

THE ROLE OF TRANSFORMATIONAL LEADERSHIP, ORGANIZATIONAL CULTURE AND EFFECTIVENESS IN THE PERFORMANCE OF SME IN NORTH MACEDONIA

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Abstract

This study analyzes the critical role of transformational leadership as a key driver of organizational success in Small and Medium-sized Enterprises (SMEs) in North Macedonia. The main focus of this research is to examine the impact of transformational leadership on organizational performance, treating organizational culture and effectiveness as mediating variables. Unlike traditional studies that are focused on direct relationships, this paper proposes a model where transformational leadership affects performance indirectly, by initially shaping a value-based culture and increasing operational effectiveness. The methodology is based on a quantitative approach, using structured questionnaires distributed to managers and owners of SMEs in North Macedonia. The data were analyzed through statistical methods, including mediation modeling to test the mediating role of organizational culture and effectiveness in the relationship between transformational leadership and performance. The results suggest that transformational leadership has a significant positive impact on organizational culture, which in turn serves as a bridge to effectiveness and ultimate performance.

This study contributes to the existing literature by providing an empirical perspective on the importance of leadership as a strategic factor for competitive advantage, creating an innovative and productive work environment in the local context. The practical implications suggest that SME owners and managers should invest in developing transformational leadership competencies to improve competitiveness and long-term performance.

Keywords: Transformational leadership, organizational effectiveness, organizational culture, performance, SME.

Introduction

In the era of globalization and digital transformation, organizations are faced with dual pressure, such as increasing performance and ensuring sustainability in a market with high uncertainty. The business structure in North Macedonia is characterized by a strong dominance of SMEs, with micro-enterprises making up 91.5% of the total. In this context, leadership appears as a determining factor for the success of enterprises. Leadership is not simply a management element, but the main tool through which these enterprises achieve their objectives and ensure survival in the market.

The role of leadership in an organization is essential in terms of creating a vision, mission, defining and setting objectives, designing strategies, policies and methods to achieve organizational objectives effectively and efficiently, along with directing and coordinating organizational efforts and activities (Xu & Wang, 2008). Leadership is a type of managerial behavior that aims to integrate corporate or personal interests and influences to achieve certain goals (Afsar et al., 2019). Al Khajeh (2018), argues that a leader's relationship style can be characterized as the approach

taken to convince people to cooperate to achieve a common goal or objective. Theoretically, contemporary leadership styles are treated in three types: (i) transformational leadership style, (ii) transactional leadership style and (iii) laissez faire leadership style. Regards to this, transformational leadership is more flexible and adaptable to changes, focusing on the value system of employees, the development of their morale, skills and motivation level. Transformational leadership acts as a strong bridge between followers and leaders, to develop a clear understanding related to the motivational level, values and interests. Bass and Avolio (1994), stated that transformational leadership demonstrates superior leadership performance. Many researchers argue that the way the organizations are led directly affect the organizational culture, operational effectiveness, and overall performance (Bass & Avolio, 1994; Yukl, 2013). According to modern leadership theories, especially the transformational leadership approach, leaders have a key role in shaping the values, norms, and beliefs that make up organizational culture (Schein, 2010). Organizational culture, on the other hand, represents the shared system of meanings and practices that guide the behavior of organizational members and influences the way work processes are carried out. Empirical studies have shown that there is a strong relationship between leadership style and organizational effectiveness. Effectiveness is usually measured through the achievement of strategic objectives, employee satisfaction, innovation, and adaptation to change (Robbins & Judge, 2017). What does this study add to previous empirical research on leadership and organizational variables such as culture, effectiveness, and performance? Although there is a broad international theoretical base that addresses the relationship between leadership, culture, effectiveness, and organizational performance, there is a lack of studies that analyze the mediating mechanisms, especially in transition economies. In the existing studies in North Macedonia, very few empirical studies have analyzed the serial mediating role of organizational culture and organizational effectiveness. Another important gap that this study fills is that it takes as its basis the sample of a Western Balkan country such as North Macedonia, which has significant shortcomings in empirical studies of these variables, considering that these countries need to adapt to new managerial practices that bring long-term sustainability.

To fulfill the research objective, the research questions are as follows: (i) How does transformational leadership affect the performance of SMEs? (ii) Does organizational culture mediate the relationship between transformational leadership and performance? (iii) Does organizational effectiveness mediate this relationship?

The hypothesis of this study are:

H1: Transformational leadership has a positive impact on organizational culture.

H2: Organizational culture has a positive impact on organizational effectiveness.

H3: Organizational effectiveness has a positive impact on organizational performance.

H4: Transformational leadership affects performance indirectly through organizational culture and organizational effectiveness (serial mediation).

Regards to this, the purpose of this study is to analyze the impact of leadership on organizational culture, organizational effectiveness and performance, examining the mediating role of culture and effectiveness in this relationship. The study aims to contribute to existing literature by providing empirical evidence on the importance of leadership as a strategic factor in achieving organizational success.

Literature review

Leadership is the ability to influence and change people's paradigms, create a vision, motivate followers with internal resources, gain trust by appreciating and convincing associates that their

contribution is important to the common goal, lead them, directly influence the course of events, and harmoniously fulfill the goals of the organization. The theory of transformational leadership originates from Burns (1978), who starts from transactional leadership, emphasizing the ability of leaders to inspire followers to higher levels of motivation and morale. Bass (1985) later has developed the theory by identifying essential dimensions such as inspirational motivation, intellectual stimulation, individualized consideration, and idealized influence. Empirical research consistently shows that transformational leaders increase employee engagement, innovation, and organizational outcomes (Avolio & Bass, 2004; Avolio, Walumbwa, & Weber, 2009). In small and medium-sized enterprises, where organizational structures are less formalized and managerial influence is more direct, leadership behaviors can have significant effects.

Organizational culture is defined as the system of values, norms, and beliefs that shape behavior within an organization (Schein, 2010). Transformational leadership positively impacts internal organizational processes. Leaders influence culture by modeling behavior, reinforcing values, and creating daily practices that institutionalize “how things are done here”. A systematic review focused on organizational culture argues that culture is not simply “climate,” but a system of meanings that is closely related to how organizations manage crises and change (Bogale, 2024). Nguyen et al. (2023), argue that transformational leadership significantly predicts organizational culture and indirectly influences performance in emerging markets. Similarly, Phuc and Hoang (2024), demonstrated that leadership behaviors in SMEs strengthen cultural cohesion and employee-based performance outcomes. The culture is particularly critical because informal structures often replace formal systems. Therefore, the influence of leadership on culture may be a key mechanism through which organizational alignment is achieved. In addition, evidence from empirical studies in various sectors continues to report positive links between culture and performance, describing culture as a “catalyst” of long-term productivity and performance (Vasumathi et al., 2025).

Organizational effectiveness is treated as the result of a combination of achieving objectives, adapting to the environment, internal coordination, and managing human capital. Recent reviews of leadership styles & organizational effectiveness suggest that effectiveness is influenced by the transformational style and the organizational context. In the context of SMEs, effectiveness is often associated with flexibility, adaptability and innovation. Meta-analyses of Wang et al. (2011), confirm strong positive associations between transformational leadership and indicators of organizational effectiveness.

Organizational Performance is a complex and multidimensional phenomenon in business literature, which includes the actual results of an organization which can be measured against intended results, goals and objectives. Organizational performance includes three areas related to the organization, such as financial performance (return on investment, profits, etc.), shareholder return (economic value added, total shareholder value, etc.) and product/service market performance (market share, sales, etc.) (Gavrea, et al., 2011). According to Avolio and Bass (2004), organizations led by transformational leaders demonstrate higher performance compared to those following transactional styles, the literature suggests that transformational leadership is a key factor in increasing the competitiveness of SMEs (Puni et al., 2018).

Empirical evidence argues that transformational leadership affects performance indirectly, through organizational culture and/or effectiveness variables (e.g., commitment, satisfaction, innovation, job retention) and is related to performance outcomes and is often accompanied by mediating mechanisms such as organizational behavior, motivation, change capacities, (Agag, 2025).

Methodology

This study analyzed the impact of Transformational Leadership (TL) on SME Performance, testing the mediating role of Organizational Culture (OC) and Organizational Effectiveness (OE). Data were collected through a questionnaire distributed to managers and owners of private SMEs in North Macedonia. The final sample consisted of 150 respondents, selected through convenience sampling, including private enterprises with different activities (manufacturing, trade, service). Firm size, firm age and sector were included as control variables. All constructs were measured using a multi-point Likert scale (1 = Strongly disagree; 5 = Strongly agree). The data were analyzed using IBM SPSS Statistics. The analysis was carried out in the following stages: Reliability analysis (Cronbach alpha), descriptive statistics, Pearson correlation analysis, serial mediation analysis (Model 6).

Reliability analysis

The level of stability and reliability of the variables was assessed using Cronbach-alpha. The values obtained from the reliability analysis for the variables; Transformational leadership ($\alpha = .865$), organizational culture ($\alpha = .895$), organizational effectiveness ($\alpha = .889$) and performance ($\alpha = .906$).. demonstrate internal consistency, as they exceed the acceptable threshold (.55–.81). These findings confirm that the measurement scales are reliable and suitable for further analysis.

Descriptive Statistics

Descriptive statistics show moderately high results in all variables: Leadership Transformational Leadership: $M = 3.81$, $SD = 0.51$, Organizational Culture: $M = 3.27$, $SD = 0.64$, Organizational Effectiveness: $M = 3.34$, $SD = 0.62$, Performance: $M = 3.31$, $SD = 0.70$. These values suggest that respondents generally perceive leadership, culture, effectiveness, and performance at moderate to high levels.

Correlation Analysis

Pearson correlation analysis revealed significant positive relationships between the main variables. Transformational Leadership was moderately correlated with Organizational Culture ($r = .472$, $p < 0.01$) and Organizational Effectiveness ($r = .312$, $p < 0.01$), and weakly but significantly correlated with SME Performance ($r = .188$, $p < 0.05$). Organizational Culture showed a strong correlation strong positive correlation with Organizational Effectiveness ($r = .498$, $p < 0.01$) and a moderate correlation with SME Performance ($r = .438$, $p < 0.01$). Organizational Effectiveness showed the strongest correlation with Performance ($r = 0.542$, $p < 0.01$). According to the results obtained from the correlation analysis, we conclude that there is a correlation between the combination of all variables (p value < 1) but at different levels of dependence. These values indicate that the dependence between leadership, organizational culture and effectiveness is higher than with performance. So, the increase in performance is achieved through the mediation of culture and effectiveness.

Serial Mediation Model (PROCESS Model 6)

The serial mediation model can be expressed as:

Transformational Leadership → Organizational Culture → Organizational Effectiveness → Performance

The serial mediation analysis helps us to verify whether Organizational Culture and Organizational Effectiveness are mediators in the relationship between the independent variable Transformational Leadership and the dependent variable Performance.

Leadership → Culture, the results obtained $\beta = 0.5988$, $p < .001$, $R^2 = .223$ indicate that Transformational Leadership significantly predicts Organizational Culture. Leadership explained approximately 22% of the variance in organizational culture.

Culture and Leadership → Effectiveness, the results $\beta = 0.4389$, $p < .001$ confirm that Organizational Culture significantly predicts Organizational Effectiveness: However, Transformational Leadership did not have a significant direct effect on Effectiveness when Culture was included. $\beta = 0.1223$, $p = .222$, $R^2 = .255$. This indicates that leadership affects effectiveness mainly through culture.

The Final Model that Predicts Performance

Organizational Effectiveness significantly predicted Performance $\beta = 0.4926$, $p < .001$

Organizational Culture also significantly predicted Performance $\beta = 0.2772$, $p = .003$

Transformational Leadership did not have a significant direct effect on Performance

$\beta = -0.0946$, $p = .379$, $R^2 = .335$

Approximately 33.5% of the variance in performance was explained by the model. The direct effect is not significant so we will use the Bootstrapping test to analyze the indirect effects to verify whether the mediation is significant.

Total Indirect Effect

The obtained values, Effect = 0.3557 and the 95% CI [0.2175, 0.5037] argue that the total indirect effect is significant, since the confidence interval does not include zero.

Specific Indirect Effects

1. TL → Culture → Performance.

The obtained value Effect = 0.1660 and the confidence interval CI [0.0461, 0.2995], indicate that the specific indirect effect is significant, since the confidence interval does not include zero.

2. TL → Effectiveness → Performance

The values indicate that the specific effect for this combination of variables is not significant, since the confidence interval CI includes zero.

3. TL → Culture → Effectiveness → Performance (Serial Mediation)

In this case where we have two mediating variables KO and EO we obtained the values, Effect = 0.1295 and the confidence interval CI [0.0568, 0.2345] which does not include zero, this indicates that the indirect effect in this situation is significant. This suggests that leadership increases effectiveness mainly through shaping cultural norms and internal harmonization. These results confirm that serial mediation remains stable.

Discussion

This study analyzed the impact of Transformational Leadership (TL) on SME Performance, testing the mediating role of Organizational Culture (OC) and Organizational Effectiveness (OE). Data were collected through a questionnaire distributed to managers and owners of private SMEs in North Macedonia. The final sample consisted of 150 respondents, selected through convenience sampling, including private enterprises with different activities (manufacturing, trade, service). Firm size, firm age and sector were included as control variables. All constructs were measured using a multi-point Likert scale (1 = Strongly disagree; 5 = Strongly agree).

Conclusions

Organizational effectiveness, organizational culture, and performance can be conceptualized as interrelated determinants that directly influence the development and competitive position of the organization. Culture represents the normative and value basis that guides organizational behavior; effectiveness reflects the operational capacity to achieve objectives, while performance represents the measurable result of this functioning. In an integrated manner, these three dimensions constitute the mechanism through which the organization ensures sustainability and competitive advantage in the long term. The findings show that Transformational Leadership does not directly affect the performance of Small and Medium Enterprises (SMEs). Instead, its effect operates indirectly through organizational culture and then through organizational effectiveness. Specifically, leadership shapes culture, culture enhances effectiveness, and effectiveness drives performance. This supports a complete serial mediation model, where leadership exerts its influence on performance through successive organizational mechanisms. The model is statistically sound, theoretically coherent, and empirically robust.

Recommendation

Managers of small and medium-sized enterprises in the Republic of North Macedonia should focus on building strong, flexible and innovative organizational cultures. Align leadership behaviors with internal organizational processes and strengthen operational effectiveness as a path to performance. Also, they should provide continuous training and development of human resources, to maintain a productive work environment. SMEs should integrate ERP and CRM systems to measure effectiveness in real time. Leadership without organizational integration is unlikely to generate sustainable performance results.

Limitation

The limitation of this study is the inclusion of only one country, the Republic of North Macedonia. Expanding the sample to other Western Balkan countries would allow for a clearer analysis of the studied relationship between culture, effectiveness and performance. Another limitation is related to measuring the variables only from the perspective of managers, a two-way approach that also includes other levels of structure would provide more reliable results. However, despite these limitations, this research provides an important empirical basis for understanding the dynamics of leadership in local SMEs and serves as a starting point for more comprehensive studies in the future.

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