

The Impact of Leadership on the Motivation of Employees in Small and Medium-Sized Companies

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ABSTRACT

Leadership is a determining factor in the success of small and medium-sized enterprises (SMEs) and directly influences employee motivation, commitment, and productivity. However, many SME managers lack adequate leadership training or adopt styles that may not be effective in maintaining team motivation. Therefore, this study aims to analyse the impact of leadership on employee motivation in SMEs, identifying the most commonly adopted leadership styles and assessing their influence on organizational performance. The research is based on a quantitative and qualitative approach, using questionnaires administered to SME employees, complemented by a literature review on leadership and motivation theories, including transformational leadership, situational leadership, and motivation theories. The expected results point to the identification of the most effective leadership styles in promoting employee motivation and commitment. It also aims to contribute to the academic literature on people management in the context of SMEs and provide practical recommendations for managers who wish to optimize their leadership, improve organizational performance, and reduce talent turnover.

Keywords: Leadership, Motivation, People management, Productivity, Small and medium-sized companies, Talent retention.

INTRODUCTION

Employee motivation is one of the main factors influencing the performance and success of organizations. In the context of small and medium-sized enterprises (SMEs), this issue becomes even more critical, given that they face numerous challenges such as talent retention difficulties, limited resources, and intense competition. Leadership plays a crucial role in creating a favorable work environment, directly influencing employee motivation, productivity, and commitment. On the other hand, many SME managers lack specific leadership training and use ineffective approaches, which often compromises team engagement and, consequently, the company's success.

Given the importance of leadership within SMEs, it is essential to understand how different leadership styles impact employee motivation. Meyer (2014) argues that there is no single model of effective leadership, as expectations of how a leader should act vary widely from country to country. Bass (1985) suggests in his studies that styles such as transformational leadership and situational leadership tend to be more effective in promoting employee commitment. However, there is still a gap in the literature regarding the practical application of these models in the specific context of SMEs, where organizational challenges and dynamics differ from those of large companies. Trait Leadership Theory has also been widely discussed, with Stogdill (1974) arguing that leadership effectiveness depends on both individual characteristics and situational factors. Furthermore, Meyer (2014)

emphasizes the influence of culture on leadership and communication within organizations and emphasizes that managers of SMEs operating in global environments should consider cultural differences in motivating their teams.

This study is justified by the need to provide a better understanding of the relationship between leadership and motivation in the context of SMEs. Understanding which leadership and motivation styles are most effective can help managers improve the environment within the organization, increase employee commitment, and reduce turnover.

This research will contribute to the development of the literature on people management by offering evidence-based recommendations for the application of more effective leadership strategies. This work is structured to allow a progressive and in-depth understanding of leadership in organizations, with a special focus on SMEs. Beginning in Chapter 2, the theoretical framework is developed, addressing the main concepts and definitions of leadership, the different existing styles, motivation in the workplace, and the relationship between leadership and motivation, culminating with a specific analysis of leadership in SMEs. Chapter 4 presents and discusses the results obtained, allowing for critical reflection. Chapter 5 presents the academic and practical contributions of the study, including suggested strategies for developing leaders in SMEs. The work concludes with the bibliographical references used and three appendices: the questionnaire; the Erin Meyer Profile Questionnaire; and the Erin Meyer Scale.

The study will analyse different leadership styles and their impact on employee motivation, proposing strategies that can be adopted by managers to improve organizational performance.

How does leadership culture influence employee motivation in small and medium-sized companies?

THEORETICAL REVIEW

Leadership in Organizations

Leadership can be understood as a process of influence in which an individual guides and motivates a group toward a common goal. Meyer (2014) explores how different cultures around the world influence how leadership is exercised and perceived and argues that there is no single model of effective leadership, as each country has its own vision of how a leader should behave. Meyer (2014) believes that by understanding and respecting these cultural differences, leaders can improve communication, build trust, and increase the effectiveness of multicultural teams.

Silva (2016) highlights how the definition of leadership can be complex and how it has evolved over time.

According to Bass (1990), leadership is the ability to induce a team to achieve goals and objectives, going beyond contractual obligations. Bass (1990) discusses how definitions of leadership have multiplied over the years and mentions different approaches such as trait-based, behaviour-based, and contingency-based leadership. On the other hand, Yukl (1989) defines leadership as the process of influencing others to understand and agree on what needs to be done and how to do it, and the process of facilitating individual and collective efforts to achieve shared goals.

It is important to emphasize that there is no single, consensual definition of leadership. The increase in theoretical and empirical studies on leadership has enabled the concept to be elucidated but has not led to definitive definitions. Over the centuries, leadership theories have evolved, reflecting changes in organizational and social perspectives.

According to Silva (2016), leadership was initially viewed by some, such as the philosophers Confucius and Plato, as an innate personal quality.

Carlyle (1993) created the "Great Man Theory," in which he proposes that great leaders are innate individuals, that leadership is not an acquired skill, that great leaders are blessed with divine inspiration and the right qualities and characteristics, and that they make a difference in the course of humanity. According to Silva (2016), Spencer (2013) began to consider the role of context in the development of leaders.

After World War II, leadership began to be viewed as a process of influence, as suggested by Stogdill (1950), and was later developed by Bass (1990), who emphasized the interaction between leaders and their followers.

According to Bass (1990), early leadership theories focused on the innate characteristics of leaders (Trait Theory). According to Nawaz (2016), Stogdill's Trait Theory (1948) focuses on identifying specific characteristics or traits that distinguish effective leaders from other individuals.

Later, research began to emphasize leadership behaviours and styles (Behavioral Theories). According to Nawaz (2016), Behavioural Theory focuses on the behaviours and actions of leaders, suggesting that leadership styles can be learned and are not necessarily innate, as suggested by studies from Ohio University and the University of Michigan. Ohio University identified two main dimensions of leadership behaviour: "initiating structure" (focus on tasks) and "consideration" (focus on people). Meanwhile, the University of Michigan differentiated between task-oriented and employee-oriented leaders.

Subsequently, the idea emerged that leadership depends on the context and situation, and on the interaction between leaders and followers (Contingency and Transformational Theories). Nawaz (2016) refers to Contingency Theory, introduced by Fred Fiedler, which states that there is no single effective leadership style and that effectiveness depends on the fit between the leader's style and the specific situation. Fiedler's model suggests that leadership effectiveness is determined by the match between the leader's style (task-oriented or relationship-oriented) and the favourableness of the situation. Drucker (1996) argues that there is no universal personality or leadership style and that leadership can and should be learned. Based on decades of experience, the writer and professor observes that effective leaders have a variety of traits and behaviours, and that the common denominator among them is not charisma, but rather the ability to achieve results through their followers. Drucker (1996) emphasizes that effective leadership is defined by accountability and achieving results, regardless of the leader's style or personal traits.

In the 20th and 21st centuries, there has been a growing focus on transformational leadership and the emotional and motivational impact of leaders.

Kellerman (2020) introduced the importance of context in leadership dynamics, arguing that leadership is influenced by external and cultural factors.

Silva (2016) states that leadership should not be defined as simply "having followers," but as a dynamic process involving multiple factors, and proposes a new definition of leadership: "Leadership is the process of interactive influence that occurs when, in a given context, some people accept someone as a leader to achieve common goals." Silva (2016) also emphasizes that effective leadership depends on choosing the right leader for each context, as exemplified by the case of Winston Churchill during and after World War II.

Importance of Leadership for Organizational Success

Meyer (2014) explores cultural differences in the global corporate environment and presents a framework for understanding them. Meyer (2014) focuses on how leaders and teams can be more effective in multicultural environments. In her book "The Culture Map," Meyer (2014) proposes a model with eight cultural dimensions that help understand how different cultures approach key aspects of communication and work. The eight dimensions that Meyer (2014) identifies are: communication, evaluation, persuasion, leadership, decision-making, trust, disagreement, and time management.

Leadership is a determining factor in the success of any organization. According to Northhouse (2025), in a constantly evolving business environment, a leader's ability to inspire, motivate, and direct a team is essential to achieving organizational goals.

According to Yukl (2006), effective leadership is characterized by the ability to make strategic decisions, foster a positive work environment, and encourage employee professional development. Kotter (2012) states that leaders have a responsibility to align team efforts with the organization's mission and vision, fostering a sense of direction and purpose.

Goleman, Boyatzis, and Mckee (2013) assert that leadership has a significant impact on organizational performance and that effective leadership is based not only on technical skills or strategies, but also on the ability to manage emotions, both one's own and those of others. According to Goleman et al. (2013), emotionally intelligent leadership directly influences the organizational climate and team performance. Leaders who understand and manage emotions effectively can create a more positive work environment, which promotes greater motivation and commitment among employees. Furthermore, Goleman et al. (2013) argue that an emotionally intelligent leader knows how to adapt to different contexts and makes decisions aligned with organizational needs and objectives.

According to Bass and Riggio (2006), companies with strong leaders tend to have higher productivity, a better organizational climate, and a lower turnover rate. Bass and Riggio (2006) state that effective leadership influences innovation by encouraging creativity and collaboration among teams.

Leadership plays a fundamental role in a company's success. Effective leaders are those who can align the company's objectives with the needs of their employees and foster a productive and motivating work environment. Investing in developing leadership skills is essential to ensure the long-term sustainability and growth of organizations.

Leadership Styles

Burns (2004) introduced the concept of transformational leadership as a style that seeks to inspire and motivate followers to transcend their own interests in favor of collective goals, promoting significant and positive changes in both individuals and organizations. Burns (2012) differentiated transformational leadership from transactional leadership, stating that while transactional leadership is based on mutual exchanges and rewards between leaders and followers, transformational leadership focuses on elevating the values and needs of followers, encouraging them to achieve higher levels of achievement and moral awareness.

Bass (2006) expanded on Burns' concept and introduced a more detailed framework for transformational leadership. Bass (2006) identified four main components, known as the "4 I's":

1. Idealized Influence: The leader acts as a model of ethical and exemplary behavior, earning the trust and respect of followers. 2. Inspirational Motivation: The leader communicates a compelling and challenging vision of the future, inspiring and motivating followers to achieve lofty goals.

3. Intellectual Stimulation: The leader encourages creativity and innovation, challenging assumptions and promoting innovative problem-solving.

4. Individualized Consideration: The leader pays attention to followers' individual developmental needs, acting as a mentor or coach and fostering a supportive environment.

According to Givens (2008), transformational leadership has been associated with several positive outcomes, including increased employee satisfaction and commitment, as well as improvements in organizational performance. Lai (2011) also highlights that transformational leadership is characterized by charisma, shared vision, and intellectual stimulation, and is associated with more positive organizational outcomes than other leadership styles.

Motivation in the Workplace

According to Ryan and Deci (2000), motivation is a central concept in psychology and management and refers to the processes that initiate, direct, and sustain goal-oriented behaviours. Several theories have been developed to understand the factors that motivate individuals to act in a particular way. These theories can be grouped into two main categories: content theories, which focus on the internal factors that stimulate behaviour; and process theories, which examine the mental processes by which people choose between different courses of action.

Factors Influencing Employee Motivation

Meyer (2017) highlights how cultural differences influence how people feel motivated (or not) in the workplace and argues that effective leaders in multicultural environments need to adapt their leadership style to motivate teams from different cultural backgrounds. Meyer (2017) also states that applying a single leadership model is not enough; it is necessary to understand and adapt to local cultural expectations to effectively motivate employees. According to Meyer (2017), adapting leadership, assessment, and persuasion styles can result in a more motivated workforce.

According to Alshmemri et al. (2017), job motivation is not the opposite of dissatisfaction; they are separate dimensions. Alshmemri et al. (2017) argue that to increase motivation, it is necessary to enrich the job, offering challenges, autonomy, and opportunities for growth. To engage employees, organizations must go beyond the basic conditions and invest in them.

According to Dos Reis et al. (2017), employee motivation is influenced by a combination of internal and external factors, and the theories presented offer different perspectives on how these factors operate and interact. Dos Reis et al. (2017) state that to promote a motivating work environment, it is essential that managers understand these theories and apply them in an integrated manner, considering the individual needs of employees and organizational specificities.

Halles et al. (2018) identified in their study that the factors that influence work motivation are:

- Respect for employees;
- Adequate salary;
- Opportunities for growth and development;
- Participation in company decisions;
- Delegation of challenging tasks;
- Reward system (monetary and non-monetary);
- Evaluation and recognition of efforts.

Halles et al. (2018) concluded that the leader's role is essential to fostering a motivational environment, promoting higher quality services.

The Relationship Between Leadership and Motivation

McGregor (1989) presented two opposing views of workers: Theory X, which views employees as naturally unmotivated, and Theory Y, which views them as motivated. According to McGregor (1960), leaders who adopt Theory Y tend to foster more motivating work environments, relying on employee autonomy and initiative.

House (1975) developed Path-Goal Theory, which suggests that effective leaders adapt their leadership style to complement the characteristics of followers and the work environment, facilitating goal achievement. House (1975) concluded that by removing obstacles and providing support, leaders increase employee motivation.

Prayogi et al. (2019) concluded in their study that leadership style has a positive and significant effect on employee performance and that motivation also has a positive and significant effect on employee performance.

Regarding the joint influence of the two factors, Prayogi et al. (2019) state that leadership style and motivation, when considered together, have a positive and significant effect on employee performance. According to Prayogi et al. (2019), effective leaders who adopt appropriate leadership styles and promote motivation among employees can significantly improve organizational performance.

Leadership in Small and Medium Sized Companies

Saini (2007) conducted a study focusing on leadership and people management in an Indian family-owned SME in the textile sector. According to Saini (2007), Flaxo Exports was run by a father and son, the latter with ambitions to modernize and expand the business. Saini (2007) found that the company never had a formal human resources structure, there were no systematic criteria, training and development was almost nonexistent, and motivation was sustained by:

- A piece-rate pay system (incentivizing productivity);
- Personal support from the owner (financial assistance, public praise);
- Absence of verbal abuse and a positive relationship climate;
- Symbolic participation (suggestion box).

Saini (2007) concluded that the father's leadership was based on empathy, fairness, and an active presence in the company's day-to-day operations, and that his approach helped create a family-like environment. The son, more focused on modernizing the company and strategic growth, questioned the traditional people management model and wanted to implement modern practices to expand and position the brand.

Saini (2007) identified the following challenges:

- Changing employee mindsets: cultural resistance to training, daycare, and workplace hygiene.
- Lack of formal HR management practices: lack of performance evaluations, career paths, or structured benefits.
- Succession planning and strategic change: tension between the father's traditional style and the son's modern vision.
- Adapting to international customers: increasing demands for quality and legal compliance.

According to Saini (2007), the case of Flaxo Exports exemplifies the dilemmas faced by family-owned SMEs in emerging economies, especially regarding people management, leadership, and adaptation to global demands. Despite the lack of modern HR practices, the company built a solid culture based on respect, empathy, and merit. The main challenge is to align this culture with future growth needs without losing its essence.

Howard (2019) explores the leadership styles of small business owners and analyses how different approaches impact business success and growth. Howard (2019) highlights the importance of strategic vision, planning, and the effective application of management principles to ensure productivity and sustainability. Howard's (2019) study emphasizes that, despite the diversity of entrepreneur profiles, some leadership practices are more effective in achieving long-term success.

According to Howard (2019), certain leadership styles can influence employee motivation during times of crisis and reinforces that the application of theoretical management and leadership knowledge can strengthen small businesses. Howard (2019) highlights the relevance of studies focused specifically on the SME sector, as most existing research still focuses on large companies.

METHODOLOGY

For this study, a quantitative approach was adopted to analyse the impact of leadership on employee motivation in small and medium-sized companies. This approach was chosen due to the need to collect and analyse measurable and objective data that would allow for the identification of patterns and relationships between the variables in question.

The study population consisted of SME employees, and the non-probability, convenience sample consisted of 65 participants, of which 5 were rejected as outliers. The sample size proved sufficient for exploratory purposes and allowed for the collection of relevant indicators regarding employee perceptions of leadership and their motivation within the organizational context.

Data collection was conducted through the administration of a structured questionnaire, based on the Erin Meyer Profile Questionnaire. The data collection instrument included sociodemographic questions (age, gender, and professional status) and closed-ended questions, organized on Likert scales and divided into eight dimensions according to Erin Meyer's "Culture Map" analysis model: communication, evaluation, persuasion, leadership, decision-making, trust, disagreement, and punctuality.

The data obtained were subsequently processed and analysed using Microsoft Excel and Jamovi to identify trends, relationships, and potential practical implications for human resource management in SMEs.

Sample Characterization

This study was conducted based on the responses of 60 individuals, considering that 5 responses were rejected, which allows us to consider 92.3% of the total responses. The sample consisted of SME workers, aged between 21 and 68 years old. Thirty-six females, 23 males, and one preferred not to say. Regarding professional status, the following were identified: 3 interns; 5 service providers; 12 workers with fixed-term employment contracts; 3 workers with indefinite-term employment contracts; 34 workers with open-ended employment contracts; 1 self-employed worker; and 2 temporary workers. Fifty-seven percent of the respondents are formally employed, meaning they are permanent employees.

Data Analysis

Each dimension of the questionnaire consisted of three questions. The average of each individual's three questions was calculated, followed by the overall average for each dimension.

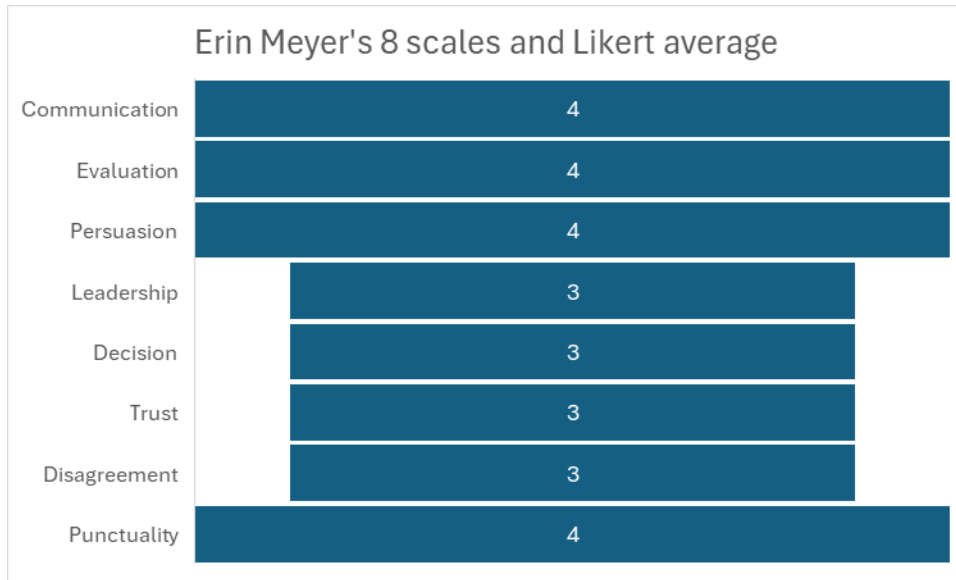


Figure 1. Erin Meyer's 8 scales and Likert average.

Source: Study data.

The dimensions Communication, Evaluation, Persuasion, and Punctuality averaged four points on the Likert scale; and the dimensions Leadership, Decision-Making, Confidence, and Disagreement averaged three points on the Likert scale.

Methodological Framework

A methodological approach is a systematic way to conduct research or solve a problem, encompassing the overall strategy and specific methods used to gather and analyse data.

It involves selecting appropriate techniques for data collection, analysis, and interpretation to address research questions, in Figure 2 is represented the appropriated for the current study.

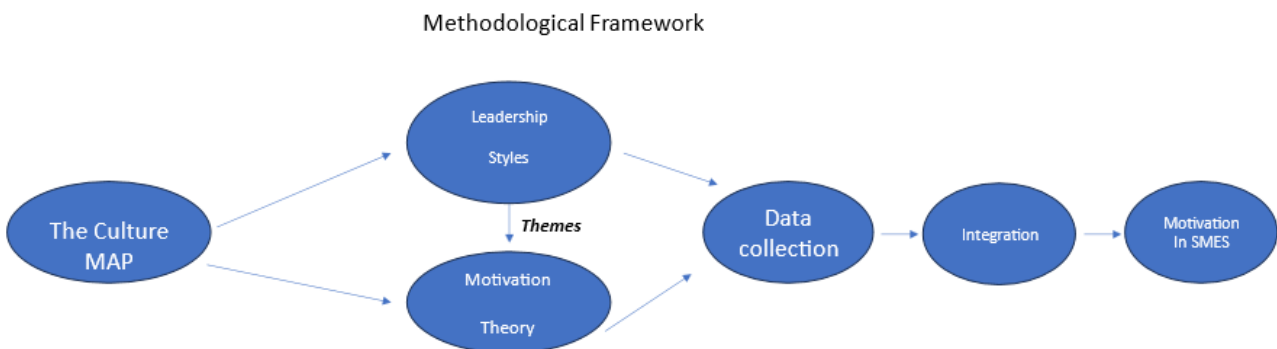


Figure 2. Methodological Framework as a flow.

Source: Designed by the authors.

The Leadership dimension concerns each individual's perception of leadership and included the following questions:

1. If I disagree with my boss, I say so openly, in front of others.
2. When meeting with clients or suppliers, I don't pay much attention to the hierarchical position of the people participating in the meeting.
3. If I have ideas to share with someone several levels above or below me in the company, I will speak directly to that person rather than through my immediate boss or direct report.

Presentation of Results

The results, according to the Likert scale and Erin Meyer's culture map scale in the literature, suggest the following (Table 1):

1- Communication: Employees prefer high-context communication, that is, communication that is more implicit, indirect, and context-dependent. This means that employees are accustomed to "reading between the lines," value subtext, and avoid overly direct or formal communication. Leaders who are too direct may be perceived as rude or insensitive.

2- Evaluation: Negative feedback tends to be given gently and indirectly, aiming to maintain harmony. This prevents direct criticism from generating discomfort or demotivation. Ideally, feedback should be offered constructively, along with positive reinforcement.

3- Persuasion: Employees prefer applications over theory, that is, they prefer practical approaches and concrete examples before discussing abstract theories. Leaders should start with practice (how to do it) and then justify it with theoretical foundations (why it is done). 4- Leadership: There is a balance between respect for hierarchy and a desire for participation. Employees accept authority but value accessible and collaborative leaders. An authoritarian style can generate resistance, and a completely egalitarian style can generate ambiguity, hence the intermediate value between egalitarian and hierarchical leadership.

5- Decision-making: Employees consider decision-making to be at an intermediate level, between consensual and top-down. Decisions are generally made by leaders, but some level of consultation and team involvement is expected. Delegating completely without guidance can be seen as a lack of leadership and deciding everything alone can cause demotivation.

6- Trust: For employees, trust is built both by professional competence and interpersonal bonds. This suggests that effective leaders must balance results with concern for the team's well-being. Cold and overly transactional relationships are less effective.

7- Disagreement: The culture is neutral toward disagreement, neither confrontational nor avoidant. Conflicts are tolerated if they are productive and respectful. Leaders who completely avoid conflict can appear passive, and overly direct confrontations can appear hostile.

8- Punctuality: There's a tendency toward flexibility regarding deadlines and schedules. Time management is adaptable, with room for change and reorganization. Overly rigid plans can be poorly received. Leaders must provide structure, but also some leeway.

Table 1. Correlation Matrix.

Correlation Matrix		VAR (1)	VAR (2)	VAR (3)	VAR (4)	VAR (5)	VAR (6)	VAR (7)	VAR (8)
<i>Variables/Scores</i>									
Communication (1)	R - Pearson	---							
	N	---							
	p - value	---							
Evaluation (2)	R - Pearson	0,637	---						
	N	60	---						
	p - value	0,0001	---						
Persuasion (3)	R - Pearson	0,737	0,851	---					
	N	60	60	---					
	p - value	0,0001	0,0001	---					
Leadership (4)	R - Pearson	0,503	0,553	0,657	---				
	N	60	60	60	---				
	p - value	0,0001	0,0001	0,0001	---				
Decision (5)	R - Pearson	0,503	0,771	0,765	0,629	---			
	N	60	60	60	60	---			
	p - value	0,0001	0,0001	0,0001	0,0001	---			
Trust (6)	R - Pearson	-0,062	-0,025	-0,055	-0,020	-0,009	---		
	N	60	60	60	60	60	---		
	p - value	0,6318	0,8458	0,6689	0,8747	0,9468	---		
Disagreement (7)	R - Pearson	0,503	0,771	0,765	0,629	0,851	0,637	---	
	N	60	60	60	60	60	60	---	
	p - value	0,0001	0,0001	0,0001	0,0001	0,0001	0,0001	---	
Punctuality (8)	R - Pearson	-0,062	-0,025	-0,055	-0,020	-0,009	0,553	0,851	---
	N	60	60	60	60	60	60	60	---
	p - value	0,6318	0,8458	0,6689	0,8747	0,9468	0,0001	0,0001	---

Source: Based on the study results.

The most distant dimensions of Leadership (difference = 1) are Communication, Assessment, Persuasion, and Punctuality. These demonstrate a more implicit, relational, and flexible cultural tendency, which contrasts with the perceived neutrality of leadership. In other words, although leaders are moderately formal, employees operate in a more informal context, communicate indirectly, prefer soft feedback, and demonstrate flexibility with deadlines.

The cross-analysis between leadership and motivation demonstrated a positive correlation, indicating that the more leaders adopt participatory practices aligned with the cultural context, the higher the level of motivation perceived by employees.

Discussion

The results reveal an organizational culture with a strong tendency toward indirect communication styles, gentle feedback, and flexible time management, typical characteristics of high-context cultures as described by Meyer (2014). These results align with cultures that value interpersonal relationships and implicit codes, which is common in smaller, informal business contexts, such as SMEs. Leadership, by positioning itself in a neutral position, indicates a balance between authority and proximity, revealing a potential disconnect between leadership style and the organization's cultural codes. According to Meyer (2014), a leader working in a high-context environment should adapt their approach to be less direct and more sensitive to informal team dynamics.

Before beginning this study, it was expected that leadership in SMEs would be perceived as more participatory and approachable, given the typical characteristics of these organizations (proximity to employees, flat hierarchies, and informal communication). However, the results indicate a more neutral or slightly formal leadership, which surprised us compared to initial expectations. Greater alignment between all cultural dimensions and leadership was also expected. However, dimensions such as communication, evaluation, and punctuality showed a greater deviation from leadership, indicating that leaders may be acting less aligned with the organizational culture than is desirable. This misalignment reinforces the importance of developing cultural skills in leaders, as advocated by Meyer (2014). A leader who understands their team's culture is more likely to generate engagement and trust, which, in this case, could contribute to even higher levels of motivation.

Comparing this study with other studies on leadership in SMEs, it is clear that this work aligns with the literature that points to a common challenge in these organizations: the transition from intuitive or autocratic styles to more conscious and culturally sensitive styles. Authors such as Yukl (2006) and Bass (1990) emphasize that in informal and rapidly changing environments, such as SMEs, the leader's ability to adapt is crucial. Empirical studies conducted in similar European contexts reveal that leaders who invest in relational communication, empowerment, and positive feedback are able to generate more resilient and motivated teams. Furthermore, practical experience in SME environments reinforces the importance of balancing structure and flexibility. This study confirms this need, showing that leadership must maintain clear authority, but one that is adapted to the relational and implicit culture that characterizes these organizations.

Final Conclusions

From an academic perspective, this research contributes to the literature by integrating Erin Meyer's model into the context of SMEs, a field still underexplored in cross-cultural and leadership studies. It was possible to empirically confirm that adapting leadership style to the cultural context positively influences employee motivation. This study enriches the debate on how cultural factors shape leadership effectiveness, in conjunction with motivational theories. Furthermore, the methodology adopted (cross-cultural scales with motivational data) can serve as a basis for future studies.

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