



The Effect of Transformational Leadership on Organizational Citizenship Behavior and Employee Performance in Pakistani SMEs: A Modern Analysis

Ismail Jabbar

Department of Management Sciences,
Qurtuba University of Science and Information Technology,
Peshawar. Email: ismailjabbar@gmail.com

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Abstract

Employee performance is an important factor that determines the success of an organization, especially within a small and medium-sized enterprise (SME), where human capital can be the main source of competitive advantage. The article discusses the mediating variable of the association between transformational leadership and employee performance, which is Organizational Citizenship Behavior (OCB). The paper is based on the social exchange and social bond theories by postulating that transformational leaders motivate employees to commit discretionary and extra-role behaviors - epitomized by OCB - which consequently improves job performance. This mediating model is supported by empirical evidence from a sample of 405 workers in the Pakistani SMEs. Results indicate that the performance enhancement effect of transformational leadership cannot be directly stimulated; instead, it is more directed to the voluntary, citizenship-oriented behaviors of the employees. The research adds novelty to the body of research on leadership and organizational behavior by supporting OCB as a crucial psychological and behavioral process that can be applied by managers who want to maintain high-performing and engaged workforces.

Keywords: Employee Performance, Social Bond Theory, Transformational Leadership, Pakistan, Structural Equation Modeling (SEM)

1. Introduction

Globally, small and medium-sized enterprises (SMEs) are adopting new learning opportunities and improving their capabilities (Hasan et al., 2022). Furthermore, these SMEs encounter complex challenges and continuous changes that significantly affect various dimensions of their performance. The success of SMEs is increasingly recognized as a critical challenge for economic development (Surya et al., 2021). Success is a fundamental aspect for firms globally, reliant on the structural capacity to adopt proactive managerial practices, thereby securing resources and intangible competencies (Cantú et al., 2021). Performance is a cumulative measure that indicates an organization's ability to succeed in a competitive market. Contemporary theories of evolution and empirical studies demonstrate that leadership styles play a crucial role in enhancing both individual and organizational performance, including factors such as organizational citizenship, job satisfaction, and overall performance (Pramono, Sondakh, Bernarto, Juliana, & Purwanto, 2021). Furthermore, existing literature demonstrates that leadership is essential for attaining organizational goals and enhancing competitiveness, as it facilitates the alignment of resources and individuals (Cai, 2023). Leadership is utilized to achieve organizational objectives by influencing the dynamics between superiors and subordinates. Additionally, leaders offer more essential support to their organizations compared to other human resource teams (Panda et al., 2022). Leaders coordinate organizational resources and develop and implement effective strategies to improve the future of their organizations, thereby enhancing performance and outcomes. Recent recommendations indicate that transformational leadership significantly

influences the attitudes and behaviors of numerous employees (Morris-Phillip, 2021). Transformational leadership (TL) has been demonstrated to influence various human and organizational outcomes positively. Transformational leadership (TL) has been linked to leader performance (Morris-Phillip, 2021), job performance (Özgül & Zehir, 2023b), and organizational citizenship behavior (OCB) (Park et al., 2022). Transformational and transactional leadership represent two distinct styles that have been examined concerning work performance (Suliman et al., 2023). Transactional leadership is fundamentally based on control and process, necessitating a stringent management structure. It emphasizes the importance of motivating individuals to comply, which demands significant coordination, communication, and cooperation (Özgül & Zehir, 2023b; Shams et al., 2025). Research indicates a significant correlation between transformational leadership and employee work performance (Aftab et al., 2022). Morris-Phillip (2021) demonstrated that transformational leadership enhances employees' job performance. The relationship between managers and employees is an established method in workplace dynamics. Social bond theory (SBT) encompasses a broad scope, as respect and social bonding invigorate both parties, create dyadic relationships, and improve productivity and employee engagement in occupational goals, thereby enhancing overall performance (Islam et al., 2021). Similarly, effective management of human resources within an organization enables employees to execute their tasks optimally. Individuals who play a crucial role in creating motivating environments and providing support within the workplace are identified as leaders (Park et al., 2022). Talent mapping is essential for specific structural positions within an organization, as each leader exhibits unique skills and attributes. Talent mapping is a method for identifying individuals with specific skills who can contribute to maintaining company culture and improving employee performance (EP). (Gotsis & Grmani, 2016) assert that the management of abilities is crucial in the context of increasing organizational competitiveness. The TL style requires further exploration due to its uncertain impact across different contexts (Nasir et al., 2022). Transformational leadership requires increased focus within Pakistani SMEs. This study aims to address the existing research gap by expanding on prior findings concerning employee job performance and contributing new evidence to the literature. This research examines the experiences of SMEs in managing companies, employees, and managers. The unique informants were chosen based on the assumption that a broader sample distribution, encompassing the behaviors of employees, subordinates, and staff, would facilitate the collection of more accurate and valuable data. This quantitative study investigates the intercorrelations among transformational leadership, organizational citizenship behavior, and employee performance within Pakistan's diverse SME sector. This research aims to identify the most suitable leadership style for the SME sector in Pakistan, examining the impact of leadership on organizational citizenship behavior (OCB) and employee performance (EP), as well as the potential mediating role of OCB in these relationships. This is anticipated to facilitate employee achievement and foster organizational development and progress through the evolution of supervision in Pakistan's SME sector.

2. Literature Review

2.1 Transformational leadership (TL)

According to Ghasabeh et al. (2015), the theory of transformational leadership (TL) originates from the significant contributions of James MacGregor Burns (1978), who sought to distinguish between transactional leadership, characterized by rewards for compliance, and a superior form of leadership that ethically and motivationally revitalizes both leaders and followers. Burns conceptualized transformational leadership as a reciprocal process wherein leaders elevate followers from individualistic concerns to a shared purpose, fostering growth and ethical

accountability in exchange. Bass (2015) significantly expanded this initial conceptualization, transforming transformational leadership into a measurable, behavior-based construct. Sutanto et al. (2021) established the influential “Four I’s” framework: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, which continues to serve as a fundamental aspect of current transformational leadership research. Idealized influence refers to a leader's capacity to serve as a charismatic and ethical role model, fostering admiration and respect. Inspirational motivation involves articulating a compelling vision and setting ambitious challenges that engage followers. Intellectual stimulation promotes creativity by questioning assumptions and supporting innovative problem-solving. Individualized consideration encompasses mentoring and addressing the unique developmental needs of followers (Murrell et al., 2021). The dimensions collaboratively enhance follower empowerment, boost intrinsic motivation, and cultivate psychological ownership of organizational goals. Transformational leadership (TL) extends beyond charisma and vision; it encompasses a relational, developmental, and value-driven process that facilitates the transformation of organizational culture and individual identity (Vinh et al., 2022). Research consistently demonstrates that transformational leadership enhances follower commitment, reduces turnover intentions, and fosters an innovative and adaptable environment, qualities essential in small and medium-sized enterprises, where proximity to leadership intensifies relational dynamics (Mansoor et al., 2022). Furthermore, TL's emphasis on emotional intelligence and intellectual empowerment enables it to effectively manage complexity, ambiguity, and rapid change, key characteristics of the contemporary global business environment (Özgül & Zehir, 2023a). As organizations increasingly prioritize agility and the development of human capital, transformational leadership continues to serve as a crucial theoretical and practical framework for achieving leadership excellence.

In addition to its motivational and structural dimensions, transformational leadership significantly influences discretionary employee behavior, particularly Organizational Citizenship Behavior (OCB). While not legally mandated, OCB plays a crucial role in enhancing organizational effectiveness. Organizational citizenship behavior (OCB) encompasses discretionary actions such as aiding colleagues, upholding standards beyond the minimum requirements, and promoting the interests of the organization, all of which are amplified in the context of transformational leadership (Chen & Sriphon, 2022). This dynamic can be effectively analyzed through the lens of Social Bond Theory (SBT), originally proposed (Hirschi & Stark, 1969) to explain conformity and deviance within social contexts. SBT posits that individuals are less prone to engage in unethical or counterproductive behaviors when they maintain strong affective, normative, and instrumental connections with their social environment, specifically the organization and its management. Transformational leaders who foster trust, respect, and emotional connections enhance social ties, thereby reducing ambiguity, perceived injustice, and alienation, key precursors to workplace deviance (Ehrnrooth et al., 2024). Empirical research demonstrates that transformational leadership diminishes worker misconduct by reinforcing alignment with organizational values and improving psychological safety (Huynh et al., 2019). Additionally, TL's emphasis on inspirational motivation and individualized consideration fosters a sense of purpose and belonging, encouraging employees to internalize organizational objectives and exceed job specifications. Simultaneously, TL influences Employee Performance (EP), defined as the measurable individual contribution to organizational value creation (Adu-Gyamfi et al., 2021). In small and medium-sized enterprises, characterized by flexible structures and direct leadership influence, the effects of transformational leadership are amplified, resulting in enhanced performance, innovation, adaptability, and resilience (Madi-Odeh et al., 2023). Leaders who intellectually stimulate their employees and



provide tailored support enable workers to reframe problems, propose innovative solutions, and take initiative, behaviors that are directly linked to increased productivity and a competitive advantage. Thus, transformational leadership serves as a catalytic force, integrating human capacity with strategic vision through relational depth, moral modeling, and visionary leadership, which is essential for sustained organizational success in the 21st century.

2.2. Employee performance (EP)

Employee performance (EP) is broadly defined as the measurable contribution of individuals toward achieving organizational objectives through specific work activities and outcomes. It represents not merely the completion of assigned tasks but the quality, efficiency, and value-added nature of those contributions, essentially, the “realization stage” of individual effort within the organizational system (Diamantidis & Chatzoglou, 2019). Performance is multidimensional and influenced by a triad of interrelated factors: organizational support structures, managerial effectiveness, and the intrinsic motivation and capability of individual employees (Rodjam et al., 2020). An efficient employee, upon joining an organization, is embedded within a specific functional role, yet their performance transcends mere task execution; it reflects their alignment with organizational values, adaptability to change, and willingness to contribute beyond formal job descriptions (Abdullahi et al., 2021). Contemporary scholarship emphasizes that EP is not static but dynamic, shaped by leadership, culture, and psychological engagement. Leadership, in particular, emerges as a critical antecedent of EP; effective leaders create environments where employees feel valued, heard, and empowered, directly influencing productivity and retention (Khan et al., 2023). Nie et al. (2023) further argue that leader-employee interactions foster perceptions of interactional justice, which in turn motivate employees to internalize organizational goals. Khan et al. (2023) link leadership to the “path-goal” framework, suggesting that leaders who clarify objectives, remove obstacles, and provide feedback significantly enhance task performance. Moreover, leaders who institutionalize participative practices, such as regular feedback sessions and collaborative decision-making, cultivate higher levels of engagement and output (Ahsan, 2024). In essence, EP is a function of both structural support and relational leadership, with the latter acting as a catalyst for discretionary effort and sustained excellence. In small and medium-sized enterprises (SMEs), the impact of leadership on employee performance is magnified due to flatter hierarchies, direct leader-follower interactions, and the significant influence each employee has on organizational outcomes (Deklinski, 2021). Unlike in large corporations, where performance may be diffused across layers, SME employees often wear multiple hats, directly shaping operational efficiency, innovation, and financial viability. Their engagement, manifested through voluntary participation, idea generation, and problem-solving, becomes a strategic lever for organizational success. Transformational leadership (TL) plays a pivotal role in activating this potential. By fostering vision, intellectual stimulation, and individualized support, TL cultivates not only task proficiency but also psychological ownership and organizational commitment, key precursors to high performance. Empirical evidence consistently affirms a robust, positive relationship between TL and EP: Marwat et al. (2023) were among the first to empirically validate this link, while more recent studies. However, Organ (2018) reaffirms that transformational leaders significantly enhance productivity, innovation, and job satisfaction. Cai (2023) further notes that TL processes, such as mentoring, goal alignment, and empowerment, directly facilitate employees’ ability to perform. Islam et al. (2021) found that leader behaviors rooted in inspiration and support correlate strongly with superior work outcomes. Beyond task performance, TL also nurtures Organizational Citizenship Behavior (OCB) discretionary actions like helping colleagues, upholding norms, and defending organizational interests, which indirectly but powerfully enhance

SME performance (Cai, 2023). Employees under transformational leaders are more likely to acquire and share new knowledge, participate in training, and engage in self-managed teams, all of which contribute to competitive advantage. Ultimately, TL transforms employees from passive executors to proactive contributors, driving SME growth in sales, innovation, and market responsiveness (Mansoor et al., 2022; Morris-Phillip, 2021). Therefore, we hypothesize:

H1. TL positively impacts OCB.

H2. TL positively influences EP.

2.3. OCB and its mediating effect

Hooi et al. (2022) refers to OCB as discretionary, voluntary actions by employees that, while not explicitly mandated or formally rewarded, cumulatively enhance the social and psychological functionality of an organization. Although the concept was later formalized by Organ, its origins lie in earlier thinking that emphasized employees going beyond their formal job requirements, such as the idea of a voluntary willingness to serve and the recognition that behaviors outside official roles are essential for an organization's health and longevity. Organ (2018) defined OCB as behaviors that are neither incentivized nor penalized by formal systems, yet significantly contribute to organizational effectiveness by fostering cooperation, reducing friction, and enhancing adaptability. These behaviors transcend prescribed job descriptions and reflect employees' intrinsic motivation to support colleagues and the broader organizational mission. Podsakoff et al. (2024) further operationalized OCB into five core dimensions: altruism (helping colleagues with work-related problems), courtesy (proactively preventing interpersonal conflicts), sportsmanship (tolerating inconveniences without complaint), conscientiousness (exceeding minimum role requirements through punctuality, diligence, and rule adherence), and civic virtue (active participation in organizational governance and demonstrating loyalty). OCB is not merely "nice to have," it is strategically vital. (Vinh et al., 2022) demonstrated that OCB enhances operational efficiency by optimizing scarce resources, facilitating cross-unit problem-solving, and strengthening interdependence. Moreover, OCB influences performance evaluations and serves as a critical metric in human resource systems for monitoring behavioral health, intellectual engagement, and overall workforce productivity (Marwat & Adnan, 2020). Given its impact, OCB has increasingly been examined as a mediating variable between leadership styles, particularly transformational leadership (TL) and employee performance (EP). Studies by Park et al. (2022) consistently affirm that TL fosters OCB by cultivating trust, shared vision, and psychological safety. Thus, we hypothesize:

H3. Organizational citizenship behavior positively impacts employee performance.

Building on the established link between transformational leadership (TL) and organizational citizenship behavior (OCB), this study positions OCB as a mediating mechanism through which TL influences employee performance (EP). Grounded in Gürbüz & Bayik (2021) mediation framework, prior research confirms that while TL directly enhances EP, a significant portion of its effect is transmitted indirectly through OCB. Transformational leaders by demonstrating accountability, integrity, empathy, and fairness, cultivate environments where employees feel psychologically safe and valued (Ahsan, 2024). This perceived trust and moral alignment motivate employees to engage in discretionary, prosocial behaviors such as volunteering for extra tasks, mentoring peers, and defending organizational interests, all hallmarks of OCB (Panda et al., 2022). The theoretical lens of Social Bond Theory (SBT), originally proposed by (Hirschi & Stark, 1969), further elucidates this dynamic. SBT posits that strong affective, normative, and instrumental bonds between individuals and institutions reduce deviant behavior and promote conformity to collective goals. In organizational contexts, TL strengthens these bonds by aligning employees'

self-concepts with the organizational vision, thereby fostering pride, belonging, and a sense of purpose

. When employees internalize the organization's mission as an extension of their identity, they are more likely to exhibit OCB, not out of obligation, but out of identification. This, in turn, enhances team cohesion, reduces operational friction, and amplifies overall performance. In SMEs, where formal HR systems may be less developed but relational ties are stronger, the TL→OCB→EP pathway is particularly potent. SMEs contribute disproportionately to employment, innovation, GDP growth, and market dynamism (Budur & Demir, 2022; Marwat & Adnan, 2020), making employee discretionary effort a strategic asset. Therefore, we hypothesize:

H4. Organizational citizenship behavior mediates the relationship between transformational leadership and employee performance.

This study's conceptual framework (Figure 1) integrates TL as the independent variable, OCB as the mediator, and EP as the outcome, all contextualized within SMEs and theoretically anchored in SBT, offering a novel, empirically testable model for understanding how relational leadership drives performance through voluntary, citizenship-oriented behaviors.

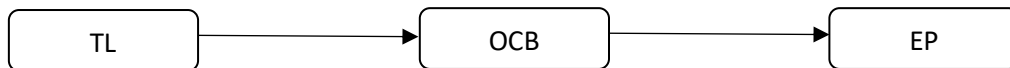


Figure 1: Conceptual Framework

3. Methodology

3.1. Sample and Data Collection

This study targets employees and supervisory-level staff working within small and medium-sized enterprises (SMEs) operating across Pakistan's major economic hubs, including Karachi, Lahore, Islamabad, Faisalabad, and Peshawar. SMEs were operationally defined as enterprises employing between 1 and 250 individuals, with an annual sales turnover not exceeding PKR 1.5 billion. This definition ensures alignment with national policy frameworks and facilitates sectoral comparability. To ensure representativeness across industries and organizational tiers, a stratified random sampling technique was employed. The sample was stratified by three key criteria: (1) sector (manufacturing, services, trade/retail), (2) firm size (micro: 1–10 employees; small: 11–50; medium: 51–250), and (3) job level (non-managerial, supervisory, middle management). Based on (Krejcie & Morgan, 1970) table for determining sample size in finite populations, a minimum of 384 respondents was required to achieve a 95% confidence level with a 5% margin of error. To mitigate potential non-response bias and incomplete questionnaires, the initial target was increased by 20%, resulting in the distribution of 460 questionnaires. Data collection was conducted over 12 weeks (January–March 2024) using a mixed-mode approach: physical distribution at SME clusters in industrial estates and commercial zones, supplemented by electronic dissemination via Google Forms distributed through professional SME associations, chambers of commerce, and LinkedIn networks. Research assistants trained in ethical data collection protocols administered the physical surveys, while digital responses were monitored for duplication and completeness. Participation was entirely voluntary, anonymous, and preceded by informed consent. A total of 412 fully completed and usable questionnaires were retained for analysis, yielding an effective response rate of 89.6%. Ethical clearance for the study was granted by the Institutional Review Board (IRB) of the lead researcher's university, ensuring compliance with international standards for human subject research, including confidentiality, voluntary participation, and data anonymization.

3.2. Measurement Scale

All constructs in this study, i.e., transformational leadership (TL), organizational citizenship behavior (OCB), and employee performance (EP), were measured using validated, multi-item scales drawn from established literature and adapted contextually for SME environments in Pakistan. Responses were captured using a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree) to ensure ease of comprehension and response consistency. Transformational Leadership (TL) was assessed using the 20-item Multifactor Leadership Questionnaire (MLQ-5X) developed by Bass and Avolio (2004), which captures four core dimensions: Idealized Influence (e.g., “My leader goes beyond self-interest for the good of the group”), Inspirational Motivation* (e.g., “My leader talks optimistically about the future”), Intellectual Stimulation (e.g., “My leader questions assumptions and encourages rethinking”), and Individualized Consideration (e.g., “My leader pays attention to my personal needs”). The scale demonstrated high internal consistency in this study (Cronbach’s $\alpha = 0.92$). Organizational Citizenship Behavior (OCB) was measured using (Marwat et al., 2023; Podsakoff et al., 2024) 24-item instrument, which evaluates five behavioral dimensions: Altruism (e.g., “I help others who have work-related problems”), Courtesy (e.g., “I give advance notice when unable to come to work”), Sportsmanship (e.g., “I don’t complain about trivial things”), (e.g., “I follow organizational rules even when no one is watching”), and Civic Virtue (e.g., “I attend meetings that are not mandatory but help the organization”). The scale yielded a reliability coefficient of $\alpha = 0.89$. Employee Performance (EP) was operationalized using Williams & Anderson’s (1991) 7-item, In-Role Performance Scale, which focuses on task proficiency and fulfillment of core job responsibilities (e.g., “I meet the performance requirements of my job,” “I perform the tasks that are expected of me”). This scale was selected for its brevity, clarity, and strong psychometric properties in non-Western contexts. Internal consistency in this sample was $\alpha = 0.87$. To ensure linguistic and cultural appropriateness, the questionnaire was translated into Urdu. Two bilingual experts independently translated the English version into Urdu; a third expert then back-translated it into English to verify conceptual equivalence. Minor discrepancies were resolved through consensus. A pilot test involving 30 SME employees confirmed item clarity and scale reliability (all $\alpha > 0.75$). Control variables, including age, gender, education, organizational tenure, and firm size, were also included to account for potential confounding effects in the structural model.

4. Result

This study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) via Smart-PLS to examine the effects of transformational leadership (TL) and organizational citizenship behavior (OCB) on employee performance (EP). PLS-SEM was selected for its predictive strength, suitability for complex models, and robustness with non-normal or limited sample data characteristics well-aligned with management research (Hair et al., 2020). Before hypothesis testing, the measurement model was validated through assessments of item reliability, internal consistency (Cronbach’s α , composite reliability), convergent validity (AVE), and discriminant validity (HTMT, Fornell-Larcker), following established methodological protocols (Hair et al., 2012).

4.1 Demographics analysis

The demographic profile indicates that the sample is predominantly male (80%) and largely composed of younger employees, with 88% falling within the 20–40 age range. Most respondents were at the intermediate career level (58%), while only 11.9% held senior positions, reflecting a

workforce concentrated in the early to mid-stages of professional development. In terms of education, nearly half (45.9%) possessed a bachelor's degree, whereas only 17.5% had attained a master's or higher qualification, suggesting moderate educational attainment overall. Work experience data further confirm this trend, with more than three-quarters of participants reporting five or fewer years of experience, and only 10.4% exceeding eleven years. Collectively, these characteristics depict a relatively young, male-dominated, moderately educated workforce with limited professional experience, which has implications for organizational policies targeting capacity building, career development, and leadership grooming.

Table 4.1 Demographics Analysis

Category	Frequency	Percent
Gender		
Male	324	80
Female	81	20
Total	405	100
Age (years)		
20–30	171	42.2
31–40	186	45.9
41–50	32	7.9
51 or greater	16	4
Total	405	100
Career level		
Entry-level	122	30.1
Intermediate	235	58
High	48	11.9
Total	405	100
Education		
Intermediate	148	36.5
Bachelor's	186	45.9
Master's or higher	71	17.5
Total	405	100
Experience (years)		
<=1	121	29.9
1–5	190	46.9
6–10	51	12.6
>11	42	10.4
Total	405	100

4.2 Measurement Scale measurement

The measurement model demonstrates satisfactory reliability and validity. All factor loadings exceeded the recommended 0.60 threshold, confirming strong indicator reliability (Hair et al., 2020). Cronbach's alpha values for transformational leadership (0.92), OCB (0.89), and employee

performance (0.87) were above the 0.70 benchmark, indicating robust internal consistency (Nunnally & Bernstein, 1994). Similarly, composite reliability (CR) values ranged from 0.90 to 0.94, surpassing the 0.70 cutoff, which further supports construct reliability. The average variance extracted (AVE) values ranged from 0.59 to 0.62, exceeding the 0.50 threshold, thereby establishing convergent validity (Ab-Hamid et al., 2017). Collectively, these results affirm that the constructs used in this study are both reliable and valid for examining the hypothesized relationships within the SME context.

Table 4.2 CR, AVE, and Factor Loading

Construct	Items (Range of Factor Loadings)	Cronbach's Alpha	CR	AVE
Transformational Leadership	0.71 – 0.88	0.92	0.94	0.62
Organizational Citizenship Behavior (OCB)	0.68 – 0.85	0.89	0.91	0.59
Employee Performance (EP)	0.72 – 0.86	0.87	0.90	0.60

Table 4.3 Heterotrait-monotrait (HTMT) ratio.

Variables	1	2	3	VIF
TL				1.78
OCB	0.7			1.74
EP	0.775	0.783		1.96

4.2. Structural model assessment

To ensure construct validity, collinearity among formative indicators was evaluated using variance inflation factors (VIF), with all values below the recommended threshold of 3.3 (Hair et al., 2019; Table 4.3). Model predictive power was assessed via R^2 : values of 0.466 (OCB) and 0.679 (EP) indicate moderate to substantial explanatory power. Effect sizes (f^2) were interpreted following Cohen (2013), with thresholds of 0.02, 0.15, and 0.35 denoting small, medium, and large impacts. Predictive relevance ($Q^2 > 0$) was confirmed for all endogenous constructs, supporting model validity as indicated in Table 4.4. Using 5,000 bootstrap samples ($n = 405$), path coefficients were tested for significance. Results support H1: transformational leadership positively influences OCB ($\beta = 0.683$, $t = 3.82$, $p < 0.01$), as indicated in Table 4.5.

Table 4.4 PLS-path model assessment

Construct	TL	OCB	EP
R^2			0.679
f^2	0.347	0.326	
Q^2		0.242	0.412

4.3 Hypothesis Testing

Table 4.5 summarizes the results of hypothesis testing based on bootstrapped path estimates (5,000 resamples), with all reported coefficients significant at $p < 0.01$. Hypothesis H1, proposing that transformational leadership (TL) positively influences organizational citizenship behavior (OCB),

is strongly supported ($\beta = 0.683$, $t = 23.82$), indicating that leaders who exhibit transformational behaviors significantly foster discretionary, extra-role employee behaviors. H2, positing that OCB enhances employee performance (EP), is also confirmed ($\beta = 0.442$, $t = 9.82$), suggesting that employees who go beyond formal job requirements contribute meaningfully to performance outcomes. H3, testing the direct effect of TL on EP, is likewise supported ($\beta = 0.456$, $t = 11.11$), revealing that transformational leadership not only shapes attitudes and behaviors but also directly elevates performance. Critically, the indirect effect of TL on EP through OCB is significant ($\beta = 0.302$, $t = 8.61$), confirming that OCB serves as a mediating mechanism. The total effect of TL on EP, combining direct and indirect paths, is substantial ($\beta = 0.758$, $t = 38.5$), underscoring TL's powerful role in driving performance. Given that both the direct (H3) and indirect (via OCB) effects remain significant, H4 is interpreted as partial mediation: OCB transmits a meaningful portion of TL's influence on EP; TL also retains a strong independent effect. This suggests that transformational leadership impacts performance both through cultivating citizenship behaviors and through other unmeasured or direct motivational, relational, or structural pathways.

Table 4.5 Hypothesis Testing

	Relationship	Path coefficient	Lower bound	Upper bound	t-value	Result
H1	TL → OCB	0.683***	0.627	0.739	23.82	Supported
H2	OCB → EP	0.442***	0.352	0.529	9.82	Supported
H3	TL → EP	0.456***	0.372	0.536	11.106	Supported
H4	TL → EP	0.456***	0.372	0.536	11.11	Partial mediation
Indirect	TL → OCB → EP	0.302***	0.233	0.371	8.61	
Total	TL → EP	0.758***	0.721	0.794	38.5	

5. Discussion

This study set out to examine the interrelationships among transformational leadership (TL), organizational citizenship behavior (OCB), and employee performance (EP) within the context of small and medium-sized enterprises (SMEs) in Pakistan. Grounded in Social Bond Theory (SBT) and drawing upon the foundational work of Bass (1985) and Organ (Bass, 2015) (1988), the research tested a mediated model in which OCB serves as a psychological and behavioral conduit through which TL influences EP. The findings provide robust empirical support for all hypothesized relationships, offering both theoretical enrichment and practical guidance for SME managers seeking to enhance workforce productivity through relational leadership.

5.1. Theoretical Implications

The results confirm that transformational leadership exerts a strong, statistically significant influence on both OCB ($\beta = 0.683$, $p < 0.01$) and EP ($\beta = 0.456$, $p < 0.01$), supporting H1 and H3. These findings align with and extend prior research (Lahbar et al., 2025), which consistently links TL to discretionary and task-based performance outcomes. More importantly, this study reinforces the theoretical proposition that TL operates not merely through formal authority or transactional exchanges, but through the cultivation of emotional identification, shared purpose, and psychological safety, core tenets of SBT (Bass & Riggio, 2006). When leaders exhibit idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, they strengthen employees' affective bonds to the organization. This, in turn, reduces alienation and perceived injustice while fostering intrinsic motivation, key antecedents to OCB. Moreover, the

mediating role of OCB (H4) is particularly noteworthy. The indirect effect of TL on EP through OCB ($\beta = 0.302$, $p < 0.01$), coupled with the sustained significance of the direct path ($\beta = 0.456$), confirms partial mediation. This implies that while TL directly enhances performance, likely through clarity of vision, goal alignment, and empowerment, a substantial portion ($VAF = 40\%$) of its impact is transmitted via employees' voluntary, extra-role behaviors. In essence, TL does not merely “command” performance; it “inspires” it by nurturing a culture of mutual trust, cooperation, and organizational identification. This finding resonates with Baron & Kenny's (1986) mediation framework and recent empirical validations in Asian contexts, but adds nuance by demonstrating that in resource-constrained SME environments, relational leadership may be even more critical than structural or procedural interventions. However, the substantial R^2 values, 0.466 for OCB and 0.679 for EP, further underscore the explanatory power of the model. These figures surpass Cohen's (2013) threshold for “moderate” and “substantial” predictive power, respectively, indicating that TL and OCB together account for a meaningful proportion of variance in EP. This is especially significant in SMEs, where formal performance management systems are often underdeveloped, and leadership behaviors become the primary driver of employee motivation and output.

5.2. Practical Implications for Pakistani SMEs

The demographic profile of the sample, predominantly young (88% aged 20–40), male (80%), moderately educated (46% with bachelor's degrees), and relatively inexperienced (77% with ≤ 5 years of tenure), reflects the typical workforce composition in Pakistan's SME sector. This has critical implications for managerial practice. Younger, less tenured employees are often more impressionable and responsive to leadership influence, making TL an especially potent tool for shaping organizational culture early in employees' careers. Managers in Pakistani SMEs should therefore prioritize leadership development programs that cultivate transformational behaviors, such as mentoring, visionary communication, and recognition of individual potential, rather than relying solely on hierarchical control or financial incentives. Moreover, the strong mediating effect of OCB suggests that performance cannot be maximized through task monitoring alone. Instead, SME leaders should foster environments that help colleagues, upholding norms, and participating in organizational governance are implicitly encouraged and socially rewarded. Simple interventions, such as peer recognition programs, team-based goal setting, and open forums for employee voice, could institutionalize OCB without formalizing it into rigid job descriptions, thereby preserving its discretionary and authentic nature. The finding that TL retains a direct effect on EP even after accounting for OCB also implies that transformational leaders contribute to performance through multiple channels: not only by inspiring citizenship behaviors but also by enhancing role clarity, reducing ambiguity, and aligning individual goals with organizational strategy. Thus, TL should be viewed not as a “soft” or abstract leadership style, but as a strategic competency with measurable impact on bottom-line outcomes.

5.3. Contribution to Literature

This study makes several key contributions to the existing body of knowledge:

1. Contextual Specificity

While TL-OCB-EP linkages have been explored in Western and East Asian contexts, empirical evidence from South Asia and Pakistan in particular remains scarce. This research fills that gap, demonstrating that TL's effects are not culturally bound but are, in fact, highly relevant in collectivist, hierarchical societies where relational trust is paramount.

2. Mediation Mechanism

By formally testing and confirming OCB as a partial mediator, this study moves beyond correlational analyses to offer a process-based explanation that TL influences EP. This advances theoretical understanding by integrating SBT with leadership and performance literature.

3. SME Focus:

Most prior studies on TL have focused on large corporations or public-sector organizations. This research demonstrates that TL is not only applicable but perhaps even more impactful in SMEs, where leaders have direct, frequent contact with employees and can more easily shape organizational climate.

4. Methodological Rigor:

The use of PLS-SEM with bootstrapping (5,000 samples), assessment of discriminant validity ($HTMT < 0.85$), and evaluation of predictive relevance ($Q^2 > 0$) ensures that findings are statistically robust and methodologically sound, setting a benchmark for future SME research in emerging economies.

5.4. Limitations and Future Research

Despite its contributions, this study is not without limitations. First, the cross-sectional design precludes causal inferences. While the hypothesized directionality is theoretically grounded, future research should employ longitudinal or experimental designs to establish temporal precedence. Second, data were collected via self-report surveys, raising the possibility of common method bias, and statistical checks (e.g., Harman's single factor test, $VIF < 3.3$) mitigate this concern. Third, the sample, though stratified and sizable, is limited to five major Pakistani cities; future studies could expand to rural SMEs or compare public vs. private sector SMEs. Furthermore, this study focused on OCB as a mediator; future research could explore other potential mediators, such as psychological empowerment, organizational commitment, or trust in leadership, to develop a more comprehensive model of TL's influence. Moderators such as cultural values, organizational structure, or economic sector (manufacturing vs. services) could also be examined to understand boundary conditions of TL's effectiveness.

5.5. Conclusion

In conclusion, this study provides compelling evidence that transformational leadership is a vital driver of both organizational citizenship behavior and employee performance in Pakistani SMEs. More than a leadership style, TL functions as a relational catalyst that strengthens social bonds, fosters discretionary effort, and enhances task performance, directly and indirectly. For SME owners and managers in Pakistan and similar emerging economies, investing in transformational leadership capabilities is not a luxury but a strategic imperative. By nurturing leaders who inspire, challenge, and care for their teams, SMEs can unlock higher levels of engagement, innovation, and sustainable performance, turning human capital into a true competitive advantage.

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