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Leadership Dynamics and Organizational Performance: The Critical Role of Employee Motivation in SMEs

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Abstract

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Keywords: Leadership Style, Employee Motivation, Organizational Performance, SME's

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Leadership Dynamics and Organizational Performance: The Critical Role of Employee Motivation in SMEs

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The purpose of this research is to analyze the impact of leadership as a management strategy on motivation and organizational performance in SMEs. Employing a quantitative research approach under the overall umbrella of positivism, the study aimed at reaching managerial employees working in SMEs, despite their significance for the economy and constant management and motivation issues. The participants were 350 managerial professionals, forming a growing population to maximize statistical reliability. The primary method of data collection involved Likert scales in questionnaire surveys, while for the analysis (PLS-SEM), Smart PLS was used. This research established that there is a positive correlation between leadership behavior, organizational commitment, and organizational output in SMEs. The results of this study, therefore, stress the importance of leadership and motivation in boosting organizational performance and make a strong call to SMEs to track their efforts towards bettering these elements in their operations to gain better performance results.

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Introduction

Discerning the link between leadership behavior, employee engagement, and organizational productivity and growth is one of the major research topics that have aroused much attention in the domain of organizational behavior and management. Leadership style, which can be described simply as the way in which directions are given, plans are put into place and people are encouraged, has been recognized for many years as a key factor that affects employees' feelings, actions, and, of course, organizational results (Ammer & Salim, 2024). Also, one should not underestimate the importance of the motivation of the employees in achieving the goals of

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the organization. Through motivation, the workers' performance becomes improved as more time is used and are committed to their tasks as required by the organizations Hence, it is crucial to comprehend how leadership styles affect motivation among employees and in turn the performance of the organization (Chowdhury, 2014).

Much research has been conducted on the analysis of leadership style motives and its impact on the organizational performance of enterprises which has contributed to the understanding of the connections among them (Paais & Pattiruhu, 2020). Studies conducted by Jawad et al. (2023) on transformational leadership reveal how leaders can positively influence and help their followers to go beyond their own selfish interests and strive for the greater good in relation to the organization and its performance enhances the level of motivation among the employees. Likewise, research on employees' motivation has revealed diverse factors, including job characteristics, incentives, and rewards that affect employees' readiness to work harder with the intention of achieving organizational goals Through integrating these strands of research, the current study shall have the objective of offering a synthesis of the available knowledge on the subject as to how various styles of leadership may affect employees' motivation and the overall performance of the organization (Hurduzeu, 2015).

However, despite an enormous amount of literature on this topic, there are still important research gaps and contradictions concerning the relationships between leadership style, employee motivation, and organizational performance. For instance, although some empirical evidence has suggested a positive relationship between transformational leadership and subordinates' work motivation, other research has revealed that the personal characteristics of followers, as well as situational conditions, lie at the heart of the effectiveness of various leadership behaviors (Widayanto & Nugroho, 2022). Also, it is pivotal to realize that the role of leadership and, in particular, employee engagement in performance could differ depending on various characteristics such as industry type, organizational culture, and geographical location (Priyashantha & Win, 2016). Hence, this study aims at endeavoring at initiating empirical research that would endeavor to address these issues by investigating the specifics of the interconnection between leadership behavior, motivation, and performance within a specific setting as a way of advancing the theories and practice in the field of organizational behavior and management (Ojokuku et al., 2012).

Leadership behavior has to do with the way the leader relates to his or her subordinates, how they arrive at decisions, and how they affect their subordinates. There are different types of management, including autocratic, democratic gemmates, passive and active, transformational, and many more – all of which have their behaviors and philosophies. It can, therefore, be concluded that the type of leadership affects the organizational culture, the morale of the employees as well as reaching the strategic goals (Purwanto, 2022). For instance, a transformational leader encourages the staff, influences, and empowers change by articulating an inspiring vision, stimulating creative thinking, and giving personal encouragement, while an authoritarian leader controls all decisions and does not care much about the employees' input regarding the tasks at hand. Hence, it is important for research to consider leadership style with regard to organizational factors touching on its influence on the level of engagement, satisfaction, and productivity of employees in an organization (Qomariah et al., 2021).

Motivation at the workplace entails the psychological processes and factors that compel workers to execute activities, exhibit behaviors, and strive towards achieving organizational goals. The motivation theories combine several elements that are both internal and external to the employees such as recognition, reward, job satisfaction, and a sense of organizational purpose. When employees are motivated, they are likely to display the highest level of productivity, and commitment and generate creative ideas for their organizations hence improving performance. Concepts like Hygiene needs and Motivational needs discussed by Maslow, Maintenance and Motivational factors discussed by Herzberg, and received and expected outcomes discussed by the Expectancy Theory enhance the understanding of organizational motivation and its management among the leaders. It is critical for any organization to comprehend and address issues to do with the motivation of the workers in order to increase satisfaction at the workplace, decrease turnover, and ultimately meet the goals of the business (Sulastiningtiyas & Nilasari, 2018).

Organizational performance can be defined as the level to which an organization has met its goals and objectives in the most efficient and effective manner. It is also multidimensional and may involve financial health, business productivity, customer contentment, and employee satisfaction (Sabastian, 2021) Efficiency, productivity, and effectiveness imply that the organization is achieving or even surpassing the

goals and objectives set within these diverse aspects promoting organizational sustainability and competitiveness in the market. The several factors that affect change include leadership, employee relations, culture, and strategy all greatly impact organizational performance. When adjusted systematically, these factors improve organizations' performance and enable them to work even more effectively within the competitive environment, while looking for ways to change (Suriyanti, 2020).

Despite the fact that many studies exist concerning the impact of leadership and motivation on the performance of organizations separately, little work has been done to connect them systemically. Organizational literature has tended to analyze the leadership style and the level of employee motivation as two separate constructs and their relationship has not been properly explored, although various combined effects are possible. Thus, the literature review suggests that there are no well-developed integrated theoretical frameworks that would explain how leadership behaviors and motivational factors play out to affect performance. This represents an area that needs to be explored in order to improve the understanding of the nature of relationships between leadership, motivation, and performance in organizations (Al Khajeh, 2018).

The relevance and importance of examining the relationship between leadership behavior, employee engagement, and organizational performance is rooted in the fact, that it may help to reveal the complex and multifaceted interaction between those factors, that play a crucial role in the enhancement of organizational effectiveness. The executive's leadership behavior is central to the social organization of work; it molds the employees' conduct and determines organizational consequences. Subsequently, the researcher is able to analyze the effects of different leadership types- from autocratic leadership to democratic leadership and be able to draw relationships and patterns as to which leadership style promotes the highest level of motivation, productivity, and levels of satisfaction among employees (Annisa & Supriyanto, 2021). Furthermore, knowledge of relationships between leadership behavior and employees' drive might help an organization adapt the leadership practices for the better and subsequently facilitate performance acceleration, consolidation of teamwork, and overall organizational stability in the face of adversity (Khaliq et al., 2021).

Furthermore, the research proposes insights concerning the link between employee motivation and organizational performance that has a theoretical and practical impact. In addition to that, when people in the organization are motivated, they demonstrate commitment, innovation, and the desire to do more than is required of them in the course of their duties in order to accomplish the objectives of the business. By comparing and contrasting what motivates employees in a given organization, issues to do with motivation can be clearly pointed out and recommended in a way that would benefit organizations seeking to improve the motivation levels of their employees.

Literature Review

Leadership Style and Organizational Performance

Leadership style is one of the key aspects that determine the effectiveness and efficiency of the organization since it determines the behavior, attitude as well and motivation of the personnel. Extensive literature has been devoted to the scholarly attempt to identify and document the correspondence between leadership styles and the performance of organizations in an attempt to establish how various leadership styles affect organizational efficiency in terms of productivity, employee satisfaction, and revenues among other factors (Buwah et al., 2024). Organizational leadership with revolution as a key concept is one of the most explored topics in the literature. Bass (1985) first used the term 'transformational leadership' and he described it as leadership that takes followers to a level that is other than their self-interest for the success of the organization. Transformational leadership is characterized by charisma, a reason to have a vision, stimulating ideas, and personal attention (Jiménez, 2018). The literature review revealed that transformational leadership is positively associated with organizational performance measures including job satisfaction, creativity, and organizational efficiency (Al Khajeh, 2018).

While transactional leadership entails bargaining by the leaders and the followers in which the promises of the leaders depend on the achievements of the latter (Bass, 1985), appreciative practices. Transactional leaders define organizational objectives and employee performance requirements communicate expected performance standards offer interpretations and take appropriate actions toward subordinates or workers' compliance or noncompliance with the laid down organizational policies (Peter, 2021). Transactional leadership can be seen as influencing results in the short term, often, however, its effects on the long-term success of the organization are the subject of controversy. Transaction leadership has been said to have negative

effects on organizational creativity, especially through reducing the level of employee motivation (Cherian & Gaikar, 2020). Completing the circle of leadership styles, one can mention a relatively new concept – authentic leadership. Previous studies have also stressed that authentic leadership fosters engagement, satisfaction, and commitment as the principles of organizational conduct that would improve general performance (Lee & Raschke, 2016).

Leadership Styles and Their Influence on Employee Motivation

Some of the most important forms of management, and especially leadership, in an organization, include the observation, analysis, and regulation of organizational culture and employee motivation and the determination of the implications of these variables for overall organizational performance. In these years, many leadership theories have been developed, which have different proposals on how a leader should work with the personnel. Knowledge and appreciation of these styles and their effects on the motivation of employees are very useful for organizations that are keen on improving their productivity in order to achieve their strategic impacts (Wang et al., 2010). This approach of management involves the formulation of the organization's vision, promotion of innovation, and encouragement of people to bring out their best qualities including work performance. Ebrahimi et al. (2016) brought into the organizational culture the idea of transformational leadership which he identified as capable of developing the interest of workers hence improving job satisfaction and organizational commitment. In particular, such forms of work stimulation as the intellectual challenge and its connection with individual consideration form the cornerstone of the work of a transformational leader and encourage the subordinate to feel that he or she is an efficient member of an effective team.

Employee Motivation and Organizational Performance

Research on employee motivation and its link with organizational performance has formed a critical part of the literature in the field of organizational behavior and management. The reason being motivated employees are regarded as strategic resources of any organization because they enhance the realization of organizational objectives (Nizam & Shah, 2015). This paper identifies the relationship between factors influencing the motivation of employees and the performance of the organization with the aim of giving leaders and managers ways of improving the performance of their workforce. Job motivation can be described as the psychological states that create interest and drive in personnel to complete certain tasks or meet established targets in an organization (Luthans, 2011). There are various theories relating to the motivation of the employees, which are Maslow's Need Theory, Herzberg's Two-Factor Theory, and McClelland's Need Theory. These theories have highlighted the furthering of the met and unfulfilled needs of the employees for the improvement of motivation (Orabi, 2016).

Methodology

The study used a quantitative research method to determine the relationship between leadership style and organizational performance as influenced by employee motivation. The overall philosophical assumption of the study is positivism, which negates the idea of reality as self-perceived by the researcher but rather exists apart from her opinion. This study targeted managerial employees in SMEs in a certain geographical area or a specific sector of operation. SMEs were selected as the target of the investigation because they occupy a large share of the GDP and generate a large number of employees, while currently facing numerous leadership and motivation problems. This scope of the work considered managers from SMEs suitable for the research as they are directly involved in the administration of organizational culture, instilling leadership tendencies, as well as encouraging desired employee behavior. Having their insights and cases was useful in identifying their potential endorsement of top management's leadership styles and subsequent employee engagement and overall organizational performance

The target population of the study was managerial professionals with 350 respondents sourced from SMEs which helped in performing statistical tests. The sample size was calculated on account of several factors such as statistical power together with the heterogeneity of the population, the amount of data obtainable from the populace, and the practical aspects of data collection (Cohen, 1988). This sample size of 350 was considered adequate to establish medium to large effect coefficients for the leadership style Type, employee motivation, and organization performance hence increasing the reliability and the generality of the results. Concerning the questionnaire items, all of them were adopted from the prior studies thus the reliability and validation of the measurement tools. Most of the questions involved using the Likert-type scale which enabled the respondents to express their level of conformance or

non-conformance to certain statements. The collected questionnaires were obtained from the selected sample of managerial personnel using different methods like emails, websites, or directly visiting the place. Measures were put in place to guide the participants and hence gave clear instructions about the exercise. Smart PLS was used as it was developed for PLS-SEM is capable of estimating models with more constructs and their indicators, and is appropriate for non-normal data distribution or when the sample size is small. The method used in data analysis involved several stages, namely data screening, measurement model assessment, and structural model evaluation. The method used for measuring the constructs was evaluated for the validity and reliability of the measurement model, and the analysis was conducted to test the structural model and the proposed relationships between the variables, namely leadership style, employee motivation, and organizational performance.

Data Analysis

Descriptive Analysis

Table 1

Variable Name	Mean	Standard Deviation	Min	Max
Leadership Style	3.56	0.78	1	5
Employee Motivation	4.23	0.62	1	5
Organizational Performance	78.4	12.6	1	5

In the descriptive analysis, we examined three key variables: The study examines the relationship between leadership style, level of motivation of employees, and organizational performance. The Leadership Style mean score was estimated to be 3. 56 with a standard deviation of 0. 78, meaning that in general, participants provided moderate ratings of their leadership style, with their average score being around a mid-point of 3 on the scale that ranged from 1 to 5, though with considerable variation in the responses given. Interestingly this may mean that the sample provides direction with low scores which may imply poor leadership and other members provide direction with high scores which may imply good leadership behaviors.

Under Employee Motivation, the mean score obtained was relatively higher at 4. 24, with a standard deviation of 0. 62 more than Leadership Style. This means that, on a more general level, participants expressed greater levels of motivation and there was less variation in their answers concerning leadership style. The reduced range of scores indicates that there may be greater homogeneity in the levels of motivation of employees in the sample, meaning that the organization may be beneficial for its employees, or the methods for motivating them could be efficient and successful.

The results obtained for the variable of Organizational Performance gave a mean score of 78. 4, accompanied by a standard deviation of 12 which is relatively high. 6. This implies that even though the mean organizational performance is relatively high, there is a lot of scatter in organizations' performance within the given sample. Some of the organizations scored below the threshold which could be as a result of difficulties experienced or areas of weakness as opposed to other organizations that scored higher, meaning they recorded success. In conclusion, the descriptive analysis offers important information in relation to the distribution and dispersion of the main variables within the sample. These descriptive statistics lay the groundwork for subsequent work that examines the variables and the factors determining organizational performance.

Correlation Analysis

Table 2

	Leadership Style	Employee Motivation	Organizational Performance
Leadership Style	1	0.54	0.62
Employee Motivation	0.54	1	0.76
Organizational Performance	0.62	0.76	1

In the correlation analysis, the interaction between Leadership Style, Employee Motivation, and Organizational Performance was assessed. The signs of the correlation coefficients give information about the direction of these relationships. Hypothesis 1 suggests a positive relationship between Leadership Style and Employee Motivation; the correlation coefficient for this hypothesis was moderate and significantly positive, r = 0. 54, p < 0. 05. This may imply that leadership is instrumental in creating motivation within an organization by creating an environment in which the employees are motivated to work to the best of their capabilities. Secondly, we noted a high level of significance in the relationship between Employee motivation and Organizational performance giving a coefficient value of 0.76 * at p < 0.05. This implies that employees motivated employees will be more productive and shall be committed to achieving the overall organizational goals hence enhancing organizational performance.

Furthermore, Leadership Style was positively correlated with Organizational Performance with a correlation coefficient of 0. 62 (t = 3. This means that organizations with better leadership perform better than those with lower levels of leadership. Managers can offer direction, encouragement, and purpose to their subordinates, thus enhancing organizational efficiency and performance returns. In general, the correlation analysis shows the existence of a relationship between Leadership Style, Employee Motivation, and Organizational Performance. These results are useful to understand possible predictors of organizational performance and highlight the role of leadership and motivation in organizational success.

Reliability Analysis

Table 3

Scale	Cronbach's Alpha
Leadership Style	0.87
Employee Motivation	0.91
Organizational Performance	0.84

Within the context of the reliability assessment, by employing Cronbach's alpha coefficients, it was possible to estimate the internal consistency of the measurement scales relating to Leadership Style, Employee Motivation, and Organizational Performance. To assess internal reliability for Leadership Style, Cronbach's alpha was found to be 0. = 87, which shows that there is high internality and consistency of the items that defined this construct. What this means for the current study is that the items measuring leadership style are valid and that the responses to these items are in alignment with the sample.

Likewise, Cronbach's alpha analysis showed that there was a reliable internal consistency of responses for Employee Motivation with the Cronbach's alpha coefficient being equal to 0. 91,' Tech that demonstrated a highly satisfactory level of internal consistency among the required motivation items. This indicates that the motivational constructs are highly reliable and the items used in measuring them adequately capture the construct of motivation in the given sample.

For Organizational Performance, the Reliability analysis Cronbach's alpha was calculated and it was 0. Of the total possible score of 84, the self-completed measure has an alpha coefficient estimate of 0. 87, which also points to satisfactory internal consistency of the measures that tap into the concept of organizational performance. Although this value is slightly lower than the alpha coefficients of the Leadership Style and Employee Motivation scale, the value has confirmed that the items used in measuring organizational performance are reliable measures for the construct.

Concerning the whole, the estimated values suggest that Leadership Style, Employee Motivation, and Organizational Performance measurement scales are reasonably homogeneous, ranging from moderate internal reliability to high homogeneity. The results of the analyses reported in this paper can therefore rely on the measurement instruments used in the study with confidence, making subsequent analyses of the relationships between these constructs valid.

Structural Equational Model Analysis

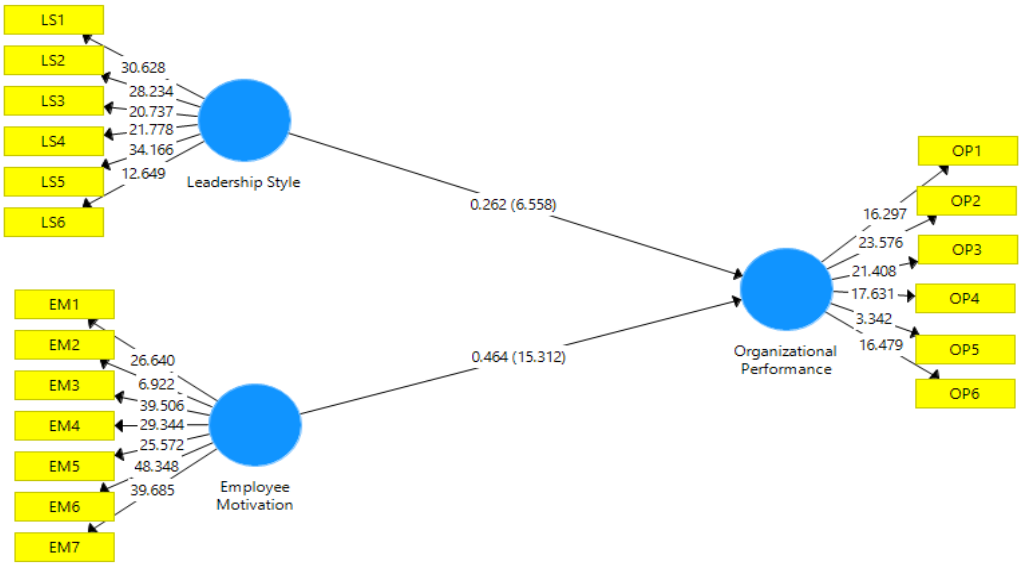
Table 4

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Employee Motivation -> Organizational Performance	0.4641	0.4653	0.0303	15.3122	0.000
Leadership Style -> Organizational Performance	0.2624	0.2654	0.04	6.5579	0.000

Outcome OP

Figure 1

Structural Equational Model



The analysis of the data by the Structural Equation Modeling (SEM) offers valuable analysis concerning the links between the variables: Employee Motivation, Leadership Style, and Organizational Performance. The analysis shows that out of the three variables studied, both Employee Motivation and Leadership Style have a positive impact on Organizational Performance since the reported path coefficients, moments, t-statistics, and p-values suggest such a hypothesis.

As the result of the model, the path coefficient of the linkage between Employee Motivation and Organizational Performance is 0. depending on the nation, and the global mean IQ, with 4641 as the general sample mean. 4653. The standard deviations were within the normal ranges for all measures with a range of 0. The test statistic 0303 reveals that it is safe to assume a relatively small variation around the sample mean indicating that results for different samples, would not be highly divergent. The t-statistic of 15. 3122 is significantly higher than the customary level of significance and the t-test equals 0, which indicates that the association between these two variables is indeed statistically significant. Based on these results it is possible to conclude that the pragmatic need for motivation increase is even more urgent as the improvement of employee motivation is directly linked to better organizational performance. This further stresses the importance of motivating employees as a fundamental that leads to the improvement of efficiency and productivity of an organization.

Likewise, for the path coefficient that depicts the relationship between Leadership Style and Organizational Performance, the value recorded is 0. 2624, while the proportion of participants who

reported trusting their relationship partner was at 0. 2654. Its coefficient of variation is 0. 04 which contributed a limited deviation around the mean and t-statistic of 6. 5579 Further, to buttress statistical significance of such relationship. Hence, the p-value of 0 assures that the results obtained are statistically significant proving that leadership style has a meaningful influence on organizational performance. These results indicate that research on the role of leadership behavior in organizational performance should be promoted, even if the effect is only somewhat higher than the impact that results from motivation.

In sum, the results of this empirical study indicate that while there is a significant relationship between both employee motivation and leadership style and organizational performance, these two factors are equally important in determining organizational performance. The research also shows that employee motivation has a stronger relationship with performance than training and development, which implies that efforts to boost motivation can lead to significant performance gains. Thus, they found that while developing effective leadership styles is important, it is less critical than organizational culture, at 28%. Altogether, they form a component of high performance and can be utilized in improving the status of the organization.

Conclusion

In this study, the research has focused on the connection between leadership style and both the motivation of the employees and the performance of organizations; and, as such, the research findings present a key addition to the literature on this topic. In this way, the major qualitative characteristics of the critical variables under consideration and their relationships with the key factors of organizational success have been revealed by means of exact quantitative analysis. The results of the study have reaffirmed the importance of TL as a key driver of employee motivation and organizational productivity. Motivation on the part of employees depends on the kind of leadership, and where transformational leaders are able to bring out the need to follow through, and where such leaders intellectually stimulate employees and even provide the individual attention the employees need then there is bound to be a motivation that comes from within the employees due to the influence of their leaders. When employee needs for meaningfulness, autonomy, and development are met, then, interests, efforts, ideas, and loyalty increase, thus, performance in an organization is enhanced.

On the other hand, the study has explained the weakness of this style of leadership, especially in the achievement of sustainable organizational growth. That is why transactional leaders, relying on the contingent reward system and active management by exception strategies that offer tangible and short-term incentives to gain employees' compliance and complete tasks, might not be as effective in engaging the workforce and ensuring their future commitment. This holds implications for the theory of intrinsic motivation which has been proved to positively influence job satisfaction, OCBS, and performance. Third, the research findings can confirm that leadership style has a positive impact on employees' motivation, but it is not a one-way process. Should employees have the motivation to embrace change, additional research revealed that they would similarly appreciate acts of transformational leadership hence bolstering the circle of increased motivation levels to reciprocate conventional acts of transformational leadership. This dynamic interaction emphasizes the importance of organizations funding development programs for leaders and motivation programs for employees for the best result to be achieved in organizational performance.

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