ACADEMIA International Journal for Social Sciences
Volume 4, Issue 3, 2025 ISSN-L (Online): 3006-6638

Effect of Transformational Leadership and Employee Empowerment on Innovation Performance through Innovation Capability: Evidence from the Hospitality Sector

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Received: 09-04-2025 **Revised:** 10-05-2025 **Accepted:** 15-06-2025 **Published:** 16-07-2025

ABSTRACT

The purpose of this study is to examine the impact of transformational leadership and employee empowerment on innovation performance, with innovation capability acting as a mediating mechanism. The research aims to provide a theory-driven, context-specific understanding of how internal organizational factors foster innovation, particularly in developing countries such as Pakistan. It also seeks to contribute to the refinement of innovation theory by integrating underexplored constructs into a cohesive model grounded in the Resource-Based View. The study employed a quantitative, cross-sectional research design and used a structured questionnaire to collect data from 361 employees in Pakistan's hospitality sector. A convenience sampling technique was adopted due to accessibility constraints. The constructs were measured using validated scales, and the data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS 4.0. All three hypotheses were supported by the data. Transformational leadership had a significant positive effect on innovation capability, as did employee empowerment. Innovation capability significantly influenced innovation performance. These findings confirm the mediating role of innovation capability and reinforce the RBV perspective that intangible internal resources, such as leadership and empowerment, are critical to achieving innovation success in environments with limited external support.

Keywords: *Transformational Leadership, Employee Empowerment, Innovation Performance and Innovation Capability*

INTRODUCTION

Accelerating technological change and market dynamism, organizations increasingly recognize the critical role of internal capabilities in sustaining competitive advantage. The current discourse in organizational studies has shifted from external structural adjustments to internal capacity building, particularly focusing on intangible resources like leadership, culture, and employee potential (Al-Sabi et

al., 2023). A central issue in this scholarly debate concerns how firms can build innovation-oriented capacities that help them navigate uncertainty and drive performance. Scholars argue that innovation is no longer a discrete event or departmental function, it is a systemic organizational capability that needs to be cultivated strategically (Daspit et al., 2022). Leadership styles and human resource practices have emerged as core enablers of innovation within firms. While many organizations invest in technology and infrastructure, studies show that these efforts may fall short unless there is a parallel development of internal, human-centered mechanisms to stimulate innovative behavior. This discourse becomes even more vital in knowledge-intensive sectors and emerging economies, where structural limitations call for more effective utilization of internal resources. There is growing interest in understanding how leadership dynamics and employee involvement can be harnessed to foster an innovation capability that enhances overall innovation performance (Nguyen & Luu, 2023).

Recent literature highlights that leadership and empowerment practices are central to shaping innovation-related outcomes in organizations. For instance, transformational leadership has been associated with a culture of experimentation, intellectual stimulation, and long-term vision, factors conducive to innovation (Yazdanshenas et al., 2022). Studies have highlighted that when employees are empowered with autonomy, decision-making authority, and recognition, they tend to contribute more actively to problem-solving and ideation processes (Tuan, 2022). Moreover, innovation capability, defined as an organization's ability to continuously transform knowledge and ideas into new products or processes, has been shown to mediate the effects of internal enablers on innovation performance (Phan et al., 2023). Despite growing empirical evidence supporting these relationships, most studies have investigated these constructs in isolation or through fragmented models (Duan et al., 2023). This fragmentation leaves room for more integrative frameworks that examine how different internal drivers interact to cultivate innovation as a systemic organizational capability.

Globally, the urgency to innovate has heightened amid rapid technological disruptions, environmental pressures, and evolving customer expectations. According to the World Economic Forum (2023), firms that fail to build internal innovation capacity risk lagging behind in terms of productivity, resilience, and growth. In developing economies such as Pakistan, where industrial transformation is still unfolding, the ability to innovate internally can be a crucial lever for overcoming external limitations such as infrastructure deficits or policy instability. Locally, businesses often face challenges of resource constraints, talent retention, and leadership vacuums that stifle innovation. Moreover, a hierarchical culture in many South Asian organizations inhibits employee empowerment, which is essential for fostering creativity and agility (Khan et al., 2023). This makes it imperative to explore models that blend leadership and empowerment constructs to build innovation capability from within (Duan et al., 2023). National innovation surveys consistently rank Pakistan low in terms of innovation output, raising critical concerns for policymakers and business leaders (Global Innovation Index, 2023). Addressing these concerns requires a nuanced understanding of how organizational behaviors and capabilities influence innovation performance. Hence, investigating the synergy between leadership practices, empowerment, and innovation capability becomes a timely and contextually significant research endeavor.

Although considerable progress has been made in identifying factors that promote innovation, existing research presents several limitations that this study aims to address. Firstly, while transformational leadership and employee empowerment have individually been linked to improved innovation outcomes, the mechanisms through which they contribute to innovation capability remain insufficiently understood, especially when considered together. Most studies have explored these predictors in silos, neglecting the interactional effects that could offer more explanatory power (Daspit et al., 2022; Phan et al., 2023). There is a scarcity of research that situates innovation capability as a core mediating variable, bridging leadership and empowerment inputs with innovation performance outcomes. This limits our

understanding of how internal organizational processes convert potential into realized innovation. Empirical investigations are predominantly based in Western or high-income contexts, thereby reducing the generalizability of findings to developing countries with distinct cultural and managerial characteristics (Harsono et al., 2025). Few studies have examined these constructs within South Asian or Pakistani organizational settings, where hierarchical structures and limited autonomy may influence the dynamics under study. There is limited theory-driven integration of these constructs within a single framework, which can hinder the development of practical interventions. This study addresses these gaps by proposing an integrated model where innovation capability serves as a mediating mechanism linking transformational leadership and employee empowerment to innovation performance. In doing so, the research contributes to a more nuanced and context-sensitive understanding of how internal organizational factors shape innovation outcomes in emerging economies.

Addressing the gaps in understanding how innovation is cultivated internally holds significant academic and practical importance. Academically, such research contributes to the refinement of organizational behavior and innovation theories by revealing the pathways through which leadership and empowerment affect innovation outcomes. Practically, insights into these dynamics can guide business leaders in emerging economies to invest not only in technologies but also in building leadership cultures and empowerment systems that stimulate innovation capability. This becomes increasingly important in light of Pakistan's low innovation readiness and global competitiveness rankings (Global Innovation Index, 2023). At the policy level, the findings could inform human resource development frameworks and innovation policy strategies by identifying leverage points for internal capability development. Organizations seeking to compete in volatile and resource-scarce environments can benefit from understanding how intangible assets, such as leadership vision and employee agency, translate into innovation performance. Moreover, the study's focus on the mediating role of innovation capability offers a systems-level understanding that is often missing in linear, cause-effect models (Harsono et al., 2025). As global markets continue to evolve, especially in post-pandemic recovery phases, innovation will be critical to business continuity and sustainable development. Therefore, clarifying the internal dynamics of innovation becomes both timely and impactful.

This study contributes to existing scholarship by offering an integrated, theory-driven model that examines how transformational leadership and employee empowerment collectively influence innovation performance through innovation capability. By focusing on the Pakistani organizational context, it expands the empirical base of innovation research to a less-studied region. The study applies recent theoretical advancements to provide a holistic understanding of internal innovation dynamics, offering both scholarly insight and practical guidance for organizations striving to enhance their innovation outcomes.

The study is grounded in the Resource-Based View (RBV), which posits that organizational capabilities and resources, particularly intangible ones, are central to achieving sustained competitive advantage. By applying RBV, this study frames transformational leadership and employee empowerment as strategic internal resources that contribute to building innovation capability, an essential dynamic capability. This theoretical lens connects all the major variables and supports the logic that enhancing internal capacities leads to superior innovation performance. The findings are expected to inform leadership development programs, organizational change initiatives, and innovation policies in both academic and industry settings.

Theoretical Foundation

The theoretical underpinning of this study is rooted in the Resource-Based View (RBV), a foundational perspective in strategic management that emphasizes the internal resources and capabilities of organizations as the primary determinants of sustained competitive advantage. First described by Wernerfelt (1984) and refined by Barney (1991), RBV represented one of the paradigms shifts in the strategic theory as these authors shifted their attention away from the externally oriented strategy concept to the strategy that would focus on the internal organizational strengths (Hoang et al., 2021). Instead of viewing firms as responding in the industry, RBV asserts the existence of competitive advantage when an organization has resources that are valuable, rare, inimitable, and non-substitutable (VRIN) that are organized and combined efficiently (Barney et al., 2022).

Over the years, RBV has evolved to incorporate dynamic capabilities, those that enable organizations to adapt, renew, and reconfigure their resource base in response to environmental volatility (Teece, 2014; Wilden et al., 2023). Such an extension at concept has rendered the theory more applicable in rapidly changing and innovation-based industries, where inert assets are not the only requirements to achieve long-term success. Modern studies have also used RBV to search and investigate the possibilities of the intangible and human-centric type of resources (organizational culture, leadership, and employee cognition) (Kale et al., 2023). These aspects are becoming instrumental to innovation, learning, and adaptation where materials resources and uncertainty are characteristic. The RBV is particularly applicable in analyzing firms in the cases covered by emerging economies, which are characterized by businesses that are usually bound by the conditions that restrict exposure to external resources and markets. The internal capabilities, which are cultivated due to leadership, knowledge sharing, and empowerment, can become a key source of performance and even competitiveness in such settings (Younis et al., 2022). In contrast to outward facing theories RBV promotes a strategy of utilization of available resources within the firm and also provides a possible avenue through which resource-constrained firms may develop competitiveness. This renders RBV a very suitable and effective framework to analyze the inner organizational processes, from which innovation-related results can be facilitated.

In the context of modern organizational research, RBV remains a widely utilized and empirically validated theoretical framework. Its flexibility in different fields such as human resource management, innovation research and organization behavior depict its relevancy and explanatory capability over a long period of time. Innovation and performance can be achieved through organizational processes, intangible capabilities, and employee-focused practices as framed by the use of RBV in recent empirical research (Alrubaiee et al., 2022; Ferreira et al., 2023). The focus of the theory on the strategic assets that are internally developed are relevant to the modern business needs, where the competitive differentiator now boils down to agility, knowledge creation, and the empowerment of one. Accordingly, the Resource-Based View gives a very strong conceptual basis through which firms can develop internal capabilities that deliver the best results. It provides an integrative approach to the subject of strategic value of intangible resources and contributes to the effectiveness of the current research in investigating the role of innovation capability building partly due to the organizational leadership and empowerment practices and, consequently, the innovation performance determination in the research industry.

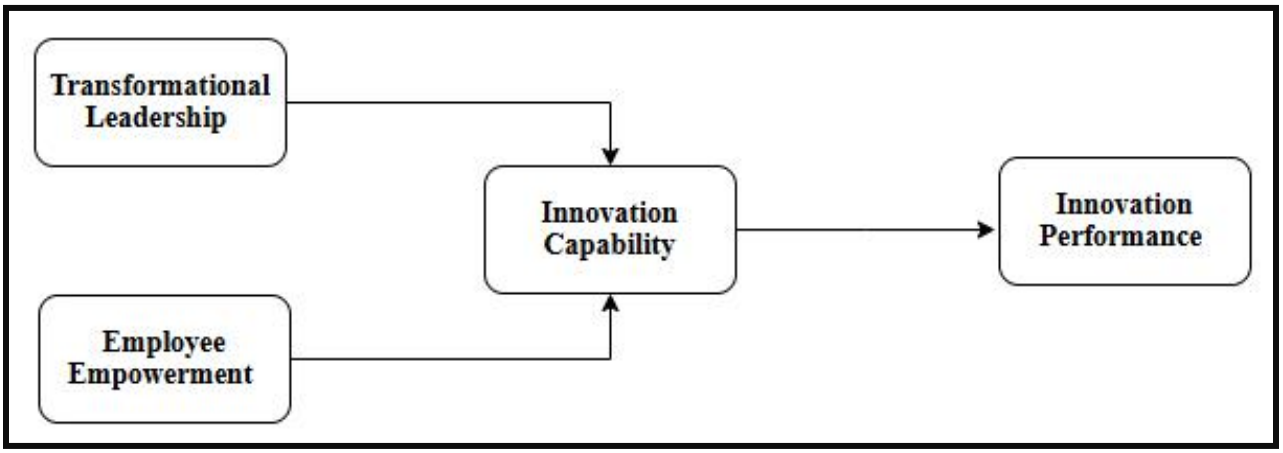

Figure 1: Research Model

Hypotheses

Leadership continues to emerge as a critical enabler of capability development. Transformational leadership has significant substantial attention due to its emphasis on inspiring vision, intellectual stimulation, and individualized support, qualities widely associated with dynamic organizational growth (Barney et al., 2022). Resource-Based View (RBV) propositions depict that such leadership is an element of strategic intangible resources that contribute to shaping and developing the firm-specific capabilities (Kale et al., 2023). Leaders may need purpose-driven and learning-based organization cultures to be a strategic resource because of the increasing rate of change where innovation is the only solution.

Transformational leaders do more than merely guide operational performance; they influence how employees perceive problems, challenge norms, and generate novel solutions. As the empirical research indicated, leaders who encourage the experimentation, are non-punitive to failures and want their employees rewarded when they are creative, play a major role in the establishment of an appropriate culture when it comes to innovation (Nguyen & Luu, 2023). Besides, in the context of innovation, transformational leadership has been attributed to innovative structures and processes, including open communication systems, collaborative working cultures, and an organizational vision (Khan & Waheed, 2022). These processes form the basis of innovation capability which is the organizational competence to absorb knowledge, transform ideas and apply them in new ways with novel results.

From the RBV perspective, innovation capability is not a static attribute but a dynamic one, dependent on how well internal resources like leadership are aligned and activated. Transformational leadership, when it is integrated in organizational practices, establishes a competitive advantage when it determines the effectiveness of the acquisition, sharing, and use of the knowledge (Ferreira et al., 2023). This is especially true within the context of developing countries when environmental constraints increase the significance of the local built capabilities. Such leadership, which provokes intellectual connection and enables creative action, may be critical to turn a strategic vision into concrete innovation capacity (Jabid et al., 2023). A mass growth of theoretical and empirical evidence advocates a positive relationship between transformational leadership and innovation ability. The true leaders who motivate, challenge and personalize their attention make the internal environment grow into a highly productive source of capability development. Basing these insights and based on RBV, a following hypothesis is postulated:

H1: Transformational leadership positively influences innovation capability.

Employee empowerment has gained recognition as a key enabler of internal capability development, particularly in innovation-driven environments. Empowerment entails giving workers the freedom to make decisions, resources, decision-making access, and professional development (Zhao et al., 2022). Through the prism of strategic management, empowerment practices in this form should be regarded as intangible organizational resources having the potential to drive capability building and enduring competitive advantage which are main concepts of the Resource-Based View (Barney et al., 2022). With business environments becoming more competitive and dynamic, with outside sources of innovation more limited or expensive, with the need to develop organizational flexibility and renewal, the ability to exploit internal human resources becomes critical in the context of organizational flexibility and innovation.

The RBV highlights that intangible assets such as knowledge, skills, and trust are often more difficult to imitate and more strategically valuable (Ferreira et al., 2023). Equipped employees have a higher chance of becoming proactive, testing new innovations, and make valuable contributions to the processes of knowledge-sharing and problem-solving. The behaviors are necessary to forming innovation capability which is defined as the ability of an organization to create, assimilate and utilize new knowledge in the advancement of new products, processes or systems (Kale et al., 2023). By provisioning empowerment, psychological ownership and commitment are definitely achieved and employees would be persuaded to regard innovation as a joint project as opposed to a task of the manager. This transformation of inactive performance of tasks to active participation in value creation is a major move. This is characteristic of the organization with capability to innovate. The positive impact of empowerment on organizational innovation is concerned, empirical studies are demonstrating this fact more and more. To illustrate, the research indicates that once allocated the space and trust to work autonomously, employees are also prone to considering more creative ways of solving a problem and help develop dynamic capabilities (Nguyen & Malik, 2022). Empowerment increases self-efficacy and instills a sense of responsibility toward the results, which coincides well with the innovativeness-friendly environments (Le & Le, 2023). Empowerment may be an antidote against the brittle hierarchy of control and may encourage innovation on the grass roots in situations where hierarchies are weak such as they exist in most developing nations. Based on these theoretical and empirical knowledge, it is to suggest that employee empowerment is very instrumental in branding an organization as innovative. The following hypothesis is proposed:

H2: Employee empowerment positively influences innovation capability.

Innovation has evolved from being a peripheral strategic choice to a central pillar of organizational success (Peng et al., 2024). Companies are becoming well aware of the fact that sustained achievements and success in the market are highly dependent on their success in evolving and advancing in continuous innovation. Nevertheless, innovation performance, which is the success belief in new products, processes or services implementation does not happen in the vacuum. It is also deeply rooted in internal ability of firms to produce, absorb as well as utilize new ideas (Ferreira et al., 2023). This internal capacity is classified conceptually as innovation capability and indicates a continuous ability of an organization to convert knowledge into value creating results.

From the perspective of the Resource-Based View (RBV), innovation capability is a dynamic, firm-specific asset that can be cultivated and deployed for sustained competitive advantage (Peng et al., 2024). Innovation capability, unlike any tangible asset, is intangible and incorporated in human capital, systems of knowledge, leadership and collaboration culture (Kale et al., 2023). It helps organizations to keep finding new opportunities to deal with changes in the environment and turn strategic intentions into

innovative solutions. Innovation capacity is further critical in resource-constrained environments such as the bulk of emerging markets, which make up for the absence of outside assistance or advanced infrastructure (Barney et al., 2022). Several studies that have been empirical, have been consistent in posing the positive relationship between the innovation capability and performance of innovation. In the literature, it is proved that the higher the innovation capacity of a firm, the newer products will be achieved, the faster time-to-market will be used, and the longer innovation will be maintained (Li et al., 2023). In addition, companies, where the processes of learning and sharing knowledge are institutionalized, will be better staffed to convert the innovative intentions into actual action (Teoh et al., 2022). The ability to innovate is not only helpful in generating ideas, but also in helping with good implementation as the two are needed in performing measurable performance (Kafetzopoulos & Gotzamani, 2022). Moreover, the RBV indicates that companies whose capabilities are unique and highly coordinated can be in a better position to deliver results, which are not easily imitable by their rivals (Sobaih et al., 2022). Sustained and guided by the capacity to innovate is innovation performance. Such theoretical positioning is further supported by the empirical evidence, which increasingly supports the role of innovation capability as the prerequisite of input of organizational innovation and its outcomes.

H3: Innovation capability positively influences innovation performance.

METHODOLOGY

This study adopted a quantitative, cross-sectional research design, appropriate for examining the structural relationships among transformational leadership, employee empowerment, innovation capability, and innovation performance at a single point in time. Such type of research as cross-sectional suited the purpose well and made it possible to obtain the perceptions and attitudes towards employees without any need of having a lot of longitudinal data. Quantitative design also focused on objectivity replicability and the statistical strengths of testing of the hypotheses that were developed as a result of Resource-Based View (RBV) framework. This study was based on a target population that was composed of employees in hospitality industry such as the hotel industry, resorts and service firms that deal in tours activities. The hospitality sector has been notable in terms of an accelerated rate of innovation and focus on the customer as a source of delivering services hence represents a significant application of study of internal innovation capabilities (Ali et al., 2022). Being dynamic and being based on the human-centered processes, the sector was a rich environment to investigate how the factors of leadership, empowerment, and innovation interact. In less developed countries, such as Pakistan, where companies are usually restricted by external factors, intrinsic strengths played a key role in strategy and this is another reason why this population was selected. The researcher adopted the convenience sampling method that facilitated the quick access of hospitality staff at different levels of an organization. Even though this non-probability technique decreased the level of generalizability, it enabled efficient and immediate data acquisition in a complicated and service-involved setting in which the use of random sampling was challenging (Etikan et al., 2016). The size of the sample was also identified and it was measured based on the Item Response Theory (IRT) which gave it a statistical ground to the concept of measurement precision. According to IRT guidelines, at least 5-20 subjects per item were deemed sufficient to provide a stable parameter estimate (DeMars, 2022). 28 items of measurement included in the tool, 560 responses of the participants were assumed to satisfy the requirements of the minimal number of the participants to provide an estimation of the parameters that are stable, and 361 responses of the respondents were received in the instrument.

Data were collected using a structured questionnaire administered both in print and through digital platforms. To test the study's conceptual model and hypotheses, SmartPLS 4.0 was used to perform

Partial Least Squares Structural Equation Modeling (PLS-SEM). PLS-SEM was appropriate for models with multiple constructs and complex relationships and was robust against violations of normality (Hair et al., 2022). This analytical approach enabled simultaneous evaluation of the measurement and structural models, ensuring methodological robustness.

Measurement of Variables

To empirically test the conceptual framework, four latent constructs were measured: Transformational Leadership, Employee Empowerment, Innovation Capability, and Innovation Performance. All items were adapted from previously validated scales and measured using a 7-point Likert scale ranging from 1 ("Strongly Disagree") to 7 ("Strongly Agree"), ensuring consistency and comparability across constructs. The academic experts examined the questionnaire before it could be deployed and the questionnaire considered the content validity and contextual relevance. It was measured as eight-items based on existing leadership scales that will be adapted to assess the main aspects inherent to the transformational leadership, such as inspirational motivation, individualized consideration, intellectual stimulation and idealized influence. Questions included, my supervisor attempts to make me think differently about troubles and, my leader conveys a strong convincing vision about the future. Employee Empowerment was evaluated in six items capturing the perceived autonomy, involvement in decisions, resources access, and clarity of roles of the employee. Survey questions such as, I am granted to make significant choices at work were the examples. Innovation Capability Four items were used to measure the capability of the organization to create, capture, and exploit new knowledge to do innovation. Examples of them are as follows, our organization is constantly changing its goods and services and Employees always contribute with new ideas to improve working process. These were items that reflected the dynamic and systemic aspect of innovation capability as stipulated in the literature. It was measured through six items that tested the results of organization in terms of new product development, process improvements and innovation of service. The examples given were, our organization is successful in applying innovative ideas and We frequently introduce new services, which are up-to-date as per needs of the customer. The measure included the frequency as well as effectiveness of the innovation effort.

DATA ANALYSIS

Table 1: Factor Loadings

Variables	Items	EE	IC	IP	TL
Employees Empowerment	**EE1**	0.852			
	EE2	0.898			
	EE3	0.869			
	EE4	0.903			
	EE5	0.836			
	EE6	0.871			
Innovation Capability	**IC2**		0.759		
	IC3		0.755		
	IC4		0.788		
	IC5		0.855		
	IC6		0.763		
	IC7		0.816		
Innovation Performance	**IP1**			0.813	
	IP2			0.817	

	IP3	0.818	
	IP4	0.855	
	IP5	0.850	
	IP6	0.780	
Transformational Leadership	**TL1**		0.893
	TL2		0.869
	TL3		0.852
	TL4		0.832
	TL5		0.870
	TL6		0.895
	TL7		0.825
	TL8		0.915

In structural equation modeling (SEM), factor loadings, also known as regression weights, reflect the strength and direction of the association between each observed item and its corresponding latent construct. They play a crucial part in assessing construct reliability and convergent validity, and they assist in identifying whether certain items sufficiently describe the theoretical construct they are supposed to view (Hair et al., 2022). The higher factor loading indicates that an item is closely related to its construct, whereas the lower loading may imply either measurement error, or lack of a good theoretical relationship. To reach a conclusion, in the exploratory studies, loadings should be equal to or above 0.40 (Henseler et al., 2022), and in confirmatory research, the level of the loadings should be greater than 0.70 or even higher to guarantee robustness of measurement and indicator reliability (Hair et al., 2022; Sarstedt et al., 2023). The observed items in current study surpassed the 0.70 bar in the four latent constructs, including Employee Empowerment, Innovation Capability, Innovation Performance, and Transformational Leadership. This satisfies the required construct representation and internal consistency. The items of the Employee Empowerment Scale produced reasonable loadings of 0.836 to 0.903 that indicate that the scale appears to measure what it is intended to measure, that is, empowerment of the hospitality workforce. In the same way, there were good proportional loadings between 0.755 and 0.855 in the Innovation Capability construct. Although items IC2 and IC3 approached the lower boundary of the confirmatory standard, they remained well above the 0.70 threshold and aligned with the construct both statistically and theoretically, supporting their retention (Kumar & Mehta, 2022). Innovation Performance indicators ranged from 0.780 to 0.855, demonstrating that each item meaningfully contributed to measuring the organization's capacity to achieve innovative outcomes. Among all constructs, Transformational Leadership showed the highest loading values, from 0.825 to 0.915, highlighting strong measurement precision and confirming the relevance of each item in capturing transformational behaviors within leadership roles. Collectively, the factor loadings affirmed the reliability and validity of the measurement model, suggesting that each construct was adequately measured through well-performing indicators, supporting the robustness of the structural model.

Table 2: Convergent Validity

	Cronbach's alpha	(rho_a)	(rho_c)	(AVE)
Employees Empowerment	0.937	0.939	0.950	0.760
Innovation Capability	0.879	0.883	0.909	0.624
Innovation Performance	0.904	0.907	0.926	0.676
Transformational Leadership	0.954	0.956	0.961	0.756

Assessing the internal consistency reliability and convergent validity of latent constructs is fundamental in evaluating the robustness of a measurement model in structural equation modeling. The most important measures of internal consistency include Cronbachs Alpha (rho A) and Composite Reliability (rho C), whereas the factor evaluating the convergent validity includes the Average Variance Extracted (AVE) (Hair et al., 2022). Generally accepted thresholds show that a Cronbach Alpha of 0.70 or more, rho_A, and rho_C, allow considering the reliability satisfactory as it means that the items in each construct consistently measure the same underlying concept (Sarstedt et al., 2023). Similarly, a value of AVE of 0.50 and above indicates that an adequate convergence validity was achieved, that is, more than 50 percent of variance of the observed indicators are included in the latent construct (Henseler et al., 2022). All constructs were equal or above these suggested thresholds. The results confirm internal reliability and validity of all constructs which imply that the measurement quality of these constructs is good making the constructs good to proceed with structural analysis.

Table 3: HTMT VALUES

	EE	IC	IP	TL
Employees Empowerment				
Innovation Capability	0.466			
Innovation Performance	0.609	0.465		
Transformational Leadership	0.575	0.436	0.614	

Discriminant validity is a crucial component of construct validity in structural equation modeling (SEM), ensuring that each latent construct is distinct and not overlapping with others conceptually or statistically. The most commonly used methods to measure discriminant validity are the Heterotrait-Monotrait ratio of correlations (HTMT) together with the Fornell-Larcker criterion. The HTMT ratio is a measure of how similar the constructs are to each-other under assessment by comparing the average correlation between different constructs with the average correlation within the same construct. More disciplined versions of the recommendations refer to the strict and more liberal levels of thresholds that should detail the discriminant validity (0.85 vs. 0.90) (Henseler et al., 2022). According to the Fornell-Larcker criterion, the square root of the AVE of any construct (in the diagonal line of the correlation matrix) is to exceed its correlation to any other construct, which means that any construct will share more variance with its indicators than with other constructs (Hair et al., 2022).

Table 4: Model Fitness Indicators

	Saturated model	Estimated model
SRMR	0.060	0.149
d_ULS	1.281	7.831
d_G	0.741	0.830
Chi-square	1523.080	1645.588
NFI	0.818	0.804

The model fit indices presented assess the adequacy of the structural model using several goodness-of-fit measures. The Standardized Root Mean Square Residual (SRMR), a key fit index, reflects the difference between observed and predicted correlations; values below 0.08 are generally acceptable (Hair et al., 2022). The saturated model SRMR of 0.060 indicates good fit, while the estimated model SRMR of 0.149 exceeds the acceptable threshold, suggesting moderate model misfit. The d_ULS and d_G values, which assess the discrepancy between empirical and model-implied matrices, are lower in the saturated model (1.281 and 0.741) than in the estimated model (7.831 and 0.830), indicating a better fit for the saturated

model. The Chi-square values are high in both models, but as chi-square is sensitive to sample size, it is interpreted cautiously. The Normed Fit Index (NFI) values of 0.818 (saturated) and 0.804 (estimated) suggest acceptable but not ideal fit, as values closer to 1.0 indicate better model performance.

Structural Equation Modelling

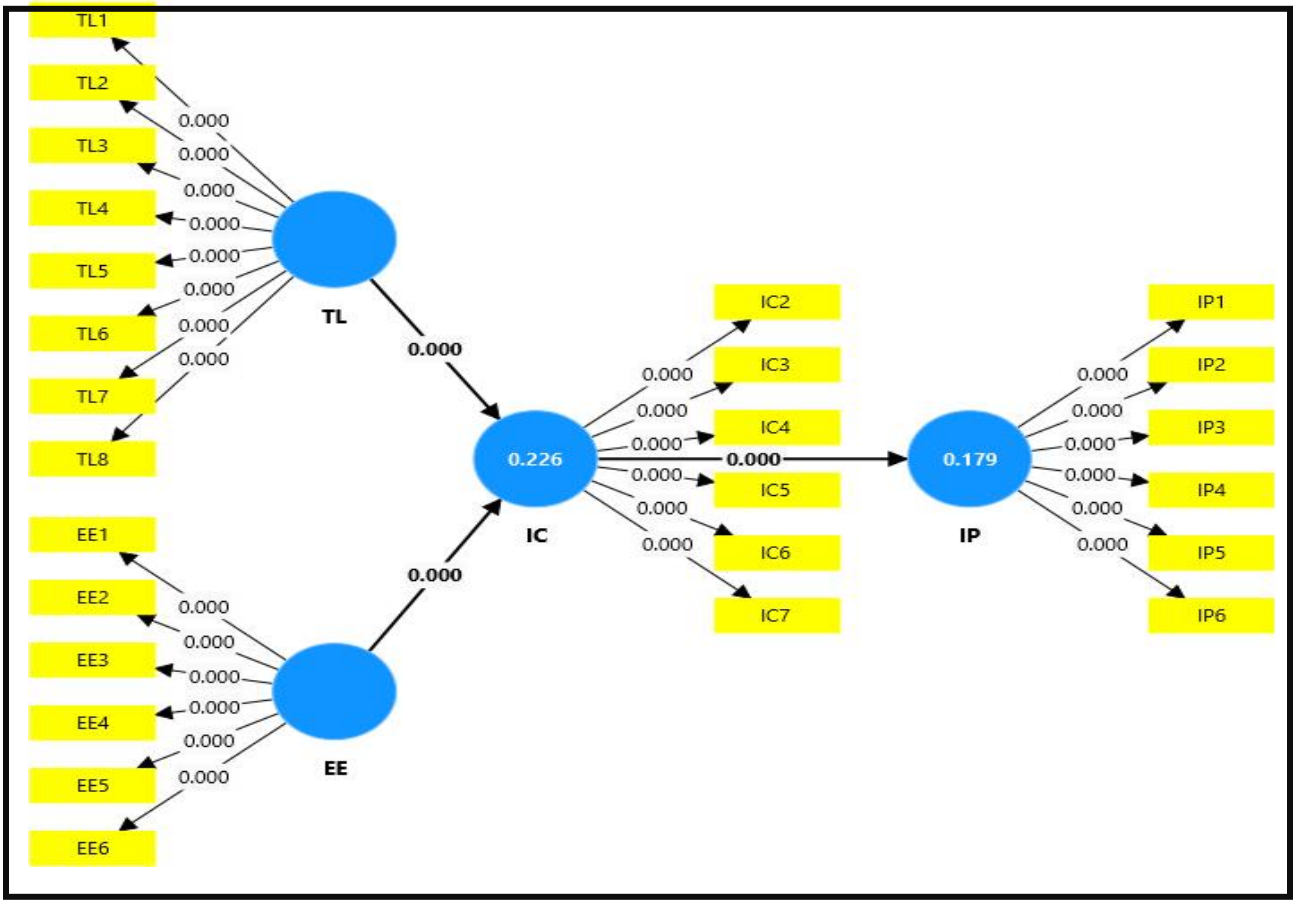

Figure 2: Hypotheses Results

Table 5: Hypotheses Results

	Original sample (O)	(M)	Standard deviation	T statistics	P values
TL -> IC	0.234	0.236	0.065	3.610	0.000
EE -> IC	0.305	0.306	0.060	5.056	0.000
IC -> IP	0.423	0.426	0.054	7.873	0.000

The results of the structural model indicate that all proposed hypotheses are statistically supported based on the significance levels, path coefficients, and t-statistics. The relationship between Employee Empowerment and Innovation Capability is significant, with a path coefficient (β) of 0.305, a t-value of 5.056, and a p-value of 0.000. These results suggest a strong and positive association, indicating that higher levels of employee empowerment are associated with increased innovation capability within the organization. The t-value exceeds the critical value of 1.96 at the 5% significance level, confirming the robustness of this relationship. The path from Innovation Capability to Innovation Performance yields a

coefficient of 0.423, with a highly significant t-value of 7.873 and a p-value of 0.000. This finding demonstrates a substantial and statistically significant impact of innovation capability on innovation performance, aligning with theoretical expectations that enhanced internal capabilities lead to improved innovation outcomes. Transformational Leadership also shows a significant positive effect on Innovation Capability, as evidenced by a path coefficient of 0.234, a t-value of 3.610, and a p-value of 0.000. The positive direction of this relationship implies that transformational leadership behaviors contribute meaningfully to developing an organization's capacity to innovate. In all three cases, the results confirm the proposed hypotheses, as the p-values fall well below the conventional threshold of 0.05, and the corresponding t-values indicate statistically significant effects. These findings collectively support the theoretical model and validate the hypothesized relationships within the context of the study.

DISCUSSION

The discussion of the hypothesis results reveals key insights into the mechanisms that enable innovation within organizations, particularly in the hospitality sector of a developing economy such as Pakistan. The positive effect of transformational leadership on innovation capability which was proposed as the first hypothesis was statistically supported. The identified outcome is in line with the theoretical backgrounds of the Resource-Based View (RBV), which envisions and embodies leadership as a resource, i.e., as an asset that is indestructible and oriented toward value in the company not the equal of firm-specific capabilities (Barney et al., 2022; Kale et al., 2023). Transformational leadership creates a culture of intellectual motivation, individualistic attention and inspirational motivation, which are factors that are associated with an innovation culture development. Previous studies confirm that this leadership does not only promote creative problem-solving practices, but it also creates the frameworks and communication channels that facilitate sharing of knowledge and team innovation (Nguyen & Luu, 2023; Khan & Waheed, 2022). Transformational leaders could become a key solution to capability development in a situation of resource limitations and hierarchical work structures, as they minimize the effects of risk resistance and promote active behavior (Jabid et al., 2023). This observation validates the fact that the use of leadership practices based on the concepts of vision and empowerment have the potential of releasing locked-up capacity within organizations that is essential in maintaining innovation.

The second hypothesis, which examined the relationship between employee empowerment and innovation capability, also received strong empirical support. This result reinforces a growing body of literature emphasizing the strategic value of empowered human capital in innovation processes (Zhao et al., 2022; Nguyen & Malik, 2022). Empowerment provides employees with the autonomy, confidence, and resources to engage actively in ideation and experimentation, leading to the emergence of innovation capability as a dynamic organizational asset. From the RBV lens, such intangible resources are not only difficult to imitate but also central to firm adaptability and long-term performance (Ferreira et al., 2023). The psychological ownership and intrinsic motivation induced by empowerment practices enhance an organization's ability to continuously learn and apply new knowledge. Particularly in developing countries, where formal innovation systems may be underdeveloped, employee empowerment offers a grassroots approach to cultivating capability from within (Le & Le, 2023). The statistically significant relationship found in this study is well justified by both theoretical logic and contextual relevance, further validating empowerment as a core component of innovation capability in service-intensive industries.

Innovation capability positively influences innovation performance, showed the strongest relationship among the tested paths. This result substantiates the core theoretical proposition of the study, namely that internal capabilities function as mediating mechanisms through which intangible resources like leadership and empowerment translate into tangible innovation outcomes. The RBV posits that dynamic capabilities

such as innovation capability are instrumental in reconfiguring existing assets and routines to meet evolving market demands (Teece, 2014; Wilden et al., 2023). Empirical studies have shown that firms with well-developed innovation capabilities outperform others in launching new products, improving services, and maintaining long-term competitiveness (Li et al., 2023; Kafetzopoulos & Gotzamani, 2022). In resource-limited settings like Pakistan, innovation capability becomes particularly critical, as it compensates for external deficiencies by leveraging internal strength (Peng et al., 2024). The significant result confirms that innovation capability is not merely a passive attribute but a strategic asset that actively shapes organizational innovation performance.

The findings from all three hypotheses support the integrated framework proposed in this study and reinforce the RBV's assertion that internally cultivated, intangible resources are central to organizational success. The statistically significant relationships among transformational leadership, employee empowerment, innovation capability, and innovation performance demonstrate a coherent pathway through which strategic human-centered practices can yield performance advantages. Importantly, the study fills a gap in existing research by validating these relationships within the context of a developing country's service sector, providing empirical evidence for theoretical assumptions that have been predominantly tested in Western settings. These results offer practical implications for managers and policymakers in emerging economies, highlighting the need to invest in leadership development and employee empowerment as means of building innovation capacity from within.

LIMITATIONS AND FUTURE DIRECTIONS

This study, while contributing valuable insights into the relationship between transformational leadership, employee empowerment, innovation capability, and innovation performance, is not without limitations that may influence the interpretation and generalizability of the findings. The use of a cross-sectional research design restricts the ability to draw causal inferences between the studied variables. While significant relationships were identified, the temporal ordering of constructs cannot be confirmed, limiting the strength of causal claims. Longitudinal or experimental designs in future studies could better establish cause-effect dynamics and offer deeper insights into how these relationships evolve over time (Hair et al., 2022). The study relied on convenience sampling within the hospitality sector in Pakistan, which may introduce selection bias and limit the representativeness of the sample. While the hospitality industry is appropriate for studying innovation dynamics due to its human-centered processes, the findings may not be generalizable to other sectors such as manufacturing, healthcare, or education, where the contextual determinants of innovation could differ significantly (Etikan et al., 2016). Future research should incorporate stratified or random sampling techniques across diverse sectors and geographical regions to enhance external validity and cross-industry comparisons. The exclusive use of self-reported data through structured questionnaires raises concerns about common method bias and social desirability effects, potentially inflating correlations among variables. Although steps were taken to ensure measurement reliability and validity, integrating multi-source data, such as supervisor ratings or organizational performance metrics, would provide a more robust and objective assessment of innovation-related outcomes (Podsakoff et al., 2003).

The scope of variables included in the study was relatively narrow, focusing primarily on two predictors (transformational leadership and employee empowerment) and one mediator (innovation capability). While these constructs are well grounded in the Resource-Based View (RBV), they do not capture the full range of organizational and environmental factors that influence innovation performance. Such concepts as organizational culture, absorptive capacity, and digital maturity are becoming accepted as the important drivers of innovation in modern literature (Kale et al., 2023; Ferreira et al., 2023). Future

research ought to think of including these factors to come up with a more inclusive model. In addition, the possible moderator variables like the organizational structure, environmental dynamism or country culture were not taken into consideration concerning this study. The above contextual factors can have serious impacts on the magnitude of association or association's direction between internal capabilities and innovation outcomes (Duan et al., 2023). As an illustration, transformational leadership may show better or worse results in promoting the innovation ability of such an organization when compared in the presence of centralized organizational structure and in the presence of decentralized organizational structure. On the same note, the effect of empowerment on innovation behaviors might be mediated by cultural factors like power-distance or uncertainty-avoidance especially in contexts that exhibit a normative structure that is hierarchy-based or is defined by a lower tolerance of uncertainty such as in the South Asian region (Khan et al., 2023).

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