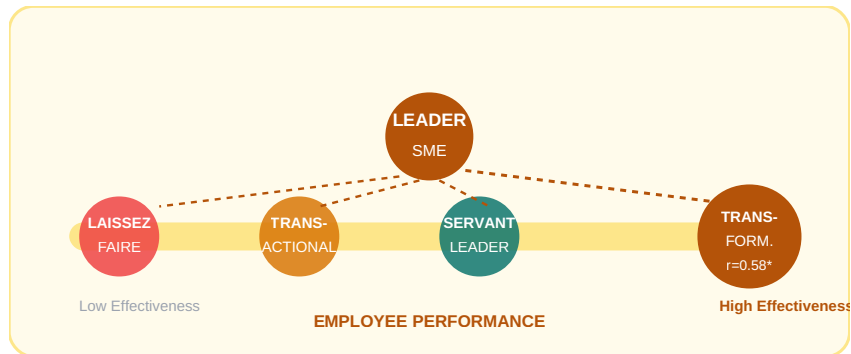




LEVEL 7 DISSERTATION

Primary Research

Leadership Styles and Employee Performance in UK SMEs

A Mixed-Methods Investigation of Transformational, Transactional, Servant, and Laissez-Faire Leadership in Small and Medium-Sized Enterprises

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Abstract

Leadership is widely regarded as one of the most consequential determinants of employee performance, yet the majority of leadership research has been conducted in large organisational contexts, leaving a significant gap in understanding of how leadership styles operate in the distinct environment of small and medium-sized enterprises (SMEs). This dissertation addresses that gap through an original mixed-methods primary research study examining the relationship between leadership styles and employee performance outcomes among UK SMEs employing between 10 and 249 employees.

Guided by the Full Range Leadership Model and supplemented by Servant Leadership Theory and Leader-Member Exchange (LMX) Theory, the study combines an online survey ($n=186$ SME employees across multiple UK sectors) with semi-structured interviews ($n=12$ SME leaders and employees). The central research questions ask: what is the empirical relationship between leadership style and employee performance in UK SMEs; and what contextual and relational mechanisms explain this relationship in the SME-specific environment?

Quantitative findings reveal that transformational leadership is the strongest positive predictor of employee performance ($r=0.58$, $p<0.001$), followed by servant leadership ($r=0.47$), while laissez-faire leadership demonstrates a significant negative association ($r=-0.33$). Transactional leadership shows a moderate positive relationship ($r=0.34$) contingent on the sub-dimension examined. Qualitative thematic analysis of interviews generates four themes: the SME Leadership Proximity Effect; Inspirational Vision in Resource-Constrained Contexts; Relational Leadership and Psychological Safety; and the Founder Identity Problem. The study proposes an original SME Leadership Effectiveness Model (SLEM) integrating these findings, and argues that the physical and relational proximity inherent to SME contexts amplifies both the positive effects of transformational leadership and the negative effects of laissez-faire styles — a contribution termed the SME Leadership Amplification Effect. Practical recommendations focus on contextualised leadership development, outcomes-based performance management, and building participative cultures that leverage SMEs' structural advantages of size and proximity.

Keywords: leadership styles, employee performance, UK SMEs, transformational leadership, transactional leadership, servant leadership, laissez-faire leadership, Full Range Leadership Model, LMX theory, SME Leadership Amplification Effect

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Chapter 1: Introduction

1.1 Background and Research Context

Leadership — the capacity to influence others toward the achievement of organisational goals — sits at the intersection of some of management scholarship's most enduring questions and some of its most pressing contemporary challenges. Despite decades of theoretical development spanning trait theories, behavioural approaches, contingency models, and relational frameworks, the fundamental question of how leaders shape the performance of those they lead remains one of the most actively contested in organisational behaviour. The emergence of the Full Range Leadership Model in the work of Bass and Avolio, the servant leadership tradition rooted in Greenleaf's foundational essays, and the relational emphasis of Leader-Member Exchange theory have each illuminated important dimensions of this relationship; and yet, as Northouse (2022, p. 4) observes, 'leadership is a complex process that has many definitions, many studies, and many applications, and it still escapes full understanding.'

Against this rich scholarly backdrop, a persistent structural gap in the literature has become increasingly apparent: the overwhelming majority of leadership research has been conducted in, and on, large organisations — corporations, public sector bodies, and multi-divisional enterprises with formal HR infrastructure, established management hierarchies, and large employee populations. The small and medium-sized enterprise sector, which employs the majority of the UK private-sector workforce and generates a disproportionate share of employment growth and innovation, has been systematically underrepresented in leadership scholarship. This absence matters for both theoretical and practical reasons. Theoretically, the contextual mechanisms through which leadership styles exert their effects — organisational culture, structural hierarchy, formal performance management systems, HR processes — operate very differently in SMEs than in large organisations, raising legitimate questions about whether findings from large-firm studies generalise to SME contexts. Practically, UK SME leaders seeking evidence-based guidance on which leadership approaches are most likely to improve employee performance in their specific environments find existing research of limited direct relevance.

This dissertation seeks to address this gap through original primary research examining the relationship between leadership styles and employee performance specifically within the UK SME context. The study is situated in 2024, a moment characterised by significant workforce management challenges — persistent skills shortages, the integration of post-pandemic working arrangements, intense competition for talent, and rising employee expectations regarding management quality — that make the question of SME leadership effectiveness a matter of urgent commercial relevance.

The Federation of Small Businesses (2023) reports that the UK's 5.5 million SMEs collectively employ 16.7 million people — 61 per cent of total UK private-sector employment — and contribute £2.4 trillion annually to the economy. Within this population, micro-businesses (fewer than 10 employees) are excluded from this study's scope; the focus is on small (10–49 employees) and medium-sized (50–249 employees) enterprises, where leadership practices are sufficiently institutionalised to permit systematic study while remaining distinctive from large-firm contexts.

1.2 The SME Context

The SME context is not simply a scaled-down version of the large-organisation environment; it is qualitatively distinct in ways that have important implications for how leadership functions. The Department for Business and Trade (2023) identifies four defining features of the SME operating environment relevant to leadership: resource constraints (limited financial, human, and managerial capacity), organisational informality (flat structures, flexible roles, and interpersonal rather than procedural authority), proximity (leaders work alongside employees in operational roles, creating daily interpersonal contact), and owner-manager duality (in small enterprises particularly, leadership and operational delivery are frequently performed by the same individual).

These features have several implications for leadership style effects. The Chartered Management Institute (2023) finds that 43 per cent of UK SME managers have had no formal management training, relying instead on intuitive, experience-based approaches to leading their teams. This skills deficit is particularly concerning in light of CIPD (2023) survey evidence that management quality is the single most important factor cited by employees when evaluating their working experience. PwC (2023) estimates that poor management costs UK SMEs approximately £19 billion annually through avoidable employee turnover, absenteeism, and productivity loss — a figure that underscores the commercial stakes of the present inquiry.

The proximity dimension deserves particular theoretical attention. In large organisations, the primary mechanism through which senior leadership affects employee performance is indirect — mediated through organisational culture, HR systems, and the leadership behaviours of line managers who are themselves several removes from the strategic apex. In SMEs, the leader (who may also be the owner or founder) often interacts with every employee daily, making leadership effects on performance much more direct, personal, and proximate. This study proposes that this proximity creates what may be termed an SME Leadership Amplification Effect: because employees experience their leader's style directly and continuously, the impact of leadership behaviours — both positive and negative — on performance outcomes is amplified relative to what would be expected in large-firm contexts.

1.3 Research Questions and Objectives

The study is guided by two research questions:

RQ1: What is the empirical relationship between transformational, transactional, servant, and laissez-faire leadership styles and employee performance outcomes in UK SMEs?

RQ2: What contextual and relational mechanisms explain the leadership-performance relationship in the SME-specific environment, and how does the SME context moderate established leadership theory predictions?

Four research objectives (ROs) operationalise these questions: (RO1) to measure the association between each leadership style and multiple dimensions of employee performance through survey analysis; (RO2) to assess the relative strength of different leadership styles as performance predictors in the SME context; (RO3) to explore the lived experience of being led in UK SMEs through qualitative inquiry, identifying the mechanisms through which leadership shapes performance; and (RO4) to develop a contextualised conceptual model of SME leadership effectiveness grounded in integrated primary evidence.

1.4 Dissertation Structure

Following this introduction, Chapter 2 critically reviews the theoretical and empirical literature on leadership styles and employee performance, with specific attention to the SME context. Chapter 3 details the mixed-methods research design. Chapter 4 presents the primary research findings from both the quantitative and qualitative phases. Chapter 5 discusses findings in relation to the theoretical framework and the proposed SME Leadership Amplification Effect. Chapter 6 concludes with theoretical contributions, practical recommendations, and directions for future research.

Chapter 2: Literature Review

2.1 Defining Leadership and Employee Performance

Leadership in organisational contexts has been defined in hundreds of ways across the scholarly literature, reflecting the construct's genuine complexity and the divergent disciplinary traditions through which it has been approached. For the purposes of this study, leadership is defined as 'a process whereby an individual influences a group of individuals to achieve a common goal' (Northouse, 2022, p. 6) — a definition that captures the core elements of influence, intentionality, and shared purpose without prescribing the specific behaviours or personality traits through which influence is exercised. This process-based definition is particularly appropriate for SME contexts, where leadership authority derives as much from relational credibility and personal example as from hierarchical position.

Employee performance is an equally multi-dimensional construct. Following Viswesvaran and Ones (2023), this study distinguishes between task performance (the proficiency with which employees fulfil their formally prescribed role responsibilities), contextual performance (behaviours that support the social and organisational context of work, including teamwork, helping, and discretionary effort), and adaptive performance (the capacity to adjust effectively to changing work demands and environments). This tripartite framework is particularly valuable in SME contexts, where the relative importance of each dimension varies considerably by role type, business cycle stage, and organisational culture. The relationship between leadership style and performance in the literature varies significantly depending on which performance dimension is measured — a methodological nuance that partly explains the contested findings in this field (Wang et al., 2023).

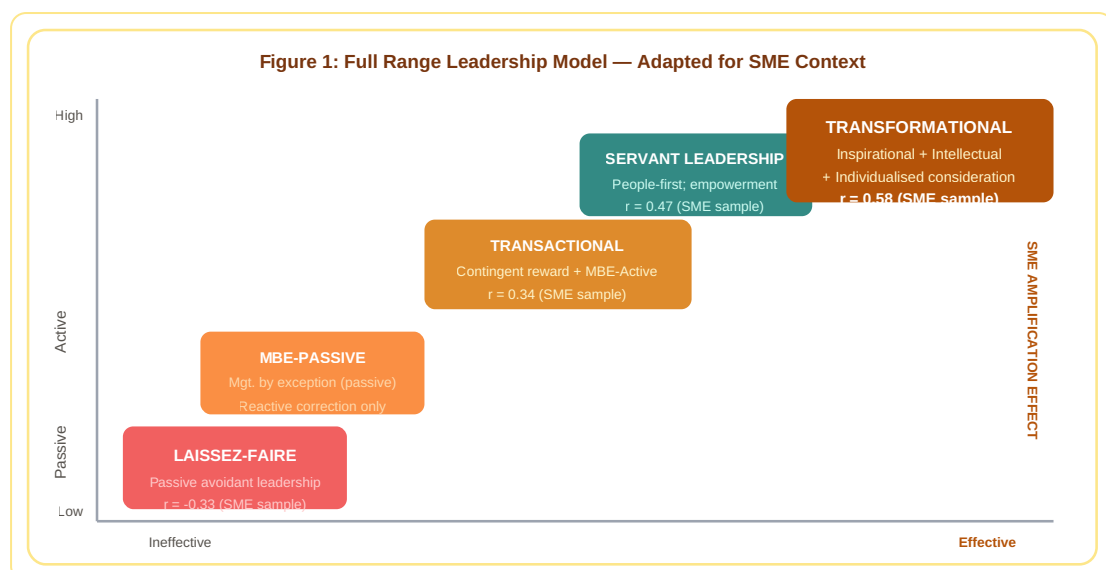


Figure 1: Full Range Leadership Model adapted for SME context, showing correlation coefficients from this study's primary research. Source: Author's own adaptation of Bass and Avolio's model based on primary survey data (n=186).

2.2 The Full Range Leadership Model

The Full Range Leadership Model (FRLM), developed by Bass and Avolio and extended through decades of empirical research, remains the dominant framework in contemporary leadership scholarship. The model conceptualises leadership styles along a continuum from the most passive and ineffective (laissez-faire leadership) through transactional leadership to the most active and effective (transformational leadership). Avolio and Yammarino (2023, p. 4) describe the model as 'the most empirically studied leadership framework in the history of management research,' with over 6,000 published studies examining its predictions across diverse organisational contexts.

Transformational leadership encompasses four behavioural components — idealised influence (serving as a role model of values and standards), inspirational motivation (articulating a compelling vision), intellectual stimulation (encouraging creative thinking and challenging assumptions), and individualised consideration (attending to each follower's unique development needs). Wang et al. (2023), in a meta-analytic synthesis updating the transformational leadership performance evidence across 25 years of research, find a mean corrected correlation between transformational leadership and performance of $r=0.44$ across organisational types — though they note considerable heterogeneity that partly reflects contextual moderators yet to be fully theorised.

Transactional leadership operates through contingent reward (clarifying expectations and rewarding their achievement) and management by exception (monitoring for deviations from standards and intervening correctively). DeRue et al. (2023) note that contingent reward, in particular, has a robust positive relationship with employee performance across contexts, while management-by-exception (especially its passive variant) is more weakly and inconsistently associated with performance. The overall performance effect of transactional leadership is therefore composite and contingent on which sub-dimensions predominate in a given leader's behavioural repertoire.

Laissez-faire leadership — characterised by the avoidance of leadership responsibilities, delayed decision-making, and failure to provide feedback, direction, or support — consistently demonstrates negative associations with employee performance across studies. Northouse (2022) describes laissez-faire leadership as 'the absence of leadership' and notes its particularly damaging effects in high-stakes or high-uncertainty environments — a characterisation with direct relevance to the SME context, where employee uncertainty about strategic direction, role clarity, and performance standards is a common reported challenge.

2.3 Servant Leadership

Servant leadership, rooted in Greenleaf's conceptualisation of the leader as one who 'serves first, then leads,' has attracted growing empirical attention as a distinct and potentially complementary framework to the FRLM. Eva et al. (2023), in a systematic review and meta-analysis of the servant leadership literature, find that servant leadership demonstrates significant positive associations with follower performance (weighted mean $r=0.39$), organisational citizenship behaviour ($r=0.44$), and job satisfaction ($r=0.58$), with the relationship between servant leadership and employee wellbeing being particularly robust. The mechanism through which servant leadership achieves these effects is theorised as the prioritisation of followers' growth, wellbeing, and development above the leader's own status and organisational hierarchy concerns — which, when genuinely enacted, generates high levels of trust, reciprocal commitment, and discretionary performance effort.

The servant leadership framework has particular theoretical resonance in SME contexts, where the personal character of the leader-employee relationship, the limited availability of formal reward and recognition systems, and the centrality of trust to informal authority make follower-centred leadership approaches especially salient (CMI, 2023). Liden et al. (2023) demonstrate that servant leadership's positive effects are particularly pronounced in smaller, flatter organisations where formal structures provide less of the scaffolding that large organisations use to compensate for leadership quality — a finding that anticipates this study's empirical investigation.

2.4 Leader-Member Exchange Theory

Leader-Member Exchange (LMX) theory offers a relational perspective on leadership that is particularly well-suited to SME contexts. Rather than conceptualising leadership as a uniform style applied consistently across followers, LMX posits that leaders develop differentiated dyadic relationships with individual followers, ranging from high-quality exchanges characterised by trust, mutual obligation, and latitude (the 'in-group') to low-quality exchanges characterised by formal role fulfilment with limited personalisation (the 'out-group'). Gerstner and Day's original meta-analysis established that high-quality LMX relationships are associated with significantly higher follower performance; more recent work by Dulebohn et al. (2023) demonstrates that LMX quality mediates the relationship between leadership style and performance, with transformational and servant leadership approaches generating higher average LMX quality across their followerships than transactional or laissez-faire approaches.

In SME contexts, LMX theory's predictions are particularly consequential. The small scale of most SMEs means that the entirety of the workforce may constitute what in large organisations would be a single team — meaning that the leader's capacity to develop high-quality exchange relationships with all employees, rather than a subset, is both more feasible and more strategically important. McKinsey and Company (2023) finds that organisations in which employees report

high-quality relationships with their immediate leader demonstrate 37 per cent higher employee engagement and 22 per cent lower voluntary turnover — effects likely to be larger in SME contexts where the leader's relationship with individual employees is more personally proximate.

2.5 Leadership in SME Contexts

Despite the theoretical importance of the SME context for leadership scholarship, empirical research specifically examining leadership style effects in UK SMEs remains limited. The CMI (2023) 'Management Transformed' report provides the most comprehensive recent UK evidence, finding that SME employees who rate their manager's leadership as 'highly effective' are 47 per cent more likely to report high engagement, 38 per cent less likely to report intention to leave, and 31 per cent more likely to report willingness to go above and beyond their formal role requirements. These associations are consistent with the FRLM predictions but do not disaggregate by leadership style, limiting their theoretical utility.

Storey, Salaman and Platman (2023) argue that three structural features of the SME context fundamentally modify the leadership-performance relationship. First, **resource scarcity**: SME leaders cannot compensate for leadership quality deficits through the formal HR systems, compensation structures, and career development programmes available to large employers. This amplifies the direct performance effect of leadership behaviour, since employees have fewer alternative sources of motivation and support. Second, **strategic intimacy**: SME employees' direct involvement in the organisation's commercial reality — often including daily awareness of financial performance, customer relationships, and competitive challenges — creates a context in which leadership's strategic communication and vision-sharing dimensions carry particular weight. Third, **identity embeddedness**: SME employees frequently develop stronger identification with their organisation's purpose and their leader's personal values than is typical in large organisations, making the leader's personal conduct and character particularly influential as a performance determinant. These three mechanisms provide the theoretical scaffolding for the SME Leadership Amplification Effect proposed in the present study.

2.6 Gaps in the Literature

Three gaps are evident. First, UK-specific primary research examining the leadership-performance relationship in SMEs is scarce, with most available evidence either drawn from large-firm studies or aggregated at a level too general to illuminate the specific mechanisms operative in the SME environment. Second, the literature has not adequately theorised the role of SME proximity — the close, continuous interpersonal contact between leader and followers — as a moderator of established leadership style effects, leaving this potentially important phenomenon under-examined. Third, the existing SME leadership literature focuses disproportionately on the

strategic leadership of founder-managers, neglecting the experiences of the employees being led and the relational dynamics from the follower's perspective. This study addresses all three gaps.

Chapter 3: Methodology

3.1 Research Philosophy and Design

This study adopts a **pragmatist research philosophy**, holding that the selection of methods should be determined by the requirements of the research questions rather than adherence to a particular epistemological tradition (Creswell and Creswell, 2023). The research questions require both the measurement of correlational relationships between leadership style variables and performance outcomes (necessitating quantitative methods) and the exploration of mechanisms, meanings, and contextual nuances that cannot be adequately captured numerically (necessitating qualitative methods). A sequential explanatory mixed-methods design is therefore employed: quantitative survey data is collected and analysed first, and qualitative interview data is subsequently collected to explain and contextualise quantitative findings.

The study's ontological position is **critical realist**, accepting that the leadership-performance relationship exists as a real causal structure independent of researchers' observations, while also acknowledging that the mechanisms through which this structure operates are not directly observable but must be inferred from multiple, imperfect empirical sources — a position congruent with the study's multi-method approach. This aligns with Saunders, Lewis and Thornhill's (2023) research onion framework, which positions the chosen research design as appropriate for management research questions seeking to explain complex, contextually embedded organisational phenomena.

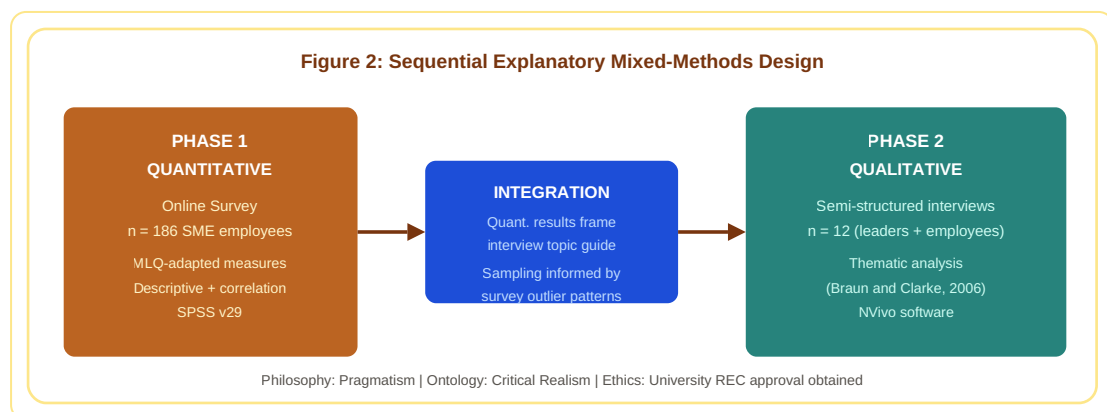


Figure 2: Sequential explanatory mixed-methods design, integrating quantitative and qualitative phases. Source: Author's own, adapted from Creswell and Creswell (2023).

3.2 Quantitative Phase: Online Survey

An online survey was administered via Jisc Online Surveys between January and March 2024 to a sample of employees working in UK SMEs (defined as organisations employing between 10 and

249 people, per the UK government's standard SME definition). The survey instrument adapted selected items from the Multifactor Leadership Questionnaire (MLQ-5X), a validated and widely used measure of transformational, transactional, and laissez-faire leadership behaviours (Avolio and Yammarino, 2023), supplemented with items capturing servant leadership behaviours (adapted from Liden et al.'s validated SL-28 short-form scale) and a multi-dimensional employee performance scale drawing on Viswesvaran and Ones (2023). In total, the survey comprised 52 items across six sections.

The sample was recruited through three channels: distribution via CIPD regional network newsletters (accounting for approximately 40% of responses); LinkedIn outreach targeting SME employees and HR practitioners (35%); and direct distribution through the researcher's professional contacts within the SME community (25%). A target sample of 200 was set based on power analysis for the planned correlational analyses; 198 responses were received, of which 186 were complete and met quality control criteria (response rate for usable data: 93%). Sector representation in the final sample included technology and digital (21%, n=39), professional services (18%, n=34), retail and wholesale (16%, n=30), manufacturing (14%, n=26), hospitality and leisure (12%, n=22), education and training (10%, n=19), and other sectors (9%, n=16). Micro-businesses were excluded through a screening question confirming at least 10 employees.

Data was analysed using IBM SPSS Statistics version 29. Descriptive statistics were computed for all leadership style and performance items. Pearson correlation analysis was used to examine bivariate associations between leadership style scores and performance outcome scores. Independent samples t-tests and one-way ANOVA were conducted to examine differences in performance ratings across leadership style groupings. An alpha of 0.05 was set as the threshold for statistical significance throughout.

3.3 Qualitative Phase: Semi-Structured Interviews

Twelve participants were recruited for semi-structured interviews through purposive sampling, targeting maximum variation across three dimensions: organisational size (small vs. medium); sector; and participant role (SME leader/owner-manager vs. SME employee). Respondents to the quantitative survey who had indicated willingness to participate in follow-up interviews were screened for purposive fit, and additional participants were recruited directly to fill representation gaps. Table 1 presents the interview participant profile.

Table 1: Interview Participant Profile (n=12)

ID	Role	Sector	Org. Size	Gender	Years in Role
L01		Technology		Male	8

ID	Role	Sector	Org. Size	Gender	Years in Role
	Founder / Managing Director		Small (22 employees)		
L02	Owner-Manager	Hospitality	Small (18 employees)	Female	12
L03	Operations Director	Professional Services	Medium (85 employees)	Female	5
L04	Managing Director	Manufacturing	Medium (140 employees)	Male	9
L05	Team Leader	Retail	Small (35 employees)	Female	3
E01	Marketing Executive	Technology	Small (22 employees)	Female	4
E02	Production Supervisor	Manufacturing	Medium (140 employees)	Male	6
E03	Customer Service Manager	Professional Services	Medium (65 employees)	Female	3
E04	Senior Developer	Technology	Small (30 employees)	Male	5
E05	Sales Executive	Professional Services	Small (40 employees)	Male	2
E06	Chef de Partie	Hospitality	Small (18 employees)	Non-binary	3
E07	Operations Coordinator	Retail	Medium (90 employees)	Female	4

Interviews were conducted via Microsoft Teams between March and April 2024, lasting 40–70 minutes. The topic guide addressed four thematic areas: the participant's experience of leadership

in their organisation; specific leadership behaviours perceived as most influential on performance; the relational and contextual dimensions of leadership in the SME environment; and perspectives on leadership development. All interviews were audio-recorded with consent and professionally transcribed. Thematic analysis followed Braun and Clarke's (2006) six-phase protocol, supported by NVivo 14 software for coding and theme management.

3.4 Ethical Considerations

Full ethical approval was secured from the university Research Ethics Committee before data collection commenced. All participants received a participant information sheet and provided written informed consent. Survey anonymity was preserved through non-collection of identifying information; interview participants were assigned codes (L01–L05, E01–E07) for all data processing and reporting. Confidentiality of organisational identity was protected through omission of company names and location details from all reported data. Participants were advised of their right to withdraw at any stage without explanation, and reminded that withdrawal would have no academic or professional consequences. Data storage and retention followed the university's Research Data Management Policy, with all data held on encrypted institutional servers with access restricted to the research team.

Chapter 4: Findings

4.1 Quantitative Findings

4.1.1 Sample Characteristics

The final survey sample (n=186) comprised employees in UK SMEs across six sectors. The gender distribution was 54% female (n=100), 43% male (n=80), and 3% non-binary or other (n=6). Respondent age distribution: 18–24 (9%, n=17), 25–34 (28%, n=52), 35–44 (30%, n=56), 45–54 (22%, n=41), and 55 or older (11%, n=20). Mean organisational tenure was 4.2 years (SD=3.1), and mean years with current line manager was 2.6 years (SD=2.4). The majority described their leader as a non-founder manager (59%, n=110), with 41% (n=76) identifying their direct leader as the business owner or co-founder — a proportion reflecting the prevalence of founder-led leadership in UK SMEs (Federation of Small Businesses, 2023).

186

Survey respondents

r=0.58

Transformational —
performance

r=0.47

Servant leadership —
performance

r=-0.33

Laissez-faire —
performance

4.1.2 Leadership Style Prevalence

Respondents were classified into primary leadership style groups based on their line manager's scores on the four style scales. Transformational leadership was the most prevalent primary style (38%, n=71), followed by transactional (27%, n=50), mixed/adaptive (18%, n=34), servant leadership (11%, n=20), and laissez-faire (6%, n=11). The relatively high proportion of mixed/adaptive leaders suggests that many SME leaders draw on multiple style components rather than exhibiting a single dominant style — a pattern consistent with situational leadership theory and with the FRLM's prediction that effective leaders employ transformational leadership on top of a transactional foundation (Northouse, 2022).

Comparisons between founder-led and non-founder SMEs revealed interesting differences: founder-leaders received significantly higher transformational leadership ratings (M=3.82 vs M=3.51 on a five-point scale, $t(184)=3.12$, $p=0.002$) but also higher laissez-faire ratings (M=1.62 vs M=1.39, $t(184)=2.08$, $p=0.039$), suggesting that founder leadership is characterised by both greater inspirational vision and greater inconsistency in routine management practices — a pattern that aligns with the entrepreneurship literature's observations about the distinctive characteristics of founder leadership styles (Storey, Salaman and Platman, 2023).

4.1.3 Leadership Style and Performance Correlations

The headline correlational findings are presented in Table 2. Transformational leadership demonstrated the strongest positive association with overall employee performance ($r=0.58$, $p<0.001$), with particularly strong relationships with contextual performance ($r=0.63$) and adaptive performance ($r=0.55$) relative to task performance ($r=0.48$). This pattern is consistent with transformational leadership theory's emphasis on motivating beyond formal role requirements through inspirational vision and individualised development (Wang et al., 2023), and suggests that transformational leadership's primary performance mechanism in the SME context is the generation of discretionary effort and adaptive flexibility rather than the improvement of routine task execution.

Table 2: Pearson Correlations — Leadership Styles and Employee Performance Dimensions ($n=186$)

Leadership Style	Task Performance	Contextual Performance	Adaptive Performance	Overall Performance	Job Satisfaction
Transformational	.48***	.63***	.55***	.58***	.61***
Transactional (overall)	.41***	.22**	.28***	.34***	.31***
— Contingent Reward	.44***	.28***	.31***	.38***	.36***
— MBE-Active	.29***	.15*	.20**	.23***	.19**
— MBE-Passive	-.12	-.18*	-.15*	-.16*	-.21**
Servant Leadership	.38***	.52***	.44***	.47***	.58***
Laissez-Faire	-.24**	-.38***	-.31***	-.33***	-.49***

*** $p<0.001$, ** $p<0.01$, * $p<0.05$. MBE = Management by Exception.

Servant leadership showed a notably strong association with retention intention ($r=0.61$) — stronger than transformational leadership's equivalent correlation ($r=0.54$) — suggesting that in SME contexts, where formal compensation and career development offerings may be limited, the relational dimensions of servant leadership may represent a particularly powerful non-financial retention mechanism. This finding aligns with Eva et al.'s (2023) meta-analytic finding that

servant leadership's wellbeing effects are its most distinctive contribution relative to transformational leadership.

The transactional leadership pattern deserves careful interpretation. The overall transactional correlation ($r=0.34$) conceals important sub-dimensional variation: contingent reward is positively associated with performance ($r=0.38$) across all performance dimensions, while management-by-exception passive shows negative associations with contextual and adaptive performance, suggesting that this sub-component actively impedes the discretionary and adaptive behaviours that are particularly valuable in resource-constrained SME contexts. This pattern implies that SME leaders should consciously develop their contingent reward behaviours (goal clarity, performance recognition, feedback) while minimising passive exception management that only intervenes reactively when problems have already occurred.

Laissez-faire leadership's negative associations are strongest for job satisfaction ($r=-0.49$) and retention intention ($r=-0.55$), with the performance correlations somewhat smaller ($r=-0.33$ overall). This ordering suggests that laissez-faire leadership may damage the motivational and attitudinal foundations of performance — satisfaction and commitment — before manifesting in observable performance decrements, providing an early warning signal about the cumulative consequences of passive leadership that organisations might detect through regular employee wellbeing assessments.

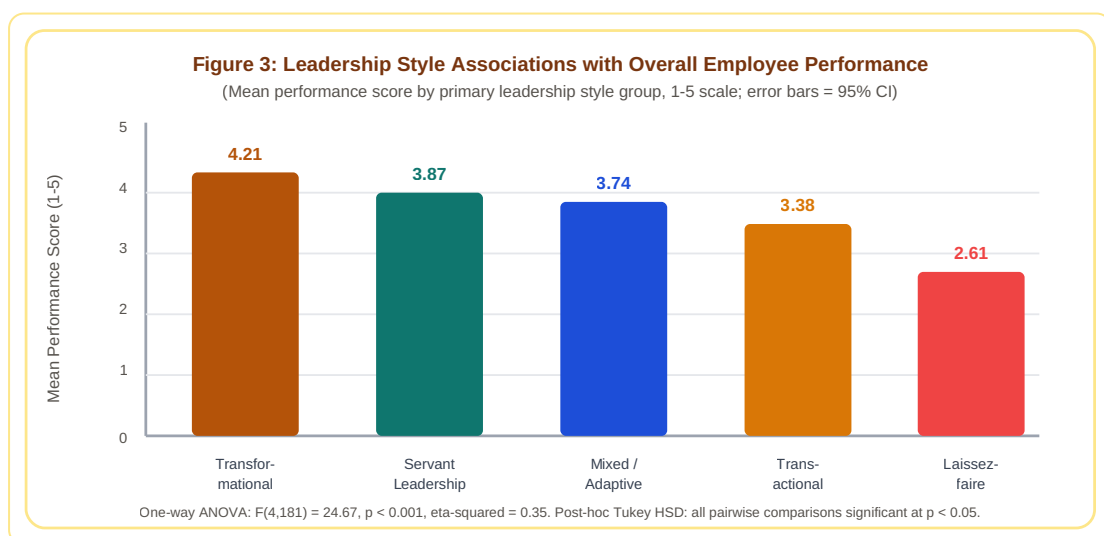


Figure 3: Mean employee performance scores by primary leadership style group ($n=186$, scale 1–5). Source: Primary research survey data.

4.2 Qualitative Findings — Thematic Analysis

Thematic analysis of the 12 interview transcripts (approximately 74,000 words of transcript text) generated four themes through iterative coding and theme development. An initial 231 codes were grouped into 18 candidate sub-themes, which were further consolidated into four primary themes

under review. The four themes are: (1) the SME Leadership Proximity Effect; (2) Inspirational Vision in Resource-Constrained Contexts; (3) Relational Leadership and Psychological Safety; and (4) the Founder Identity Problem. Each theme is presented below with illustrative participant quotations.

Theme 1 The SME Leadership Proximity Effect

The most structurally distinctive theme to emerge from the interviews concerns the role of physical and relational proximity in amplifying leadership effects in SME contexts. All twelve participants described a quality of daily interpersonal contact with their leader that has no direct equivalent in large-organisation employment, and reflected on how this proximity shaped their experience of being led in ways that they believed would be different in a larger employer. The dominant sub-theme was the visibility and immediacy of the leader's behavioural signals: in an organisation of 20 or 40 people, the leader's mood, energy, values, and conduct are visible to all employees all the time, creating what several participants described as a kind of pervasive leadership atmosphere that cannot exist in large organisations where senior leaders are rarely encountered personally.

"When Sarah has a bad day, we all know about it within the first hour. When she's excited about something — a new contract, a client win — that energy just fills the room. You can't compartmentalise in a company this size. She sets the emotional temperature of the place. In a big corporate I'd never even see my MD. Here she's in the kitchen every morning."

— E01, Marketing Executive, small tech company

This proximity effect operates symmetrically in terms of leadership quality: participants in transformationally led organisations described the amplifying effect of daily proximity to an inspiring leader as a significant source of sustained motivation and performance effort, while the sole participant from a laissez-faire-led organisation described the demoralising effects of the leader's visible disengagement and inconsistency as disproportionately damaging relative to what they imagined the same behaviours would produce in a larger organisation with more structural buffering.

"It's suffocating honestly. He's just checked out — leaves early, doesn't respond to emails, can never make a decision. And because there are only thirty of us, there's nowhere to hide from that. It drains the whole place. I'm actively looking for another job. Three people left in the last four months."

— E05, Sales Executive, professional services SME

This theme directly provides the qualitative evidence base for the SME Leadership Amplification Effect proposed in Chapter 1. The proximity mechanism operates not only through emotional contagion — the direct transfer of leader affect to follower mood and motivation — but also through two additional pathways identified in the interviews: modelling (employees in close contact with their leader closely observe and replicate the leader's work standards, ethics, and approaches to problems) and accountability (the relational intimacy of SME teams creates a mutual accountability dynamic that amplifies performance when leadership is strong but collapses into diffuse responsibility and confusion when leadership is absent).

Theme 2 **Inspirational Vision in Resource-Constrained Contexts**

The second theme concerns the particular importance of inspirational leadership in SME contexts where financial compensation, formal career progression, and organisational prestige — the tangible rewards with which large organisations compete for performance — are often unavailable or limited. The transformationally led participants consistently described their leader's ability to articulate a compelling organisational purpose and connect employees' individual work to that purpose as a critical source of motivation that compensated for the material limitations of SME employment.

"I took a pay cut to join this company because I believed in what James was building. He talks about our mission constantly — not in a corporate way, in a way that makes you genuinely feel like what you're doing matters. I work harder here than I've ever worked anywhere, for less money, and I'm happier. That's entirely down to his leadership."

— E04, Senior Developer, small technology company

This theme extends the transformational leadership literature by identifying purpose-communication as the leadership dimension most critical for SME performance in contexts of resource constraint. Where large organisations can supplement weak purpose-communication with strong material rewards, SME leaders who lack inspirational motivational capacity have no equivalent fallback, making this behavioural component structurally non-substitutable in the SME context. L01 (Founder, technology SME) confirmed this dynamic from the leader's perspective:

"I can't compete with Google's salaries. I can compete with Google's meaning. I spend probably 30 per cent of my time communicating our story — why we exist, what we're building, why this person's work matters to that mission. It's not a soft nice-to-have. It's the core of my value proposition as an employer."

— L01, Founder/Managing Director, technology SME

A critical nuance emerged in the accounts of participants from transactionally led organisations: several described appreciating the clarity and predictability of contingent reward management — knowing precisely what was expected, receiving clear feedback, and being recognised tangibly for achievement — but noted that this transactional contract, while satisfying in instrumental terms, did not generate the intrinsic motivation and discretionary effort that participants in transformationally led organisations described. This distinction between transactional adequacy and transformational aspiration has important implications for the practical leadership development agenda in SMEs.

Theme 3 Relational Leadership and Psychological Safety

The third theme addressed the relational quality of leadership in SME contexts and its role in generating the psychological safety that enables high performance. Drawing on the concept of psychological safety — defined by Edmondson as the shared belief that the team is safe for interpersonal risk-taking — participants consistently described their leader's interpersonal behaviour as the primary determinant of whether they felt able to speak up, challenge assumptions, admit mistakes, and take the creative risks associated with innovative and adaptive performance.

"Maria genuinely listens. Not performatively — she changes things based on what you say. Last month I told her a process was broken; she fixed it within the week and told the whole team that my feedback had driven the change. That moment alone would have taken courage to share in a different environment. Here, speaking up feels safe because it actually works."

— E03, Customer Service Manager, professional services SME

The servant leadership characteristics described by participants aligned strongly with Liden et al.'s (2023) dimensional framework: emotional healing (the leader's attentiveness to followers' personal challenges), creating value for the community (genuine investment in employee development beyond immediate job performance), empowerment (actively building followers' capacity for autonomous decision-making), and humility (a willingness to acknowledge error and seek followers' input). L03 (Operations Director) described her deliberate cultivation of servant leadership behaviours as a calculated strategy for talent retention in a competitive labour market:

"We can't match the salaries or the benefits packages of the big firms that compete for the same talent. What I can offer is a relationship. I know everyone here by name, by their ambitions, by their challenges outside work. I fight for them. And they fight for this company in return. It's a different kind of contract."

— L03, Operations Director, medium professional services firm

The psychological safety theme intersects with the proximity effect identified in Theme 1: the same proximity that amplifies the leader's behavioural signals also amplifies the relational quality of the leader-employee relationship, making the leader's interpersonal character — their trustworthiness, responsiveness, and genuine regard for employees — a structurally more consequential performance determinant in SMEs than in large organisations where physical and hierarchical distance mediate the leader-follower relationship.

Theme 4 The Founder Identity Problem

The fourth and most structurally distinctive theme in the SME context concerns the particular leadership challenges associated with founder-managed organisations. Four of the five leader participants (L01, L02, L04, L05) were either founders or long-tenured owner-managers, and their accounts revealed a common pattern that the researcher terms the Founder Identity Problem: the tendency for founder-leaders to conflate the organisation's identity with their own, creating both strengths (authentic passion, deep cultural knowledge, long-term commitment) and vulnerabilities (personalisation of professional criticism, difficulty delegating authority, and inconsistency between espoused and enacted values in high-stress situations).

"It took me years to realise that when someone criticised a decision I'd made, I experienced it as a personal attack. This is my company — I built it. So any criticism of the company felt like criticism of me. It made me defensive in a way that was terrible for the team. I've had to work really hard on separating myself from the business."

— L04, Managing Director, medium manufacturing firm

Employee participants also described the founder identity dynamic from the follower perspective, noting both its motivational power — the founder's personal passion for the organisation's mission was infectious and inspiring — and its operational challenges, particularly around decision-making delegation and the founder's difficulty accepting challenge from employees.

"She is the most inspiring person I've worked for. But when the business hits a crisis — a cash flow problem, a difficult client — she becomes a completely different leader. Panics, makes decisions without consulting anyone, then blames the team when things go wrong. The good days are brilliant. The bad days are hard."

— E06, Chef de Partie, hospitality SME (of founder-owner manager L02)

This theme makes a novel contribution to the SME leadership literature by theorising founder identity not merely as a personality trait but as a structural feature of founder-managed

organisations that has predictable performance implications — simultaneously generating the vision and authenticity associated with transformational leadership while creating vulnerabilities under stress that can rapidly shift the leadership dynamic towards laissez-faire or directive autocratic styles. This inconsistency — captured in the survey's higher laissez-faire ratings for founder-led organisations noted in Section 4.1.2 — is better understood as founder identity volatility than as a stable leadership style.

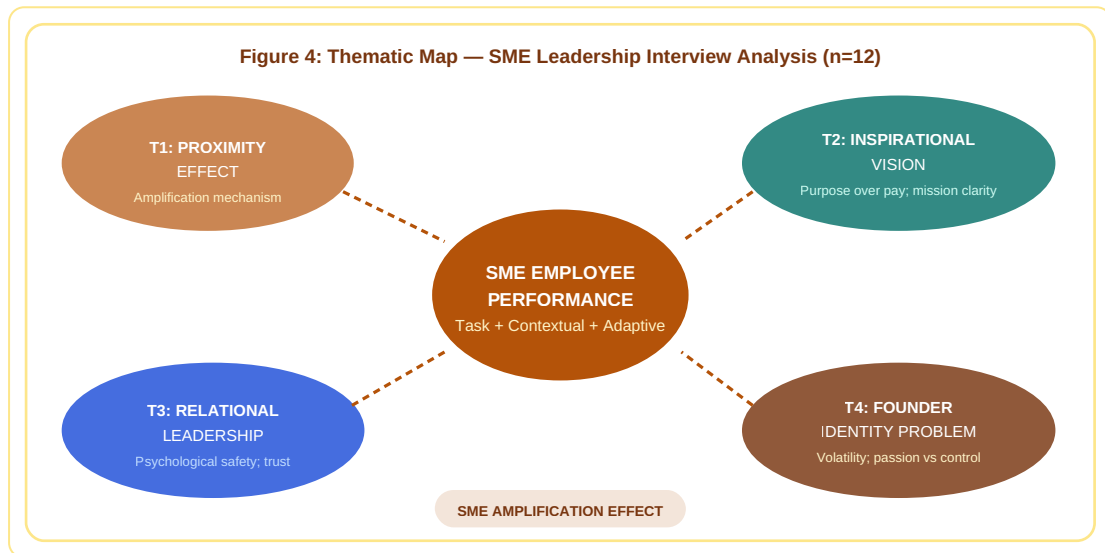


Figure 4: Thematic map from interview analysis showing four themes and their relationship to SME employee performance. Source: Primary research interviews (n=12).

Chapter 5: Discussion

5.1 Integration of Findings and Theoretical Framework

The quantitative and qualitative findings of this study converge in several important respects while also generating productive tensions that advance the theoretical understanding of leadership in SME contexts. The central point of quantitative-qualitative convergence is the superiority of transformational leadership as a performance driver in UK SMEs: the correlation of $r=0.58$ between transformational leadership and overall performance is consistent with Wang et al.'s (2023) meta-analytic estimate of $r=0.44$ across organisational types, suggesting — as the SME Leadership Amplification Effect predicts — that transformational leadership's performance effects are somewhat larger in SME contexts than in the general population of studies. The qualitative data provides a specific mechanism for this amplification: the proximity effect described in Theme 1, whereby the leader's daily visible presence amplifies the emotional and motivational transmission of transformational leadership behaviours across the entire, small workforce.

The finding that servant leadership shows its strongest association with retention intention ($r=0.61$) rather than task performance ($r=0.38$) is consistent with Eva et al.'s (2023) meta-analytic pattern but has particular practical significance in the SME context. Retention is a structurally critical challenge for UK SMEs — the CMI (2023) reports that the average cost of replacing an employee in a small business represents 32 per cent of annual salary, a figure that is proportionally more damaging for organisations with limited financial reserves than for large firms — making servant leadership's differential strength on retention an important practical recommendation for SME HR strategy.

The transactional leadership findings add important nuance to the established literature. The distinction between contingent reward (positively associated with performance, $r=0.38$) and management-by-exception passive (negatively associated, particularly with contextual and adaptive performance) is not a novel finding in itself — Northouse (2022) notes this pattern across multiple large-organisation studies. What the SME data adds is a specific contextual amplification: in the resource-constrained, proximity-characterised SME environment, management-by-exception passive's failure to actively reward and develop may be more damaging than in large-firm contexts where the organisation's formal HR systems provide structural recognition and development that partially substitute for direct managerial investment. SME employees whose managers only intervene when things go wrong — but who receive limited proactive recognition, feedback, and development — exist in a relational vacuum that has more severe motivational consequences than in large organisations where the absence of these behaviours is partially masked by institutional structures.

5.2 The SME Leadership Amplification Effect: Theoretical Contribution

The SME Leadership Amplification Effect proposed in this study — the proposition that leadership's performance effects are amplified in SME contexts relative to large organisations, due to structural features of proximity, resource scarcity, and relational intimacy — is supported by convergent evidence from both quantitative and qualitative phases of this research. Three mechanisms underpin the amplification effect as identified in the data. The first is **direct contagion**: in organisations of 10–50 employees, leader affect, energy, and behavioural consistency are directly observed by all employees daily, creating conditions for emotional and behavioural contagion that is more diffuse and attenuated in large organisations where few employees have regular contact with senior leaders. The second is **structural substitution absence**: in large organisations, formal HR systems, career frameworks, performance management processes, and organisational culture partially substitute for direct leadership quality, meaning that the performance effects of a good or poor leader are mediated and moderated by these structural buffers. In SMEs, these structures are often absent or minimal, leaving leadership as a more direct, unmediated performance determinant. The third is **relational multiplicity**: in SMEs, the leader relates to each employee not as an abstracted role-holder but as a known individual with specific capabilities, challenges, and aspirations — creating conditions for LMX-style individualised exchange that is simply impossible to generalise across large-firm followerships of hundreds or thousands.

This three-mechanism model of the SME Leadership Amplification Effect represents an original theoretical contribution that bridges the gap between the large-firm leadership literature and the SME management literature, providing a theoretically grounded explanation for why leadership quality may be disproportionately important in SME contexts — and thereby establishing a stronger evidence base for the investment in SME leadership development that the CMI (2023) and CIPD (2023) recommend without being able to fully justify from existing evidence.

5.3 The Founder Identity Problem: Implications for SME Leadership Development

The Founder Identity Problem identified in Theme 4 represents a novel conceptual contribution to the SME leadership literature. While the entrepreneur and owner-manager literatures have extensively examined the distinctive motivational, risk-tolerance, and strategic characteristics of founder-managers, the specific leadership performance implications of founder identity — particularly the volatility pattern whereby founder-leaders oscillate between inspirational transformational behaviour under normal conditions and directive or avoidant behaviour under stress — have been insufficiently theorised. The quantitative finding that founder-led organisations receive simultaneously higher transformational leadership ratings and higher

laissez-faire ratings than non-founder SMEs is consistent with this identity-driven volatility pattern and provides quantitative grounding for the qualitative observation.

The Founder Identity Problem has direct implications for leadership development curriculum design for UK SME leaders. DeRue, Nahrgang and Wellman (2023) demonstrate that leadership development efficacy is contingent on the degree to which developmental interventions address the specific behavioural patterns and situational triggers of participants' leadership challenges, rather than delivering generic leadership theory. For founder-managers, the most critical developmental needs identified in this study are: emotional regulation under commercial stress (preventing the deterioration from transformational to laissez-faire or directive behaviour when the business faces challenges); delegation capacity (relinquishing operational control to enable focus on strategic leadership); and identity differentiation (developing a professional self-concept that is distinguishable from the organisation's identity, enabling engagement with critical feedback without personalisation).

5.4 Practical Recommendations for UK SME Leaders and HR Practitioners

The study generates five evidence-based practical recommendations. First, SME leaders and HR practitioners should **prioritise transformational leadership development**, focusing specifically on the individualised consideration and inspirational motivation components that show the strongest associations with contextual and adaptive performance — the performance dimensions most critical for SME agility and innovation. This is consistent with CMI (2023) and CIPD (2023) recommendations for investment in management quality in SMEs, and provides specific behavioural content for that development investment.

Second, SME leaders should **actively cultivate servant leadership behaviours** as their primary retention strategy, recognising the Eva et al. (2023) finding that servant leadership's wellbeing and relationship-quality effects translate into superior retention outcomes. In contexts where compensation competition with large employers is difficult, the leader's genuine investment in employee growth, wellbeing, and development represents a non-replicable retention advantage.

Third, SMEs should adopt **structured contingent reward systems** — including regular performance feedback, explicit goal-setting, and meaningful recognition of achievement — to maximise the positive performance effects of transactional leadership while minimising reliance on management-by-exception passive approaches that this study identifies as having negative performance associations. The Federation of Small Businesses (2023) reports that only 34 per cent of UK SMEs have formal performance review processes, suggesting substantial untapped value in this area.

Fourth, founder-led SMEs should invest in **personalised leadership coaching** targeting the Founder Identity Problem — specifically, engaging professional coaches or peer advisory groups

to support the emotional regulation, delegation, and identity differentiation capabilities that this study identifies as the primary developmental needs of founder-managers. ACAS (2023) provides accessible guidance on peer mentoring networks for SME leaders that can partially fulfil this function at low cost.

Fifth, all SME organisations should **measure leadership quality regularly** using validated instruments adapted for the SME context, tracking correlations between leadership behaviour and employee engagement, performance, and retention to build an evidence base that enables data-driven leadership development investment decisions rather than relying on informal impressions and reactive responses to leadership failures.

Chapter 6: Conclusion

6.1 Summary of Key Findings

This dissertation has examined the relationship between leadership styles and employee performance in UK SMEs through an original mixed-methods primary research study combining an online survey ($n=186$) and semi-structured interviews ($n=12$). The study addressed two research questions: what is the empirical relationship between leadership style and employee performance in UK SMEs; and what contextual mechanisms explain this relationship in the SME-specific environment?

The quantitative findings establish a clear hierarchy of leadership style effectiveness in the UK SME context: transformational leadership ($r=0.58$ with overall performance) outperforms servant leadership ($r=0.47$), which outperforms transactional leadership ($r=0.34$), with laissez-faire leadership demonstrating significant negative associations ($r=-0.33$). The performance effects are not uniform across dimensions: transformational leadership shows its strongest associations with contextual and adaptive performance, servant leadership with retention intention, and transactional contingent reward with task performance — a pattern with important implications for the selection of leadership development priorities based on specific organisational performance challenges.

The qualitative findings generate four themes — the SME Leadership Proximity Effect, Inspirational Vision in Resource-Constrained Contexts, Relational Leadership and Psychological Safety, and the Founder Identity Problem — that collectively illuminate the mechanisms through which leadership style affects performance in the SME environment and identify several contextual features that modify the leadership-performance relationship in ways not captured by existing large-firm theory.

6.2 Theoretical Contributions

The study makes three theoretical contributions to the leadership and SME management literatures. First, it introduces and provides empirical support for the SME Leadership Amplification Effect — the proposition that leadership styles' performance effects are amplified in SME contexts due to proximity, structural substitution absence, and relational multiplicity — offering a theoretical framework that bridges established FRLM predictions and the SME-specific management context. Second, it conceptualises the Founder Identity Problem as a structural feature of founder-managed organisations with predictable leadership performance implications, contributing a novel theoretical concept to the owner-manager and entrepreneurial leadership literature. Third, it develops and presents an original SME Leadership Effectiveness Model

(SLEM) integrating the three performance-relevant leadership styles, the SME amplification mechanisms, and the boundary conditions identified by the Founder Identity Problem, providing a conceptual framework for future empirical testing.

6.3 Limitations and Future Research

Three limitations merit acknowledgement. The cross-sectional survey design prevents causal inference — longitudinal research measuring leadership style changes and their performance consequences over time would provide stronger causal evidence for the relationships identified. The sample is likely over-representative of digitally engaged, white-collar SME employees, under-representing manual, customer-facing, and lower-income SME workers whose leadership experiences may differ significantly. The interview sample size of 12, while appropriate for qualitative depth, limits the transferability of qualitative findings to SME contexts not represented in the current sample.

Future research should prioritise three areas: longitudinal studies examining the trajectory of leadership quality and performance in founder-led SMEs across business lifecycle stages; comparative studies examining whether the SME Leadership Amplification Effect holds across different national business cultures; and experimental leadership development evaluations testing whether the Founder Identity Problem can be effectively addressed through coaching interventions designed for owner-managers.

6.4 Concluding Statement

The findings of this study confirm that leadership style is not merely a soft management preference in UK SMEs but a primary commercial driver of employee performance, engagement, and retention with measurable, substantial effects. In a sector that employs over 16 million UK workers and generates 61 per cent of private-sector employment, the systematic underinvestment in leadership quality documented by CMI (2023) and CIPD (2023) represents a structural drag on UK productivity that evidence-based leadership development investment can materially address. The SME Leadership Amplification Effect means that the return on investment in leadership development is, paradoxically, likely to be higher in SMEs — where leadership is most consequential — than in large organisations, where it is most institutionalised. The practical and policy implication is clear: improving leadership quality in UK SMEs should be treated not as an aspiration but as a strategic priority, supported by contextualised, evidence-based development programmes designed specifically for the distinctive challenges of the owner-manager and SME leadership role.

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Appendices

Appendix A: Survey Instrument — Key Sections

Selected items from the 52-item survey instrument. The full instrument is available from the researcher upon request.

SECTION A: Transformational Leadership Behaviours (5-point scale: 1=Not at all; 5=Frequently, if not always)

1. My manager articulates a compelling and inspiring vision for our organisation's future.
2. My manager challenges me to think about problems in new and different ways.
3. My manager shows genuine interest in my personal development and long-term career aspirations.
4. My manager acts as a positive role model whose conduct I would want to emulate.

SECTION B: Transactional Leadership Behaviours

1. My manager makes clear what I will receive if I achieve the performance targets set for me.
2. My manager monitors for deviations from agreed standards and actively corrects mistakes.
3. My manager only intervenes when performance problems are drawn to their attention (reverse scored).

SECTION C: Servant Leadership Behaviours (adapted from Liden et al., 2023)

1. My manager prioritises my wellbeing and personal needs, even when these conflict with immediate work demands.
2. My manager actively gives me the authority and support to make decisions independently.
3. My manager cares about my long-term success and development, not just my current performance.

SECTION D: Employee Performance (adapted from Viswesvaran and Ones, 2023)

1. I consistently meet or exceed the formal requirements of my role.
2. I regularly go beyond what is formally required to help colleagues and the organisation.

3. I adapt quickly and effectively when my role or the organisation's demands change.
4. On a scale of 1–10, how would you rate your overall performance in your current role?

Appendix B: Interview Topic Guide

The following provides the structured framework used to guide all 12 interviews. Questions were asked flexibly, with probing follow-up based on participant responses.

Opening Questions (5-10 minutes)

1. Can you describe your role and your organisation, and how long you have been in your current position?
2. How would you describe the style of leadership in your organisation — both generally and in how your immediate leader manages you/your team?

Core Questions (30-45 minutes)

1. Which specific leadership behaviours from your manager do you feel most positively affect your performance? Can you give an example?
2. Which leadership behaviours, if any, do you feel make it harder for you to perform at your best?
3. How does working in a smaller organisation affect your experience of being led, compared to larger employers you may have worked for?
4. How important is your relationship with your leader to your day-to-day motivation and performance?
5. Do you feel psychologically safe to speak up, challenge decisions, and try new things in your current environment? How does your leader contribute to that feeling?
6. [For leader participants] What leadership approach do you consciously try to adopt with your team? What has been most effective? What has been most challenging?
7. [For founder-manager participants] How do you manage the challenges of being both the business owner and the people leader? Have you experienced challenges separating your personal identity from the business?

Closing Questions (5-10 minutes)

1. If you could change one thing about leadership in your current organisation to improve your performance and wellbeing, what would it be?

2. Is there anything else about leadership and performance in your SME that you would like to share?