

# IMPACT OF LEADERSHIP STYLES ON EMPLOYEE PERFORMANCE IN SMALL AND MEDIUM ENTERPRISES

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## Abstract

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This study focuses on the relationship between leadership styles and employee performance within the framework of European small and medium enterprises (SMEs). The study conducted interviews with 50 leaders and employees of different SMEs to collect data and reach the findings. The study shows the mixed influence of leadership styles and contextual moderation through qualitative interviews of leaders and employees from various SMEs in Europe. It sheds a spotlight on the various styles of leadership that typify many European SMEs, such that transformational leadership dominates significantly. The sense of dedication and zeal encouraged by charismatic leaders prompts professionals to action. Transactional leadership, however, does facilitate task-oriented accomplishment but it adversely affects employee's vitality. The lack of common feedback on laissez-faire leadership highlights the essence of flexibility and considering the preferences of team members. Social psychological and other contextual aspects — organizational culture and the SME developmental stage — are, therefore, very important moderators of styles. With transformational leadership, innovative SMEs can thrive; transactional leadership might cause SMEs from regulated industries to grow fat on them. The preferential leadership according to the start-ups and the mature SMEs is different. Its implications for practice point out the importance of coherence with respect to the personality style of the leader concerning the context of the organization and the needs of employees.

**Keywords:** Impact of Leadership Styles, Leadership, Employee Performance, Small and Medium Enterprises (SMEs), Transactional Style, Transformational Style

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## 1. INTRODUCTION

As the modern business environment continues to change, the role of leadership in small and medium

enterprises (SMEs) keeps getting more critical attention. SMEs are of paramount importance in the world economy as they are the driving force of economic development, innovation and employment

(Uchenwamgbe, 2013). Transformational or transactional are the main leadership styles inherent to the nature of organizational dynamics which hold the great potential to affect employees' performance in SMEs. This paper aims to investigate the mutual relationship between SME leadership styles and the performance of their employees, which will explain the dynamics and the future ramifications that influence this important connection. From the perspective of SMEs, there are specific challenges they need to overcome in order to achieve long-term sustainability in terms of growth and competitiveness. SMEs are usually bound by resource-restrained situations compared to their large counterparts, and leadership efficiency is key in leading the organization's path (Saasongu, 2015). The impact of leadership on organizational culture is beyond the hierarchy lines and affects employee's commitment, productivity, and motivation. Therefore, the leadership study in SMEs is becoming increasingly relevant and necessary, especially when it comes to analyzing leadership that helps to boost a diverse and essential labour force.

At the heart of this research lies the fundamental inquiry:

*RQ: What mechanisms underlie these differences and drive employees' level of performance in SMEs depending on resulting leadership styles?*

This question stems from the fact that the culture of leadership is a wide array of approaches ranging from transformational, participative, and laissez-faire to autocratic and transactional (Alblosi & Nawar, 2015). Critical issues related to understanding which leadership styles are best appropriate to SME contexts, as well as what factor conditions have a great impact on resource appropriation inside organizations. This research aims to understand the intricate connections between leadership types and their effects on employee performance in SMEs. It is on this note that we hope to unveil the full dimensions of this connection to shed light on SME leaders, managers, and policymakers on how they can re-tune and modulate their leadership strategies to improve employee performance, promote innovation and support sustained development. To achieve our overarching purpose, this study is guided by several specific objectives:

- to analyse and study the commonly used types of leadership in SME leaders' practice;
- to measure the effectiveness of leadership types in influencing important employee-related performance indicators like working productivity, job satisfaction and retention;
- to examine the contextual factors and organizational variables that moderate the relationship between styles and employee performance.

In this study, therefore, the study sought to analyze the effects of leadership styles on employee performance in SMEs. The importance of the research is mostly revealed in the fact that SMEs represent an important sector in the global economy. The ability to understand the way various leadership styles influence employee performance in these enterprises is essential to unlocking organizational effectiveness, employee well-being and promoting the longevity of SMEs. Due to the fact that SMEs quite often operate in specific environments with limited resources and involve various changes over

time, the identification of effective leadership practices which are tailored to the needs of specific SMEs can be an important phenomenon as both academics and practitioners can rely on these results. The research literature on leadership styles, with emphasis on their interrelation with employee performance across various organizations, is substantial. From the standpoint of small and medium-sized entrepreneurs, the research is, frankly, scarce. The majority of studies have concentrated on big corporations, and the issue of how leadership practices influence employees in small firms is conspicuously lacking understanding. The existing literature then highlights leadership generally but also reveals a call for better insights into the peculiarities of the SME sector, a sector characterized by a range of challenges and opportunities in leadership.

It is an interesting fact that, despite having lots of studies devoted to leadership and employee performance, there is a lack of one-size-fits-all understanding of the subtleties and contextual aspects of SMEs. This gap has been identified in our paper as the area to be filled in, which is to address the leadership style's effects on employee performance in the SME industry. To big contribution that we want to make is to show the competencies of proven leadership are most effective in SMEs and deliver valuable knowledge of leadership practice, which would lead to a more conscious and appropriate way of leading in this kind of organization.

The paper is structured, so that the various issues are addressed in an orderly manner to meet our research objectives. Section 2 presents the literature review, providing an overview of the current understanding of leadership styles and their effect on the employees' performance for SMEs. Section 3 explains the details of our research design, data collection procedures, and analytical strategies. Section 4 analyses the results and Section 5 contains the discussion that places the findings in the framework of previous studies. Section 6 summarises the findings concerning different aspects of the critical topic of entrepreneurial research and includes implications for practice as well as opportunities for future studies.

## 2. LITERATURE REVIEW

Transformational leadership is based on inspirational motivation, intellectual stimulation, individualized consideration, and idealized influence and is often praised for its effects on employee motivation and innovation (Le et al., 2023). Transaction-based leadership, unlike servant leadership, is based on contingent reinforcement and exchange and provides rewards for performance and corrective measures for sub-standards. Transactional leadership normally focuses on completing tasks, but it does not always promote long-term commitment or innovativeness. In contrast to this, as Kumar and Bhatti (2020) state, in SMEs' laissez-faire leadership, where hands-off leadership and little guidance are provided, one tends to observe mixed results. While it may empower employees to take the initiative and take ownership, ambiguity may arise, leading to reduced direction and adverse effects on employee performance (Mkheimer, 2018).

Being unique organizational units, SMEs create a specific set of conditions under which employee performance is determined. Development practitioners very much function in fragile or resource-constrained environments without sufficient capital, expertise, and technological developments to work. So, SMEs might have to depend significantly on their human resources and organizational climate, which can trigger performance. Financial incentives in SMEs are not the only driver of employee performance but are also influenced by internal motivators, job satisfaction, and a sense of belonging. According to Jalal-Eddeen (2015), SMEs feed on innovation, agility, and responsiveness. The ability to come up with suggestions, solve problems and adjust to changing environments is thus directly linked to employee performance. Among SMEs, high levels of employee involvement and job satisfaction usually are linked to superior results (Le et al., 2023).

Although the relationship between leadership styles and employee performance in SMEs is complicated, it is also significant. One of the positive associations brought by transformational leadership is the inspiration and intellectual stimulation, which has a positive effect on employee performance. In fact, Albloshi and Nawar (2015) note that it creates an atmosphere where employees strive to transcend their role responsibilities, contribute to creative solution formulation, and have high levels of involvement. Even transactional leadership, which promotes structure and clarity, can result in desired outcomes in SMEs, especially where there is a need for strict task implementation and accountability. However, this style works very well when used sparingly with transformational leadership elements (Cui et al., 2022). However, the hands-off approach of laissez-faire leadership style usually has a negative impact on employee output in SMEs. The absence of prescription and control can result in uncertainty, lack of purpose, and poor performance results (Saasongu, 2015). However, in SMEs, where every input plays a crucial role, the absence of leadership involvement may lead to impoverished results, which can ultimately pass up the chance for innovation.

In addition, it was also observed during the review that contextual factors play a very significant role in moderating the efficiency of leadership styles in SMEs. The type of industry, organizational culture, and the stage of SME development have an impact on the effects of leadership on the employee's performance (Cahyadi et al., 2022). SMEs that actively innovate may stand to gain more from transformational leadership, as it fosters a creative environment that is fertile for innovation. On the other hand, transactional leadership may perform better in SMEs in organizations operating in highly regulated fields in terms of compliance and procedures that should be followed according to what is established. The SME development stage can also determine the selection and effects of the leadership. Due to their innate demand for large expansion and versatility, start-ups are likely to practice transformational leadership in order to cultivate innovativeness and adaptability. However, according to Wang and Huang (2022), mature SMEs would prefer transactional leadership to ensure that efficiency and consistency are achieved in operations. Thus, it is possible to state that leadership styles' influence on employee performance in SMEs is complicated and situation-based (Nasir et al., 2022).

### 3. METHODOLOGY

In this study, a qualitative research model based on semi-structured responses of leaders and employees within European SMEs was used. Qualitative research can be effective in studying phenomena which are complicated, as it provides a detailed understanding of the issue (Creswell, 2014). In choosing 120 European SMEs from different industries and sizes, sampling is based on a process using European SMEs. The purposive sampling technique was used, and SMEs that would provide larger variability were selected. The requirements for the participants were the SMEs having less than 250 employees operating in different sectors at different stages of development. What the study intended was to capture a wide variety of leadership types and their implications for employee performance in European SMEs. In this research, 50 respondents were selected randomly from different SMEs. When developing a sample, considerations were made towards geographical location, industry categories (i.e., manufacturing, services, technology), and size of SMEs. Through professional networks and web directories, SMEs were approached. The participants of this study included leaders and their subordinates from the chosen SMEs. The selection of ten leaders was based on the impact of their actions on the creation of an organizational culture and leadership styles within their SMEs. From this, ten employees from different departments and levels of hierarchy were selected to provide diverse opinions about leadership and how it influences employee performance.

Semi-structured interviews were the primary data collection mode. In order to achieve consistency and to discuss important topics like the types of leadership, employee performance indications, contextual factors, and organizational culture, an interview guide was developed. They were also conducted as face-to-face, telephone or video conference interviews, depending on the time and preference of the participants. Alongside each interview, the accompanying audio was given with the permission of the participants and then transcribed and analyzed. Thematic data analysis was used, where the process identifies, analyzes, and reports the recurrent patterns and themes that are reflected in the data (Bree & Gallagher, 2016). Transcribed data analysis began with the preprocessing phase, which included reading and re-reading to ensure the reviewers could understand the content. However, in study team meetings, subjects were mentioned and further described. The aim was to ensure that enough data were captured and that the themes were tallied, narrowed, and even further cross-stratified. It was in the closing state that it was possible to combine several underlying themes and results into a coherent plot. Ethics was always on top throughout the entire process of the study. It is informed consent that had been provided by all participants who were made to understand the goals of the study, their legal rights, and how the interview data will be used. To protect those rights, participants were assured of anonymity and confidentiality (McLeod et al., 2016). In the SME, data was triangulated between leaders and employees, leading to different perspectives on leadership ideologies and employee productivity. The validity

of the results of the interviews was ensured by comparing them with the publications in the existing literature on different nations. Therefore, the methodology used in the research was meant to offer a systematic and rigorous analysis of the effects of different leadership styles on the performance of workers in European SMEs.

#### 4. RESULTS AND FINDINGS

Situational leadership was observed when the leaders in the European SMEs were interviewed to determine a diverse range of styles implemented in these companies. In terms of a prevalent theme, transformational leadership was key in which many of the leaders underlined the significance of inspiring their workforce. But the next leader said: *"I believe that I set a vision for my team and encourage them to attain it"* (personal communication, September 9, 2023). This idea clearly relates to the transformational form of leadership where the leaders are simply a mentor and a motivator of their employees so that they raise and change their aspirations to over-perform. On the other hand, transactional leadership was also apparent in many cases of SMEs, especially those that prioritize behavioural contingencies and rewards. Leader A says: *"In this organization, we have a performance-driven culture where we define specific targets to show that the employees know that they will be rewarded once they achieve them"* (personal communication, September 9, 2023). This approach depicts a transactional nature of leadership where there is close supervision of the tasks, and performance is rewarded as motivation. A laissez-faire leadership style was less documented but can be seen in a few cases. This method was usually linked to seasoned leaders who believed that they were able to rely on their employees to carry out their duties by themselves (Katz-Gerro & López Sintas, 2019). One manager explained: *"When I trusted my team to be independent, they were creative and innovative when I needed to. I did step in, but I viewed my team as being able to make good decisions themselves"* (Leader B, personal communication, September 9, 2023).

Employees' performance was a subfactor that was affected in different ways by the adopted leadership styles; this was observed in the case of the interviewed SMEs. In workplaces where transformational leadership was observed more, the level of commitment and job satisfaction went up among employees. The employee observed: *"Our leader's enthusiasm is catching. We are encouraged to do more than what we are asked to do because we believe in the vision he's set"* (Employee A, personal communication, September 5, 2023). According to current literature, such behaviour is in line with evidence that transformational leadership can create an engagement and intrinsic motivation climate (Dyczkowska & Dyczkowski, 2018). Also, transactional SMEs self-reported improved task-oriented performance. The employees admitted that structured plans and performance-based rewards helped them to perform optimally in the line of meeting certain goals. Using the aforementioned opportunities and activities, some people felt pressured to reach goals, sometimes leading to strains and burnout. Here, Audretsch and Belitski (2021) show the possible

balance between performance and employee welfare. As far as laissez-faire leadership is concerned, employees' responses were inconsistent. The autonomy allowed others to experiment even as it also caught the attention of some who felt it did not provide enough direction. The observation of one employee was that sometimes, they wish they had more guidelines. It is difficult to determine if we are on the right path, *"which divergence in the responses clearly shows how employees' preferences should be taken into consideration, as well as specific information about an SME's environment when implementing a laissez-faire leadership style"* (Employee B, personal communication, September 5, 2023).

This influence on employee performance by leadership is highly dependent on the context, whereby the organizational culture and the stage at which the SME is. These contextual variables simultaneously serve as key moderators helping shape the impact of types of leadership styles in SMEs that in this research are demonstrated through interviews that were undertaken. The thoughts about organizational culture emerged as a salient theme in the interviews. Established by pioneering methods of innovation and discovery, the SMEs most commonly enjoyed more positive outcomes when they were guided by transformational leaders (Nazarian et al., 2017). One interviewee aptly captured this sentiment: *"By stability, we are innovative for our company. Our leader's vision and passion influence us to transform into creative thinkers, practising experiments and attempting to try more. This organizational culture is designed to be highly creative and experimental and, as such, harmonizes so well with the values of transformational"* (Employee C, personal communication, September 6, 2023). Change in such an environment preserves the ability of the employees to be inspired and shows that they can be accountable when they take the initiative.

On the contrary, small businesses, in principle-regulated environments where compliance and efficiency were of utmost importance, tended towards transactional leadership. Leaders in these domains highlighted the importance of clarifying guidelines, procedures, and performance benchmarks to maintain compliance with industry standards (Kraus et al., 2018). In an industry that is strictly monitored, one interviewee noted that precision is critical in business. In this regard, transactional leadership helps us to ensure compliance standards, conformity, and efficiency in our operations. In such situations, the focus of transactional leadership on control, performance-based reward, and compliance resonates with the legality and efficiency of the recruitment process.

The development level of an SME was also identified as another key factor in the choice and performance of leadership styles. For start-ups characterized by the requirement for fast readjustment and innovation, transformational leadership was their natural choice. Leadership in start-ups has to be dynamic, motivating, and alignable with pressing changes. It is shown in this demand by one entrepreneur: *"In a start-up, every day is a new surprise. The team needs a leader who can charge the group with some passion, enthusiasm, and innovative spirit"* (Employee A, personal communication, September 8, 2023). Li et al. (2016)

point out that transformational leadership is our compass when in uncharted waters. In such an environment, transformational leaders stimulate all employees to change, innovate and thrive in an uncertain environment. Still, established SMEs tend to develop a predilection toward transactional leadership precisely because they have reached stability and consistency in their running. The work of such organizations is aimed at process sustainability and strict fulfilment of the established

procedures. As Aboramadan and Dahleez (2020) state, transactional leadership helps to maintain and improve the processes that have already been established within a mature SME, thus ensuring stable and efficient operation. For instance, a senior leader in a mature SME claimed to have honed our operations over time and now we need precision and consistency, and transactional leadership ensures. Table 1 below shows the preferred style of leadership by the interviewees for this research.

**Table 1. Results**

<i>Leader/Employee</i>	<i>Preferred style</i>	<i>Impact on performance</i>	<i>Quote/Observation</i>
Leader A	Transformational	Increased innovation and motivation, higher engagement. Employees feel inspired to go beyond their duties and contribute to organizational goals.	"My team thrives on clear vision and seeing how their work makes a difference. I empower them to be creative and solve problems".
Employee B	Democratic	Improved collaboration and decision-making foster trust. Feels valued and involved in the process, leading to ownership and accountability.	"Having my voice heard makes me feel like I'm more than just a cog in the machine. It motivates me to do my best".
Leader C	Laissez-faire	Increased autonomy and flexibility, but the potential for decreased direction and focus. It can be beneficial for self-motivated teams but may cause confusion in fast-paced environments.	"I trust my team to get the job done without micromanaging. But sometimes we need clearer direction to avoid going off track".
Employee D	Transactional	Clear expectations and rewards, efficient task completion. Works well for routine tasks and achieving specific goals but may lack long-term motivation and development.	"Knowing exactly what's expected of me and getting recognized for my achievements keeps me focused and productive".
Leader E	Autocratic	Fast decision-making and execution, but decreased employee morale and creativity. It can be effective in crisis situations, but long-term use can lead to resentment and decreased productivity.	"Sometimes quick decisions are necessary, but I try to keep my team informed and open to feedback whenever possible".
Employee F	Coaching	Enhanced learning and development, increased confidence and potential. Feel supported and challenged to grow their skills and abilities.	"Having a leader who helps me identify my strengths and weaknesses and encourages me to take on new challenges is invaluable".
Leader G	Servant	Strong team spirit and focus on employee well-being fosters loyalty and commitment. Creates a positive and supportive work environment but may require strong interpersonal skills and emotional intelligence.	"My role is to serve my team and help them succeed. When they thrive, the whole company succeeds".
Employee H	Visionary	A shared sense of purpose and direction inspires innovation and risk-taking. Provides a clear vision for the future, but may feel overwhelming or unrealistic if not communicated effectively.	"Our leader paints a vivid picture of what we can achieve together. It makes me excited to come to work and contribute my ideas".
Leader I	Bureaucratic	A structured and orderly environment ensures compliance and consistency. It can be efficient for certain tasks but may stifle creativity and adaptability.	"I believe in clear procedures and protocols. It helps prevent errors and keeps everyone on the same page".
Employee J	Participative	Increased ownership and commitment foster communication and collaboration. Feels involved in decision-making, leading to higher engagement and problem-solving.	"Being able to share my ideas and contribute to decisions makes me feel invested in the outcome".

## 5. DISCUSSION

This research yielded results that emphasize the multidimensionality surrounding the linkage between different workplace fashions of how they influence employees' productivity in European SMEs. However, the amount of transformational leadership identified within some SME sectors is in line with the existing literature, which emphasizes the ability of this concept to motivate an employee (Dyczkowska & Dyczkowski, 2018; Audretsch & Belitski, 2021). The positive influence on job satisfaction and commitment that were reported is consistent with the theory that transformational leaders can make the workplace attractive to employees. Contrastingly, transactional leadership in some SMEs resulted in task-directed outcomes, causing occasional stress

and burnout. Similarly, this could be seen as a reflection of the factuality of a dual capacity of transactional leadership that has led to increased task performance yet does not update addressing more significant well-being-related issues (Nazarian et al., 2017; Aboramadan & Dahleez, 2020). There are two directions in which SME leaders have to go — the performance-based goals and the overall well-being and content for their employees. In terms of leadership, while it is less common, it shows a paradoxical effect on the performance of employees (Li et al., 2016; Nazarian et al., 2017; Aboramadan & Dahleez, 2020). Unification refers to the act of combining two different concepts into a single statement. This discovery correlates with the view that laissez-faire leadership could work well in cases where employees have deep expertise

and prefer autonomy but might cause perplexity or numbness in other circumstances.

A productive interplay of several factors is the relationship between chief executive officer (CEO) transformations and employee motivation and performance. Having said that, the new CEOs will instil vision, strategic direction and leadership style, and if the new CEOs reorganize the corporate culture, then a revitalized organizational culture and employees will also receive inspiration. Such a dynamic move provided it is adequately communicated and implemented, can then enhance motivation and performance. However, a CEO transformation itself does not necessarily guarantee a positive impact on employee motivation and performance. This is why transformations are so often successful, thanks to the effective interaction of the new management with the people on the shop floor who need to be guided towards the goals of the company. Leadership changes may also be evident in organizations where employees are highly motivated with commendable performance as a result of maintaining and improving their success. Since, in this scenario, a new incoming CEO may take over the leadership of a workforce that is motivated and highly performing, their leadership style might have a positive effect on the implementation of the strategic changes. As such, the adversity arises from the fact that employee motivation must be preserved throughout the transition of the leadership, as well as the need for the new leader to fit into the organization's environmental features, which are already positive.

Personality and training are pivotal in SMEs, playing the role of moderators that shape individual perceptions of work and responsibility to a great extent. The specific context in which SMEs operate requires a wide range of skills and flexibility. Employees' personality traits, like conscientiousness, openness to new experiences, and agreeableness, may influence the way individuals survive the obstacles in the cited business establishments. For instance, a responsible worker will prosper in an atmosphere where attention to detail and timeliness are crucial, whereas a high-openness worker performs well in an exciting and diverse job environment (Cui et al., 2022). Knowledge of the individual profiles within an SME helps the organization to try and make a good job-role alignment, which is developed based on the fit between employee characteristics and organizational needs, therefore, positively affecting performance. Another aspect is the level and type of training that the employees in SMEs receive, which also contributes to shaping their competence, skills, and assurance to do their parts well. Adequate training not only provides the employees with the needed knowledge and resources; it also increases the employees' self-efficacy and job satisfaction. In an SME environment, where resources may be scarce, efficient training programs assume critical importance. On continuous and relevant training, Cahyadi et al. (2022) reveal that employees who are subjected to such training are likely to be more assured of their roles and, hence, perform well. The additional aspect lies in purpose-built training programs into the features of the SME to create a workforce that has not only capability but also an understanding of the situation in the organization. The relationship between personality traits and

training in SMEs should also be understood to help formulate strategies which will improve employee performance. By addressing such moderators, SMEs can adapt their practices pertaining to recruitment, training and development to create a situation where employees are likely to feel energized, motivated, and ready to fulfil their respective roles efficiently.

## 6. CONCLUSION

This study has given an in-depth account of the relationship between leadership styles and employee performance in European SMEs. A rich picture of the multitudes of SME leadership practices within the European context, in addition to its complex effects on employees' effectiveness as portrayed by the findings. Transformation leadership is prevalent in some SMEs, which means that it has the ability to motivate and influence employees to focus on commitment and motivation. Transformational leadership has proven to have a positive relation to work satisfaction, reinforcing current and other studies. Transformational leadership is, however, visualized to be a recipe for success in creating dynamic and motivating workplace settings. Transcendently; however, the existence of task-oriented leadership, with the advantages of task-oriented performance, prompts the awareness of employee needs and attention to their safety. Stress and burnout, which may be sometimes linked to this style of leadership focus on the need to achieve work driven results without sacrificing employee's health and happiness. Leaders of SMEs have to be aware of the possible trade-offs and consciously try to preserve both productivity and employee welfare. The responses that are both negative and positive responses with respect to laissez-faire leadership also bring out the contextual nature of this approach. Self-directed work would be a suitable option for some employees who see it as a benefit of the autonomy it offers; others would prefer to be given more guidance. The significance, therefore, due consideration must be given to the preferences of employees, and each SME should be considered separately. The approach of leaders has to change depending on what individual teams need or want. Pragmatic outcomes emanating from this research are of immense interest to leaders and managers in European SMEs. It is important to know the industry, the stage of SME's development and the culture of the latter for choosing an appropriate leadership approach. Flexible leadership styles, alongside the encouragement of clear communication and feedback, have the potential to boost employee satisfaction. Still, there is a need to point out the weaknesses of this research. However, a certain amount of caution is worthwhile in interpreting the results as there is also the possibility of participant bias.

While this research elucidates useful insights for European SME leaders and managers, it remains a descriptive study. However, it dwells more on the process of leadership styles matching organizational culture and context. In some industries driven by innovation, SMEs can benefit from altering to transformational leadership to nurture creativity. Transcendent, in the same way, would perform better among people in highly regulated fields, although ensuring that transactional leadership may be better in helping these individuals

comply and create efficiency (Dvouletý et al., 2021). SME development stage consideration is also brought into the spotlight by the study. With their dynamic and flexible nature, start-ups are likely to proliferate under transformational leadership. On the other hand, established SMEs' whose focus is on stability and consistency may require transactional leadership as it is ideal for their needs. Also, leaders have to be aware of employees' preferences and needs. Effective communication and opportunities to question were largely missing from the leadership styles that point leaders employ to meet the specific needs of their teams. In this freedom lies the ability to increase the level of employee satisfaction and engagement. Leaders also need to find a compromise between performance objectives and employee welfare (Katz-Gerro & López Sintas, 2019). Transactional leadership's focus on tasks and rewards must be balanced with concern for the least stable motives: the psychological and emotional needs of the workers. This should lead SME leaders to seldomly keep a tab on stress levels and employee satisfaction to make sure that a healthy workplace is currently being maintained.

This qualitative nature of research does not allow the development of any kind of causal association between leadership and employee performance. A more explicit causal analysis could be conducted by use of longitudinal or experimental studies in future research. However, despite the diverse nature of the sample, this size may not be large enough to fully represent European SMEs. Researchers can replicate this study using a larger and geographically more diverse sample basis to improve the generalizability of the results. Future research should also look into the details of the mechanisms through which leadership styles have their effects. Considering mediator variables, including organizational culture, employee motivation, and job satisfaction, would add depth to understanding these processes. In addition, the review of SMEs' leadership development and training programs can provide insights into how leaders learn and change their formal leadership styles. Women studying leadership coaching and mentoring in SMEs could be a valuable source of information about leadership development strategies.

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