

DOI: <https://doi.org>**CapitalMark Journal of Marketing & Finance**Journal homepage: <https://rjsaonline.org/index.php/CapitalMark>

Transformational Leadership and Organizational Performance: The Sequential Mediating Roles of Strategic Agility and Innovation Capability

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ARTICLE INFO	Abstract
Received: April 05, 2026 Revised: April 22, 2026 Accepted: May 18, 2026 Available Online: June 02, 2026 Keywords: Transformational Leadership, Organizational Performance, Strategic Agility, Innovation Capability, Dynamic Capabilities, Structural Equation Modeling (SEM), Sequential Mediation	The transformational leadership concept is known to significantly contribute to success in dynamic and competitive business environments. It focuses on inspiring, motivating and challenging staff to work at their best. This research investigates how transformational leadership impacts on organisational performance in a sequential mediation research framework, with strategic agility and innovation capability playing a mediating role. Transformational leaders promote flexibility, creativity and help organizations cope with changing environments effectively. The concept of strategic agility improves the organization's power to restructure resources and adapt quickly to the changing market conditions, whereas innovation capability supports the creation of new products, services, and processes. The study is of the cross sectional quantitative type and the respondents are middle and top-level managers in both the public and private sector. Data is collected using a structured questionnaire which is based on validated scales. Purposive sampling is used to choose participants that have managerial or leadership experience. Structural Equation Modeling (SEM), descriptive statistics, and reliability and validity test are used to analyze the data through SmartPLS. Sequential mediation is examined using bootstrapping techniques to test for mediation effects. The study adds to the literature on leadership and organizational behavior by clarifying the relationship between transformational leadership and performance as evidenced by the dynamic capabilities.
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Introduction

In the fast-changing and intense business world astute companies are all the time striving to adjust, innovate and enhance performance. In a time of uncertainty and complexity, leadership is key to steering an organisation. Bass & Riggio (2006) identify transformational leadership among leadership styles as one that has attracted keen interest because it has the power to inspire employees, stimulate their innovation and boost organizational performance. Transformational leadership involves motivating followers to do more than their top job performance, through creating a vision, intellectual stimulation, and consideration of individuals (Avolio & Yammarino, 2013).

Organizational performance is a complex phenomenon and it normally refers to the result attained in four dimensions i.e., financial achievement, operation efficiency, innovation, and employee productivity. In the contemporary organization the performance is no longer just based on financial values, but adaptability, ability to innovate and sustainability in long term (Richard et al., 2009). The essential role that effective leadership plays in achieving highly productive organizations, particularly in uncertain and technologically turbulent organisations (Yukl, 2013).

The impact of transformational leaders on organizational culture and behavior is essential to changes. The effect on organizational behavior and culture of transformational leaders is very significant. They are open to new ideas and new processes, they love to break the rules and come up with a different solution. Such leadership promotes employees' motivation and commitment, ultimately leading to improved organizational outcomes (Judge & Piccolo, 2004). Transformational leaders set a good tone for organizations to better adapt to market shifts (Northouse, 2021).

But leadership doesn't always result in organizational performance. To turn the influence of a leader into measurable results, there must be internal organizational capabilities. One such ability is strategic agility which is the ability to sense the environment at speed, and then to timely make the decisions, and reconfigure resources as a result (Doz & Kosonen, 2010). Thus, in this context, transformational leadership is associated with strategic agility, empowered thinking, empowerment and proactive decision making (Teece, 2007).

The other major factor is the ability to innovate: a leadership competency that is key to performance. The capability of companies in developing and enacting new ideas, product/service and processes. Damanpour (1991) defines transformational leaders as those who promote creativity, venture-taking and knowledge sharing among employees, thus fostering innovation. Therefore, an organization with high levels of transformational leadership is also likely to have a high capacity for innovation (Jung et al., 2003).

The linkage between strategic agility and strategic innovation is closely coupled. The innovative capability enables continuous improvement and competitiveness and the ability of agile organizations to make their ideas into actionable strategies (Weber & Tarba, 2014). The three combine as a causal chain in which transformational leadership describes the pathway to organizational performance (O'Reilly & Tushman, 2013).

Although there has been a great deal of research conducted on transformational leadership and performance, only a few studies have explored the mechanism behind the link between the two. In particular, there's not been enough research into the sequential role of strategic agility and innovation capability. There have been many studies examining the direct effect of leadership on performance, but few investigating internal dynamic capabilities as intervening variables (Wang et al., 2011).

Organizations in today's world work within an environment of quickly changing technology, globalization, and uncertainty. Under these conditions, leadership needs to be more than just managerial and must emphasize creating adaptiveness and innovation (Bass, 1999). This role is well suited to the transformational leadership style, which helps to inspire vision, change and continuous improvement in organizations (Podsakoff et al., 1990).

Based on a survey of the literature, this study will focus on the mediating influence of "strategic agility" and "innovation capability" in the relationship between transformational leadership and organizational performance to fill this gap. This research uses quantitative research method and data gathering process from managers or respondents in public and private sector organisations. The study utilizes the application of SmartPLS for data analysis, both direct and indirect relationships.

The results of this study are highly anticipated to help further the field's knowledge of leadership theory and organizational behavior because of their focus on how transformational leadership creates a positive relationship with internal organizational resources that leads to positive organizational outcomes.

Literature Review

Transformational leadership has been identified as one of the most significant leadership styles the field of modern organizational research has identified owing to the link it bears with employee motivation, innovation and organizational performance (Bass & Riggio, 2006). It focuses on the skills of leaders to motivate employees, raise questions and promote personal development to improve the performance of the organization as a whole. Transformational leadership is viewed as a necessary leadership style in a dynamic business world for promoting adaptability and competitiveness in the long term (Avolio & Yammarino, 2013).

The organizational performance is a composite concept that refers to financial performance, operational efficiency, innovation outcomes and employee productivity (Richard et al., 2009). Today, in the business world, the term "performance" no longer refers only to business performance but to businesses' adaptability and capability to innovate. In uncertain organizational climates, especially in a world of technological change, Yukl (2013) pointed out that leadership effectiveness is tightly coupled with organizational results. The importance of researching how leadership affects performance has grown, therefore, in the light of the mechanisms by which it impacts performance.

Transformational leadership has a direct effect on employee attitudes and behaviours by encouraging employees to be motivated, trust other people and take committed action. Judge and Piccolo (2004) have found that transformational

leadership has a positive correlation with job satisfaction, organizational commitment, and organizational outcomes. Leaders who are inspirational and intellectually stimulating will motivate employees to do more than they expect them to and will inspire them to think creatively to solve problems (Northouse, 2021). This helps develop an organization that embraces innovation and continual improvement.

However, the relationship between transformational leadership and organisational performance is not fully sufficient in explaining transformational leadership leading to measurable outcomes. In order to close this gap, there is the need for internal organizational competencies. One such competency which will lead to strategic agility is ability of organizations to reshape their resources efficiently and rapidly in response to environmental shifts (Doz & Kosonen, 2010). It's a reflection of an organization's sensing capabilities and acting fast in response to opportunities and threats.

Business agility has come to the fore of strategic importance in businesses today because of the high rate of change and uncertainty in the business world. Teece (2007) stated that competitive advantage is dependent on these dynamic capabilities: the ability to sense, seize and transform. The transformational leader helps foster strategic agility by promoting flexibility, inspiring staff, and inspiring to make decisions proactively (Weber & Tarba, 2014). An agile organization can much more easily make adjustments in technology disruption and customers' requirements.

Another crucial mechanism between transformational leadership and the success of an organization is innovation capability. Development capacity is the capacity of an organization to conceive and produce innovations, which in the form of new products, new services, new processes, or new business models, add value (Damanpour, 1991). Transformational Leaders boost the Innovation capability through encouraging Creativity, supporting Risk Taking, and promoting Knowledge Sharing among the employees (Jung et al., 2003). Therefore, companies with high transformational levels tend to have greater levels of "innovation performance."

Bridging the gap in the ability to innovate becomes crucial in dynamic settings where organisations need to continuously adjust in order to stay competitive. The ambidextrous balanced around exploration/exploitation are better at sustaining innovation (O'Reilly & Tushman, 2013). The leadership style of a transformational leader helps this balance by stimulating creativity and disciplined execution within a company.

There is a strong interconnection between strategic agility and the capability for innovation. Agile organizations tend to be able to better leverage opportunities and capitalize them into innovative ideas and results. According to Weber and Tarba (2014), agility in managing the strategy allows companies to rapidly respond to change and make structural, organizational and process adjustments to facilitate innovation. Likewise, innovation capability improves strategic agility by ensuring new solutions that help increase organizational responsiveness.

Strategic agility is colleagues, and the optimization of innovation capacity, has become a recent subject of interest in the literature. Being strategically agile leads to building greater innovation abilities since they are more receptive to changes and experiments. This sequential mechanism implies that transformational leadership is at the beginning of the sequence which works through increased strategic agility and subsequently with increased innovation capability leading to increased organizational performance.

Although a number of studies have looked at transformational leadership, strategic agility and innovation capability, there has been a lack of scholarly work that has combined constructs together. There is limited empirical evidence which brings them together in a coherent sequential order to help explain how the organization performs. This goes a long way to filling this research field, especially regarding how leadership becomes leadership performance with respect to dynamic capabilities.

Moreover, the changing dynamic of the working environment and soaring technology has forced organisations to have to grow agility and innovativeness together. But the effects of strategic agility and innovation capability as a sequential mediator are not extensively studied as a leadership phenomenon. This will help to fill this gap and shed more light on the impact of transformational leadership on the sustainability of organizational success.

Transformational leadership theory and dynamic capabilities theory are the theories used as the foundation of this study. Transformational leadership theory is an explanation regarding the way that leaders have been able to motivate and inspire followers to perform better (Bass & Riggio, 2006). The dynamic capabilities theory describes a process by which organizations change, organize and re-organize resources to deal with the changes in the environment (Teece, 2007). Both of these theories give a solid foundation and insight into the relation between leadership, agility, innovation and performance.

To conclude, the different authors discuss that transformational leadership has positive relationship with organizational performance, but in reverse, that relationship is explained by internal mechanisms, like innovation capability and strategic

agility. The ordering of these constructs, however, has been hardly explored, thus there is a need for more empirical investigations.

Methodology

Research Design

In this study we used quantitative, cross sectional research type to analyze the relationship between transformational leadership and organizational performance with the mediating role of strategic agility and innovation capability sequentially. The choice of the design allowed testing of hypothesized relationships with statistical methods at one single time.

Population and Sample

The subjects of the study were middle and top level managers in Public and Private Sector Organisations. The respondents in this study were chosen because they were directly connected with leadership practices, strategic decision making and organizational performance assessment. A total of 200 respondents were included in the final sample.

Sampling Technique

The purposive sampling was used to select the respondents. To ensure that responses were accurate and relevant, only those managers that had relevant leadership and managerial experience were selected to be included in the study.

Data Collection Procedure

A structured questionnaire was specifically developed from scales already tested in the fields of leadership, strategic agility, innovation capability and organizational performance. A questionnaire was sent online along with being sent through physical mail. The respondents were briefed about the objective of the study and confidentiality was maintained. Fully completed questionnaires were the only questionnaires included in the final data set.

Measurement of Variables

The items of all constructs were rated on a 5 point scale on a likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Transformational leadership was assessed by the subdimensions of inspirational motivation, intellectual stimulation and individualized consideration. Strategic agility was evaluated by responsiveness, flexibility and reconfiguration ability of resources. Indicators of product, process and service innovation were used to capture the innovation capability. Financial, operational and overall measures were used to assess organizational performance.

Data Analysis Technique

SmartPLS Software has been used to analyze collected data. Data analysis was done in the form of descriptive data, assessment of measurement model and structural model assessment.

Reliability and Validity Estimation

The reliability was evaluated by applying Cronbach's alpha and composite reliability, while convergent validity was done by Average Variance Extracted (AVE). Fornell-Larcker criterion and cross-loadings were used to validate the discriminant validity of the constructs to ensure construct distinctiveness.

Structural Equation Modeling (SEM)

The direct effect of transformational leadership with organizational performance and the indirect effect through strategic agility, and innovation capability were tested using the approach of Structural Equation Modeling (SEM). Significance levels were considered with regard to path coefficients, t-values and p-values.

Sequential Mediation Analysis

Mediation effect has been tested in smart PLS, and it is used in the sequential manner. This study investigated an indirect effect of transformational leadership on organizational performance via strategic agility and organizational innovation capabilities in a sequential fashion. Mediation effect was deemed significant if the CI's did not include zero.

Analysis

SmartPLS was used to analyse the data obtained from 200 middle and top level managers to investigate the relationships between transformational leadership, strategic agility, innovation capability and organisational performance. The data sets

were screened for completeness, consistency, and accuracy prior to the analysis. Responses that were incomplete and extreme values were dropped to ensure data quality and accuracy of results.

Descriptive Analysis

Demographic and organizational attributes of respondents were initially described. Findings indicated that most of the participants were managerial level representatives in both public and private sector organizations, and were exceptionally involved in strategic decisions-making processes and leadership positions. The responses concerning leadership and performance-related constructs were made by most of the respondents who had significant experiences in organizational management, reinforcing the validity of their responses.

Table 1: Demographic Profile of Respondents (N = 200)

Variable	Category	Frequency	Percentage
Gender	Male	128	64%
	Female	72	36%
Age	25-35 years	46	23%
	36-45 years	96	48%
	46-55 years	42	21%
	Above 55 years	16	8%
Position	Middle Manager	112	56%
	Top Manager	88	44%
Sector	Public	98	49%
	Private	102	51%

Measurement Model Assessment

The measurement model had been done to check the reliability and validity of the constructs. Cronbach alpha reliability, and composite reliabilities exceeded acceptable level of 0.70 showing high reliability.

Convergent validity was evaluated by Average Variance Extracted (AVE) values with all constructs having values greater than 0.50, indicating good convergence. To support the discriminant validity, Fornell-Larcker criterion was applied and each construct was statistically different from others.

Table 2: Reliability and Validity Results

Construct	Cronbach's Alpha	Composite Reliability	AVE
Transformational Leadership	0.914	0.936	0.684
Strategic Agility	0.889	0.918	0.651
Innovation Capability	0.901	0.930	0.673
Organizational Performance	0.907	0.934	0.689

Structural Model Results (Direct Effects)

Hypotheses on relationship among the variables have been tested by the means of structural model analysis. The findings showed that transformational leadership was significantly positively related to strategic agility, suggesting that it improves flexibility, responsiveness and adaptive decision making of organizations.

Additionally, transformational leadership positively influenced innovation capability considerably, indicating that strong inspirational and motivational leaders can create an innovative management mindset. In addition, the strategic agility and capability of innovation had important positive influence on organizational performance.

Transformational leadership showed an impact on organizational performance (direct effect), thus showing the non-mediating role of transformational leadership's behavior in the improvement of organizational results.

Table 3: Structural Model Results (Direct Effects)

Relationship	Beta	T-Value	P-Value	Decision
TL → Strategic Agility	0.645	10.982	0.000	Supported
TL → Innovation Capability	0.512	8.441	0.000	Supported
Strategic Agility → Innovation Capability	0.438	7.216	0.000	Supported
Strategic Agility → Organizational Performance	0.401	6.903	0.000	Supported

Innovation Capability → Organizational Performance	0.462	7.784	0.000	Supported
TL → Organizational Performance	0.289	5.327	0.000	Supported

Mediation Analysis (Sequential Effects)

Both the bootstrapping results confirmed a significant sequential mediation effect. In the sequential manner, transformational leadership first affected strategic agility and then that of innovation capability, leading to an effect on organizational performance. In particular, transformation leadership promoted strategic agility that furthered the innovation capacity and thus increased organizational performance. The indirect effect was significant, it not having confidence intervals that included the value zero.

Model Explanatory Power

The model had high R-square which implied that the model explained well. Taken together, strategic agility and Innovation capability accounted for a significant amount of variance in organizational performance, thus supporting the model proposed in this study's relationships between the variables and the different mechanisms by which transformational leadership relates to outcomes.

Overall it was confirmed that ccl is an essential factor in achieving organizational success. But it works best when supported by strategic agility and capability to innovate. The findings also emphasize that a good leader is not enough; they need the organizational skills that are dynamic to help sustain the improvements in performance.

Discussion

Based on the results of this study, it can be concluded that transformational leadership positively affects an organization's performance directly and indirectly; the value of direct influence is noted by increasing strategic agility and the indirect influence is increasing the innovation capability of an organization. This confirms leadership is more than just a behavioural influence on others and enabling of organisational capabilities, it's one of the key strategic enablers of capabilities. Previous research has shown that transformational leaders tend to foster employees' motivation and organizational benefits (Bass & Riggio, 2006; Judge & Piccolo, 2004) which fit in with the causal relationship effect demonstrated between transformational leaders and performance.

The results also indicate that transformational leadership is positively and significantly related to strategic agility. It means leaders who share such values as flexibility, empowerment and proactivity enable an organisation to respond more flexibly to the environment. In this is coinciding with Doz and Kosonen (2010) who claimed strategic agility (SA)-important resource for adjusting to uncertainty and to maintain competitiveness in-developing competition/ market uncertainty. As such, transformational leaders are the catalysts for changing approaches within the organization.

Furthermore, the transformational leadership and innovation capability showed to be significantly related. This is a positive sign of how transformational leaders stimulate their employees' creativity, risk taking and sharing of their knowledge, thereby improving the innovation process. The results are in line with those of Jung et al., 2003 and Zhou George, 2003 which indicated the significance of leadership support in the development of employee creativity and innovations.

The agile strategic agility capability was identified as very important in explaining the innovation capability and organizations with this capability generate outputs of innovation with high capability. The results are congruent with those of Weber and Tarba (2014) who demonstrated that agile have impact on the fast innovativeness and organisational responsiveness. Likewise, innovation capability was observed to significantly increase organizational performance which coincides with that of Damanpour (1991), who emphasized that innovation is one of the leadership tools that can bring competitive advantage to the organization.

The findings of sequential mediation process indicated that the change chain from transformational leadership to the intermediate variable of strategic agility to the capability of innovation to the individual variable of organizational performance have positive results. The study adds to the strands of leadership and dynamic capabilities literature by contributing to the internal capability development as a link between leadership and performance as a phenomenon.

Overall, the results offer support for the incorporation of a theory of transformational leadership with the theory of dynamic capabilities. Transformational leadership, strategic agility and innovation capability are all about providing vision, motivation and adaptation, respectively, while innovation capability is focusing on creating value. Combined, these make an all-encompassing blueprint for a successful organization.

Conclusion

Based on this study it can be concluded that transformational leadership has a significant contribution to enhancing the performance of an organization. Its effectiveness is “leaps and bounds” when coupled with strategic agility and the ability to be innovative. The findings corroborate the findings that transformational leadership alone does not suffice, but requires changing it into organizational skills and capacities in order to adapt and innovate. The mechanisms enabling to convert leadership influence into outputs involve strategic agility and capability of innovation. These are more likely to be successful in the long-term when organisations are developing transformational leadership and the development of agility and innovation is aligned.

Recommendations

The main concentrations that organizations should focus on developing transformational leadership skills in managers are to develop employees' inspirational qualities, stimulate their thinking process and empower them. Emotional Intelligence, communication and change management skills are the emphasis of leadership development programs.

One of the other areas where companies have to be strategic is to create agility in their firms to allow them to have flexible structures, decentralized decision making and quick response systems. This will enable organisations to be flexible with the changes going on in the market and in the environment too.

Furthermore, organisations must build up their innovation capacity through fostering a culture of creativity, experimentation and sharing of knowledge. Working should be pleasurable for employees to present ideas and efforts.

To remain competitive in the long term, policy-makers and HR teams should design leadership development initiatives that will enable them to create a program that not only advances their leadership abilities but also enhances their innovativeness and agility.

Extending the model with other mediators like organizational learning, digital transformation, or employee engagement could be investigated in further research.

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