

**THE ROLE OF LEADERSHIP STYLES TO PROMOTE INNOVATION: EMPIRICAL EVIDENCE FROM A DEVELOPING COUNTRY**

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**ABSTRACT**

This study investigates the role of transformational and transactional leadership for promoting innovation both directly and through absorptive capacity. Transformational leadership is measured using individualized influence (both attributed and behavioural), inspirational motivation, intellectual stimulation, and individualized consideration. Transactional leadership is conceptualized employing contingent reward and management-by-exception (active). Data has been collected using clustering sampling technique from small and medium enterprises (SMEs) of Pakistan, while Structural Equation Modelling is used for analysis. Results indicate that transformational leadership directly affects innovation and indirectly through absorptive capacity but not with transactional leadership style.

Keywords: *Transformational Leadership, Transactional Leadership, Innovation, SMEs, Absorptive Capacity*