“Transformational leadership, job performance, and innovation: The mediating role of psychological empowerment in Lebanese SMEs”

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TRANSFORMATIONAL LEADERSHIP, JOB PERFORMANCE, AND INNOVATION: THE MEDIATING ROLE OF PSYCHOLOGICAL EMPOWERMENT IN LEBANESE SMEs

Abstract

The ongoing economic crisis within Lebanon underscores the urgent need to identify internal mechanisms supporting organizational resilience. The primary objective of this study is to establish the empirical pathways linking transformational managerial behaviors to individual job performance and employee innovative work behavior via the intervening mechanism of psychological empowerment within small businesses in Lebanon. Methodologically, structural equation modeling (SEM) was applied to data collected during October and November 2025 via structured electronic questionnaires, utilizing a convenience sampling method with a sample of 400 full-time SME employees across diverse industry sectors and organizational tiers. The empirical results demonstrate that transformational leadership exerts a potent direct effect on psychological empowerment ($\beta = 0.569$, $p < .001$) and retains a statistically significant direct relationship with job performance ($\beta = 0.186$, $p = .016$), establishing a partial mediation framework where the indirect pathway through empowerment ($\beta = 0.351$, $p < .001$) highly enhances task execution. Similarly, innovative work behavior also operates under a partial mediation framework where transformational leadership displays a significant direct impact ($\beta = 0.280$, $p < .001$) alongside a robust indirect effect via empowerment ($\beta = 0.299$, $p < .001$). The study demonstrates that under conditions of persistent macroeconomic instability, the capacity of transformational management to optimize both baseline job performance and creative adaptations is significantly amplified by cultivating internal psychological capital, establishing that employee empowerment serves as a vital structural buffer when external institutional resources are constrained.

Keywords leadership, innovation, performance, empowerment, crisis

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INTRODUCTION

Small and medium-sized enterprises (SMEs) constitute the structural backbone of developing and transit economies, serving as the primary engines for employment generation, economic diversification, and grassroots innovation. In hyper-volatile environments, the sudden onset of compounding macroeconomic shocks, such as hyperinflation, massive currency devaluations, banking restrictions, and systemic infrastructure collapses, shifts these vulnerable firms from growth-oriented operations into severe, defensive "survival modes." While the macro-financial dimensions of such crises are heavily documented, a critical, less-understood systemic threat occurs within the internal human capital structure of these organizations. Severe external instability rapidly cascades into the workplace, triggering widespread psychological withdrawal, a collapse in employee morale, acute job insecurity, and an accelerated "brain drain" of skilled talent.

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The core scientific problem emerges from the disruptive tension between external survival pressures and the internal behavioral requirements for long-term organizational viability. To survive the economic collapses, firms desperately require high levels of employee job performance and innovative work behavior to navigate resource scarcity and adapt to volatile markets. However, the exact mechanisms of the crisis systematically erode employee morale and behavioral engagement needed to produce these outcomes. Traditional organizational controls and standardized performance metrics collapse under high instability, leaving a critical operational vacuum.

Consequently, a critical knowledge gap remains regarding how internal organizational dynamics can actively sustain baseline performance and adaptive innovation when the external socio-economic system fails to offer stability.

1. LITERATURE REVIEW

The preservation of organizational resilience during periods of economic volatility depends heavily on the strategic mobilization of internal human capital. In highly volatile emerging markets, traditional structural controls and financial incentives often become unviable, forcing organizations to rely on intangible behavioral resources to sustain operational continuity (Gunday et al., 2011). Navigating such unstable business environments requires a comprehensive understanding of how leadership behaviors and intrinsic psychological states interact to drive employee outcomes (Alshawabkeh et al., 2024). By examining the intersections of leadership theory, employee empowerment, and behavioral output, this review maps the existing scientific landscape to establish how firms can buffer critical workforce behaviors from external disruptions.

The foundational architecture of contemporary leadership theory distinguishes between transactional exchanges and transformative, value-driven interactions. Transformational leadership is conceptualized as an integrated process where leaders and followers interact to lift one another to higher levels of morale, ethical commitment, and motivation, effectively transcending immediate self-interest in pursuit of a shared organizational mission (Bass, 1985). This framework operates through four interconnected behavioral dimensions: idealized influence, which establishes the leader as an ethical role model; inspirational motivation via the articulation of a compelling and forward-looking vision; intellectual stimulation, which actively encourages followers to challenge established assumptions; and finally, individualized consideration, which provides tailored mentoring and support (Avolio, 1994; Avolio et al., 1999).

While early iterations of leadership theory focused primarily on stable, bureaucratic corporate structures (Bass, 1990), contemporary scholarship has increasingly evaluated the boundary conditions of transformational leadership during periods of profound contextual instability. In high-stress environments, standard operational protocols frequently fracture, leaving employees vulnerable to role ambiguity, severe anxiety, and cognitive overload. Under these conditions, the visionary and empathetic dimensions of transformational leadership shift from discretionary management styles to essential survival mechanisms (Liu et al., 2024). By providing psychological safety and structural clarity amidst chaos, transformational leaders help mitigate the cognitive paralysis typically triggered by external shocks, thereby steering collective energy toward constructive organizational goals (Avolio et al., 2004; Ayanian et al., 2025).

Parallel to leadership dynamics, the internal motivational state of the workforce serves as a critical buffer against environmental volatility. Psychological empowerment is defined as an intrinsic motivational construct that reflects an active, agentic orientation toward a given work role rather than a passive, compliance-driven posture (Spreitzer, 1995; Thomas & Velthouse, 1990). Methodologically, it is understood as a multidimensional cognitive constellation consisting of four distinct structural assessments. They include alignment between personal values and work role requirements; competence as an individual's belief in their capability to execute tasks success-

fully; self-determination as a perceived sense of autonomy over work method, and finally, impact as the degree to which an individual can influence strategic or operational outcomes (Conger & Kanungo, 1988).

Within volatile or severely resource-constrained organizational environments, these four cognitive dimensions act as vital internal psychological resources. When external business environments degrade, standard tangible rewards lose their motivational efficacy, forcing organizations to rely on intrinsic psychological capital to prevent burnout and withdrawal (Poul et al., 2016). Empowered employees do not view themselves merely as passive subjects of environmental pressures; instead, they maintain a proactive orientation, viewing themselves as active agents capable of shaping their immediate operational environments (Seibert et al., 2011). Consequently, cultivating psychological empowerment is a strategic prerequisite for sustaining individual initiative when formal institutional structures are disrupted.

The structural relationship between leadership behavior and employee empowerment is deeply rooted in the cultivation of trust and the structural delegation of authority. Transformational leaders do not consolidate power. Instead, they actively dismantle restrictive operational hierarchies to foster a culture of shared responsibility (Arnold et al., 2000) by demonstrating explicit confidence in subordinate capabilities (individualized consideration) and providing the autonomy required to solve novel operational problems (intellectual stimulation). Transformational leaders directly enhance the core cognitive dimensions of competence and self-determination (Avolio et al., 2004).

This empowering dynamic alters how employees perceive their work roles, particularly during acute socio-economic crises. When a leader frames operational challenges through a broader, value-driven vision, tasks that might otherwise feel futile during a crisis are reframed as deeply meaningful contributions to organizational survival and continuity (Tims et al., 2011). This psychological reframing encourages subordinates to proactively seek out professional development programs, experiment with autonomous decision-making, and build the internal self-efficacy required to navigate resource scarcity without experiencing psychological withdrawal.

The ultimate manifestation of these internal dynamics lies in tangible behavioral outputs, categorized as standard job performance and adaptive innovative work behavior. Job performance encapsulates the total financial and operational value of an employee's discrete behaviors contributing directly to organizational goals, encompassing both core task execution and contextual citizenship behaviors (Borman & Motowidlo, 1993). Empirical evidence consistently positions transformational leadership as a primary driver of performance, demonstrating that visionary communication and emotional intelligence enhance employee commitment, leading to superior task execution (Wang et al., 2022). However, in severely destabilized, hyper-inflation contexts, the direct link between leadership command and performance often becomes strained or muted by severe external stressors, such as collapsing real wages and acute job insecurity (Wahidi et al., 2024).

This limitation highlights the critical importance of innovative work behavior, which is defined as a complex, multi-stage process involving the deliberate generation, promotion, and operational realization of novel ideas designed to improve role efficiency or organizational adaptation (De Jong & Den Hartog, 2010; Janssen, 2000). Unlike routine task performance, innovative work behavior cannot be coerced or managed through rigid, transactional controls; it requires an active, proactive orientation supported by leaders who explicitly value creative risk-taking (Amabile & Gryskiewicz, 1989; Anderson et al., 2014). Transformational leaders trigger this behavioral change primarily through intellectual stimulation, forcing employees to look past conventional methodologies to find resourceful, bottom-up solutions to urgent, real-world problems (Hu et al., 2013; Suifan et al., 2018).

Despite the robust empirical support for these frameworks, contemporary organizational scholarship highlights distinct theoretical criticisms and boundary limitations inherent to both models. A primary critique of transformational lead-

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ership theory is its historical vulnerability to exceptional leader biases, where organizational success is heavily attributed to a leader's personal charisma or idealized traits rather than structural systems (Fourie & Höhne, 2017). In high-stress, crisis-stricken environments, an over-reliance on visionary rhetoric can be perceived by exhausted employees as hollow, manipulative, or "pseudo-transformational" if it is not backed by tangible structural support or realistic pathways through systemic institutional stress (Schuh et al., 2012).

Similarly, psychological empowerment theory is frequently critiqued for its high cognitive dependency. Granting high levels of self-determination and task impact to an undercompensated or anxious workforce can inadvertently trigger cognitive overload, severe role ambiguity, or heightened stress if employees feel entirely abandoned by institutional safety nets (Cheong et al., 2016). Historically, structural contexts marked by extreme role ambiguity have been shown to directly undermine an employee's capacity to experience true psychological empowerment, transforming administrative autonomy into an exhausting burden (Spreitzer, 1995). This study actively addresses these theoretical vulnerabilities by positioning psychological empowerment not as an isolated administrative mandate, but as a structurally anchored psychological bridge that requires constant, active reinforcement through transformational leadership behaviors to prevent burnout and role confusion within volatile market spaces.

To fully map the internal mechanics of the organization, scholarship must look past simple direct linkages and model the indirect psychological pathways through which leadership behaviors are internalized (Pham et al., 2024). Theoretical frameworks suggest that the overarching influence of transformational leadership on behavioral outputs is fundamentally indirect, operating primarily through the cognitive mediation of psychological empowerment (Avolio et al., 2004; Dai et al., 2013). In this light, transformational behaviors serve as the environmental catalyst that establishes a psychological climate of autonomy and safety, which then builds a heightened sense of meaning and impact (psychological empowerment) within the employee. Moreover, it ultimately manifests as sustained job performance and an enhanced willingness to share and apply novel knowledge (Aslamiyah & Hartijasti, 2023; Avolio et al., 1999; Yadav et al., 2023).

This mediating architecture becomes particularly vital when examined within non-Western, crisis-stricken business environments. In highly volatile contexts, external structural and financial resources are highly constrained, meaning that standard motivational paths are frequently disrupted (ILO, 2023; Ballout et al., 2026). Under these boundary conditions, the internal psychological capital of empowerment serves as the primary engine that unblocks employee imagination and effort, allowing the workforce to develop innovative survival routines despite severe institutional deficits (Matta, 2018).

In summary, the existing literature firmly establishes transformational leadership and psychological empowerment as potent drivers of organizational performance within stable economies, yet their structural interaction remains under-examined under conditions of persistent macroeconomic instability. While the broad relationships between leadership style and behavioral output are well-mapped globally, there is a critical empirical gap regarding how these internal psychological mechanisms function when external macro-environments are actively unstable (Achi et al., 2025). Consequently, modeling the precise mediating pathways of psychological empowerment within crisis-affected sectors is essential to understanding how internal human resources can be successfully leveraged to protect organizational outputs against severe external shocks (Masa'deh et al., 2015).

The primary aim of this study is to investigate the extent to which psychological empowerment mediates the relationship between transformational leadership and both job performance and innovative work behavior among employees in the Lebanese SMEs sector during the ongoing economic crisis. Considering the research model and its variables, the following hypotheses are formulated:

H1: Transformational leadership positively affects job performance.

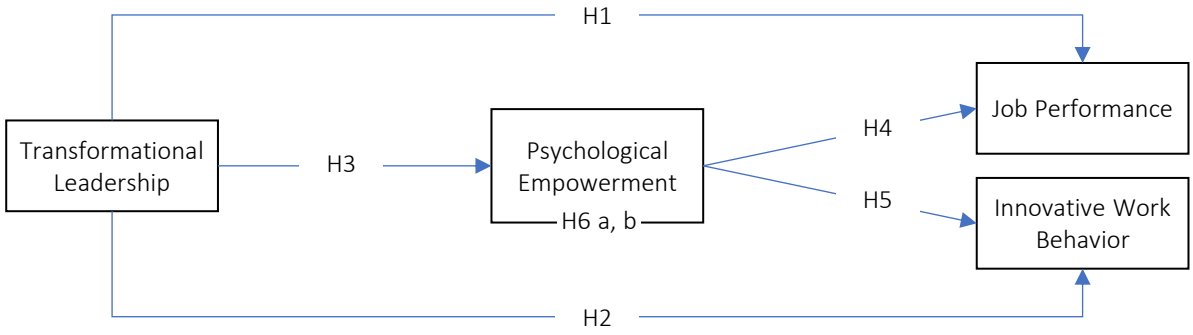

Figure 1. Conceptual framework

H2: Transformational leadership positively affects innovative work behavior.

H3: Transformational leadership positively affects psychological empowerment.

H4: Psychological empowerment positively affects job performance.

H5: Psychological empowerment positively affects innovative work behavior.

H6a: Psychological empowerment mediates the relationship between transformational leadership and job performance.

H6b: Psychological empowerment mediates the relationship between transformational leadership and innovative work behavior.

The conceptual research model is depicted in Figure 1.

2. METHOD

The study adopts a positivist philosophy and a deductive approach, utilizing a realist ontology that views organizational constructs as objective, measurable phenomena. In alignment with positivism, the research maintains a value-free axiology; the researcher remains an objective observer, using standardized instruments and statistical analysis to ensure scientific rigor and eliminate personal bias (Park et al., 2020).

The target population consists of employees from all nine provinces, different careers, managerial level, ages, educational level, and gender, working within small and medium-sized enterprises (SMEs) in Lebanon (Table 1). Given Lebanon's severe economic instability and the lack of an exhaustive, centralized national sampling frame, convenience sampling is adopted as a practical and feasible strategy for data collection (J.W. Creswell & J.D. Creswell, 2018). The target sample size is determined based on two rationales: first, the calculation assumes a 95% confidence level (z = 1.96), a maximum acceptable margin of error (e = 0.05), and maximum population variability (p = 0.5). Cochran's classical sample size calculation is applied $N_0 = \left(z^2 p\left(1-p\right)\right)/e^2$, showing that the required minimum sample size is 384. This initial target ensures the results are representative of the target population at the stated confidence and error levels.

This target satisfies the requirements for the planned data analysis technique, structural equation modeling (SEM), which requires an adequate sample size to ensure stable parameter estimates (Hair et al., 2019). A commonly cited guideline for SEM is the minimum ratio of sample size to the number of observed variables, which should ideally be 10:1 (Hair et al., 2019). Given the expected number of observed variables (survey items) in the measurement model, aiming for a sample size of $N \geq 384$ is robust as it satisfies both the confidence interval requirements and the statistical needs of the multivariate analysis (Krejcie & Morgan, 1970).

The primary survey is conducted over an uninterrupted operational window from early Oct 2025 through mid Nov 2025 (45 days). A pilot test (N = 20) with Lebanese SME employees was conducted prior to full deployment to refine the linguistic clarity, translation accuracy, and internal consistency of the items; these pilot data are completely

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excluded from the final analytical dataset. Formal introductory letters were sent to SME owners and human resource managers to secure institutional access. Participation is strictly voluntary, and no personal identifying information (such as names or email addresses) is collected. Comprehensive demographic profiles of the final respondents have been fully systematized and are presented in Table 1.

To maintain strict publication ethics, we explicitly state that the dataset is strictly single-use. This specific primary survey is executed exactly once for the sole purpose of evaluating the structural model detailed in this paper. The underlying data have not been, nor will ever be, utilized across two or more separate publications, guaranteeing that the findings presented hereafter constitute a unique, isolated empirical contribution.

The research operations are conducted in strict accordance with the ethical standards and guidelines stipulated by the Institutional Review Board (IRB) of Beirut Arab University (BAU) under formal approval protocol, IRB code: 2025-H-0035-BA-P-0751. Key protective measures included informed consent; participants received a detailed digital study information disclosure sheet prior to accessing the survey, requiring active, explicit consent before progressing to the items. For anonymity, no personal identifiers or metadata are collected; data are reported strictly in an aggregate format to protect individual and organizational standing. For data security, raw digital data files are securely stored on password-protected, encrypted local drives accessible only to the primary research team. They will be destroyed post-analysis in compliance with institutional guidelines.

The demographic profile of the sample indicates that a majority of the respondents are male, accounting for 56.5% of the total participants. In terms of age distribution, respondents ranged from 18 to over 50 years old. Regarding industry sectors, the most highly represented category is services (professional and financial), comprising 19.5% of the sample. Furthermore, a Bachelor's degree is the most common highest educational

Table 1. Respondents' characteristics

Profile	Description	Frequency	%
Gender	Male	226	56.5
	Female	174	43.5
Age	18–29 years old	224	56
	30–39 years old	101	25.25
	40–49 years old	51	12.75
	50 years old and above	24	6
Educational level	Non-university degree	141	35.25
	Bachelor's degree	181	45.25
	Postgraduate degree	78	19.5
Industry sectors	Services (professional, financial)	78	19.5
	Technology/IIT	44	11
	Manufacturing	34	8.5
	Retail and wholesale trade	70	17.5
	Education	27	6.75
	Food production and services	14	3.5
	Logistics and delivery services	23	5.75
	Maintenance and technical services	66	16.5
	Tourism and hospitality	28	7
	Healthcare and medical services	16	4
Job tenure (in years)	1–4	152	38
	5–9	128	32
	10–14	48	12
	> 15	72	18
Job level (manager)	Entry level	104	26
	First line	116	29.5
	Middle	116	28.5
	Senior	64	16

qualification, held by 45.25% of the participants. In terms of organizational tenure, 38% of the respondents reported having up to four years of work experience, while 29.5% operate specifically within first-line management roles.

Transformational leadership (TFL) is defined as leadership that drives performance and commitment through four distinct behavioral dimensions. TFL is assessed using an 8-item version of the Multifactor Leadership Questionnaire (MLQ), as adapted by Dai et al. (2013). Psychological empowerment (PE) reflects an individual's internal experience of intrinsic motivation and personal control at work; it is measured via a 12-item scale developed by Spreitzer (1995), which captures the dimensions of meaning, competence, self-determination, and impact. Job performance (JP) represents an employee's proficiency in fulfilling both task and contextual responsibilities, using the 11-item Job Performance Scale developed by Çalışkan and Köroğlu (2022). Finally, innovative work behavior (IWB) is defined as the intentional generation, promotion, and implementation of

Table 2. Research indicators

Variable	Indicator (manifest variable)
Transformational Leadership (TFL)	The manager can understand my situation and gives me encouragement and assistance
	The manager encourages me to take challenges
	I believe the manager can overcome any challenge at work
	The manager encourages me to make efforts towards fulfilling the organizational vision
	The manager encourages me to think about problems from a new perspective
	The manager encourages me to rethink opinions that have never been doubted in the past
	I believe I can complete my work under the leadership of the manager
	The manager spends time to understand my needs
Innovative Work Behavior (IWB)	I create new ideas for difficult issues
	I search out new work methods, techniques, or instruments
	I generate original solutions for problems
	I mobilize support for innovative ideas
	I acquire approval for innovative ideas
	I make important organization members enthusiastic for innovative ideas
	I transform innovative ideas into useful applications
	I introduce innovative ideas into the work environment in a systematic way
	I evaluate the utility of innovative ideas
Psychological Empowerment (PE)	The work I do is very important to me
	My job activities are personally meaningful to me
	The work I do is meaningful to me
	I am confident about my ability to do my job
	I am self-assured about my capabilities to perform my work activities
	I have mastered the skills necessary for my job
	I have significant autonomy in determining how I do my job
	I can decide on my own how to go about doing my work
	I have considerable opportunity for independence and freedom in how I do my job
	My impact on what happens in my department is large
	I have a great deal of control over what happens in my department
	I have significant influence over what happens in my department
Job Performance (JP)	I have the competencies that my job requires
	I work effectively/efficiently
	I understand and carry out work-related procedures
	I work in a planned and organized manner to conclude the task defined to me in full and on time
	I am eager to acquire new skills related to my job
	I take extra care and extra responsibilities while doing my duty
	I contribute to the creation of a positive working environment in my institution
	If I encounter a situation that prevents the task from being done, I try to fix it
	I help and encourage my friends to complete their work
	Even if there are criticisms inside or outside the institution, I defend my institution
	I am proud to be a part of this institution

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new ideas within the workplace; it is assessed using the 9-item IWB Scale (Ramamoorthy et al., 2005).

Following this framework, the study employs a cross-sectional survey design. Hypothesized causal directions and mediation effects are tested using structural equation modeling (SEM) to provide empirical validation of the conceptual model. Data are collected using structured digital questionnaires administered via Google Forms. The survey consists of items adapted from validated scales to measure the four primary constructs. All items are rated on a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Table 2 shows specific details of the indicators.

Quantitative data analysis is conducted using JASP (v 0.95.4.0). Preliminary procedures included data cleaning, outlier detection, and handling missing values. Structural equation modeling (SEM) serves as the primary technique for hypothesis testing. To ensure optimal data-to-model fit and resolve localized structural misspecifications, a systematic item purification process is executed prior to final structural estimation, guided strictly by modification indices. Descriptive statistics (means, standard deviations, skewness, and kurtosis) are calculated for all demographic variables and construct items.

3. RESULTS

The total sample size for the analysis is $N = 400$ valid responses, which exceeds the target minimum of $N = 384$ for both statistical power and structural equation modeling (SEM) requirements. Data screening procedures showed no missing values (Valid = 400, Missing = 0) due to the mandatory-response constraints enforced on the digital questionnaire platform. The analysis follows a two-stage structural equation modeling (SEM) approach. First, descriptive profiles and measurement properties (reliability, convergent validity, and discriminant validity) are verified. Second, the structural model was evaluated to test the direct, indirect, and total effects (H_1 to H_{6b}) among transformational leadership, psychological empowerment, job performance, and innovative work behavior.

For the central tendencies and general distribution of the data across the core research variables, mean scores are compiled. Construct mean values are interpreted based on their statistical weight relative to the underlying psychometric scale as shown in Table 3.

A confirmatory factor analysis (CFA) is executed using a robust Huber–White standard error estimator to evaluate the psychometric properties of the measurement model. A well-studied refinement used to guard the items from over-purification is additionally applied; within-factor residual covariance is specified based on modification indices. Following the calibrated adjustments, the measurements demonstrated model fit: X2 = 772.441, df = 336, p < .001; Comparative Fit Index (CFI) = 0.908; Tucker-Lewis Index (TLI) = 0.90; Root Mean Square Error of Approximation (RMSEA) = 0.057 (90% CI: 0.052, 0.062); SRMR = 0.055.

To establish internal consistency, convergent validity, and scale reliability, standardized factor loadings (ʎ), Average Variance Extracted (AVE), Composite Reliability (CR/McDonald's ω), and Cronbach's alpha (α) are calculated as shown in Table 4.

According to Fornell and Larcker (1981), when a latent construct's average variance extracted (AVE) falls below the standard 0.50 threshold, its convergent validity may still be considered statistically acceptable provided that its composite reliability exceeds 0.60. In this study, the AVE for transformational leadership (TFL) was lower than optimal

Table 3. Descriptive statistics

Construct	Mean	Standard deviation (SD)	Category
Transformational Leadership (TFL)	3.77	0.614	Agree
Psychological Empowerment (PE)	3.85	0.560	Agree
Job Performance (JP)	4.07	0.672	Agree
Innovative Work Behavior (IWB)	3.60	0.840	Agree

Table 4. Validity and reliability

Latent Variables	Loading (λ)	AVE	CR (McDonald's ω)	Cronbach's alpha (α)
TFL1	0.657	0.361	0.815	0.814
TFL2	0.716			
TFL3	0.584			
TFL4	0.622			
TFL5	0.633			
TFL6	0.543			
TFL7	0.533			
TFL8	0.478			
PE1	0.488	0.520	0.890	0.900
PE4	0.523			
PE5	0.531			
PE6	0.551			
PE7	0.793			
PE8	0.781			
PE9	0.786			
PE10	0.774			
PE11	0.768			
PE12	0.748			
JP1	0.844	0.521	0.768	0.753
JP2	0.711			
JP3	0.626			
IWB1	0.681	0.463	0.761	0.794
IWB2	0.725			
IWB3	0.655			
IWB4	0.388			
IWB7	0.556			
IWB9	0.623			

Note: TFL = transformational leadership; PE = psychological empowerment; JP = job performance; IWB = innovative work behavior.

at 0.361, indicating that a portion of the variance is captured by error. This low AVE is a statistical byproduct of deliberately preserving all eight original structural items of the MLQ during a period of external socio-economic volatility in Lebanon, which introduced higher item variance (error) without compromising overall scale reliability. Despite this, all four core constructs exhibited robust internal consistency. Composite reliability measures (McDonald's ω) ranged from 0.761 to 0.890, and Cronbach's α values ranged from 0.753 to 0.900, comfortably exceeding the recommended 0.70 threshold. Consequently, while the item pruning required to achieve structural model fit limits the coverage of some original scales, the internal consistency and convergent validity of the retained latent factors are empirically supported within this specific sample context.

Discriminant validity was assessed using the contemporary heterotrait-monotrait ratio (HTMT) of correlations. This index provides a strict assessment for comparison.

Discriminant validity is successfully established when all HTMT ratios remain safely below the strict conservative threshold of 0.85 (Hair et al., 2019; Henseler et al., 2015). As illustrated in Table 5, the maximum recorded ratio in the correlation matrix occurs between psychological empower-

Table 5. Heterotrait-monotrait ratio (HTMT)

Construct	TFL	PE	JP	IWB
Transformational Leadership (TFL)				
Psychological Empowerment (PE)	0.546			
Job Performance (JP)	0.470	0.739		
Innovative Work Behavior (IWB)	0.572	0.669	0.572	

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Table 6. Direct and indirect effect testing

Path	Standardized Coefficient (β)	z- statistic (T-value)	p-values	Result
Direct testing				
TFL→JP	0.186	2.414	.016	Supported
TFL→IWB	0.280	3.673	< .001	Supported
TFL→PE	0.569	9.299	< .001	Supported
PE → JP	0.617	9.763	< .001	Supported
PE → IWB	0.526	7.311	< .001	Supported
Indirect testing				
TFL→PE → JP	0.351	6.600	< .001	Supported, partial mediation
TFL→PE→ IWB	0.299	6.048	< .001	Supported, partial mediation

Note: TFL = transformational leadership; PE = psychological empowerment; JP = job performance; IWB = innovative work behavior.

ment and job performance (HTMT = 0.739), confirming that all latent variables represent distinct, unique conceptual constructs within this specific sample dataset.

Table 6 reveals that all five direct hypotheses are statistically validated. H1 (TFL→JP): transformational leadership significantly and positively impacts performance (β = 0.186, z = 2.414, p = .016). This establishes that leadership behaviors directly foster higher performance levels. H2 (TFL→IWB): transformational leadership significantly and positively impacts innovative work behavior (β = 0.280, z = 3.673, p < .001), is confirmed, supporting that transformational leaders cultivate innovative execution among followers. H3 (TFL→PE): transformational leadership has a positive direct impact on psychological empowerment (β = 0.569, z = 9.299, p < .001), is supported, which confirms that leaders who practice transformational qualities significantly elevate the internal meaning, competence, self-determination, and felt impact of their personnel. H4 (PE → JP): psychological empowerment demonstrates a direct effect on job performance (β = 0.617, z = 9.763, p < .001), is confirmed, as employees who feel structurally and mentally empowered achieve substantially higher task execution outcomes. H5 (PE → IWB): psychological empowerment positively impacts innovative work behavior (β = 0.526, z = 7.311, p < .001) is supported. This proves that psychological ownership over one's work serves as a prime catalyst for workplace innovation.

Additionally, the mediation results detailed in Table 6 demonstrate that the total impact of transformational leadership is distributed through both direct and indirect structural pathways. H_{6a} (TFL→PE → JP) is validated; the total effect of transformational leadership on job performance when psychological empowerment is added as an intervening variable shows a significant indirect effect (β = 0.351, z = 6.600, p < .001) operating alongside a significant direct effect (β = 0.186). Because both the direct (H1) and indirect (H_{6a}) pathways are simultaneously significant, psychological empowerment partially mediates the relationship between transformational leadership and job performance. H_{6b} (TFL→PE→ IWB) is also validated; the indirect effect running through psychological empowerment is highly significant (β = 0.299, z = 6.048, p < .001), operating alongside a significant direct effect (β = 0.280). This statistical result establishes that psychological empowerment partially mediates the transformational leadership to innovation pathway.

4. DISCUSSION

The most significant finding of this study is the strong validation of psychological empowerment as the critical psychological mechanism through which transformational leadership operates. As shown by the significant indirect effect (H_{6a}, H_{6b}), the analysis provided strong support for TFL → PE → JP (β = 0.351, p < .001) and TFL → PE → IWB (β = 0.299, p < .001). This confirms that transformational leadership's positive influence is significantly transmitted by successfully fostering psychological empowerment, a sense of meaning, competence, and self-determination among employees.

The final structural path analysis revealed that the direct path from transformational leadership to job performance (H1) remains statistically signifi-

cant (β = 0.186, z = 2.414, p = .016). Coupled with the highly significant indirect effect, this indicates that psychological empowerment acts as a partial mediator rather than a full mediator between transformational leadership and job performance. This finding suggests that while transformational behaviors directly stimulate baseline task execution, their impact is vastly amplified when leadership actions successfully elevate the workforce's internal sense of competence, self-determination, and operational impact.

The direct path from transformational leadership to innovative work behavior (H2) remained significant (β = 0.280, z = 3.673, p < .001) alongside the indirect effect, confirming the hypothesized partial mediation. This implies that transformational leadership has a dual influence on innovation: a direct inspirational/intellectual boost that stimulates immediate creative efforts, and a powerful indirect effect channeled through increased psychological empowerment. The exceptionally high path coefficients and robust model fit indices (CFI = 0.908, RMSEA = 0.057) underscore the high explanatory value of combining transformational leadership behavioral dimensions with localized psychological states to drive workforce outcomes within resource-constrained SME environments. Furthermore, the strong direct path from transformational leadership to psychological empowerment (β = 0.569, z = 9.299, p < .001) shows that even in highly challenging environments, leaders can effectively cultivate and sustain individual empowerment.

These results resonate with the "agentic" approach to work behavior, where empowered employees optimize their own talent (Spreitzer, 1995). The finding that transformational leadership drives innovative work behavior through intellectual stimulation aligns with global observations by Hu et al. (2013) and Anderson et al. (2014), who argue that visionary leadership unleashes creative energy. The observation of partial mediation for both job performance and innovative work behavior aligns with contemporary management scholarship in emerging markets, which emphasizes that leadership behaviors retain direct operational utility while simultaneously constructing the psychological capital necessary to navigate macro-environmental stress (Wang et al., 2022).

These findings extend the boundary conditions of transformational leadership and psychological empowerment theories (Avolio, 1994; Spreitzer, 1995) to volatile emerging economies, affirming their shared effectiveness even where traditional external structural or financial incentives might be compromised due to broader socio-economic challenges (Wahidi et al., 2024).

The psychometric scale contractions that occurred during structural modeling merit specific academic contextualization. For instance, the adjustments within Spreitzer's (1995) measurement scale (such as the exclusion of items PE2 and PE3) and the reduction of some of the job performance and innovative work behavior items should be understood purely as reflections of data-to-model fit within this specific sample dataset. It is vital to state that psychometric purification merely indicates which manifest items happen to fit this unique primary dataset better; it does not serve as empirical proof of a crisis-specific theoretical restructuring of human psychology or a permanent conceptual alteration of empowerment. Rather, these item drops suggest that under highly volatile operational conditions, survey respondents may perceive and respond to items measuring direct operational competence, localized autonomy, and primary task fulfillment with greater statistical cohesion than broader, abstract items. By calibrating the active measurement indicators to the specific empirical realities of the sampled Lebanese SME employees, the structural model achieved optimal psychometric validity, ensuring that the verified paths represent authentic behavioral linkages.

On a theoretical level, the confirmation of partial mediation offers a robust and comprehensive model for future research. It suggests that leadership models predicting performance and innovation should prioritize the mediator of empowerment alongside direct behavioral linkages, refining the impact pathway of transformational leadership theory. By confirming these structural relationships and strong path coefficients within the volatile SME sector, the study proves these theories are resilient in crisis settings.

Practically, these results translate into action-oriented recommendations. SMEs should view psychological empowerment as a primary strategy for maximizing leadership effectiveness. Management

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training must shift from simply "inspiring" to actively delegating autonomy and ensuring employees feel capable; given the lack of external resources, optimizing internal psychological capital is a highly sustainable mechanism to enhance resilience during a financial crisis. For leaders managing performance metrics, the finding of significant direct and indirect paths demonstrates that they must not rely on leadership alone, but must systematically build psychological empowerment to fully unlock latent workplace innovation and optimize everyday task performance. Policymakers should support programs that enhance psychological capital, recognizing that empowered employees are the engine of bottom-up problem-solving in environments where formal resources are limited.

On the limitations level, the use of convenience sampling and the cross-sectional nature of the data restrict the ability to make definitive statements of causality, though SEM is used to test hypothesized causal structures. While robust CFA results (high discriminant validity) provide evidence against Common Method Variance (CMV), the potential for bias remains in single-source surveys. A longitudinal design is strongly recommended for future studies to confirm the causal sequencing and track the durability of the transformational leadership → psychological empowerment → outcomes mechanism as the economic environment evolves.

Finally, given the critical importance of psychological empowerment identified here, future models should explore additional antecedents beyond leadership, such as job characteristics, organizational justice, and the role of technology to further maximize the variance explained in this construct.

CONCLUSION

This study aimed to examine the influence of transformational leadership on job performance and innovative work behavior by investigating the mediating role of psychological empowerment among employees within the small and medium-sized enterprise (SME) sector in Lebanon. The results confirm all proposed hypotheses, providing strong empirical support for the model. The findings indicate that transformational leadership promotes both task execution and innovative behavior both directly and indirectly, by encouraging and driving employees' psychological empowerment. This highlights the vital role of internal psychological mechanisms in linking leadership behaviors to operational and adaptive outcomes within a highly volatile economic environment.

Theoretically, this study enriches the literature by validating the resilience of transformational leadership and psychological empowerment frameworks within a non-Western, crisis-affected context. Practically, it underscores the urgent need for leadership practices that systematically delegate operational autonomy, reinforce employee self-efficacy, and cultivate an internal workplace climate that preserves individual initiative despite severe external resource scarcity. Future research should consider potential moderators such as organizational culture or innovation climate, adopt longitudinal designs to capture behavioral dynamics over time as the macroeconomic environment evolves, and explore this framework across alternative industries or larger corporate sectors to assess its broader applicability. Such efforts will further strengthen the theoretical robustness and practical relevance of leadership-driven performance and innovation models in turbulent emerging economies.

AUTHOR CONTRIBUTIONS

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