



## Research Article

# A conceptual study on investigating the effect of innovation, transformational leadership and work stressor on employee performance of SMEs in Pakistan

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Submission: 11 December 2020

Revised: 12 January 2021

Accepted: 14 January 2021

## ABSTRACT

The understanding of elements contributing to employee performance of small and medium enterprises (SMEs) in Pakistan is still deficient. As the SMEs of Pakistan have had difficulty surviving in their early years, their initial failure rate is 90% -95%. Initially, this is a concept paper to provide useful insights into the relationship between organizational innovation, transformational leadership, and work stressor on employee performance of small and medium enterprises (SMEs) in Pakistan's manufacturing sector. The relationship between organizational innovation, transformational leadership, and work stressor and their effect on overall employee performance is established through a review of the literature. The mediating role of creativity was also an attempt to explore. In order to reach the optimum level of employee performance to increase the outcome of SMEs in Pakistan, it is mandatory to provide an open and supportive environment to employees so they can cultivate their creative ideas. This study mainly focused on the factors that directly influence employee creativity to ensure progress in employee performance. This study emerged from the fact that a very limited study is being carried out on this issue, and further research should be carried out in this field, especially in Pakistan. A model is proposed, and hypotheses will be developing and discussed based on theoretical considerations. The findings of this study can contribute to business practice by informing employee performance, improvement strategies. Business leaders could gain additional insights into strategies to engage and motivate employees to improve performance.

**Keywords:** *Organizational Innovation, Transformational Leadership, Work Stressor, Employee Performance, Creativity*

## 1. INTRODUCTION

Small and Medium-Enterprise (SMEs) have a significant contribution to the advancement of the economy and society. It is a sector that tends to survive in the worst economic conditions of any country. Krishnan et al. (2017) argued that small and medium enterprises contribute to economic development and competitiveness. The economy of Pakistan is also largely based on SMEs as well as other developing countries.

Today, nearly all companies face a dynamic environment characterized by rapid technological change, reduced life cycles for their products, and globalization. In the late

20th century, major social, economic, and political changes took place. The evolution of IT and internet boost the economies and businesses, and new developments were made in economic crisis and budgetary constraints, social changes, technological innovation, knowledge-based work, and globalization. These developments have altered professional roles, responsibilities, and even the fundamental definition of our work. To improve performance in today's world, increasing employees' relationship to their work is crucial (Scuotto et al., 2017).

This new economy is all about shifting the ideas into the commercialization of products (Khalique et al., 2011). Knowledge of human resources is a requirement for developing innovative ideas, products, and services to gain a competitive advantage. As Drucker (1999) also emphasized that the decent performance of knowledge employees is the major challenge for companies to gain competitive advantages in the 21st century.

Organizational ability is the basis of knowledge productivity, and knowledge workers are the foundations of organizations' ability. Similarly, Intellectual capital was stated to be a critical factor for the knowledge-based economic success of organizations (Khalique et al., 2011). A competent employee acts as fuel to strengthen the efficiency and quality of an organization. Organizations are looking for creative employees to help them deal with complicated, diverse, and challenging situations. They want new ideas to enhance the efficacy of existing practices and genuinely new ideas that generate new business opportunities. In previous studies, a range of factors influencing SMEs' performance was identified. Kot et al. (2018) stated that the lack of orientation and SMEs' inability to adopt new technology causes low productivity and employees' poor performance. According to the arguments above, entrepreneurs in Pakistan are confronted with many challenges such as a lack of entrepreneurial education, issues of training, weak infrastructure, outdated technology, all of which restrict long-term economic and SME growth. Pakistan is a country that is uncertain about the small business sector (Sherazi et al., 2013; Sarwar et al., 2019).

The research literature contains several definitions of creativity. A widely recognized definition specifies that "creativity is the creation of novel and useful ideas" (Amabile, 1983, 1998). Amabile et al. (1996) state that "an individual's perspective of the working environment is a key predictor of his or her creativity." Substantial research has been done to understand the background, influence mechanisms, and outcomes of employee creativity. Studies show that a conception of support for innovation is a crucial component of creativity (Kot et al., 2018).

Innovation means effective creative idea implementation in the workplace (Amabile, 1983, 1998). Creativity is, therefore, at the individual level, whereas innovation is at the organizational level (Oldham and Cummings, 1996). Two kinds of organizational innovation are researched exploratory and exploitative – and their impact on employee creativity is examined separately. This is because innovation in exploration and exploitation is two different mechanisms for creating new ideas. Exploratory innovation practices seek out new measures that are considerably different from the organization's existing technologies

and business practices; exploitative innovation techniques are based on existing technologies and procedures to achieve improvement.

Innovation and creativity are crucial for industries to survive and continue growing in unstable and competitive environments (Anderson et al., 2014). According to Sarooghi et al. (2015), there is a positive connection between creativity and innovation at different points, mainly strong at the individual level. Later, researches further verified the link between individual innovation and creativity under varying circumstances (Valaei et al., 2017; Hwang et al., 2017). As a result, innovation-related leadership, such as transformation leadership (TFL), is the most effective social and external context for promoting creativity (Shin & Zhou, 2003).

The relation between transformational leadership on creativity is gaining considerable interest among researchers. Transformational leaders increase the performance standards of their followers (Bass, 1995) and "seek to transform the personal values and self-concepts of followers and move them to a higher level of needs and aspirations" (Jung, 2001: 187). Over the past few years, scientists have carried out studies on the effects of transformation leadership on the performance of followers and organizations (Gumusluoglu et al., 2009). Yet, only a few studies have investigated the impact of this type of leadership on the creativity of followers. Innovative and creative organizations, particularly technically driven ones, are now required to sustain, compete, evolve, and manage (Jung et al., 2003).

Workers in the organization generally feel stress when they have to strengthen ties with other employees and supervisors, perhaps work overload, excess activities formed due to inter-role disputes, unattainable deadlines, the absence of promotional incentives, role ambiguity, and long working hours. Globalization, technological advancement, and unhealthy competition worldwide are the main cause of work stress (Havermans et al., 2018). Stress, in particular, is a major issue that creates a tense and rigid environment for workers that not only creates tension, lack of confidence, and physical disorders, yet still lowers their devotion, sense of achievement, motivation, and work performance (Grover et al., 2017).

Researchers found that job-stress associated with poor results such as dishonesty, low morality, fatigue, absenteeism, or voluntary turnover (Glazer and Beehr, 2005; Sarwar et al., 2020) is harmful to organizations and their members. Though, existing literature produces mostly mixed results and contradictory research results on the relationship among work stress and job outcomes. But some other research studies have found only a minimal or no relationship between these variables (Jex, 2002; Podasakoff et al., 2007).

These above factors finally affect the performance of employees in both negative and positive ways. Mangkunegara (2009) defines employee performance as the result of the work that employees achieve in quality and quantity. Rivai and Jauvani, 2009 defines work performance as an actual behavior demonstrated by all workers as a work achievement performed by employees that correspond to their organizational role. Based on the above views, it can be concluded that the job's performance is a result of a job achieved in an organization by achieving quality and quantity.

### 1.1. SMES IN PAKISTAN:

SMEs are defined, provided by Small and Medium Enterprise Authority (SMEDA) as "companies with up to 250 employees and paid capital to Rs. 250 million and an annual turnover of Rs. 250 million". The total business units in Pakistan comprise almost 99 percent of SMEs. These SMEs contribute 30% of the country's annual GDP, 80% of the workforce to the non-agricultural labor force, 25% of total exports, and 35% of manufacturing value added (Xie et al., 2009; UNIDO, 2013,2014; SMEDA, 2007, 2011). The significance of SMEs businesses in the economy cannot be underestimated, given that SMEs are a major contributor to poverty reduction, expansion in the national economy, and the foundation for jobs (Kalsoom et al., 2018; Akhtar et al., 2011).

### 1.2. CONTRIBUTION OF STUDY TO BUSINESS PRACTICE

The findings of this research can contribute to business practice by enlightening employee performance and improvement strategies. Business leaders could gain additional insight into strategies to engage and motivate employees to improve performance.

The results of the study can play a significant role in positive social change by improving leadership performance, thus improving individual performance and boosting profits, and eventually benefiting the economy. Business leaders can improve satisfaction and productivity amongst their employees, resulting in social stability. This research study also helps the managers to understand the role of work stressors by reporting the positive relationships of challenge and hindrance stressors had with employee strains. Challenge stressors also have positive relationships with job satisfaction and performance of employees, whereas hindrance stressors have negative relationships with these criteria.

Several kinds of research have been done separately on innovation and creativity, but the current study develops a ground for advanced dimensions in innovation and creativity relating to SMEs. From the results, managers can determine how an innovative culture can be generated by focusing on particular factors. In addition, it would help to improve the organization's profitability. This research would help CEOs, owners, and senior executives to develop their small and medium-sized enterprises' creative culture.

### 1.3. PROBLEM STATEMENT

SMEs contribute significantly to economic progress; they are the backbone for every country. As with other countries, Pakistan's SMEs also value these firms because they have a core GDP share of over 30% (Syed et al., 2012). For the country to thrive in this sector, it is not enough to promote SMEs but to enhance the performance of the SMEs more healthily and positively via various means (Beck et al., 2006). Although SMEs provide economic advantages, Pakistan still suffers from making full use of their opportunities.

In Pakistan, 95 percent of SMEs have had difficulty surviving in their early years (Khalique et al., 2011). Muhammad Zulqarnain et al. (2018) study also showed that Pakistan's SMEs' early failure rate is between 90% -95%. Compared to other Asian countries, growth in Pakistan's GDP is slow for three consecutive years, and its GDP growth did not reflect the

expected figure for the following three years (Pakistan Economic Survey, 2016; UNIDO, 2014; SMEDA, 2008, 2009).

Pakistan has also highlighted the necessity of making an internationally competitive economy from agriculture to knowledge-based technology. Akthar et al. (2011) have acknowledged major challenges for Pakistani SMEs, for example, difficult access to start and fear of good performance, and difficult access to foreign markets. SMEs have a significantly more serious and alarming current position in Pakistan due to various challenges. Many Pakistani SMEs have collapsed very early (Aziz et al., 2017), suggesting that Pakistani SMEs are at high risk of sustainable development.

The major challenge that is making SMEs suffer is the performance of employees. Khalique et al. (2011) focused on the worth of knowledge-based skills for Pakistani SMEs to achieve better performance. They acknowledged that the economy's trend has changed in the modern business environment, from production to knowledge-based.

To reach a competitive edge in the markets, SMEs in Pakistan must also strengthen their organizations' intellectual capital concepts and applications. Intellectual capital is recognized to increase the performance of the organization (Khalique et al., 2011). Hence, to dilute emerging economic challenges, the SMEs of Pakistan must revolutionize and embrace the concept of intellectual capital. Several researchers concluded that a lack of human skills was the fundamental reason behind this low performance (Marr et al., 2003).

Innovation influences creativity in employees, and it encourages employees to update themselves with new technology and knowledge. But unfortunately, SMEs lack this element as well. According to the SME work progress report, the performance of SMEs has slopped, with the lack of skills, lack of knowledge (Gallup Pakistan, 2004). This trend was described as limited skilled workers. SMEs experience, unskilled human resources, and scarcity of entrepreneurial skills. Pakistani SMEs was noted that because of the absence of competitiveness, they are facing massive difficulties both in entering and can perform in international markets (Hafeez, 2014).

Less innovation and creativity is the biggest hurdle for these firms to enter the international market. As employees will not use the new technology to update themselves with the knowledge of the changing demands of the foreign market, they will not be able to compete. SME exports face numerous challenges that affect performance; these hurdles relate to the distinctive tastes and preferences of foreign customers, product qualities, and unusual working practices and processes (Khattak et al., 2017). Moreover, the major challenges encountered by SMEs in Pakistan are the lack of entrepreneurial skills, the absence of enterprise network, and the insufficiency of productive capacities (Aziz et al., 2017).

United Nations Industrial Development Organization (UNIDO, 2014, 2006) measured the downturn in productivity of SMEs, along with these low trend progress in innovation and technology upgrading were also noticed by UNIDO, 2010; SMEDA, (2013, 2011). According to Human Development Index (HDI) report 2015, under United Nations Development Programme, Pakistan's HDI score was 0.550, with the position of "medium" human

development country, and it was ranked as 147 the number out of 188 countries and territories (Jahan, 2016). This evaluation has greatly affected the performance of SMEs in Pakistan as these firms have continuously stated as less creative, productive, and dynamic (Khalique et al., 2011; Subhan et al., 2014). Raziq & Wiesner (2011) stated that only 60% of the firms taken as a sample were using the internet, and only 44% of the SMEs are utilizing HRIS. The findings from the Global Innovation Index stated that Pakistan is rated as 119<sup>th</sup> among 128 countries in the context of innovation and output (Dutta et al., 2017). The SMEs of Pakistan can gain strength if they are equipped with unique skills, innovative workforce.

The Global Innovation Index (GII) 2015 encompasses 141 economies of the world and uses 79 indicators, covering various subjects (e.g., individual skills, creative products and services, and innovation). This means that GII (2015) offers a rich dataset for determining and analyzing global trends in innovation. Of 141 countries, Pakistan ranked 131 as the world's most innovative. Likewise, in assessing the competitiveness of 140 economies, according to Global Competitiveness Report 2015-2016, Pakistan has placed 126 of the 140 countries with a focus on technology, innovation, infrastructure, and business sophistication (Dutta et al., 2017; World Economic Forum, 2016).

Current surveys show that the problem remains alive: Pakistan's SME sector currently has less performance as compared to its potential and low growth. SMEs in Pakistan are still facing various problems and constant threats: bad infrastructure, the absence of entrepreneurial capacity, outdated production facilities, poor skill levels, incompetent workers and financial institution credit problems, and, above all, intangible resources are weekly-managed (Dar et al. 2017).

## **2. LITERATURE REVIEW:**

### **2.1. ORGANIZATIONAL INNOVATION AND EMPLOYEE PERFORMANCE:**

Innovation strongly influences the performance of employees (Sadikoglu & Zehir, 2010). Workplaces that are implementing innovation by constructing ideas for advanced services and products will increase competitiveness (Sadikoglu & Zehir, 2010,) strengthen administrative procedure, improves efficiency, and enhances the efficiency of employees (Tërstena et al., 2020) and improved productivity (Rostami & Branch 2011), increase organizational health (Choi, Jang, & Hyun 2009).

Innovation will also improve the quality, performance, and promptness of the output, work progress, efficiency, and effectiveness of work completed (Tinofirei, 2011). Companies tend to innovate their administrative practices by reducing administrative and transactional activities, enhancing satisfaction in their workplace (Arshad et al., 2018; DATA, 2005).

Exploration and exploitation innovations have a positive and significant impact on company growth in employment. The businesses engaged in explorative innovation contrasted with both strong employments (Braunerhjelm et al., 2016). Furthermore, it is useful to know that exploratory activities create greater variations in performance as successes and failures occur, while exploitative innovation works produce perhaps more stable results (He and Wong 2004, March 1991).

These days as never previous new, viable, and marketable thinking is being sought and promoted. Employee behavior has a major impact on this method and, in turn, on organizations' innovation performance (Delmas et al., 2018). Innovation can be concluded as an important way of overcoming barriers in today's rapidly changing climate. Employees are important in the innovation process and therefore have a strong impact on organizations' innovation performance. The Human Resources Department, therefore, makes a great effort to develop an employee with innovative skills. Highly committed HR practices are of interest to encourage employees to demonstrate innovative working behavior. When people see the organization as actually committed and appreciative, they are more likely to show the desired result of the organization (Terziev et al., 2018).

Therefore, based on the above, discussion the following hypothesis is postulated;

H1: Organizational Innovation leads significantly to Employee performance.

## **2.2. TRANSFORMATIONAL LEADERSHIP AND EMPLOYEE PERFORMANCE:**

Various studies demonstrate the highly interrelated transformational leadership and desired organizational results (Ghafoor et al., 2011). The source of cultural development, which promotes the development of followers and individual considerations, is also considered transformational leadership (Lockwood, 2007). Transformative leadership develops a culture of improved employee performance and skills development (Evans, 2001). Developing skills improve employee confidence in the organization. Staff participation and development improve the confidence of employees and thereby improve the level of creativity. The use of creativity and innovation contributes to achieving organizational objectives (Kalsoom et al., 2018). Employees who attempted the style of transformation are motivated to some degree. This empowerment level contributes to the pursuit of their goals in time (Buil et al., 2019; Lashley, 1999). Various studies have been conducted on the relationship between transformational leadership and organizational achievements, such as the quality of employees' performance (Humphreys, 2002). The quality of overall organizational operations is improved in a transformative management style). All transformative leadership dimensions together are directed towards performance improvements (Shin et al., 2015). This leadership style creates a high level of satisfaction between staff and management, which increases employee performance. Ghafoor et al. (2011) suggested a positive connection between transformational leadership and employee level of satisfaction. Employee satisfaction at work shows positive results in his performance, reducing absence turnover, and improving the sense of citizenry towards the organization (Arnold and Feldman, 1982).

Two main features of individualized consideration and intellectual stimulation discuss transformation leadership. As Bass and Avolio (1995) explained, intellectual stimulation enhances the ability of followers to think about their work. Intellectual stimulation is represented as an individual's ability to be rational and intelligent in certain situations (Buil et al., 2019; Dionne et al., 2003). Logical thinking and intellectual, environmental assessment assist employees in developing new ideas. Stimulating workers' intellectuality enables those to take risks to develop practices and ideas that enhance performance. Kahn (2010)

described that employee organizational support grows logical stimulation in employees to solve problems and challenges. Organizational support and motivation inspire workers to think about improving their skills and organizational procedures (Azhar et al., 2016).

Therefore, based on the above, discussion the subsequent hypothesis is postulated;

H2: Transformational leadership leads significantly to Employee performance

### **2.3. WORK STRESSOR AND EMPLOYEE PERFORMANCE:**

In an era of stress, employees and employers are greatly concerned with workplace stressors (Wallace et al., 2009). But is the role of stress always harmful? And differentiating role overload and role ambiguity also play a role in the challenge-hindrane stressors framework. Stress is a highly competitive approach that forces the workers to work more effectively, and sometimes it reduces the number of employees within the company, i.e., downsizing. The layoffs in companies suffer working stress and, as an ultimate effect, reduce employee satisfaction and are therefore unable to do their assigned tasks well in such a situation (Nasir et al., 2020; Soomro et al., 2018). According to Munir (2011), "80% job-related grievances and 40% turnover intentions of the employees are due to this stress".

Cavanaugh et al. (2000) were among the first to suggest two categories of stress: Challenges oriented stress and Hindrance-oriented stress. Individuals assess stressful situations as both threatening and challenging. The outcomes of these assessments affect individual emotions and the style of stress coping (Danish et al., 2019; Folkman, 1984).

Stressors may lead to stresses (e.g., fatigue and exhaustion) caused by emotional and cognitive effort in the evaluation and trying to cope processes and thus reduce the energy used to carry out tasks (Danish et al., 2019; LePine et al., 2005). However, not all stressors, like overloading roles, are harmful. According to Cavanaugh et al. (2000), an obstacle framework for stressors, overload roles represent a stressor (Wincent & Örtqvist, 2011), which includes stressful and manageable needs and allows individual growth opportunities to be overcome (Cavanaugh et al., 2000; Wallace et al., 2009).

Role overload is due to the lack of time or skills that more time or effort can be used to overcome and benefit the achievement of the target and the personal development of the company. Therefore, role overload is considered a challenge that causes positive emotions (i.e., enthusiasm and trust), which leads to efficient coping, leading to higher work performance in turn because it implies stressful requirements which are considered unmanageable, preventing personal growth opportunities (Nasir et al., 2020; Wallace et al., 2009).

Less coping can be employed to counteract their aversive influences. As a result, the role of ambiguity is traditionally seen as an emotional threat that may generate negative feelings (e.g., apprehension and anxiety) and leads to negative emotional coping, resulting in disruption and a decline in performance (Lazarus & Folkman, 1984; Wallace et al., 2009). Meta-analyses showed that performance is negatively linked to role ambiguities (Gilboa et al., 2008). Role ambiguity is a source of obstacles to employees' positive emotions and styles

and results in negative performance and service behaviors (Mañas et al., 2018). Consequently, the following hypothesis is postulated by this discussion;

H3: Work stressor leads significantly to Employee performance.

## **2.4. ORGANIZATIONAL INNOVATION AND CREATIVITY:**

A literature search revealed that major gaps existed in the interrelated areas of individual creativity, innovative mechanism, and team-related creativity. Individuals' eagerness to work cohesively with all their skills, competencies and abilities generate a base for creativity in organizations (Shalley and Gilson, 2004; Zhang and Bartol, 2010). The fact was well-documented that working in a group enhanced the creative productivity of employees rather than working individually (Anderson et al., 2014; Hon et al., 2016). Consequently, innovation and creativity models have attained ample attention in organizational learning and leadership research (Hon, 2012).

Empirical findings concluded that exploratory and exploitative innovation nurture employee creativity. Organizational innovation contributed to enhancing employee creativity. However, the relationship between innovation and creativity was constrained or hampered by cultural specifications. Findings advocated the statement that innovative organizational trend creates an environment which acts as an accelerator to grow up employees' creativity (Hon et al., 2016).

Innovation and creativity were examined as a cornerstone for organizations to survive and endure worthwhile in a turbulent, multifaceted, dynamic, and competitive environment (Anderson et al., 2014). The connection between creativity and innovation has been broadly examined. Extensive literature and meta-analysis search revealed that the relationship between creativity and innovation is positive at different levels, but tremendously positive in the case of employee level creativity (Sarooghi et al., 2015). Researchers unanimously advocated that a positive relationship exists between individual/employee creativity and innovation (Valaei et al., 2017; Hwang et al., 2017)

Creativity and innovation have energized growth and permitted organizations to uphold a competitive advantage (Anderson et al., 2004; Zhou et al., 2012). In the current years, both industry and academics have positioned a premium upon research; creativity and innovation in this field have proliferated, engendering some compelling conclusions (Anderson et al., 2014). Inopportunistically conducted research has also been fragmentary. Consequently, the leadership, creativity, and innovation literature has been disjointed and mainly populated by trivial, 'exploratory' studies unrelated to any amalgamating framework. Despite the availability of extensive research in this field, considerations about fundamental concerns such as measurement of creativity & innovation and use of research designs that are appropriate to address the captivating research questions postured (Thompson et al., 2018).

Creativity and innovation are vigorous for organizational success and are captivating subjects to research. Leadership has been considered an essential circumstantial factor that influenced employee creativity and innovation (Anderson et al., 2014; Tierney, 2008).

Research in the disciplines of leadership and creativity is escalating, with 85% of the studies published in the last decade. The development of leadership and creativity/ innovation research has been instantaneous and mostly exploratory, consisted of individual studies typically not developed analytically toward an integrated body of evidence. Moreover, employee creativity has revealed substantial positive relation with organizational innovation capability and performance (Hong et al., 2018; Hassan et al., 2013).

Therefore, as per the discussion mentioned above, the following hypothesis is postulated;

H4: Organizational innovation is positively related to employee creativity.

## **2.5. TRANSFORMATIONAL LEADERSHIP AND EMPLOYEE CREATIVITY:**

Effective leadership styles contributed significantly to the embellishment of employee creativity. Empirical studies revealed that high congruence among creative individual and creative organizational culture has resulted in a high level of innovative performance (Ma et al., 2018; Amabile, 2004).

A leader's character is of inordinate importance in the organization; it inspired and motivated employees at all levels. Employees' motivation has facilitated knowledge transmission into outcome-oriented activities. The transformational leadership style was supposed to boost employee creativity (Herrmann and Felfe, 2014). Studies concluded that a transformational leadership style led to a higher level of employee creativity than a transactional leadership style. In another study, meta-analysis findings have shown the opposite relation between transformational leadership and employees' innovation (Jung, 2001).

Full range leadership theory (Bass, 1985) seemed to be preferred in different research studies. This theory examined numerous leadership styles and exhibited conclusions that transformational leadership positively affects employee creativity. Transformational leadership behavior of leaders uplifts performance beyond expectations by encouraging creative thinking, imparting pride, stimulating inspirations, and embedding personal respect. Transformational leadership style has a positive effect on employees' creative behavior (Miao et al., 2019)

Widespread literature about leadership styles revealed conclusions that transformational leadership has a significantly positive influence on employees' creativity (Bosiok and Serbia, 2013). Leadership style impacts employee creativity, which was moderated by a creative organizational climate (Ma et al., 2018). Research results indicated leadership as a primary factor in facilitating creativity. Risk-taking-supportive organizational culture contributed to increasing individual creativity and fruitful leadership. Transformational leadership has a constructive influence on a significant relationship with employee creativity (Khattak, Batool, & Haider, 2017).

Numbers of researchers have agreed that managers' behavior directly affects employee creativity, and it also indirectly affects the behavior of the supervisor creates the environment of creativity (Amabile 1998, 1997). Several researchers have agreed that transformational leadership affects organizational performance positively (Wang et al.,

2011). Studies suggest that specific traits of transformational leadership enhance the creativity in employees, such as supporting employees to accomplish a high standard of functioning, motivating them, or empowering employees (Ma et al., 2018). A meta-analysis performed by Rosing et al. (2011) in which different leadership styles were compared findings showed that transformational leadership was the strongest to improve employee creativity. However, few mixed results also exist that suggest transformational leadership only improves creativity under certain conditions. A possible solution to this finding can be a presence of a specific moderator such as organizational culture; a culture that supports innovation can develop a positive relationship between transformational leadership and creativity (Bilal, 2019; Suifan et al., 2018; Prajogo & McDermott, 2011).

Therefore, based on the above, discussion the following hypothesis is postulated;

H5: Transformational leadership is positively related to employee creativity.

## **2.6. WORK STRESS AND CREATIVITY:**

Stress can create a competitive edge and force people to change and create new insights and processes to solve problems. Stress may positively affect the creativity of employees and their organizational efficiency (Hon and Kim, 2007). It is essential to seek new techniques and better ways to tackle issues. It is, therefore, important to examine how the stress experience of employees can ultimately lead to more innovative performance, which directly benefits their organization (Zhu et al., 2018).

Ng and Feldman (2012) suggested that stress in working conditions was linked to voice behavior, which in turn was positively related to results in performance. Consequently, in keeping with voice theory, people with stress and hindering stress are linked to creativity as a symbol of voice behavior. Develop outcomes that challenge employees' perceptions about the effectiveness of innovative work (for example, the perception of new ideas and leadership opportunities) (Moon et al., 2019).

Therefore, based on the above, discussion the following hypothesis is postulated;

H6: work stressor is positively related to employee creativity.

## **2.7. CREATIVITY AND PERFORMANCE:**

The creativity of employees is usually the initial point for innovation (Zhou and George, 2001). This proposition assumes that creativity can be described as a creative output result and process; in other words, people first have to indulge in a certain process, helping them become more creative (Zhou & Shalley, 2011). Most studies have seen creativity in the form of research into factors that can improve or limit creativity in the organization (Amabile et al., 1996). Studies that view the creative activity as a process focused more on the cognitive perspective and looked at the overall commitment of employees in a creative process (Alzghoul et al., 2018).

However, the literature's results perspective could not explain the effect of creativity at work. We argue that creativity is a voice in the process perspective to organizations' actions that can solve existing problems and improve the organization's activities (Martinaityte et

al., 2019). Creativity could demonstrate that employees show positive attitudes toward the organization in this situation. The positive attitude of employees may lead to an improvement in their overall work performance.

However, research studies on the link between creativity and work are rare with mixed results. Oldham and Cummings (1996) investigated 171 production workers and discovered high correlations between creativity and job performance. However, in the study of Van (2002) on 195 hairstylists, they found the relationship between creativity (rated supervisory) and objective service performance to be insignificant.

Creativity can be described as both the result and the process of creative results; people first have to engage with some processes, which can make them creative (Shalley & Zhou, 2008). Most studies, therefore, concentrated on creativity and examined which factors could improve or limit creativity within the organization (Shalley & Zhou, 2008). By contrast, other studies have based on the cognitive point of view and examined the overall involvement of employees in creative work. From the intrinsic perspective, individuals would be creative when they feel inspired primarily by their interest, their enjoyment, their satisfaction, and their work as a challenge (Alzghoul et al., 2018).

Wood et al. (2005) used the perspective of the setting of goals to determine challenge goals, the ability to take a person into account by focusing and increasing the individual effort to improve performance (i.e., concentration). A wealth of empirical evidence has shown that staff with greater intrinsic motivation is more creative in various areas (Quinn, 2005). Creativity as a process shows that creativity in employees can be considered as an antecedent of personal performance, organizational innovation, and comprehensive benefits (Hirst et al., 2009).

The active voice of employees in an organizational effort can be viewed as the process by which the organization solves and improves existing problems. Employees can decide to leave the job, but they can express themselves. The voice can be defined as the positive attitude of an employee regarding the organization, which can further improve employee performance and corporate innovation. The creative behavior of employees can be motivated intrinsically or extrinsically as they feel independent in their work (Martinaityte et al., 2019; Deci & Ryan, 2008). Therefore, based on the above, discussion the following hypothesis is postulated;

H7: Employee creativity mediates the relationship between Organizational innovation, transformational leadership, work stressor, and Employee Performance.

The basic concept or definition of significant study variables are described in the table 1:

**Table 1. Basic Concept of Study Variables**

Construct	Definition	Source
Employee Performance	"The result of work that employees achieve in quality and quantity is called employee performance."	Motowildo & Borman (1997)
	"Performance by employees in contributing directly or indirectly or to the targeted goals of the organization, as an aggregated financial or none-financial value added by the employees"	Mangkunegara (2009)

	"It is vital to any organization as it is a measurement of a company's success"	Sadikoglu & Zehir (2010); Osman (2016)
Employee Creativity	"Employee creativity refers to the generation of ideas about products, processes, services or procedures that are novel and potentially useful to the organizations."  "Individual creativity can be perceived as a function of individual traits, such as cognitive capabilities, personality and upbringing, and contextual factors, such as their cultural and organizational backgrounds."  "Creativity is the ability to create novel and useful ideas."	Amabile (2004); Shalley et al. (2004)  Hahn et al. (2015); Oldham and Cummings (1996)  Amabile (1998); Zhou and George (2001)
Organizational Innovation	"Organizational innovation is a social process of successfully implementing new ideas and turning them into useful outcomes (e.g. better procedures, practices or products) for an organization."  "As long as an employee intentionally introduces and applies a new idea, method, or practice, he or she is said to engage in innovation."  "Organization innovation is conceptualized as a cultural organizational trait, which refers to organizations' innovation orientation."	Amabile (1996); Anderson et al. (2014)  Anderson et al. (2004); West & Farr (1990)  Hurley and Hult (1998)
Transformational Leaders	"Transformational leadership engenders a supportive innovation climate and mobilizes the necessary contextual resources for subordinates to exert creative behavior."  "Transformational Leaders encourage followers to rise above their own self-interest; provide feedback; establish high standards of performance; help followers to become more creative and innovative; and pay attention to followers 'needs."  "Motivate followers to achieve performance beyond expectations by transforming followers' attitudes, beliefs, and values"	Jung et al. (2003)  Bass (1985); Yukl (1999); Bilal, A. (2019)  Rafferty and Griffin (2004)
Work Stressor	"Stressors are defined as environmental events in the work place requiring an adaptive response of some kind."  "Challenge stressors are work events that require an adaptive response."	Kahn & Byosiere (1992); Sonnentag & Frese (2002)  LePine et al. (2004)

### 3. RESEARCH METHODOLOGY:

For this descriptive review of the literature, a comprehensive database search, and applying inclusion criteria, high impact research articles were incorporated for this conceptual review. To address this research's objective, we went through a literature overview of the particular research field and its results. This approach has a growing trend for some years and addresses the orientation issue in light of the fast-growing body of publications that can no longer be overlooked (Sarwar et al., 2019; Ridley, 2012).

The conceptual study's main goal is to encourage the creation of a more comprehensive research system so that we can look at what has already been developed in current empirical studies and what can be done for future research. During the screening phase,

every article was read and selected based on the inclusion criterion, as per the focus of study variables.

All types of articles were included to get a comprehensive picture of previous literature in the context of this study. In short, those articles were selected, which were published in highly indexed journals. Data collection was initiated by database searching for appropriate research papers, and the following databases were employed in the study: Web of Science, Science Direct and SCOPUS. Their wide coverage and frequent use in research studies was the cause of the choice of these databases. Klang et al. (2014) stated that "Science Direct covers around 2500 peer-reviewed journals in 24 major scientific disciplines". The selected source type was journal and the keywords that were used in searching for the databases were "Organizational innovation, transformational leadership, work stressor, employee performance and creativity". The language we choose for the articles was English. For this conceptual study, data was gathered in three stages; the startup of collecting data for relevant research articles was begun from a database search. To identify relevant literature, the search criteria used were deliberately broad to locate appropriate literature based on the study's exploratory nature.

#### **4. DISCUSSION AND CONCLUSION:**

The study explores how innovation, leadership, and stressors can influence employee performance and further examine the mediating effects of creativity. As per the literature review, we find that developing an environment of innovation among employees will boost their performance. On the other hand, if management focuses on work stressors such as challenge and hindrance stressors, they can influence an employee to generate creative ideas. By reducing hindrance factors and concentrating more on challenges, the organization can inspire employees to nurture themselves. Furthermore, a supportive leadership like the transformational style can fully motivate the workforce to enhance their performance. These factors together can create an environment that stimulates creativity and facilitate employees to focus on generating unique ideas.

According to Salman et al. (2016), the future vision of the Pakistan Planning Commission government shows that developments in the country are underperforming due to a variety of factors, which include a lack of research and development, innovation, and creativity, which add value and last but not least unsupportive environment. From 170 countries, Pakistan is ranked 110th for business ease. One of the key objectives is for Pakistan to rank in the top 50 countries to be stress-free to do business in the next few years. In order to reach full potential, a massive emphasis must be given to the growth and development of entrepreneurial competencies. SMEs should create an equal, competitive atmosphere and promote micro-enterprises, thereby fostering entrepreneurship and innovation. Pakistan has to shape crucial strategic choices to ensure superior growth in the SME sector in a rapidly evolving and international competitive climate. It is accepted that numerous competencies and skills are essential to address the rapid changes in the business environment. As the international arena becomes more competitive, SME's must build up awareness and concentrate on business education, which is the key driving force of its economic development. Small and medium-sized companies need to be competitive with

main ingredients such as improved governance, competencies, creativity, and technology. SMEs networking and trust should be improved by a stronger business partnership. Potential business networking benefits will enable the SME sector to expand. The professional and creative technical workers consider industry excellence as a driving force to boost the business.

Another issue is the limitation of the current statistics of the performance of SMEs; the Research on SMEs is very limited and is at its initial stages (Nasir et al., 2020; Bhutta et al., 2007). There are very few published comprehensive and current information regarding the productivity or performance of this sector. There is still little research on small businesses, so that this study will contribute to the existing literature on small businesses.

Sembiring et al. (2016) have stated that employees must be encouraged to continue improving their knowledge so that their performance can be enhanced and that the performance of SMEs can eventually improve. Markova and Ford (2011) stated that employees' willingness to align their skills and creativity are the fundamental basis for the organization's operations, Knowledge, and know-how in favor of the company and eventually, the organizations should win the willingness of the employees by empowering them to provide them with the environment because the employees give the most constructive input (Sarwar et al., 2018).

Moreover, it is essential to find the optimum employee performance to improve small and medium-sized business performance in Pakistan, and it mandatory to explore the parameters to improve the performance of employees.

Furthermore, future researchers are recommended to carry out a quantitative meta-analysis and confirm the relationships and effects among these factors by employing structural equation modeling (SEM). SEM is a technique of statistical analysis used to measure the interrelationships between multiple variables in a model that can be represented in a series of single or multiple regression equations and through this multiple and interrelated relationships of dependence can be estimated, latent variables not directly measured can be integrated and a model can be defined (Nasir et al., 2020).

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