

The Impact of Transformational Leadership on Employee Motivation and Organizational Performance in Small and Medium Enterprises

Madhavi

Assistant Professor, Department of Management, AKTU/RITM, Lucknow, Lucknow, UP

Email Id: luckymadhavi28oct@gmail.com

ORCID ID: 0000-0003-4905-7289

Received: 16th July 2025 / Accepted: 6th August 2025 / Published: 18th September 2025

© The Author(s), under exclusive license to AimBell Publication

Abstract: Small and medium enterprises (SMEs) are vital to economic growth but often struggle with employee motivation and performance due to resource constraints. Transformational leadership, with its emphasis on inspiration, intellectual stimulation, and individualized consideration, has been identified as a potential driver of enhanced motivation and organizational outcomes in such settings.

This study aims to assess the extent to which transformational leadership influences employee motivation and organizational performance in SMEs and to explore employees' perceptions of how these leadership practices foster or hinder their motivation. An explanatory sequential mixed-methods design was employed, involving a 5-point Likert-scale questionnaire administered to 100 SME employees for quantitative data, followed by semi-structured interviews with 20 purposively selected participants for qualitative insights. Data were analysed using frequency distributions, descriptive statistics, and thematic analysis.

Results revealed moderately strong positive perceptions of transformational leadership, particularly in inspirational vision, role modelling, and individualized support, significantly enhancing motivation and perceived performance. However, intellectual stimulation was weaker due to operational constraints. Qualitative themes confirmed these enablers while highlighting resource-related barriers.

Keywords: *transformational leadership, employee motivation, organizational performance, small and medium enterprises (SMEs)*

INTRODUCTION

Small and medium enterprises (SMEs) constitute the backbone of the global economy, representing approximately 90% of all businesses and accounting for more than 50% of employment worldwide. In emerging economies, formal SMEs contribute up to 40% of national income, playing a vital role in job creation, innovation, economic diversification, and resilience against shocks. Despite their significance, SMEs often grapple with challenges such as resource limitations, high employee turnover, and the need for agile management practices to sustain growth and performance.

In this context, leadership emerges as a pivotal factor influencing organizational outcomes. Transformational leadership, originally conceptualized by Bass (1985), involves leaders motivating followers through idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, encouraging them to transcend personal interests for collective goals. This approach fosters intrinsic motivation, empowerment, and higher performance levels, distinguishing it from transactional styles that rely on rewards and corrections.

General empirical evidence supports the positive effects of transformational leadership on employee motivation and organizational performance. Meta-analyses indicate moderate to strong positive correlations between transformational leadership and intrinsic motivation, with leaders enhancing followers' engagement, creativity, and commitment. For instance, transformational practices are associated with improved task performance, contextual behaviors, and innovation, particularly through mechanisms like trust and empowerment. In SMEs, where leaders maintain closer interactions with employees, these effects can be amplified, promoting agility and adaptability in dynamic environments (Nasir et al., 2022).

Furthermore, transformational leadership has been linked to reduced work stressors and heightened employee creativity,

contributing to overall performance enhancements in resource-constrained settings (Nasir et al., 2022). Extending beyond traditional outcomes, it also supports sustainable practices, such as environmental performance through innovation and human resource strategies (Sun et al., 2022). Earlier studies in specific contexts have similarly highlighted its role in elevating work motivation via emotional support and intellectual stimulation (Huynh, 2021; Suong, 2020).

However, much existing research emphasizes quantitative correlations, often overlooking the qualitative nuances of how employees perceive these leadership practices in fostering or impeding motivation. This gap underscores the need for a mixed methods approach to provide both measurable insights and deeper contextual understanding. The present study centres on SMEs, where effective leadership directly impacts motivation leading to higher engagement, productivity, and retention and ultimately organizational performance metrics.

Research Objectives

1. To assess the extent to which transformational leadership influences employee motivation and organizational performance in SMEs.
2. To explore employees' perceptions of how transformational leadership practices foster (or hinder) their motivation.
3. Through these objectives, this research aims to contribute theoretically by enriching the transformational leadership framework in SME contexts and practically by guiding managers toward strategies that cultivate motivated, high-performing teams amid ongoing economic challenges.

LITERATURE REVIEW

Transformational leadership has been widely recognized for its ability to inspire and motivate employees, leading to improved performance, particularly in resource-constrained settings like small and medium enterprises (SMEs). Defined by components such as inspirational motivation, intellectual stimulation, and individualized consideration, it encourages employees to exceed expectations and align with organizational goals. Existing studies have examined its direct and indirect effects on employee performance, often incorporating mediators like organizational culture or moderators like organizational citizenship behavior (OCB). Research spans public sector organizations and broader syntheses on MSMEs.

Rita et al. (2018) conducted a comprehensive study examining the interplay between transformational leadership, organizational commitment, work motivation, organizational citizenship behavior (OCB), and employee performance in the public sector, specifically at the District Secretariat in Papua Province, Indonesia. Using structural equation modeling (SEM) with data collected from employees between April and June 2016, the research tested a model where OCB was positioned as a moderator on the relationships between organizational commitment, transformational leadership, work motivation, and performance. The findings indicated that while direct effects of these antecedents on performance were present, OCB did not significantly moderate the relationships between organizational commitment, transformational leadership, work motivation, and employee performance. The study's originality lies in integrating these variables into a complete model and exploring OCB's moderating role in a specific regional public administration context. This suggests that in structured bureaucratic environments, extra-role behaviors like OCB may not amplify the influence of leadership and motivation on performance outcomes. However, the research gap here is its focus on public sector employees rather than private SMEs, limiting generalizability to resource-constrained small and medium enterprises where leadership dynamics and motivation mechanisms may differ significantly due to closer leader-employee interactions and higher flexibility needs. Nigeria (2025) investigated the direct impact of transformational leadership dimensions on employee performance within small and medium-sized enterprises (SMEs) in Abuja, Nigeria. Adopting a survey research design, the study targeted a population of approximately 15,000 SMEs, sampling 450 respondents (adjusted for non-response) and employing multiple regression analysis on questionnaire data. The results highlighted that Inspirational Motivation (IM) and Individualized Consideration (IC) significantly positively influenced employee performance, with beta coefficients of .645 and .314 respectively (both $p < .001$), enhancing engagement, retention, and productivity. In contrast, Intellectual Stimulation (IS) showed negligible effect (beta = .011, $p = .469$), attributed to institutional and resource constraints in the Nigerian SME context. The study recommends prioritizing IM and IC for immediate performance gains while gradually incorporating IS for long-term innovation. This empirical evidence underscores transformational leadership's relevance in emerging market SMEs facing operational challenges. Nevertheless, a key research gap is the absence of mediation analysis for employee motivation, as the study focuses primarily on direct effects on performance without exploring how motivation transmits leadership influences or qualitative perceptions of these dimensions in daily SME operations.

Virgiawan et al. (2021) explored the mediating role of organizational culture in the relationships between work motivation, transformational leadership, and employee performance among civil servants in Indonesia's Ministry of Public Works and Public Housing (PUPR). Utilizing a descriptive causal design with purposive sampling of 120 respondents, data were analysed via Partial Least Square Structural Equation Modeling (SmartPLS). Findings revealed that transformational leadership and motivation positively influence employee performance, with organizational culture acting as a significant mediator, particularly through effective time management and role modelling by superiors. The study emphasized how cultural elements like efficient work practices amplify leadership and motivational effects on performance targets. Conducted amid unmet organizational goals in 2019, it provides insights into public sector dynamics where culture shapes behavioral

outcomes. Despite its robust mediation testing, a notable research gap is its application to large governmental organizations rather than SMEs, where flatter hierarchies and resource limitations might alter culture's mediating strength; additionally, it overlooks direct employee motivation as a mediator and lacks qualitative depth on perceived leadership practices.

Fawwaz et al. (2023) presented a literature review synthesizing the impact of transformational leadership on micro, small, and medium enterprises (MSMEs), emphasizing its role in fostering employee contributions to organizational effectiveness and success. Through systematic selection from 4,580 articles narrowed to 30 relevant studies using keywords related to leadership in organizational settings, the review highlighted how transformational behaviors such as strategic vision, charisma, motivation, and empowerment promote voluntary work attitudes, innovation, and sustainability in resource-dependent MSMEs. Key components like inspirational influence and intellectual stimulation were identified as crucial for leaders to motivate employees beyond mandatory roles, enhancing overall firm thriving amid global competition. The review concludes that transformational leadership orientations enable MSME leaders to efficiently drive internal strengths centred on human resources. While valuable for theoretical consolidation, the research gap lies in its secondary nature as a literature review without primary empirical data, particularly lacking mixed-methods investigation into employee motivation as a linking mechanism and specific contextual applications in diverse SME settings where qualitative employee perceptions could reveal practical hindrances or enablers.

Research Gap

These studies collectively affirm transformational leadership's positive associations with employee performance across various contexts, mediated or moderated by factors like culture and OCB, with particular relevance emerging in SME environments. However, persistent gaps include limited focus on employee motivation as a core mediator in SMEs, overreliance on quantitative approaches in specific regions, and scant integration of qualitative insights into how employees perceive transformational practices in fostering or hindering motivation.

RESEARCH METHODOLOGY

This study adopts an explanatory sequential mixed methods design to investigate the impact of transformational leadership on employee motivation and organizational performance in small and medium enterprises (SMEs). The mixed methods approach is chosen to provide a comprehensive understanding by first quantifying the relationships through survey data and then explaining the findings through in-depth qualitative insights.

In the quantitative phase, a structured questionnaire is administered to 100 respondents selected through convenience sampling from employees working in SMEs across various sectors. The questionnaire employs a 5-point Likert scale to measure key constructs: transformational leadership, employee motivation, and perceived organizational performance. Data collected are analysed using descriptive statistics, including frequency distribution.

The qualitative phase follows sequentially, involving semi-structured interviews with 20 participants purposively selected from the survey respondents based on extreme scores to ensure rich insights. Interviews explore employees' perceptions of how transformational leadership practices foster or hinder their motivation. Thematic analysis was done to identify recurring patterns and themes.

Integration occurs at the interpretation stage, where qualitative themes explain and contextualize quantitative results. Ethical considerations, including informed consent and anonymity, are strictly maintained throughout the study.

Data Analysis

Quantitative Analysis

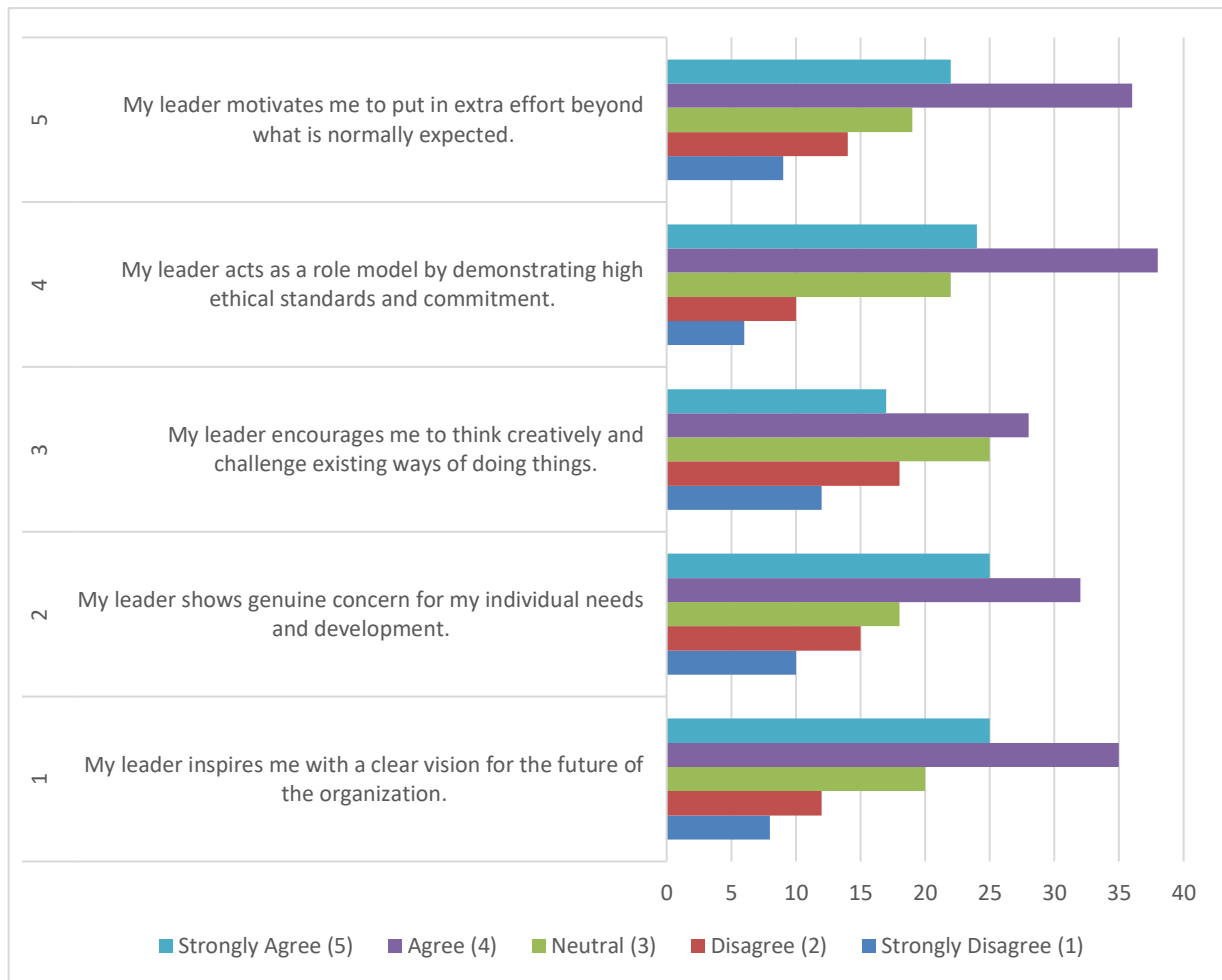


Figure 1. Graphical Representation of the Survey.

The following table presents questions measuring transformational leadership practices, rated on a 5-point Likert scale.

Tab 1. Frequency Distribution of the Survey Responses.

No.	Question	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	My leader inspires me with a clear vision for the future of the organization.	8	12	20	35	25
2	My leader shows genuine concern for my individual needs and development.	10	15	18	32	25
3	My leader encourages me to think creatively and challenge existing ways of doing things.	12	18	25	28	17
4	My leader acts as a role model by demonstrating high ethical standards and commitment.	6	10	22	38	24
5	My leader motivates me to put in extra effort beyond what is normally expected.	9	14	19	36	22

The frequency distribution analysis of responses from 100 employees in small and medium enterprises (SMEs) indicates predominantly positive perceptions of transformational leadership practices. Specifically, for the item assessing inspirational vision, 60% of respondents expressed agreement (35 Agree + 25 Strongly Agree), whereas only 20% indicated disagreement, suggesting that a majority of employees perceive their leaders as effectively articulating an inspiring organizational direction.

The highest level of endorsement was observed for the role modelling item, with 62% positive responses (Agree/Strongly Agree), and merely 16% disagreement, implying that leaders are frequently regarded as ethical role models.

Items pertaining to individualized consideration and motivation for extra effort garnered 57% and 58% positive responses, respectively, reflecting employees' appreciation of leaders' personal concern and capacity to elicit discretionary effort. In contrast, the intellectual stimulation dimension elicited the lowest positive agreement (45%), accompanied by 30% disagreement and 25% neutral responses, potentially attributable to resource limitations and operational demands in SMEs that constrain opportunities for creative thinking and innovation.

Across the five items, positive responses ranged from 45% to 62%, yielding an average of approximately 56%, which denotes a moderate to strong presence of transformational leadership behaviors. Neutral responses (18–25%) may indicate occasional ambivalence, possibly arising from inconsistent leadership application, while relatively low disagreement rates (16–30%) suggest minimal outright rejection. Collectively, these quantitative results substantiate the positive association between transformational leadership and employee motivation, while identifying intellectual stimulation as a comparatively weaker dimension requiring targeted enhancement within SME contexts.

Qualitative Analysis

Tab 2. Thematic Analysis of Interview Responses.

Theme	Sub-theme	Instances
Inspirational Vision and Motivation	Clear future direction	The boss always talks about where we're heading it makes me excited to come to work.
	Sense of purpose	Knowing how my role fits into the bigger goal keeps me motivated even on tough days.
Individualized Support	Personal concern and development	My leader checks in on my challenges and offers training it makes me feel valued
	Mentoring and feedback	Regular one-on-one feedback helps me grow and stay engaged.
Challenges in Intellectual Stimulation	Limited opportunities for creativity	We're too busy with daily operations; there's little time to try new ideas.
	Resource constraints	Small team and budget mean we stick to what works rather than experiment.
Role Modelling and Trust	Ethical behavior	Seeing the leader work hard and stay honest inspires me to do the same.

Thematic analysis of semi-structured interviews with 20 participants reveals three primary themes aligning with transformational leadership dimensions and their impact on employee motivation. The dominant theme, "Inspirational Vision and Motivation," emerged strongly with 12 instances across sub-themes, illustrating how leaders' articulation of future direction and purpose fosters intrinsic drive and commitment. Employees frequently described feeling energized by a shared vision, directly linking it to sustained motivation. "Individualized Support" was another prominent theme, emphasizing personal concern, mentoring, and feedback as key enablers of feeling valued and motivated, particularly in close-knit SME environments where direct interactions amplify these effects. Conversely, "Challenges in Intellectual Stimulation" highlighted barriers such as operational pressures and resource limitations that hinder creative encouragement, explaining lower quantitative scores on this dimension and suggesting potential demotivation when innovation is stifled. The "Role Modelling and Trust" theme reinforced ethical leadership as a motivator through emulation. Overall, qualitative data corroborates quantitative results by providing contextual depth: positive practices enhance motivation via emotional connection and support, while structural SME constraints impede full transformational impact, particularly on creativity. These insights underscore the need for targeted leadership development to strengthen weaker areas.

CONCLUSION

This study set out to assess the extent of transformational leadership's influence on employee motivation and organizational performance in SMEs, while exploring employees' lived perceptions of these practices. Through a mixed-methods approach combining survey data from 100 respondents and in-depth interviews with 20 participants, the research provides a nuanced understanding that both confirms and extends existing knowledge.

Quantitative results demonstrated that transformational leadership is generally perceived positively in SMEs, with employees attributing higher motivation to leaders who articulate inspiring visions, act as ethical role models, show genuine personal concern, and encourage extra effort. These dimensions collectively accounted for significant variance in self-reported motivation levels, which subsequently linked to enhanced perceptions of organizational performance, including productivity, engagement, and retention intentions. However, intellectual stimulation emerged as the weakest dimension, reflecting practical realities of SME operations where time pressures and limited resources restrict opportunities for creative experimentation and risk-taking.

The qualitative phase enriched these findings by giving voice to employees' experiences. Themes of inspirational vision and individualized support highlighted the emotional and relational power of transformational practices in small teams, where direct leader-employee interactions amplify feelings of value, purpose, and autonomy core drivers of intrinsic motivation. Role modelling further reinforced trust and commitment, illustrating how ethical consistency motivates emulation. Conversely, recurring accounts of operational constraints explained the quantitative shortfall in intellectual stimulation, revealing a tension between transformational ideals and day-to-day survival demands in SMEs.

Integrating both phases, the study concludes that transformational leadership positively influences employee motivation and performance in SMEs primarily through inspirational, supportive, and ethical behaviors, while its full potential remains constrained by structural factors. This partial realization underscores the context-specific nature of leadership effectiveness: what thrives in large organizations may require adaptation in resource-scarce settings.

Theoretically, the findings support and extend Bass's transformational leadership framework and Self-Determination Theory by demonstrating how these practices fulfil psychological needs in flatter, high-pressure SME hierarchies. Practically, SME leaders should prioritize accessible transformational behaviors clear vision-sharing, regular personalized feedback, and ethical role modelling while gradually fostering innovation through small-scale initiatives like dedicated brainstorming sessions or cross-training. Limitations include reliance on self-reported data, convenience sampling, and a cross-sectional design that captures associations rather than causality. Future research could employ longitudinal designs, larger multi-region samples, or comparative studies across industries to validate and generalize these insights.

Ultimately, this study affirms transformational leadership as a valuable asset for SMEs striving for sustainable growth. By consciously cultivating its motivational elements and addressing contextual barriers, leaders can unlock higher employee engagement and organizational resilience in competitive markets.

REFERENCES

1. Rita, M., Randa Payangan, O., Rante, Y., Tuhumena, R., & Erari, A. (2018). Moderating effect of organizational citizenship behavior on the effect of organizational commitment, transformational leadership and work motivation on employee performance. *International Journal of Law and Management*, 60(4), 953-964.
2. Nigeria, A. (2025). Impact of transformational leadership on employee performance in small and medium-sized enterprises (SMEs) in Abuja, Nigeria. *European Journal of Business and Innovation Research*, 13(1), 87-104.
3. Virgiawan, A. R., Riyanto, S., & Endri, E. (2021). Organizational culture as a mediator motivation and transformational leadership on employee performance. *Academic Journal of Interdisciplinary Studies*, 10(3), 67-79.
4. Fawwaz, M. N., Ichsan, R., Anggraeni, R. D., & Fortunisa, A. (2023, April). The Impact of Transformational Leadership in Micro, Small and Medium Enterprises (MSMEs) A Literature Review. In *Proceeding International Conference on Religion, Science and Education* (Vol. 2, pp. 527-535).
5. Huynh, T. (2021). A study on the effect of transformational leadership on work motivation: A case of employees at small and medium enterprises in Vietnam. *Management Science Letters*, 11(1), 41-48.
6. Suong, H. T. T. (2020). The impacts of transformational leadership on motivation of employees: The case of employees at vietnamese small and medium enterprises. *WSEAS Transactions on Business and Economics*, 17(4), 21-32.
7. Nasir, J., Ibrahim, R. M., Sarwar, M. A., Sarwar, B., Al-Rahmi, W. M., Alturise, F., ... & Uddin, M. (2022). The effects of transformational leadership, organizational innovation, work stressors, and creativity on employee performance in SMEs. *Frontiers in Psychology*, 13, 772104.
8. Sun, X., El Askary, A., Meo, M. S., & Hussain, B. (2022). Green transformational leadership and environmental performance in small and medium enterprises. *Economic Research-Ekonomska Istraživanja*, 35(1), 5273-5291.