

Transformational Leadership and Employee Performance in Small and Medium Enterprises: Evidence from the Federal Capital Territory, Nigeria

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Abstract

This study examines the effect of transformational leadership on employee performance in small and medium enterprises (SMEs) operating in the Federal Capital Territory (FCT), Abuja, Nigeria. Anchored on Bass's Transformational Leadership Theory, the study isolates three proxies of transformational leadership (idealized influence, individualized consideration, and intellectual stimulation) and examines their distinct effects on three performance outcomes (employee task performance, employee commitment to job roles, and employees generation of new ideas and initiatives). Using a quantitative, exploratory survey design, structured questionnaires were administered to employees of six purposively selected SMEs across the FCT, yielding 401 valid responses out of 411 administered. Data were analyzed using multiple regression in SPSS. The results show that idealized influence, individualized consideration, and intellectual stimulation each exert a positive and statistically significant effect on employee task performance. For employee commitment to job roles, individualized consideration emerged as the strongest predictor, followed by idealized influence, while intellectual stimulation was not significant. For idea generation and initiative, intellectual stimulation was the dominant predictor, idealized influence contributed positively, while individualized consideration showed an unexpected negative effect, suggesting that excessive personal supervision may constrain creative autonomy. The study concludes that transformational leadership is a multidimensional lever whose components operate differently depending on the performance outcome targeted, and recommends that SME leaders in Nigeria balance ethical role modeling, individualized mentorship, and intellectual challenge to optimize performance, commitment, and innovation.

Keywords: transformational leadership; employee performance; idealized influence; individualized consideration; intellectual stimulation

1. Introduction

Small and Medium Enterprises (SMEs) are widely recognized as critical drivers of economic growth, job creation, and innovation in both developed and developing economies (OECD, 2017; UNCTAD, 2020). In Nigeria, SMEs account for approximately 96% of businesses and employ more than 84% of the workforce, contributing nearly 48% to national GDP (NBS & SMEDAN,

2017, 2020). Despite this significance, Nigerian SMEs face persistent challenges, including inadequate access to finance, poor infrastructure, and managerial inefficiency (PwC, 2024; World Bank, 2021).

A defining feature of Nigerian SMEs is that their operations are heavily shaped by the owner or manager, whose leadership style influences day-to-day decision-making, organizational culture, and overall performance (Muenjohn & Armstrong,

2008). Contrasting outcomes among SMEs (some thriving under visionary leadership, others failing under poor leadership) underscore the centrality of leadership style to organizational success (Bass & Riggio, 2006). Yet, while transformational leadership has been extensively studied in large organizations and public institutions, its application to SMEs in developing economies such as Nigeria remains underexplored (Adenigbagbe et al., 2025; Khan et al., 2011), and the specific proxies of transformational leadership (idealized influence, individualized consideration, intellectual stimulation, and inspirational motivation) have rarely been examined in disaggregated form within the Nigerian SME context (Bass & Avolio, 1994).

Statement of the Problem

Existing studies on leadership in Nigerian SMEs (e.g., Okoye & Ejike, 2018; Oghojafor et al., 2015) provide useful insight into leadership and employee commitment but generally fail to isolate which specific transformational leadership behaviors drive which specific performance outcomes. Much of the broader literature is drawn from large organizations or public-sector settings whose organizational dynamics differ markedly from SMEs, where leader-follower relationships are closer and more direct. Furthermore, most available studies are cross-sectional and rely on self-reported data, with limited attention to the unique resource constraints, informal leadership structures, and high turnover that characterize Nigerian SMEs. This study addresses these gaps by isolating three proxies of transformational leadership and examining their direct effects on three distinct dimensions of employee performance among SMEs in the FCT.

Research Questions, Objectives, and Hypotheses

The study was guided by the broad objective of investigating the effect of transformational leadership on employee performance in

SMEs within the FCT. The specific objectives were to: (i) investigate the effect of idealized influence on employee task performance; (ii) examine the effect of individualized consideration on employee commitment to job roles; and (iii) investigate how intellectual stimulation affects employees' generation of new ideas and initiatives. Correspondingly, three null hypotheses were tested: H_1 – idealized influence has no significant effect on employee task performance in SMEs in the FCT; H_2 – individualized consideration has no significant effect on employee commitment to job roles in SMEs in the FCT; H_3 – intellectual stimulation has no significant effect on employees' generation of new ideas and initiatives in SMEs in the FCT.

Significance of the Study

The study contributes to the literature on leadership and performance in SME contexts within developing economies, where prior research has been comparatively sparse. Practically, the findings offer SME owners and managers evidence-based guidance on which leadership behaviors to prioritize for specific performance goals: role modeling and ethical conduct for general task performance, personalized mentorship for commitment, and intellectual challenge for innovation. The findings also have relevance for policy bodies such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), which may incorporate leadership-development modules into SME support programs.

2. Literature Review

Conceptual Review

Concept of Transformational Leadership

Transformational leadership originated with Burns (1978), who argued that transformational leaders do not simply manage people or tasks but inspire followers to achieve higher levels of performance by creating a shared sense of purpose and elevating followers' values and aspirations

beyond narrow self-interest. Building on this foundation, Bass (1985) extended the concept into a more structured framework, identifying four measurable behavioral components, popularly known as the “Four I’s”: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Bass defined transformational leadership as a process in which leaders stimulate and inspire followers to achieve extraordinary outcomes by aligning followers' values and beliefs with the organization's vision, and he developed the Multifactor Leadership Questionnaire (MLQ) to assess and quantify these behaviors empirically.

Contemporary scholarship has continued to refine the concept. Avolio and Gardner (2005) introduced the notion of authentic transformational leadership, emphasizing that leaders must remain true to their own values to sustain followers' trust, while Givens (2008) argued that transformational leadership is a universal model applicable across organizational types, including SMEs. In SMEs specifically, the close-knit, less formalized nature of leader-follower interaction makes transformational leadership particularly salient: leaders are not merely directing day-to-day operations but actively shaping a shared vision, fostering innovation, and building the kind of emotional connection with employees that larger, more bureaucratic organizations often struggle to replicate (Muenjohn & Armstrong, 2008).

Idealized Influence

Idealized influence refers to the extent to which a leader serves as a role model for ethical behavior, earning the trust, respect, and admiration of followers through consistent integrity, charisma, and selflessness (Bass, 1985). Leaders who exhibit idealized influence set high standards of conduct and inspire employees to internalize organizational values as their

own, encouraging followers to transcend self-interest in pursuit of the leader's vision (Bass & Avolio, 1994). In SMEs, where organizational structures are flatter and leader-follower interaction is more frequent and personal, idealized influence is particularly potent: the leader's visible ethical conduct directly shapes the broader organizational culture and sets a behavioral benchmark that employees are inclined to emulate (Muenjohn & Armstrong, 2008).

Individualized Consideration

Individualized consideration describes a leader's ability to recognize and respond to the unique needs, strengths, and developmental aspirations of each follower, typically through mentorship, personalized feedback, and emotional support (Bass, 1990). This behavior is especially salient in SMEs, where smaller teams and closer leader-employee proximity allow for more direct, tailored attention than is typically feasible in larger organizations. By investing in employees' individual growth, leaders cultivate a sense of being valued, which in turn is theorized to strengthen affective attachment to the organization (Givens, 2008).

Intellectual Stimulation

Intellectual stimulation refers to a leader's ability to encourage creativity and critical thinking by challenging the status quo, questioning assumptions, and supporting employees in exploring new approaches to problems (Bass, 1985). Leaders who exhibit intellectual stimulation cultivate a culture of continuous learning in which employees feel psychologically safe to take risks, experiment, and propose novel solutions. This component is especially valuable in SMEs, where innovation and adaptability are often key differentiators in competitive, resource-constrained markets, and where employees typically occupy broader, more flexible roles that create greater scope for creative contribution (Bass & Avolio, 2004).

Concept of Employee Task Performance

Task performance is widely regarded as the most direct and measurable dimension of employee performance, referring to the proficiency with which employees fulfil the formal job responsibilities outlined in their job descriptions or performance appraisals, such as meeting deadlines, achieving targets, and producing quality work (Campbell, 1990). It reflects the degree to which employees convert effort, competence, and supervision into actual, recognizable work output. In SMEs, task performance carries particular weight because smaller teams mean that each employee's individual output has a proportionally larger effect on overall organizational success; in a small retail or service business, for example, a single employee's ability to meet targets or deliver quality work can directly affect revenue and customer satisfaction.

Leadership behavior plays a central role in shaping task performance. Transformational leadership, particularly through idealized influence and inspirational motivation, clarifies organizational vision and goals, giving employees a clear sense of direction and motivation. Leaders who model high performance standards and communicate a compelling vision are theorized to inspire employees to exceed minimum expectations and contribute more fully to organizational success (Bass & Avolio, 1994). This conceptual link between transformational leadership behaviors and task performance forms the basis for the first objective and hypothesis of this study.

Theoretical Framework

This study is anchored on Bass's (1985) Transformational Leadership Theory, which extends Burns's (1978) original conceptualization by specifying four measurable leadership components, popularly termed the "Four I's": idealized influence, inspirational motivation, intellectual stimulation, and individualized

consideration. Bass argued that these components work synergistically to elevate follower motivation, creativity, and commitment beyond what transactional exchange alone can achieve, an assertion with particular relevance to SMEs, where formal incentive structures are often limited and leadership behavior substitutes for institutional mechanisms of motivation.

As a complementary lens, the study draws on Leader-Member Exchange (LMX) Theory (Dansereau, Graen, & Haga, 1975), which holds that the quality of the dyadic relationship between a leader and each follower, ranging from high-trust "in-group" to lower-quality "out-group" exchanges, shapes employee outcomes such as commitment and performance (Graen & Uhl-Bien, 1995). LMX theory complements the anchor theory by explaining the relational mechanism through which individualized consideration, in particular, translates into differentiated employee commitment outcomes.

Empirical Review

Oghojafor, Okoh, and Iyamu (2015) analyzed leadership influence on employee performance in SMEs across Lagos and Abuja using structural equation modeling on data from 180 SME managers and employees. The study found that idealized influence positively affected employees' task completion rate, efficiency, and reliability, with employees responding strongly to leaders' ethical and visionary behaviors by going beyond prescribed duties. The study's SME context makes it directly relevant to the present research, though it did not disaggregate the effects of other transformational leadership components, a gap the present study addresses by isolating idealized influence alongside individualized consideration and intellectual stimulation. Akinbode and Adebayo (2020) examined the relationship between transformational leadership and employee commitment in

Nigerian SMEs using a mixed-methods design with 250 employees from SMEs in Lagos and Abuja. The study found a strong positive relationship between individualized consideration and employee commitment to job roles, with personalized career development support and emotional support from leaders identified as key factors reducing turnover intentions. While robust, the study did not differentiate which specific forms of personalized support (career development versus emotional support) were most influential, leaving room for the more disaggregated regression-based analysis undertaken in the present study.

Aliyu (2016) investigated the effect of intellectual stimulation on employee innovation in Nigerian SMEs using a survey design with 200 employees from SMEs in northern Nigeria. The study found that leaders who engaged in intellectual stimulation encouraged employees to generate innovative ideas that contributed to organizational success, with employees reporting a heightened sense of ownership over the organization's innovative efforts. The Nigerian SME context makes this study highly relevant; however, it did not directly link creativity to task performance or to the other dimensions of employee performance examined in the present study.

Research Gap

Collectively, the reviewed studies confirm that transformational leadership behaviors positively shape SME employee outcomes, but each addresses only one leadership-performance pairing in isolation, and none examines, within a single Nigerian SME sample, how the same three leadership proxies differentially predict three distinct performance outcomes simultaneously. This fragmentation obscures whether a given leadership behavior that strengthens one outcome (e.g., commitment) might simultaneously weaken another (e.g.,

creativity), a possibility with direct practical implications for SME leaders who must balance competing performance goals. The present study addresses this gap through a disaggregated, multi-outcome regression analysis.

3. METHODOLOGY

The study adopted a quantitative, exploratory research design, using a structured survey instrument to collect primary data from employees of six purposively selected SMEs across the area councils of the Federal Capital Territory, Abuja, spanning retail, manufacturing, services, and education sectors. The target population of 502 employees was reduced to a sample of 411 using the Taro Yamane formula at a 5% margin of error, with proportionate allocation across the six firms via simple random sampling.

The survey instrument used 5-point Likert-scale items (Strongly Disagree = 1 to Strongly Agree = 5) to measure three transformational leadership proxies (idealized influence, individualized consideration, and intellectual stimulation) and three performance outcomes (employee task performance, employee commitment to job roles, and idea generation/initiative). Instrument validity was assessed using Cronbach's alpha, yielding coefficients ranging from 0.672 to 0.842 across constructs, with an overall instrument coefficient of 0.746, indicating acceptable internal consistency. Test-retest reliability, assessed over a four-week interval, produced a Guttman split-half coefficient of 0.857.

Of 411 questionnaires administered, 409 were returned (99.5%) and 401 were valid for analysis (97.6% valid response rate). Data were analyzed using multiple regression in SPSS, with three separate models estimated, one for each performance outcome, expressed as:

$$ETP = \alpha + \beta_1 II + \beta_2 IC + \beta_3 IS + \mu \text{ (Model 1)}$$

$$ECJ = \alpha + \beta_1 II + \beta_2 IC + \beta_3 IS + \mu \text{ (Model 2)}$$

$$ECG = \alpha + \beta_1 II + \beta_2 IC + \beta_3 IS + \mu \text{ (Model 3)}$$

where ETP = Employee Task Performance, ECJ = Employee Commitment to Job, ECG = Employee Creativity/idea Generation, II = Idealized Influence, IC = Individualized Consideration, IS = Intellectual Stimulation, α = intercept, β = coefficients, and μ = error term.

4. RESULTS

Sample Characteristics

The sample (N = 401) was predominantly male (63%) and concentrated in the 31–40-

year age band (48.9%), with a further 28.7% aged 21–30 and 19.5% aged 41–50, indicating a relatively young and active workforce. Educational attainment was broadly distributed, with the largest shares holding Certificate/Diploma (29.0%) or Secondary School/Trade Test (25.1%) qualifications, alongside smaller proportions holding HND (24.3%), First Degree (15.8%), Master's (5.4%), or PhD (0.5%) qualifications.

Regression Results

Table 1 summarizes the regression coefficients, significance levels, and model fit statistics across the three estimated models.

Table 1. Summary of Regression Results

Predictor	Model 1: Task Performance (β , p)	Model 2: Commitment to Job (β , p)	Model 3: Idea Generation (β , p)
Idealized Influence	0.322 (p < .01)	0.235 (p < .01)	0.226 (p < .05)
Individualized Consideration	0.343 (p < .01)	0.751 (p < .01)	−0.506 (p < .01)
Intellectual Stimulation	0.288 (p < .01)	0.013 (n.s., p = .51)	0.666 (p < .01)
R ² / Adj. R ²	0.87 / 0.86	0.96 / 0.96	0.72 / 0.71
F-statistic	696.57 (p < .01)	2941.62 (p < .01)	159.63 (p < .01)

Source: Field Survey, 2025 (computed via SPSS).

For Model 1 (employee task performance), all three proxies were positive and statistically significant, with individualized consideration showing the largest coefficient ($\beta = 0.343$), followed by idealized influence ($\beta = 0.322$) and intellectual stimulation ($\beta = 0.288$). The model explained 87% of the variance in task performance ($R^2 = 0.87$).

For Model 2 (employee commitment to job roles), individualized consideration was by far the strongest predictor ($\beta = 0.751$, t =

27.31, p < .01), followed by idealized influence ($\beta = 0.235$, p < .01), while intellectual stimulation was not statistically significant ($\beta = 0.013$, p = .51). The model accounted for 96% of the variance in commitment ($R^2 = 0.96$).

For Model 3 (idea generation and initiative), intellectual stimulation was the dominant predictor ($\beta = 0.666$, p < .01), and idealized influence contributed positively though more modestly ($\beta = 0.226$, p < .05). Individualized

consideration, by contrast, exhibited a significant negative effect ($\beta = -0.506$, $p < .01$), suggesting that excessive personalized supervision may inadvertently constrain employees' creative autonomy in this SME context. The model explained 72% of the variance in idea generation ($R^2 = 0.72$).

Discussion of Findings

The cross-model pattern reveals that transformational leadership operates as a differentiated, rather than uniform, lever on employee performance. Idealized influence consistently and positively predicted all three outcomes, consistent with its theorized role as a general driver of trust-based motivation (Bass & Riggio, 2006). Individualized

CONCLUSION AND RECOMMENDATIONS

This study set out to examine how three proxies of transformational leadership, idealized influence, individualized consideration, and intellectual stimulation, affect three dimensions of employee performance among SMEs in Nigeria's Federal Capital Territory. The findings empirically validate Bass's (1985) Transformational Leadership Theory while extending it to a developing-economy SME context: leadership dimensions produce distinct, sometimes competing, behavioral outcomes (emotional loyalty, cognitive creativity, and task performance), and the theory's relevance extends beyond large corporations to small-scale enterprises in emerging markets.

The study concludes that no single transformational leadership behavior optimizes all performance outcomes simultaneously; rather, effective SME leadership in Nigeria requires a deliberate balance of ethical role modeling, individualized mentorship, and intellectual challenge, calibrated to the specific performance goal being pursued. Based on these findings, the study recommends that SME leaders adopt leadership styles that

consideration emerged as the dominant driver of commitment, consistent with Akinbode and Adebayo (2020) and the broader relational logic of LMX theory, but its negative association with idea generation echoes Amabile's (1996) componential theory of creativity, which holds that excessive managerial involvement can dampen intrinsic motivation and risk-taking. Intellectual stimulation, meanwhile, was the clear engine of innovation but contributed negligibly to commitment, suggesting that in resource-constrained Nigerian SME settings, commitment is driven more by relational and affective leadership behaviors than by cognitive or innovation-oriented ones.

combine mentorship and motivation to optimize task accomplishment; invest specifically in personalized, empathetic leadership practices to build commitment, while remaining mindful that overly close supervision can suppress creative initiative; and institutionalize practices such as brainstorming sessions, employee suggestion systems, and non-punitive responses to failed experiments to convert intellectual stimulation into a consistent innovation culture. Policy bodies such as SMEDAN and the Bank of Industry should consider integrating leadership-development modules, addressing this balance explicitly, into their SME support programs.

Limitations and Future Research

The study is limited by its cross-sectional design and reliance on self-reported perceptual data, and by its geographic confinement to the FCT, which may limit generalizability to other Nigerian regions. Future research should adopt longitudinal designs, incorporate objective performance metrics, and test the moderating role of organizational culture on the leadership-performance relationships identified here.

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