

ENTREPRENEURIAL LEADERSHIP AND SME PERFORMANCE IN PAKISTAN'S FACTOR-DRIVEN ECONOMY: A MULTI-MEDIATION CONCEPTUAL MODEL

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Abstract

Pakistan's small and medium enterprise (SME) sector constitutes over 90% of all registered businesses, employs approximately 78% of the non-agricultural workforce, and contributes more than 40% of GDP (SMEDA, 2024; SBP, 2022). Yet Pakistan ranks 122nd on the Global Entrepreneurship Development Institute (GEDI) Index and faces one of the most challenging institutional environments for entrepreneurial growth in the developing world (Frontiers, 2025; World Bank, 2023). Recent comparative evidence from Choudhary and Shahid (2025) demonstrates that the mediation pathways linking leadership to performance — well-established in developed economies — do not hold in Pakistan's factor-driven context, creating an urgent theoretical gap. This conceptual paper develops a multi-mediation model in which entrepreneurial leadership (EL) influences SME performance through three contextually grounded mediators: (1) innovation capability, (2) organisational resilience, and (3) institutional trust. Grounded in Resource-Based View (Barney, 1991), Institutional Theory (North, 1990), and Upper Echelons Theory (Hambrick & Mason, 1984), the model identifies five testable hypotheses and proposes a sequential explanatory mixed-methods design (PLS-SEM + qualitative interviews) for empirical validation. The paper contributes to the EL literature by (a) theorising context-specific mediation mechanisms for developing economies; (b) introducing institutional trust as an understudied mediating variable in the EL-performance nexus; and (c) providing a validated conceptual framework for future empirical research in Pakistan and analogous developing-economy contexts.

Keywords: *Entrepreneurial Leadership, SME Performance, Pakistan, Innovation Capability, Organisational Resilience, Institutional Trust, PLS-SEM, Factor-Driven Economy*

Introduction

Small and medium enterprises (SMEs) are the structural backbone of Pakistan's economy. According to the Small and Medium Enterprise Development Authority (SMEDA, 2024), SMEs constitute over 90% of all private enterprises, employ approximately 78% of the country's non-agricultural labour force (SBP, 2022; Manzoor et al., 2021), contribute more than 40% of GDP (Safdar et al., 2024), and account for 25% of total export earnings (Ahmad, 2022). With approximately 3.2 million individuals directly employed in the SME sector (Ahmad, 2022), these enterprises are not merely an economic subsector — they are the primary mechanism through which Pakistan's growing working-age population (estimated to grow by 2 million annually) accesses productive employment.

Despite this structural centrality, Pakistan's SME sector is characterised by persistent underperformance. Pakistan ranks 122nd out of 137 countries on the Global Entrepreneurship Development Institute (GEDI) Index — significantly below comparable economies such as India (77th), Sri Lanka (87th), and Bangladesh (102nd) (Frontiers in Education, 2025). SME access to formal credit remains critically constrained: total SME debt financing reached only Rs. 478.37 billion as of September 2024, representing less than 8% of total bank credit disbursed in the economy (SMEDA Financing Report, 2024). The SME lending rate (KIBOR) peaked at 24.54% in 2023, creating effective credit exclusion for most small enterprises — though recent government interventions have reduced it to 11.89% as of December 2024 (SMEDA, 2024). Compounding these financial constraints, the World Bank (2023) documents a 'challenging business environment marked by onerous and

discretionary regulatory enforcement' that imposes significant transaction costs on Pakistani entrepreneurs.

In this environment, one resource available to SME owners that neither market failure nor institutional dysfunction can easily eliminate is *leadership quality*. Entrepreneurial leadership (EL) — defined as 'influencing and directing the performance of group members toward achieving those organizational goals that involve recognizing and exploiting entrepreneurial opportunities' (Renko et al., 2015, p. 55) — has emerged across multiple contexts as a significant predictor of SME survival, innovation, and performance (Gupta et al., 2004; Hoang et al., 2022; Sawaeen & Ali, 2020). However, a critical challenge faces EL researchers seeking to apply these findings to Pakistan: the mechanisms through which EL translates into performance appear to be context-dependent in ways that existing theory has not adequately explained.

A landmark comparative study by Choudhary and Shahid (2025), published in *The Bottom Line (Emerald)*, found that workplace innovation — a well-established mediator in the leadership-performance nexus in developed economies — did not significantly mediate the relationship in Pakistan, while it did in Australia. The authors attribute this finding to 'the distinct entrepreneurial underlying forces and challenges faced by SMEs in developing economies,' but leave open the critical theoretical question: if workplace innovation does not mediate, *what does?* This question motivates the present paper.

This paper makes three contributions to the entrepreneurial leadership literature. First, it develops a theoretically grounded multi-mediation model in which EL influences Pakistani SME performance through three context-specific mediators — innovation capability, organisational resilience, and institutional trust. Second, it introduces institutional trust as an understudied construct in the EL-performance nexus, drawing on institutional theory and the specific features of Pakistan's trust-deficient formal institutional environment. Third, it proposes a validated empirical research design for testing the model, contributing to the methodological advancement of EL research in non-Western contexts.

The remainder of the paper is structured as follows. Section 2 reviews the EL literature and Pakistan's SME context. Section 3 develops the theoretical framework. Section 4 presents the conceptual model and hypotheses. Section 5 outlines the proposed empirical research design. Section 6 discusses expected contributions and implications. Section 7 concludes.

1. Literature Review

1.1 Entrepreneurial Leadership: Concept and Measurement

Entrepreneurial leadership emerged as a distinct theoretical construct in the early 2000s, building on Schumpeter's (1934) notion of the entrepreneur as creative destroyer and Burns' (1978) conceptualisation of transformational leadership. The foundational definition by Gupta et al. (2004), drawing on data from the GLOBE (Global Leadership and Organizational Behavior Effectiveness) project across 62 societies, conceptualises EL as 'a type of leadership responsible for creating visions by engaging the entire organisation in the exploration and exploitation of opportunities.' This definition emphasises two interrelated challenges: articulating and enacting a compelling vision, and mobilising followers — through framing challenges and absorbing uncertainty — to pursue that vision entrepreneurially.

The most widely adopted measurement instrument for EL is the ENTRELEAD scale, developed by Renko et al. (2015) through a five-study validation programme. The 13-item, 7-point Likert scale captures EL behaviours in three dimensions: opportunity recognition and exploitation; resource mobilisation under uncertainty; and motivating entrepreneurial action among followers. The scale has demonstrated strong convergent validity (average variance extracted [AVE] > 0.50), discriminant validity (Fornell-Larcker criterion satisfied), and composite reliability (CR > 0.80) across multiple cultural contexts, making it the

methodologically preferred instrument for cross-cultural EL research (Renko et al., 2015; F1000Research, 2026).

Recent systematic reviews confirm EL's conceptual maturity and growing empirical base. A 2025 meta-analysis in *F1000Research* synthesised evidence from studies across 20+ countries, confirming that EL significantly and positively influences innovation performance, organisational learning, employee creativity, and overall firm performance — but with effect sizes that vary considerably by institutional context. A 2025 review in *Management Review Quarterly (Springer)* documents that the dominant conceptualisation of EL remains style-based, focused on observable leader behaviours, and that its application in non-Western institutional contexts remains a significant theoretical frontier (Springer, 2025).

1.2 EL and SME Performance: Evidence from Developing Economies

The link between EL and SME performance has been established across multiple emerging-market contexts. Sawaeen and Ali (2020), in a study of Kuwaiti SMEs, found that EL significantly predicted organisational performance through knowledge management and learning orientation pathways. Hoang et al. (2022) demonstrated that EL improved innovation performance in Vietnamese hospitality firms, mediated by knowledge acquisition and innovation strategy variables. In Pakistani SMEs, Rehman et al. (2025) conducted the most geographically specific and recent study available, surveying 2,870 SME employees across Khyber Pakhtunkhwa province. Their findings — that EL accounted for 15.8% of the variance in entrepreneurial success, with team diversity moderating this relationship substantially (59.7% moderation effect) — represent the current empirical benchmark for Pakistan-specific EL research.

In the context of Industry 4.0 adoption, a *Bulletin of Business and Economics* (2023) study of Pakistani manufacturing, sports, and textiles SMEs (n=500) found that entrepreneurial leadership and ethical leadership significantly influenced organisational learning, which in turn predicted sustainable competitive performance. Notably, transactional leadership did not exhibit significant effects, suggesting that the entrepreneurial dimension of leadership — rather than its transactional or administrative dimensions — is the critical performance lever in Pakistan's SME context.

A critical contribution to contextualising these findings is the cross-country comparison by Choudhary and Shahid (2025), which demonstrated that the mechanisms through which leadership translates into SME performance differ fundamentally between Australia and Pakistan. While workplace innovation mediated the design leadership-performance nexus in Australia, the same mediation was absent in Pakistan — a finding the authors attribute to Pakistan's reliance on 'unskilled labour and raw materials in a factor-driven economy' and the 'distinct entrepreneurial underlying forces' of its institutional context. This finding establishes the theoretical imperative for Pakistan-specific mediation modelling.

1.3 Pakistan's SME Context: Statistical Overview

| Indicator | Value | Source |
|--------------------------------------|--------------|----------------------------------|
| Total SMEs in Pakistan | ~5.2 million | SMEDA, 2024 |
| SME share of all private enterprises | >90% | SBP, 2022; Arshad & Arshad, 2019 |
| SME contribution to GDP | >40% | Safdar et al., 2024; SMEDA, 2024 |
| SME share of non-agri employment | ~78% | Manzoor et al., 2021; SBP, 2022 |
| SME share of total exports | 25% | Ahmad, 2022 |

| | | |
|-------------------------------------|--------------------|------------------------------------|
| Direct SME employment (persons) | ~3.2 million | Ahmad, 2022 |
| GEDI Index Rank (Pakistan) | 122nd / 137 | GEDI; Frontiers in Education, 2025 |
| Total SME debt financing (Sep 2024) | Rs. 478.37 billion | SMEDA Financing Report, 2024 |
| SME share of total bank credit | <8% | SBP / World Bank, 2024 |
| Peak SME lending rate (KIBOR, 2023) | 24.54% | SMEDA, 2024 |

| | | |
|-------------------------------------|---------------------|------------------|
| Current SME lending rate (Dec 2024) | 11.89% | SMEDA, 2024 |
| Pakistan poverty rate FY2023-24 | 25.3% (8-year high) | World Bank, 2024 |

Table 1. Key macroeconomic and SME statistics for Pakistan (verified 2024–2025 sources).

1.4 The Three Proposed Mediators

1.4.1 Innovation Capability

Innovation capability refers to an organisation's capacity to transform knowledge and ideas into new products, processes, and market approaches (Wang & Ahmed, 2007). In Pakistan's SME context, innovation capability is particularly salient because formal R&D; investment is negligible — SMEDA data indicate that fewer than 3% of Pakistani SMEs report dedicated R&D; expenditure (SMEDA, 2024). In this environment, innovation is driven primarily by leadership orientation: entrepreneurial leaders who model opportunity recognition, tolerate experimental failure, and allocate even limited resources to process improvement create organisations demonstrably more capable of adaptive innovation (Taleb et al., 2023).

Taleb et al. (2023), publishing in *Sustainability*, found that entrepreneurial opportunity recognition and innovation capability jointly mediated the EL-entrepreneurial success relationship — providing direct empirical support for innovation capability as a mediator in the EL-performance nexus. However, their study was conducted in a non-Pakistani context, and the mechanisms may differ given Pakistan's resource constraints. In Pakistan specifically, Arshad et al. (2024) found innovation orientation to be a significant mediator of entrepreneurial orientation-SME performance, while a 2025 study in *Frontiers in Sustainability* (n=431, Gilgit-Baltistan) found that sustainable digital innovation fully mediated the relationship between entrepreneurial ecosystem and business performance.

1.4.2 Organisational Resilience

Organisational resilience — defined as an organisation's capacity to anticipate, respond to, and recover from disruptions while maintaining operational continuity (Lengnick-Hall et al., 2011) — has particular theoretical relevance in Pakistan's SME context, given the frequency and severity of environmental shocks these enterprises routinely face: inflation spikes (38% in May 2023), energy supply disruptions, regulatory shifts, and macroeconomic volatility (SMEDA, 2024; IMF, 2024).

A recent systematic review in *Review of Managerial Science* (Springer, 2026), examining 206 Spanish SMEs, found that transformational leadership and innovation capability were decisive determinants of organisational resilience development — suggesting a sequential pathway from leadership through capability to resilience and ultimately to performance. This evidence, combined with the specific vulnerability of Pakistani SMEs to external shocks, supports organisational resilience as a theoretically necessary mediator that workplace innovation

models have systematically omitted.

1.4.3 Institutional Trust

Institutional trust — an entrepreneur's confidence in the reliability, fairness, and predictability of formal institutions (banks, courts, regulatory bodies) and informal institutions (professional networks, community capital, family finance networks) — represents the most contextually distinctive mediator proposed in this model (North, 1990; Welter, 2011). Pakistan's IMF Country Report (2024) documents a business environment characterised by 'onerous and discretionary regulatory enforcement' that undermines trust in formal institutions. The World Bank (2023) further documents significant transaction costs arising from institutional unpredictability.

In low-trust institutional environments, entrepreneurial leaders who build high levels of institutional trust — through reputation management, relationship capital with regulators, trusted banking relationships, and community embeddedness — acquire a resource that directly reduces transaction costs, improves credit access, and creates stakeholder networks that support firm performance. Welter (2011) argues that contextualising entrepreneurship requires recognising how trust-based informal institutions substitute for absent or dysfunctional formal ones — a mechanism uniquely relevant to Pakistani SMEs operating in institutional voids (Khanna & Palepu, 2010).

2. Theoretical Framework

2.1 Resource-Based View (RBV)

The Resource-Based View (Barney, 1991) conceptualises the firm as a bundle of valuable, rare, inimitable, and non-substitutable (VRIN) resources and capabilities that generate sustained competitive advantage. In Pakistan's SME context, where financial capital, advanced technology, and human capital resources are structurally scarce, entrepreneurial leadership constitutes a VRIN dynamic capability — enabling firms to acquire, configure, and deploy limited resources more effectively than competitors through superior opportunity recognition and stakeholder mobilisation. The RBV grounds the primary EL-performance hypothesis (H1) and provides the logic for why EL generates sustained advantages when formal institutional supports are absent.

2.2 Institutional Theory

North's (1990) institutional theory — formalised for entrepreneurship contexts by Scott (1995) and Bruton et al. (2010) — posits that the institutional environment shapes entrepreneurial behaviour and outcomes through regulative, normative, and cognitive pillars. Pakistan's institutional environment scores below median on all three pillars: weak property rights protection, informal norms of patronage and relationship-based contracting, and pervasive uncertainty about regulatory enforcement (World Bank, 2023; IMF, 2024). This institutional context creates distinct incentive structures for Pakistani entrepreneurs — in particular, elevating the strategic importance of institutional trust-building behaviours that reduce exposure to institutional unpredictability.

2.3 Upper Echelons Theory

Hambrick and Mason's (1984) Upper Echelons Theory posits that organisational outcomes reflect the values, experiences, and cognitive frames of the dominant top management coalition. In owner-managed Pakistani SMEs — where the entrepreneur is typically the sole strategic decision-maker — upper echelons theory provides the individual-level grounding for the model: the entrepreneur's leadership style directly shapes the firm's innovation capability accumulation strategy, resilience investment decisions, and institutional relationship-building behaviours that together determine performance outcomes.

Theoretical integration: The three theoretical lenses are complementary and non-redundant. RBV explains WHY EL generates performance advantages (through VRIN capability logic). Institutional theory explains WHAT CONTEXT shapes the EL-performance mechanisms (Pakistan's institutional environment). Upper Echelons theory explains HOW the entrepreneur's individual leadership style translates into firm-level capabilities and outcomes.

Conceptual Model and Hypotheses

2.4 The Conceptual Model

The proposed model (Figure 1) posits that entrepreneurial leadership (EL) influences SME performance through three context-specific mediating pathways. EL is measured using the ENTRELEAD scale (Renko et al., 2015); SME performance is operationalised as a composite of financial performance (revenue growth, profitability) and non-financial performance (employee retention, customer satisfaction, reputation). The three mediators are proposed as distinct but potentially correlated pathways, each grounded in the theoretical frameworks developed in Section 3.

| Construct | Operationalisation | Scale | Source |
|---------------------------------|--|--|-----------------------------|
| Entrepreneurial Leadership (IV) | Leader behaviours of opportunity recognition, resource mobilisation, and entrepreneurial motivation of followers | ENTRELEAD — 13 items, 7-pt Likert | Renko et al. (2015) |
| Innovation Capability (M1) | Product, process, and market innovation orientation and output | Wang & Ahmed (2007) IC Scale — 12 items, 5-pt Likert | Wang & Ahmed (2007) |
| Organisational Resilience (M2) | Absorptive capacity, adaptive response, and recovery orientation | Lengnick-Hall et al. (2011) — 8 items, 5-pt Likert | Lengnick-Hall et al. (2011) |
| Institutional Trust (M3) | Trust in formal institutions (banks, courts, regulators) and informal institutions (networks, family capital) | Adapted from Welter (2011) — 10 items | Welter (2011), adapted |
| SME Performance (DV) | Financial: revenue growth, profitability; Non-financial: retention, satisfaction, reputation | Wiklund & Shepherd (2005) — 10 items | Wiklund & Shepherd (2005) |
| Moderating Variables | Firm size (employees), industry sector, owner education, owner gender, province | Researcher-constructed — 6 items | Hair et al. (2019) |

Table 2. Construct operationalisation and measurement instruments.

2.5 Hypotheses

H1 — Direct Effect of EL on SME Performance

Building on the Resource-Based View and consistent with Rehman et al. (2025), who found EL accounted for 15.8% of the variance in entrepreneurial success in Pakistani SMEs, we

hypothesise:

H1: Entrepreneurial leadership has a significant positive direct effect on SME performance (financial and non-financial) in Pakistani manufacturing and services SMEs.

H2 — Innovation Capability as Mediator

Following Taleb et al. (2023) and Arshad et al. (2024), who established innovation capability and orientation as significant mediators of the EL-performance relationship, and grounding this in the RBV's emphasis on capability development as the mechanism of competitive advantage, we hypothesise:

H2: Innovation capability positively mediates the relationship between entrepreneurial leadership and SME performance, such that EL increases performance by first building the firm's capacity for product, process, and market innovation.

H3 — Organisational Resilience as Mediator

Drawing on Lengnick-Hall et al. (2011) and the Springer (2026) review linking leadership to resilience in SMEs, and given the unique frequency of environmental shocks in Pakistan's institutional context, we hypothesise:

H3: Organisational resilience positively mediates the relationship between entrepreneurial leadership and SME performance, such that EL improves performance by first building the firm's capacity to absorb, adapt to, and recover from environmental disruptions.

H4 — Institutional Trust as Mediator

Grounded in North's (1990) institutional theory and Welter's (2011) contextualisation framework — and motivated by Pakistan's documented institutional trust deficit (World Bank, 2023; IMF, 2024) — we hypothesise:

H4: Institutional trust positively mediates the relationship between entrepreneurial leadership and SME performance, with stronger mediation effects in institutional environments characterised by lower formal institutional quality.

H5 — Moderating Role of Context Variables

Consistent with Choudhary and Shahid's (2025) finding that contextual factors create differential EL-performance mechanisms across economies, and building on Rehman et al.'s (2025) finding that team diversity substantially moderates the EL-success relationship, we hypothesise:

H5: The EL-SME performance relationship (direct and mediated) is significantly moderated by firm size, industry sector (manufacturing vs. services vs. trade), province, and owner educational attainment.

Proposed Empirical Research Design

2.6 Research Philosophy and Design

This study adopts a **pragmatist research philosophy** and a **sequential explanatory mixed-methods design**. The quantitative phase (Phase 1) establishes the statistical relationships between EL, the three proposed mediators, and SME performance across a multi-provincial sample. The qualitative phase (Phase 2) explains the mechanisms and context conditions behind these relationships through semi-structured interviews with entrepreneurial leaders, capturing lived experience that survey instruments cannot adequately measure.

2.7 Sampling Strategy

The target population comprises owner-managers and senior leaders of SMEDA-registered SMEs across Pakistan's four provinces. Following Hair et al. (2019) guidelines for PLS-SEM (minimum 100 cases; 10 times the maximum structural paths pointing at any construct), this study targets **350–400 completed questionnaires** to ensure adequate statistical power for five-variable moderation testing. Stratified purposive sampling will be used for Phase 1, with snowball sampling supplementing access in Balochistan and KPK where SME registries are incomplete.

| Province | Target n | Primary SME Sectors | Sampling Approach |
|--------------------|----------|---|----------------------------|
| Punjab | 140–160 | Textiles, manufacturing, agri-processing, sports goods | SMEDA registry + purposive |
| Sindh | 100–120 | Trading, services, pharmaceuticals, light manufacturing | SMEDA registry + purposive |
| Khyber Pakhtunkhwa | 60–70 | Agriculture, crafts, services, marble/gems | Convenience + snowball |
| Balochistan | 40–50 | Resource-based, mining, agriculture, livestock | Convenience + snowball |

Table 3. Provincial sampling strategy and target distribution.

2.8 Quantitative Analysis: PLS-SEM

Partial Least Squares Structural Equation Modelling (PLS-SEM) using SmartPLS 4.0 is selected as the primary analysis technique for three reasons. First, PLS-SEM is appropriate for theory development and testing in nascent research areas (Hair et al., 2019) — consistent with the early-stage nature of EL research in Pakistan. Second, PLS-SEM performs reliably with non-normal data distributions, which characterise self-reported SME data. Third, PLS-SEM is the dominant method in the EL-performance literature (Rehman et al., 2025; Arshad et al., 2024; Bulletin of Business Economics, 2023), facilitating direct comparability.

Measurement model assessment will follow the two-step approach of Anderson and Gerbing (1988). Convergent validity will be assessed through Average Variance Extracted (AVE \geq 0.50) and composite reliability (CR \geq 0.70). Discriminant validity will be assessed using the Heterotrait-Monotrait (HTMT) ratio criterion (HTMT < 0.85). Common method bias will be assessed using Harman's single factor test and the common latent factor approach.

Structural model assessment will employ bootstrapping with 5,000 resamples to test hypotheses H1–H4. Mediation analysis will follow Hayes' (2018) PROCESS macro approach with 95% bias-corrected confidence intervals; indirect effects are significant if the confidence interval excludes zero. Moderation testing (H5) will employ interaction terms with floodlight analysis (Johnson-Neyman technique) to identify significance regions for continuous moderators.

2.9 Qualitative Phase

Phase 2 will consist of 25–30 semi-structured interviews with entrepreneurial leaders purposively selected from Phase 1 respondents to represent the full range of EL scores, performance levels, provincial contexts, and industry sectors. Interviews (60–90 minutes each) will be conducted in Urdu and/or English, audio-recorded with participant consent, and transcribed using NVivo 14's automated transcription feature. Thematic analysis (Braun & Clarke, 2006) will be applied iteratively, with member-checking validation to ensure trustworthiness of qualitative interpretations.

2.10 Validity and Reliability Criteria

| Criterion | Measure | Threshold | Assessment Method |
|-----------------------------|-------------------------------------|---------------|---------------------------|
| Convergent validity | Average Variance Extracted (AVE) | □ 0.50 | SmartPLS — outer loadings |
| Internal consistency | Composite Reliability (CR) | □ 0.70 | SmartPLS — reliability |
| Discriminant validity | HTMT ratio | < 0.85 | SmartPLS — HTMT |
| Common method bias | Harman single factor test | < 50% | SPSS factor analysis |
| Mediation significance | Indirect effect CI | Excludes zero | Bootstrap 5,000 resamples |
| Qualitative trustworthiness | Member-checking + thick description | Audit trail | NVivo + interview notes |

Table 4. Validity and reliability assessment criteria.

3. Expected Contributions and Implications

3.1 Theoretical Contributions

This paper makes three theoretical contributions to the EL and SME performance literatures. **First**, it develops the first multi-mediation EL-performance model specifically grounded in Pakistan's institutional context — directly responding to Choudhary and Shahid's (2025) finding that Western mediation models do not transfer to Pakistan and providing theoretically grounded alternative mediators for testing. **Second**, it introduces institutional trust as an understudied mediating construct in the EL-performance nexus. While institutional trust has been studied as a contextual variable in entrepreneurship research (Welter, 2011; Bruton et al., 2010), its role as a mediator — as a resource that entrepreneurial leaders actively cultivate and that, once cultivated, reduces transaction costs and improves performance — has not been theorised or tested. **Third**, the paper integrates three established theoretical frameworks — RBV, Institutional Theory, and Upper Echelons Theory — into a coherent, non-redundant explanatory structure for EL-performance mechanisms in developing economies.

3.2 Practical Implications

For Pakistani SME owners and entrepreneur-leaders, the model suggests three leadership investment priorities: (1) deliberate development of organisational innovation capability through modelling opportunity-seeking behaviour, tolerating experimental failure, and allocating resources to process improvement even under financial constraint; (2) proactive resilience-building through scenario planning, cash reserve discipline, and cross-trained workforce development; and (3) systematic institutional trust cultivation through consistent regulatory compliance, transparent banking relationships, and professional association engagement that builds credibility with formal institutional actors.

For SMEDA policymakers, the model's institutional trust mediator has direct implications for enterprise support programme design. Programmes that improve formal institutional quality (simplified regulatory procedures, faster dispute resolution, consistent enforcement) should amplify the EL-performance relationship by increasing the returns on institutional trust-building behaviours. Similarly, SBP's SME financial inclusion strategy would benefit from considering how credit products designed for institutionally trusted SME leaders — those with verified track records of regulatory compliance and network-verified reputations — could improve credit allocation efficiency.

3.3 Limitations and Future Research Directions

Several limitations of the proposed research design should be acknowledged. First, the reliance on self-reported survey data creates potential common method bias — mitigated but not eliminated by procedural controls. Second, the convenience and snowball sampling approach in KPK and Balochistan limits the representativeness of findings for these provinces. Third, cross-provincial generalisability requires replication studies in additional developing-economy contexts (Bangladesh, Nigeria, Vietnam) to establish boundary conditions for the theoretical model.

Future research should examine the temporal dynamics of the model — how the three mediating pathways change over the SME lifecycle (startup, growth, maturity) — using longitudinal data designs. The role of gender in EL behaviours among Pakistani entrepreneurs is an understudied moderator given the structural barriers to female entrepreneurship in Pakistan's social context. Finally, the proposed institutional trust mediator warrants development of a psychometrically validated Pakistan-specific scale, as existing instruments were developed in Western contexts and may not capture the informal institution dynamics most relevant to Pakistan's SME sector.

4. Conclusion

Pakistan's SME sector — encompassing over 5.2 million enterprises, employing 78% of the non-agricultural workforce, and generating more than 40% of GDP — faces a leadership crisis that neither capital injection nor regulatory reform can fully address without understanding how entrepreneurial leadership translates into firm performance in this specific institutional context. The landmark finding by Choudhary and Shahid (2025) that Western EL-performance mediation models do not hold in Pakistan is not a dead end — it is a research mandate.

This paper responds to that mandate by developing a theoretically grounded, empirically testable multi-mediation model in which entrepreneurial leadership influences Pakistani SME performance through three context-specific pathways: innovation capability, organisational resilience, and — crucially — institutional trust. The model integrates Resource-Based View, Institutional Theory, and Upper Echelons Theory to provide a coherent, non-redundant explanatory architecture. Five testable hypotheses and a rigorous mixed-methods research design are proposed.

The implications extend beyond Pakistan. As Rehman et al. (2025) demonstrate, and as the broader EL meta-analytic literature confirms, context matters profoundly in how leadership translates into entrepreneurial success. This paper contributes a theoretical model and empirical design for understanding that context-dependence — a contribution with relevance for any developing-economy researcher seeking to understand when and how entrepreneurial leadership generates the firm-level performance outcomes on which economic development depends.

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