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Transformational Leadership and Dynamic Capabilities: Key Drivers of Portfolio Success in SMEs

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Abstract

The study at hand looks at complex dynamics in Small and Medium Enterprises (SMEs) with respect to project portfolio management and locates insights in the context of the District Dera Ismail Khan (DI Khan) from the owners and managers. Building on the survey data, this study sought to respond to the important question of what matters for portfolio success and subsequently offer recommendations for improving organizational performance in portfolio management. Data were collected by using a simple random sampling technique. Results find that there is a significant positive relationship between dynamic capabilities and success in the portfolio, reflecting the organizational capability of being very adaptive and innovative. At the same time, transformational leadership has emerged as a powerful catalyst for portfolio success, focusing on the visionary role of the leader in fostering innovation and strategic alignment. In such a way, the present study fills these gaps and further empowers the knowledge within the field towards the development of evidence-based practices and strategies that will optimize the management of the SME project portfolio.

Keywords: Transformational Leadership, Dynamic Capabilities, Portfolio Success.

Background of Study

Project portfolio management PPM is a means of determining which project should be prioritized and done first, second, third... (Cooper et al., 2001; Martinsuo, 2013). Given the challenges of the present and future work environment, project portfolio management has to be flexible for today's managers (Roeth et al., 2019; Kock & Gemünden, 2016). Therefore, according to Kester et al. (2014), performance of project portfolio depends

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on the ability of the portfolio to change. The quick reallocation of resources to initiatives with a higher chance of success is made possible through portfolio management. The research of portfolio agility has grown over the last 10 years (Kock & Gemünden, 2016), but PPM has paid little attention to the processual factors that contribute to portfolio agility. Businesses may find it difficult to stay adaptable while also making sure that their portfolio is strategically aligned and that they are using their resources as effectively as possible (Muruganandan et al., 2022).

To remain competitive in the challenging economic climate, organizations must adapt to the ever-changing and often contradictory needs of their clientele. As a result, efforts are being made to create novel strategies for enhancing project performance (Kissi et al., 2009; Koch and Bendixen, 2005). Few studies have specifically looked at behavior within project organizations, despite the fact that evidence indicates behavioral issues have a considerable impact on project success (Tuuli & Rowlinson, 2009). Efficiency has always been the main focus of study (Muller & Turner, 2007). It is well known that leadership behavior affects creativity and productivity in the workplace, with transformational leadership receiving particular attention (Yang et al., 2010b; Keegan & Den Hartog, 2004). However, prior studies have mostly focused on analyzing how transformational leadership affects organizational performance via the analysis of project managers or senior management (Jung et al., 2003, 2008; Sarros et al., 2008).

Project portfolio management (PPM) has previously been studied, and PPM research has shown that PPM is a dynamic skill (Kock & Gemünden, 2016; Killen & Hunt, 2010; Petit, 2012). Nevertheless, Daniel et al. (2014) argue that we need to comprehend dynamic capabilities in PPM more thoroughly, especially when they are viewed as second-order capabilities. However, there have only been a few quantitative studies that directly operationalize these capacities in the context of PPM (Killen &Hunt, 2010; Kock & Gemünden, 2016).

Another aspect which is not well researched is the processes that moderate the relationship between dynamic capacities and performance results in PPM. Researchers have pointed out that there is a requirement to study these mechanisims to discover how dynamic capabilities influence

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portfolio flexibility and performance (Wilden et al., 2013; Schilke et al., 2018). The empirical study can make a contribution to the clarification of the various facets of dynamic capabilities as they are central to the composition of a company's portfolio and central to achieving a workable balance between flexibility and efficiency (Hoffmann et al., 2020).

Another challenge that has received little focus is expectations about the way whereby dynamic capabilities impact performance results Of particular interest to PPM is a further exploration of the practice patterns that determine dynamic capabilities. For instance, there is the need to understand how certain specific persons, for example, project managers matter in relation to development or increases in adaptive capacities (Bechtel et al., 2023). Furthermore, many studies (Helfat et al., 2009; Söderlund, 2008) have stressed that learning happens systematically in PPM and that the capacities are evolving. However, the process of building dynamic capacities and factors defining the portfolio success has not been widely discussed in the literature.

Secondly, there is no research for how transformative leadership impacts dynamism of the development of dynamic capability talents and how they are connected to portfolio success. There is a considerable agreement that, via promoting change, transformational leadership plays a critical role in innovation (Wamalwa, 2022). Some research questions may be useful for getting this knowledge, such as: The aspects of sensing, seizing and reconfiguring dynamic capacities and the effects of project portfolio agility. This research attempts to address these gaps by using empirical analysis to examine the association between dynamic capabilities, portfolio agility, and portfolio success while controlling for transformative leadership. Petit's (2012) dynamic PPM approach is in harmony with Teece's (2007) theoretical framework of dynamic capabilities. As pointed out by Bechtel, et al. (2023), more efforts should be directed to research on the microfoundation of adaptability and leadership philosophies that support them. Through a dynamic PPM process, decision makers and portfolio managers are in a position to effectively manage their project portfolios and therefore change them as they are advised by the identified dynamics above. So study aims to investigate that

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How does transformational leadership significantly improve project portfolio success and to what extant this relationship mediated by dynamic capabilities? Thus, by answering these research questions, this study advances current literature and body of knowledge. First of all, it will allow us to widen our knowledge regarding dynamic capabilities, portfolio agility through the presentation of how these three notions are interconnected (Hoonsopon & Puriwat, 2019; Kaufmann et al., 2020). For this reason, this study aims at providing empirical evidence of the extent to which dynamic skills, a second order concept, influence portfolio agility in an effort to enhance the portfolio performance. Second, this study has offered a richer picture of what constitutes dynamic capacities than prior research has (Bitencourt et al., 2020; Leiringer & Zhang, 2021; Fainshmidt et al., 2016), which has tendency to view dynamic capabilities as one dimension. This study brought out an understanding of the relationship between the three aspects of capacity dynamics; perception, acquisition and modification. With these variables, their interaction has emerged with resulting impacts on portfolio success. In addition, this research pinpoint the crucial role of the external environment on the project portfolio decision and the importance of the dynamic capabilities for the corresponding internal and external changes (Killen et al., 2012; Martinsuo & Geraldi, 2020).

The ability to identify internal and external environmental factors will be even more relevant since to maintain the levels of performance portfolios will have to change in response to new conditions in the market situation. This is why the focus on SMEs, an aspect which still lacks adequate coverage in the existing studies of dynamic capabilities and portfolio management, this study is meaningful. Therefore, this project shall meet a research need by undertaking an examination of the relevance and performance of dynamic capabilities within the SME sector. Additionally, it will provide insightful information on how SMEs may leverage dynamic capabilities to enhance portfolio performance. Understanding the association between dynamic capabilities, portfolio agility, and portfolio performance might have practical consequences for SME managers and decision-makers who confront particular problems such fewer resources and higher exposure to market uncertainty (Bechtel et al., 2023). This research filled a gap in the literature by providing empirical evidence for

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the relationship between dynamic capabilities, portfolio agility, and portfolio performance in small and medium-sized enterprises. It has provided a nuanced understanding of the various facets of dynamic capacities and stress their importance in responding to ever-shifting internal and external environments. Both academics and practitioners can benefit from this study because of its attention on SMEs and its practical implications.

Theoretical Perspective

Dynamic capabilities theory Teece et al. (1997) is selected for the present paper due to its' emphasis on the concept of an organization's ability to detect change, take opportunity and finally to manage an organizational change. According to the theory of dynamic capability, it is relatively easier for the firms to search and sense new opportunities, to initiate new activities without much delay, and gain exponential improvement amid highly dynamic settings (Teece et al., 1997; Helfat & Peteraf, 2009). The theory identifies three core elements: They identified three key strategic activities namely; sensing, which involves identifying new opportunities and metropolitan changes inside and outside the organization; seizing, which involves capturing the opportunities and utilizing resources strategically; and reconfiguration, which involves making structural adjustments to address demands and risks of another shift. Indeed, reviewing literature in the light of current studies it leads to a conclusion that dynamic capabilities do affect organizational performance affirmatively. Eisenhardt and Martin (2000) used them to show how firms can dynamics on increase in technology and gain better markets. The effect of dynamic capabilities on project performance: A systematic review Kock and Gemünden (2016) The concept of portfolio agility has been highlighted in Hoffmann et al. (2020).

The following paper integrates transformational leadership and dynamic capabilities for the purpose of studying the effects the two concepts have on portfolio delivery. Being focused on the relationship between leadership and dynamic capabilities, it is intended to advance the knowledge of extending organisational flexibility and efficiency within the context of uncertain environments. Dynamic capabilities also play an important role in creating innovation and sustaining competitive advantage

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in conditions of high uncertainty. Contrary to this, Zahra et al. (2006) opine that dynamic capabilities are all about the processes of seeking out for such opportunities and the capability which enables firms to efficiently manage existing resources mainly for the purpose of sustaining accumulation. According to Teece (2018), these capabilities are of particular importance to firms in industries that are characterized by technological dynamics and market disruptiveness. Wang & Ahmed (2007) commented that dynamic capabilities are crucial for strategic renovation, which enabled organizations to adapt their asset stock and to sustain strategic-fit in dynamic contexts. When discussing project portfolios, organizations with high degrees of dynamic capabilities do not only deliver better returns on project performance, but they also can respond to external changes better than others (Patanakul & Shenhar, 2012). In this regard, the research integrates these insights and highlights the importance of dynamic capabilities when operating in complex and evolving business environments.

Relationship between Transformational Leadership and Project Success

The literature on leadership is vast, but empirical studies focusing on leadership in project management settings are few (Turner and Müller, 2005; Söderlund, 2011; Tyssen et al., 2013). Sohmen (2013) cites the Full-range Leadership Theory as having a significant influence among prominent theories of leadership. This theory combines the transformational, transactional, and the passive management styles. However, Gundersen et al (2012) asserted that organizational culture of project-oriented businesses may benefit significantly from adopting the type of leadership that is transformational in nature. According to more recent research, there are four foundations for transformatory leadership: caregiver treatment, cognition challenge, exemplary appeal, and individualized regard.

Idealized influence involves behaviours that create strong emotional feelings for and with the leader and or followers. Inspirational subordination takes place when some key assignments are assigned by the leaders and inspiring appeals are launched indicating higher standards of performance expected from subordinates. Education refers to the processes that enable increase followers' understanding of issues and nurture the development of innovative and innovative solutions. What is more,

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individualized consideration implies helping, stimulating and guiding followers specifically and personally (Lindgren & Packendorff, 2009).

Subsequent research states that effects of transformational leadership are profoundly significant when it comes to organizational effectiveness, and general and project performance (Yang et al., 2010; Anantatmula, 2010). Still very limited is research on leadership in project settings and it is quite plausible that the dynamics of transformational leadership in project structures is different from that in permanent organizations (Turner & Muller, 2005; Den Hartog & Keegan, 2004). For that, literature acknowledges that project managers' activity is key in improving the rate of project success (A enabling factor). Consequently, everyone who gets motivated by the transformational leaders will be willing to go the extra mile in their work. They also encourage good workplace relations This is so because; (Sohmen, 2013).

According to research, transformational leadership has a considerable impact on a variety of workplace outcomes, including project performance (Anantatmula, 2010; Yang et al., 2010). But there is still a lack of complexity in the studies on project leadership (Turner and Müller, 2005). The impact of transformational leadership might differ depends on whether an organization is permanent or project-based (Keegan & Den Hartog 2004). According to the research, having appropriate project managers is essential to having high project success rates (Zwikael & Unger-Aviram, 2010). As to Sohmen's (2013) findings, transformational leaders motivate and empower their subordinates to surpass expectations and establish beneficial career relationships. These project managers put a high importance on their employees' ability to develop self-management or self-leadership abilities, promote greater team cohesiveness and understanding, and allow the free and unrestrained flow of ideas and analytical points of view inside project teams. According to Burke et al. (2006), this approach cultivates a culture in which team members are always driven to achieve project success. Hence we hypothesized that:

Hypothesis H1: Transformational Leadership Positively influence Portfolio Success

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Mediating role of Dynamic Capabilities

For improving the understanding of the relationships between dynamic capabilities and transformational leadership and consequences for business performance, we needs a clear comprehension of what dynamic capabilities are. He and others Teece et al. (1997) explain dynamic capabilities as resource that are capable of being altered as a way of accommodating changing environment. The presence of these capabilities is vital for maintaining competitive longevity in uncertain and unstable business sectors (Hunt & Morgan, 2000). Dynamic capabilities refer to a firm's capacity for strategic maneuvering that enables an organization to take action within an environment of volatility and increase its resource orchestration ability based onequalsIgnoreCase(Teece, 2007). In Turn, dynamic capabilities are complex and well-anchored within organizational activities and thus have unique paths, which few observers can identify. Sensing is the first step that defines an organisations' aptitude to measure its surrounds with a view to discovering opportunities. This calls for proper analysis of product lines to be produced in line with the customer demands and constant examination of the macro environment (Franco et al., 2021). Organizations also need to devote resources to innovation processes that are backed up by senior management championing change. Without the above, companies can easily find themselves at the losing end (Teece, 2007).

The reconfiguration phase is highly significant because of environmental changes, which necessitate the incorporation of new and old techniques in delivering improved performance. This phase may mean unbundling business strategies or shifting of capital (Capron et al., 1998). In as much as designing and building dynamic capabilities requires the recognition of managers and leadership roles. Cognitive frames evident in managers' perception of environments directly influence organisational management of change (Ambrosini et al., 2009). Also, awareness of managers contributes significantly when undertaking resource updates because it is constructed dependant on the perception that the manager has on the context and resources in organization (Helfat et al., 2009). The final key area that has to do with top management commitment is critical for developing dynamic capabilities. Proactive behavior, as well as increase in employees' motivation, is important during transition and that is why

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transformational leadership plays an important role during the process. The above leadership style creates organizational commitment since it positions the employees in a way that supports the organizations' values, mission, and objectives as noted by Yılmaz Kozcu & Özmen in 2021. Transforming leaders foster cooperation, work for the company's objectives, and promote change (Antonakis and Day, 2018). Transformational leadership is also noticeable in teams enabling high-performing work settings since members' personalities enhance the leader's strengths (Junquera & Brío, 2017; Afsar et al., 2017). Cross-sectional mediation studies indicate that social processes and work perceptions mediate main effects of transformational leadership on organizational results (Ng & Sears, 2012; Hernandez-Spalardo et al., 2018). Additionally, regulatory focus theory explains how people's goals—desired self-regulation or prevention motivation—defines their innovation approach (Tung & Yu, 2016; Lai et al., 2018).

Not only do leaders affect dynamic capabilities with respect to collaboration in and sharing and synchronization of information among teams. These activities improve innovation and adaptation profile of the organization. Organic growth activities, such as market research, new customer development, and technology evaluation are other strategic activities which transformational leaders seek to undertake for sustainable growth (Bryant, 2003; Teece, 2007). In this case, these leaders develop cultures where critical and creative thinking prevails in an organization and come up with innovative ideas and strategies against the status quo (Hamstra et al., 2014). Hence we hypothesized that:

Hypothesis H2: Dynamic Capabilities significantly mediates the relationship between Transformational Leadership and Portfolio Success

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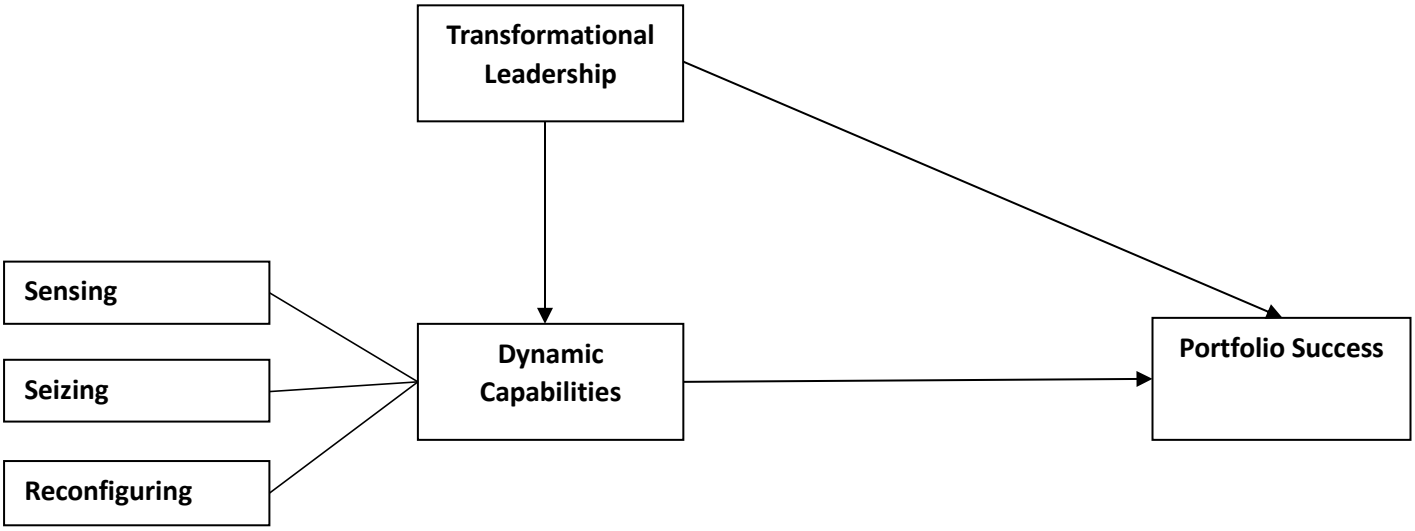

Conceptual Framework

Methods

The research method for this study encompasses the broad plan of data gathering and analysis of the variables singled out in the research issue. Thus, a survey design approach was used maintaining reliability by distributing questionnaires to collect the data. It also made it easier to systematically address the research problem of the study. The study incorporated both frequency tables and statistical inferences. Quantitative data about the sample was presented and analysed through descriptive statistics, while quantitative data between groups was analyzed for relationship /connections through inferential statistics.

The study focused on the managers of small and medium enterprises (SMEs) where employees, revenues and market shares are limited to less than 100, low and low-middle respectively. These business acted as a framework through which to analyze how transformational leadership and dynamic skills affect the achievement of a project portfolio. The research collected data from managers/owners of SMEs in Dera Ismail Khan, who made the overall population of the study 1135. To make it easy for all the people to get an equal chance to participate, simple random sampling method was used. The sample size targeted quantitative sufficiency and relevance with regard to characteristics such as confidence interval and population standard deviation. The recommendation to have sample sizes

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at least ten times the total number of variables measured was used to identify 512 managers and owners.

The study employed several data collection instruments to measure variables and gather relevant data: Turkey Self-assessment of leadership styles was measured by using the Multi-Factor Leadership Questionnaire (MLQ) consisting of 36 items developed by Hinkin and Schriesheim (2008). The modified version with more internal homogeneity, proposed by Tyssen et al., 2014 and Doeleman et al., 2012 measured transformational, transactional and passive leadership. There were thirteen questions unique to transformational leadership on a Likert scale from 1 Strongly Disagree to 7 Strongly Agree. Dynamic Capabilities: Building on Pettit's (2012) work to the PPM context, this research adopted the sensing, seizing, and reconfiguring dimensions originally proposed for dynamic capabilities by Teece (2007). Portfolio Success: A five factor construct assessed portfolio success Kaufmann et al., 2021); Kock et al., 2015); Jonas et al., 2013). It included: This approach was employed in the study because Smart PLS has been proven to be more reliable in social science study. The study used cross-sectional designs since it was important to examine the relationship between these variables at any one given time. Screening of Data dealt with unsuitability of data by eliminating any variable such as multicollinearity as Tolerance and Variance Inflation Factor, VIF analysis testified here. To assess a low multicollinearity there was a tolerance close to the value of one, or VIF below the recommended value of 5.0 by Hair et al. (2006). This approach made it easier to be sure that the data collected was credible and so were the conclusions.

Results

Table 4.1: Data Normality Statistics

	Descriptive Statistics						
	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
TL	512	5.4980	.91952	-2.247	.108	2.321	.215
DC	512	5.4581	.94561	-1.968	.108	2.026	.215
PS	512	5.6310	.91483	-2.320	.108	1.464	.216

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Valid N (listwise)	512

The skewness values of the variables TL (-2.247), DC (-1.968), and PS (-2.320) are closer to +3 to -3, which is quite acceptable, as it depicts an approximately symmetric distribution. In this respect, concerning Kjson, the values of TL (2.321), DC (2.026), and PS (1.464) also fall within an acceptable range of +3 to -3 (Field 2009). These karonite values establish both as mesokurtic, with moderate peakedness compared to a normal distribution. In brief, with the values of kurtosis skewness and kurtosis k residing between a bound of +3 to -3, then it will be safe to make an inference that the variables TL, PA, DC, and PS have a relatively normal distribution while they show moderate symmetry and moderate peakedness.

Table 4.2: Measurement Model

Items	**VIF**	**Loadings**	**AVE**	**CR**	***Cronbach Alpha***
Transformational Leadership					
TL1	1.477	0.605			
TL2	1.73	0.666			
TL3	2.06	0.748	0.568	0.938	0.936
TL4	2.387	0.788			
TL5	2.183	0.768			
TL6	2.602	0.818			
TL7	2.464	0.799			
TL8	2.21	0.771			
TL9	1.73	0.666			
TL10	2.309	0.783			
TL11	2.019	0.729			
TL12	2.197	0.757			
TL13	2.013	0.740			
Dynamic Capabilities					
DC1	1.983	0.756			
DC2	1.691	0.701			
DC3	2.226	0.792			

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DC4	2.347	0.808	0.624	0.926	0.924
DC5	2.249	0.801			
DC6	2.29	0.804			
DC7	2.437	0.807			
DC8	2.858	0.85			
DC9	2.137	0.783			
Portfolio Success					
PS1	2.476	0.781			
PS2	2.493	0.782			
PS3	2.114	0.744	0.613	0.958	0.958
PS4	2.225	0.765			
PS5	2.117	0.742			
PS6	2.413	0.789			
PS7	2.399	0.784			
PS8	2.651	0.811			
PS9	2.599	0.811			
PS10	2.587	0.792	0.57	0.90	0.90
PS11	2.605	0.803			
PS12	2.667	0.812			
PS13	2.591	0.807			
PS14	2.423	0.772			
PS15	2.298	0.760			
PS16	2.328	0.765			

Hair et al. (2017) Criteria; Loadings>0.70; AVE >0.50; CR >0.70 Scale valid and reliable.

VIF> Variance Inflation Factor, AVE> Average Variance Extracted, CR> Composite Reliability, α=Cronbach Alpha

The analysis was carried out for the major main measures with respect to the variables describing Transformational Leadership, Dynamic Capabilities, and Portfolio Success. For Transformational Leadership, Loadings have been substantial with values of between 0.605 to 0.818 in relations to underlying factors while Dynamic Capabilities had Loadings between 0.701 and 0.85, showing major contributions made to their respective constructs. Further, Portfolio Success had Loadings with scores between 0.742 and 0.812, thus exhibiting substantial associations with the

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construct. In addition, the AVE value for Dynamic Capability (0.624), and Portfolio Success (ranging between 0.57 and 0.613) constructs were above the recommended value of 0.5, hence showing that they demonstrated validity due to convergent reasons. The Composite Reliability (CR) constructs indicate that all constructs had internal consistency of above 0.90. Similarly, the Cronbach's alpha coefficients for all the constructs are as per acceptable threshold, supporting further that the constructs are reliable.

Table 4.3: Correlation Analysis

TL	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	512			
DC	Pearson Correlation	.741**	.734**	1	
	Sig. (2-tailed)	.000	.000		
	N	512	512	512	
PS	Pearson Correlation	.748**	.712**	.858**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	512	512	512	512

**. Correlation is significant at the 0.01 level and 0.05 (2-tailed).

Pearsons correlation co-efficient was computed to investigation the relationship between TL, DC, and PS in a sample of 512. Consequently, the study showed positive correlations between all the variables with increased degrees of coefficients. Of all those, TL was most significantly related to DC ($r = .741$, $p < .001$) and PS ($r = .748$, $p < .001$); DC and PS, on the other hand showed the highest correlation ($r = .858$, $p < .001$). The results of these studies are that dynamic capabilities are enhanced by transformational leadership underpinning portfolio success and that dynamic capabilities are most sensitive in their effect on portfolio success, suggesting the co-determination and interdependence of these concepts in organizational settings.

Table 4.4 Direct Effect

	β	SD	T	P	LLCI	ULCI
Dynamic Capabilities -> Portfolio	0.5	0.0	12.1	0.0	0.4	0.6

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Success	6	46	1	00	69	5
Transformational Leadership -> Dynamic Capabilities	0.7 42	0.0 38	19.6 91	0.0 00	0.6 53	0.8 04
Transformational Leadership -> Portfolio Success	0.5 74	0.0 58	9.95	0.0 00	0.4 58	0.6 85

A strong positive direct effect was found from Dynamic Capabilities to Portfolio Success (β = 0.56, SE = 0.046, t = 12.11, p < 0.001, 95% CI [0.469, 0.65]). This indicates that for every one-unit increase in dynamic capabilities, there is a corresponding increase in portfolio success by 0.56 units, with a high level of statistical significance. Furthermore, a significant positive direct effect was observed from Transformational Leadership to both Dynamic Capabilities (β = 0.742, SE = 0.038, t = 19.691, p < 0.001, 95% CI [0.653, 0.804]) and Portfolio Success (β = 0.574, SE = 0.058, t = 9.95, p < 0.001, 95% CI [0.458, 0.685]). This indicates that higher levels of transformational leadership are associated with greater dynamic capabilities and increased portfolio success. In summary, dynamic capabilities and transformational leadership exhibit significant positive direct effects on portfolio success, while portfolio agility does not significantly predict portfolio success in this analysis.

Table 4.4: Mediation Effect

	β	SD	T statistics	P values	LLCI	ULCI
TL -> DC -> PS	0.416	0.038	11.051	0	0.346	0.495

The mediation effect of Dynamic Capabilities (DC) in the relationship between Transformational Leadership (TL) and Portfolio Success (PS) is statistically significant (β = 0.416, SD = 0.038, t = 11.051, p < 0.001, 95% CI [0.346, 0.495]). This indicates that Transformational Leadership has a significant indirect effect on Portfolio Success through its influence on Dynamic Capabilities. Specifically, for every one-unit increase in Transformational Leadership, there is a corresponding increase in Dynamic Capabilities by 0.416 units, leading to an increase in Portfolio Success. Overall, these findings suggest that Dynamic Capabilities mediate the relationship between Transformational Leadership and Portfolio Success, highlighting the importance of Transformational Leadership in fostering Dynamic Capabilities, which in turn positively influence Portfolio Success.

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Discussion

This study collected data from Small and Medium Enterprises (SMEs) owners and managers and, therefore, presents a realistic view of organizational performance and more comprehensively of project portfolio management. The following discussion expands on each of these findings to explain their implications for SMEs' strategic management of project portfolios. Firstly, the strong direct impact of Transformational Leadership Portfolio Success underlines the role of visionary leadership for SME's project portfolio management. Organizational change is achieved by transformational leaders motivating the workers towards adopting new standing, embracing of change, and improvement of efficiency of project delivery. In project portfolios, transformational leadership creates favourable organization climate regarding undertaking change, driving development of dynamic capabilities and therefore the success of portfolios. These results are parallel to that reported by Fareed et al., (2023) and Han et al., (2024). Therefore, hypothesis H1 is accepted.

Consequently, the TL, DC, and PS mediation findings provide important implications for SMEs. Thus, accounting for the mediation by DC, these results highlight the complex chain of leadership's effects on PS and other organizational outcomes. To SMEs conducting their business in environments characterized by limited resources, this mediation effect is important to grasp. Thus, it signifies that SME leaders should not be limited by traditional leadership management methods and, instead, should aim at developing the clients' dynamic capabilities. From this it can be inferred that SMEs can improve portfolio of leadership success by indirectly applying leadership strategies along with creating organizational culture of flexibility, innovation and adaptability. Leadership development and capability improvement represent areas that enable SMEs to make the most of available resources and enhance their ability to enter new growth markets and gain competitive advantage. By doing so, this work underscores that successful leadership in volatile environments requires awareness of organizational assets and habits which can be leveraged for sustainable competitive advantage. Lastly, through applying transformational leadership to foster dynamic capabilities, SMEs elevate their robustness, versatility, capability to seize market opportunities and

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consequently, guarantee portfolio longevity and prosperity. The present study supports the views of earlier studies as Hermano & Martín-Cruz, 2016; Huang et al., 2023; Tariq et al., 2024. Hence hypothesis H2 is accepted.

Research Implications

These findings are invaluable for the study of enhancing organizations' effectiveness, especially among the proteins of SMEs, in light of "The Impact of Transformational Leadership and Dynamic Capabilities on Portfolio Success". Organizational culture change through transformational leadership is a critical component in delivering culture of innovation, teamwork and organizational alignment to boost the project portfolio performance. When organizational leaders manage to engage, mobilize, encourage followers to spearhead change and embrace organizational improvement processes, they cultivate conditions for producing and attaining higher degrees of adaptability and performance. The latter significantly determines dynamic capabilities which shape the leadership of project portfolio management activities in the constantly changing business environment.

Portfolio success is viewed as being contingent upon dynamic capabilities, defined as the capacity to described knowledge; acquisition; and configuration of resources depending on shifting environmental conditions. Firms with high dynamic capabilities are in a better position to configure resources, both internal and external to the firm so as to generate the best results. The focus is placed on co-evolution of the transformational leadership and the dynamic capabilities; the author demonstrates how the leadership contributed to the organization's utilization of the knowledge, innovation, and flexibility. This synergy is especially important when many SMEs are limited by their financial capabilities and find themselves in increased market unpredictability.

The study throws the lit light on the concept of strategic agility that needs to be applied in the SME's where flexibility can be put into action with other strategies that need to be employed so that the competitive advantage so gained can be maintained in the longer run. Some of the areas in which the improvements that lead to the transition of SMEs for sustainable growth and portfolio success include the following: Developing dynamic capabilities and Assembling transformational leadership. Consequently, this

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research provides an array of policy and investment recommendations in SME training and funding schemes as well as in relation to facility on the management of portfolios, which can enhance these organizations' preparedness for a competitive business environment.

Conclusion

In conclusion, this study significantly contributes to the academic understanding of project portfolio management within Small and Medium Enterprises (SMEs) by empirically investigating the intricate interplay among key determinants of portfolio success. Leveraging data collected from SME owners and managers, our analysis has yielded several noteworthy findings, which offer nuanced insights into the multifaceted dynamics of portfolio management.

Central to our findings is the pivotal role played by dynamic capabilities in shaping portfolio success. The robust positive association observed between dynamic capabilities and portfolio success underscores the criticality of organizational adaptability, innovation, and strategic flexibility in effectively navigating the complexities inherent in project landscapes. This finding not only resonates with existing literature but also underscores the strategic significance of dynamic capabilities in bolstering organizational resilience and competitive advantage.

Moreover, transformational leadership emerges as a compelling driver of portfolio success, as evidenced by its direct positive effects on both dynamic capabilities and portfolio outcomes. This underscores the transformative influence of visionary leadership in fostering a culture conducive to innovation, collaboration, and strategic alignment, thereby enhancing organizational capabilities and ultimately driving portfolio success. Through the lenses of Dynamic Capabilities theory our findings underscore the importance of resourceful adaptation and strategic resource allocation in achieving portfolio success within SMEs, offering a robust theoretical foundation for understanding and enhancing portfolio management practices in these contexts.

Limitations and Future Research Directions

Despite the contributions of this research in identifying the nature of project portfolio management practice among SMEs in District Dera Ismail Khan, Khyber Pakhtunkhwa, Pakistan, this study has some limitations that

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needs to be highlighted. These limitation makes it difficult to compare the results with other geographic locations or with SMEs in a different industry because problems faced by SMEs in different geographic locations may differ. Further, using self-administered questionnaires might result into response bias, and the data collected is a cross-sectional study, which limits the study of changes in project portfolio management practices overtime. Another disadvantage of the study is a lack of analysis of the views of other actors, for example, employees, clients, or industry specialists, who might provide valuable information about project portfolio management. In addition, organizational culture, economical issues, technological improvements and alterations in the formal rules were also excluded. So in the future research, the geographical coverage should be broader while including different industries so as to increase external validity. When researching the nature and development of different practices and trends, longitudinal study designs are advised, as well as using data collected by methods of mixed methodology, that includes quantitative and qualitative data.

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