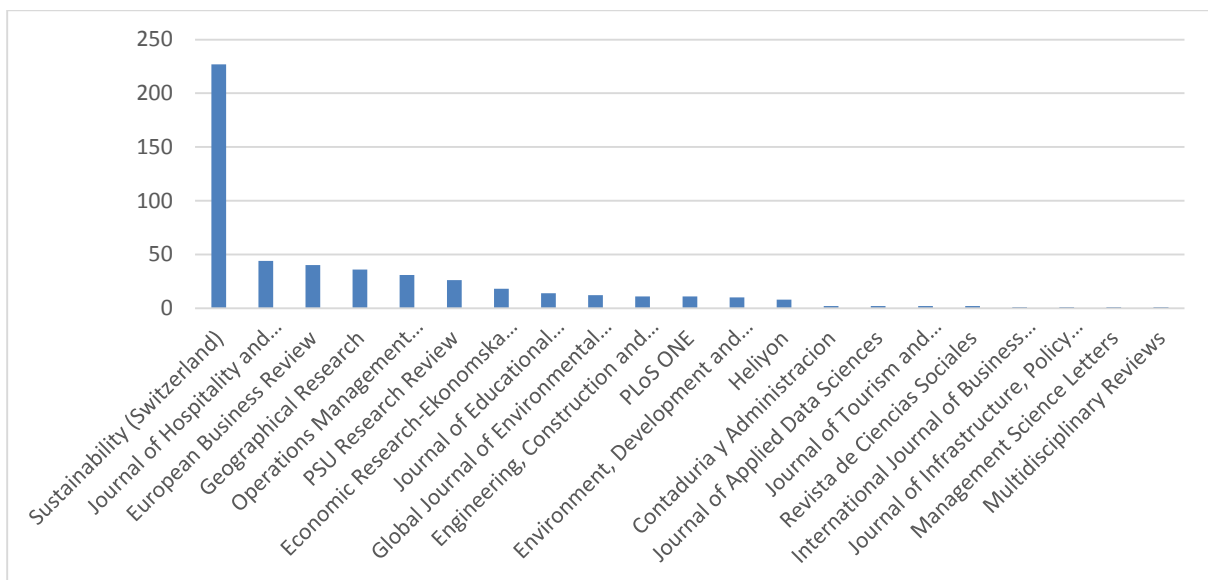Furthermore, Figure 3 shows the list of journals and their citation.

Figure 3. List of journals and citations

Source: Scopus database

Figure 4. Author Collaboration Network (VOSviewer)[1]

Source: Author (processed in VOSviewer)

Co-authorship network analysis, performed in VOSviewer, revealed four main groups of authors representing thematic areas of study and regions covered in the literature on leadership and sustainability.

The red cluster includes foundational scholars such as Bass and Avolio, whose work paved the way for transformational and transactional leadership theories. Their influential models are regularly mentioned in the literature and serve as the theoretical foundation for studies investigating how leadership promotes sustainable practices.

The blue cluster includes young researchers like Abbas, Habib, and Mobarak, whose empirical investigations are frequently set in Asian and Middle Eastern contexts. Their study focuses on how leadership influences innovation, employee engagement, and organizational change, particularly in emerging economies. This cluster reflects a stronger emphasis on contextualizing leadership principles beyond Western perspectives.

The green cluster is dominated by methodological experts such as Hair, Ringle, and Sarstedt, who have significantly contributed to PLS-SEM. These writers are key to research emphasizing statistical rigor and structural modeling, and their work is regularly cited as a methodological reference in leadership.
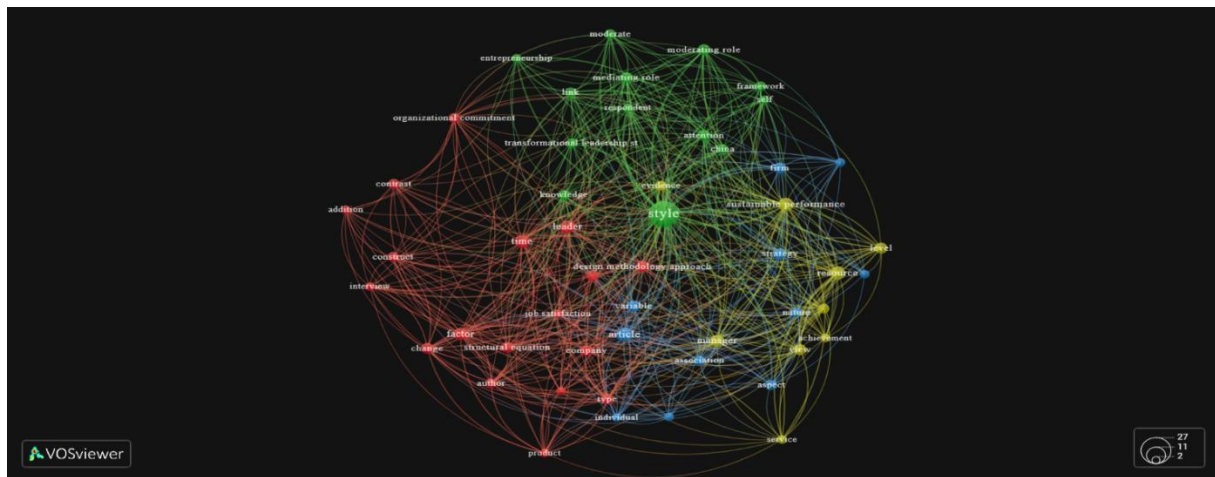
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[1] https://tinyurl.com/ywu6p8j8.

Figure 5. Keyword Co-occurrence Network (VOSviewer)

Source: Author (processed in VOSviewer)

The keyword co-occurrence analysis conducted with VOSviewer revealed four significant thematic clusters, each representing a conceptual aspect of the literature on leadership styles and sustainability. These clusters, distinguished by color in the graphic, illustrate the intellectual structure of the field and highlight current research directions.

The red cluster primarily focuses on research methods and empirical measurement. Keywords such as "survey," "structural equation," "design methodology approach," and "job satisfaction" suggest that this body of literature emphasizes quantitative research designs and validation methods. Researchers frequently utilize structural equation modeling (SEM) or partial least squares (PLS) techniques to evaluate the impact of leadership on sustainability-related variables.

This cluster highlights terms related to organizational performance and strategic outcomes. Keywords such as "firm," "strategy," "resource," "achievement," and "sustainable performance" indicate that this cluster focuses on how leadership styles influence organizational capabilities, strategies, and goals. It represents a body of research that connects leadership to competitive advantage, long-term effects, and corporate sustainability metrics. In contrast, the yellow cluster centers on managerial responsibilities and institutional frameworks. It includes terms like "manager," "organization," "service," "association," and "nature," emphasizing how leadership functions within organizational systems and how internal structures and contextual factors influence the adoption of sustainable practices.

Although they do it differently, transformational and transactional leadership styles support long-term success. While transactional leaders are better at generating short-term efficiency through structure and control, transformational leaders typically foster innovation and employee engagement (Dai et al., 2022).The association between leadership styles and sustainable performance is mediated by organizational commitment, reaffirming intrinsic motivation's significance and aligning employee values with business objectives (Al-Mansoori & Koç, 2019; Dai et al., 2022).

Concurrently, transactional leadership fortifies the link between control culture and innovation, whereas transformational leadership amplifies the favorable association between flexibility culture and innovation (Wang & Huang, 2022).

Contextual and cultural elements significantly impact how effective leadership styles are. For example, hierarchical power structures or legal requirements may restrict transformative leadership in conservative organizational cultures or rural governance (Al-Mansoori & Koç, 2019; Springer et al.,

2020). There are no appreciable gender disparities in the transformational and transactional styles of cooperatives and socially conscious enterprises. Nonetheless, the prevailing leadership style is greatly influenced by the makeup of the team and participative frameworks (Martinez-Leon et al., 2020).

5. Future Research Suggestions

Much research was restricted to SMEs or samples from particular regions (such as Saudi Arabia, China, or Spain). More extensive cross-national research is required to test or challenge existing models in larger enterprises or various institutional frameworks (Dai et al., 2022; Wang & Huang, 2022). On the other side, rather than depending exclusively on self-reported surveys, future research should employ multi-year observations and objective sustainability measures like energy usage, recycling rates, or ESG scores to improve validity (Al-Mansoori & Koç, 2019; Wang & Huang, 2022). Concepts such as information sharing, emotional intelligence, and psychological safety can help us better understand the mechanisms relating to leadership and sustainability (Zheng et al., 2017). Additionally, Chilean supermarkets and sustainable leadership in Polish rural areas demonstrate a special relationship between environmental responsibility and leadership (Cabana Villca, 2019; Springer et al., 2020). The study of how leadership supports particular SDGs, like SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth), and SDG 13 (Climate Action), especially in cooperatives and the social economy, is another topic of interest (Martinez-Leon et al., 2020). To evaluate the attainment of the SDGs and investigate the SP in sectors other than manufacturing and SMEs, further research is required in every nation. Governments can direct the public sector to follow the sustainability indicators by using public sector organizations as a model for future work (Alghfeli et al., 2024).

Researchers could also investigate contrasting evaluations of leadership styles in various circumstances to have a better understanding of how contextual and cultural factors impact the impact of leadership styles on employee performance (Kebe et al., 2024). To understand how leadership styles affect employee performance, researchers should evaluate additional mediating and moderating factors, such as psychological capital, employee engagement, and job autonomy.

6. Conclusions

Although through different processes, this systematic literature review offers strong evidence that transformational and transactional leadership styles significantly impact how well firms integrate sustainable practices and green innovation. Transformational leadership cultivates long-term sustainability by encouraging employee participation, encouraging creativity, and coordinating organizational vision with environmental ideals. Despite being more control-oriented, transactional leadership uses performance monitoring, reward systems, and specified goals to achieve short-term sustainability outcomes.

The results demonstrate that effective leadership is a key component in attaining long-term success rather than a supporting one. Furthermore, the efficacy of different leadership philosophies is mediated by organizational commitment, culture, and sector and geographic factors. The rise in publications since 2020 indicates the increased scholarly interest in leadership's role in corporate sustainability initiatives.

This review provides an integrative viewpoint on using leadership paradigms to match corporate operations with sustainability objectives. It also emphasizes the need for more empirical research that uses objective performance metrics and cross-national data and examines how organizational and psychological elements interact in various cultural situations. Institutions and businesses alike should

prioritize leadership development programs that incorporate sustainability competencies to create resilient, accountable, and progressive organizations capable of navigating the challenges of the 21st-century sustainability agenda.

This study has a number of limitations that should be noted even if it provides insightful information. First, although the review was thorough, it was restricted to publications that were indexed in the Scopus database, which would have left out pertinent research from other databases or sources of grey literature. Second, peer-reviewed journal publications published in English were the main emphasis of the inclusion criteria, which may have introduced publication and language bias. Third, most of the chosen studies' heavy reliance on survey-based methodology, cross-sectional designs, and self-reported data may impact the findings' generalizability and robustness. Furthermore, there is little representation from African, Latin American, or Eastern European contexts, and most of the examined research has a geographic focus biased toward Asia and the Middle East.

Future studies would need to add more varied areas and industries and employ a variety of techniques (not just surveys), such as case studies, interviews, and actual sustainability metrics. Furthermore, they may analyze how leadership contributes to certain SDGs and more general societal objectives and examine how organizational and human elements, such as motivation, team dynamics, or corporate culture, influence or moderate the effect of leadership on long-term results.

Organizations' management methods are changing due to changes in the business environment, including new stakeholder demands. Current leaders must strike a balance between the interconnected environmental, social, and economic goals that make up sustainable development (Piwowar-Sulej & Iqbal, 2023).

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