**ISSN Online:** [3006-4708](https://portal.issn.org/resource/ISSN/3006-4708)



**SOCIAL SCIENCE REVIEW ARCHIVES ISSN Print:** [3006-4694](https://portal.issn.org/resource/ISSN/3006-4694)

<https://policyjournalofms.com>

**Occupational Stress, Mental Health and Employee Performances in Small Medium Enterprises**

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***DOI:*** [***https://doi.org/10.70670/sra.v3i1.428***](https://doi.org/10.70670/sra.v3i1.428)

**Abstract**

This study examines both strategies for stress reduction in worker performance and establishes the relationships between occupational stress with mental health as well as employee performance. The covid-19 effect all the employees’ psychologically and having negative influence on performance. The servant leadership was not moderated the relationship between work stress and mental health The findings provide insufficient evidence that servant leadership can mitigate occupational stress's impact on mental health but it recognizes the significance of analyzing occupational stress and employee performance relationships. The results provide direction to organizations which helps them design protective measures for mental health together with methods to preserve optimal workforce productivity particularly under emergency conditions like the COVID-19 crisis.

**Keywords:** Occupational stress, Mental Health, Performance, Covide-19

**Introduction**

Global workplaces face broad challenges from occupational stress since Small and Medium Enterprises (SMEs) experience high exposure to this problem because they lack resources to manage their dynamic operational environments. The stress levels of employees in SMEs escalate because they experience extended work hours combined with demanding roles while having minimal organizational support according to Chen et al. (2023). The demanding workplace environment produces severe negative effects on worker mental health because it leads to burnout symptoms along with anxiety and depression which causes decreased performance and productivity (Khan et al., 2022). The Pakistani SME industry encounters multiple barriers that intensify occupational stress for their workers because of poor financial resources and unstable markets coupled with complicated regulatory requirements. Resilience alongside adaptability and emotional stability serve as key performance factors in SME workplace settings because they enable managers of complex business tasks to maintain business expansion (Zaidi et al., 2023). In Pakistan employees working in SMEs do not openly discuss their mental health issues because of widespread stigma against this topic. Professional support remains out of reach due to stigma which leads to worsened psychological state among workers (Rafique et al., 2022). Organizations showing disregard toward mental health face adverse impacts on operational effectiveness because workers facing stress become less productive while also taking more absence from work and showing greater employee turnover (World Health Organization [WHO], 2023). The staff performance level in SMEs depends directly on work stress alongside mental health problems. The employees in Pakistan's SME sector deal with multiple difficulties that include economic instability and restricted career development opportunities and insufficient workplace facilities that prevent them from working effectively (Ahmed & Shaikh, 2023). The connection between occupational stress and mental health to employee performance in Pakistan's SME sector lacks sufficient research so scientists need to perform additional studies. Global research has thoroughly analyzed performance impacts from occupational stress and mental health but ignores the distinctive stressors which affect Pakistan SME employees according to Khan et al. (2022). Little is known about cultural attitudes toward mental health issues because they affect workforce performance in this sector. The research investigates the stress-fueled mental health and work performance relationship between Pakistani SME employees by filling a study gap in this area. The solution of this problem serves as a foundation for creating both effective employee wellness improvements and robust SME operational resilience and market competitiveness (Ahmed & Shaikh, 2024).

**Literature**   
Medical staff stress on the job has emerged as a critical area of study because it negatively affects both healthcare worker health and patient care delivery quality. Medical professionals who work under high-pressure conditions are affected in their mental health and job performance while the organizational effectiveness suffers as a result. Research studies about occupational stress along with its professional effects and mental health consequences are investigated in this review. The review discusses theoretical frameworks along with hypotheses which relate healthcare stress to performance outcomes.

**Theories Related to occupational stress**

Multiple explanations exist regarding how occupational stress affects healthcare work settings. Job Demands-Resources (JD-R) Model by Bakker and Demerouti (2007) provides widely accepted understanding of stress and well-being effects related to work demands and available job resources. Past research cited by Bakker et al. (2004) shows that healthcare workers under high job demands experience burnout from stress because resource scarcity and long working hours affect their ability to manage emotional situations at work. Healthcare professionals display poor mental health and stress due to their high demands exceeding limited resources per Zaidi et al. (2023). Stress response evaluation forms the core of the Transactional Model of Stress (Lazarus & Folkman, 1984) as per its fundamental principles. A cognitive appraisal of stressors occurs when people evaluate threats against their personal coping abilities according to their perceptions. Medical staff encounter work-related stress through evaluating task loads and medical case severity alongside their capacity to handle these responsibilities (Khan et al., 2022). Under COR theory human beings continually work to shield and expand their essential resources including time along with energy and support yet stress develops when resources experience dangers or exhaustion. Healthcare professionals develop stress because they burnout and show reduced performance when their physical emotional and social resources run dry (Rafique et al., 2022).

**Theoretical Framework and Hypotheses**: This study applies its acquired literature evidence to develop a conceptual model by combining JD-R model and both the Transactional Model of Stress and COR theory to understand work-stress links to mental health and job performance within Pakistani healthcare workplaces.

**Hypothesis 1:** Occupational stress negatively affects the mental health of healthcare workers in Pakistan.  
**Hypothesis 2:** Mental health issues, such as burnout and anxiety, lead to reduced job performance among healthcare workers in Pakistan.

**Impact of Occupational Stress on Mental Health**

Research has consistently shown that occupational stress significantly affects mental health, leading to issues such as anxiety, depression, and burnout among healthcare workers (Chen et al., 2023). In Pakistan, the situation is further compounded by systemic challenges, including insufficient staffing, inadequate funding, and an overburdened healthcare infrastructure (Ahmed & Shaikh, 2024). Studies indicate that healthcare workers in Pakistan report higher levels of stress and mental health concerns compared to their counterparts in other sectors (Khan et al., 2022). A significant gap in mental health care is the stigma surrounding seeking professional help, which is particularly prevalent in Pakistan. Mental health remains a sensitive issue, and the stigma associated with it often discourages healthcare workers from seeking necessary support (Rafique et al., 2022). This stigma contributes to the worsening of mental health conditions, as untreated stress can lead to burnout, absenteeism, and a decline in patient care quality (Zaidi et al., 2023).

**Impact of Mental Health on Employee Performance**

Researchers have established through extensive research how employers' mental health directly affects their performance. Various scientific studies have established multiple pathways where mental health status affects work-related results. Anxiety and depressive mental health conditions cause workers to have reduced task concentration abilities which affects their overall performance output (Hennekam & Bennett, 2020). The presence of mental health problems creates work capacity reductions or total job duty disabilities that indirectly decreases organizational efficiency through higher instances of employee absence and sick leave according to Heffernan & Pilkington (2011). Employees must invest great energy to adjust to their workplace environment because stress places a heavy psychological burden on them. The process of adjusting to changes triggers emotional fatigue because employees struggle with unexplained work requirements which produces dissatisfaction that negatively affects their performance (Khamisa et al., 2015). Occupational stress generates harmful effects on mental health that leads to impaired workplace performance due to experienced work-related stress. Studies during the COVID-19 pandemic period highlight the connection between these two phenomena. Rapid environmental changes linked to the pandemic exceeded occupational capacity thresholds and created anxiety-driven mental states which diverted staff from their professional duties (Tan et al., 2020).

H3. Mental health mediates the relationship between occupational stress and employee performance in SMEs during the COVID-19 pandemic.

**Moderating role of servant leadership**

Leaders play a significant role in organizational activities through their leadership behavior which determines how employees understand their work tasks within enterprises (Hambrick and Mason, 1984). The behavior of servant leadership features as a common leadership style which involves leaders demonstrating humility while empowering staff members and boosting their moral values and endorsing employee interests over their own needs (Eva et al., 2019). Emotional support through this leadership behavior improves employee self-confidence and self-esteem and decreases the negative outcomes of OC. The research investigates how servant leadership strategies decrease the mental health repercussions from OC found within small and medium enterprises. Servant leaders show both compassion and empathy (Lu et al., 2019) to provide relief for emotional distress that employees experience due to OC. The authors of Song et al. (2020) established that Organizational Citizenship Behavior (OC) generates psychological suffering within employees. Servant leaders listen actively to workers while getting to know them personally thus enabling better interaction between leadership and employees (Spears, 2010). Servant leadership promotes effective communication which functions as a mechanism to decrease employees' psychological pain. Through employee empowerment servant leaders enable their staff members to experience trust in the workplace. Employees follow their faith in leaders to trust the organization thus reducing employment insecurity caused by organizational crisis (Phong et al., 2018). The application of servant leadership behaves as an emotional resilience tool to minimize social support loss impacts thus helping employees control their negative emotions according to Ahmed et al. (2021). The evaluation demonstrates that leadership through service reduces psychological health issues resulting from OC situations. The following hypothesis summarizes our proposal (H4). Servant leadership minimizes the harmful connection between OC and employee mental health status within SMEs operating during the COVID-19 pandemic

**Mediating Role of Mental Health**

The workplace performances of workers get severely affected by their mental well-being (Bubonya et al., 2017) and (Cohen et al., 2019) and (Soeker et al., 2019). Three main reasons underlie this relationship. Mental health conditions interfere with employee task concentration thus making their performance suffer (Hennekam et al., 2020). Mental health issues create a work-related inability which causes decreased organizational efficiency by raising absenteeism rates (Levinson et al., 2010). Workers exposed to stressful workplace situations have to make extra adaptive efforts thus leading to emotional exhaustion. Employee exhaustion prevents them from fulfilling their job responsibilities and it both reduces satisfaction and decreases performance standards (Khamisa et al., 2016). Work-related stress creates negative effects on mental health leading to performance decreases in employees. Thus, mental health mediates the relationship between workplace stress and performance. The COVID-19 pandemic exemplifies this relationship. The substantial transformations in the external environment proved to intensify work-related stress which resulted in increased levels of employee anxiety and nervousness (Tan et al., 2020). The elevated amount of stress created difficulties for workers to maintain complete focus on their responsibilities which resulted in performance failures. Stressful job situations along with reduced earnings because of the pandemic created worse mental health conditions that made employees more depressed and worried according to Karatepe et al. (2020). The mental health difficulties lead to negative emotions that affect job performance in adverse ways. The study findings lead to the development of the following research hypothesis.

**H4: Mediating Role of Mental Health in the Relationship between occupational Stress and Employee Performance in Covid 19.**

**Moderating Role of Servant Leadership**

According to the upper echelons theory major organizational results stem from leader attributes and behaviors because their choices affect employee understanding and thought processes within businesses (Hambrick & Mason, 1984). Servant leadership represents a distinctive leadership model where leaders focus on modesty together with staff empowerment and enhanced moral perception and put employees' interests ahead of their own (Eva et al., 2019; Sendjaya, 2015). The combination of emotional aid with employee confidence and self-esteem enhancement enables stress reduction from work-related situations. Servant leadership represents an essential factor which helps small and medium-sized enterprises decrease the negative mental health effects that arise from occupational injuries to their employees. Empathetic and compassionate servant leaders play a vital role in helping workers manage emotional stress causes from occupational sources (Lu et al., 2019). According to Song et al. (2020) working stress creates deep psychological discomfort within the workforce. The capacity of servant leaders to create meaningful connections through active listening enables them to improve communication which helps reduce employee psychological distress (Spears 2010). Servant leaders create positive employee empowerment by building trust relationships thus reducing job anxiety that normally stems from OC. The employees' trust in their leaders causes them to feel secure about their organization while reducing uncertainties that stem from job-related stress (Phong et al., 2018). A social coping resource is servant leadership that remedies emotional shortages from reduced social relationships while preventing negative employee emotional responses (Ahmed et al., 2021). Servant leadership functions as an important moderator which affects the relationship between OC and mental health status. Servant leadership produces reductions in psychological tension from OC through establishing open communication and trust and empathy between team members. The following hypothesis demonstrates our proposal.

**H5**: Servant leadership moderates the relationship between OC and mental health, reducing the negative impact of occupational stress on mental health in SMEs during the COVID-19 pandemic.

**Data Collection and Methodology**

To evaluate our theoretical hypotheses, we employed a questionnaire-based survey as the primary data collection method. The survey was conducted anonymously, and all respondents were briefed on the purpose of the study to ensure informed participation. Given the constraints imposed by the COVID-19 pandemic, the questionnaires were distributed and collected electronically via email. This distribution was facilitated through the professional network of our research group, which included connections with corporate campuses and organizational members. To ensure the reliability and validity of the data, we targeted senior employees who had a minimum of two years of tenure in their respective enterprises. This approach aimed to capture insights from individuals with substantial workplace experience and familiarity with their organizational contexts. Prior to the formal survey, a pilot test was conducted to assess the clarity, relevance, and comprehensiveness of the questionnaire. Based on the feedback from this trial phase, the questionnaire was revised to enhance its quality and precision. Subsequently, the refined questionnaire was randomly distributed to the target enterprises. In total, 450 questionnaires were disseminated via email, of which 196 were returned as valid responses, yielding an effective response rate of 43.6%. The demographic and professional profiles of the sample respondents are detailed in Table 1, providing an overview of the participant characteristics

**Measurement of Core Variables**

The essential variables were evaluated through validated English-language questionnaires in this research that were derived from previous studies. A series of adjustments were implemented to the evaluation tools when we translated them to guarantee they remained culturally and contextually relevant. This research focuses exclusively on SMEs based in Pakistan. The core variables received assessment through a seven-point Likert scale which used 7 as the highest rating of "very high/strongly agree" while 1 represented the lowest rating of "very low/strongly disagree." The trial investigation served as a guide to develop improved assessment tools for studying the research variables. The following sections elaborate on the specific descriptions of variable measurements.

**Occupational Stress**

A validated 12-item occupational stress assessment scale used the frameworks established by Shah et al. (2021). Working people can measure their workplace stress through an assessment tool which measures three stress types including emotional discomfort in addition to physical fatigue and mental strain. The measurement tool includes these statements among others: The workload generates excessive irritability and anxiousness as one of my occupational responsibilities. My work demands complete energy consumption while the earned rewards appear inadequately matched to the work required. Survey participants used a seven-point Likert scale to evaluate each statement ranging from 1 (strongly disagree) to 7 (strongly agree). The score on the scale directly correlated with the intensity of perceived occupational stress experienced by the participants. The assessment technique provides strong analysis of occupational stress that enables detailed evaluation of work-related requirements on employee health and workplace productivity. The GHQ-12 stands as a popular instrument which was created to evaluate mental health status according to Liu et al. (2022).

**Mental health (MH)**:

Medical professionals often use the GHQ-12 to measure psychological well-being according to Liu et al. (2022). We modified the questionnaire for this study by applying findings from the pilot test to fit our research aims. The survey contained seven mental health evaluation items which asked participants about their ability to overcome workplace and life difficulties. Final analysis required transformation of the mental health question responses so improved outcomes scored higher.

**Servant Leadership (SL)**

The nine-item assessment tool measures servant leadership following refinement by Sendjaya et al. (2019) and basis of Ehrhart's (2004) work. The assessment scale measures leader behaviors dedicated to employee welfare and well-being. Items include

* “My leader makes time to build good relationships with employees.”
* “My leader is willing to listen to subordinates during decision-making.”

The scale captures essential aspects of servant leadership, such as relationship-building, empowerment, and participative decision-making, providing a comprehensive measure of this leadership style.

**Employee Performance (EP)**

To assess employee performance, we employed a four-item scale inspired by the foundational works of Chen et al. (2002) and Khorakian and Sharifirad (2019). This scale captures the multifaceted nature of employees' contributions to organizational success, highlighting both individual achievements and collective outcomes. For example, one of the items included in the scale is “I can make a significant contribution to the overall performance of our enterprise.”

Both servant leadership and employee performance were evaluated using a seven-point Likert scale, where responses ranged from 1 (strongly disagree) to 7 (strongly agree). This method not only aligns with established research practices but also ensures the reliability and validity of the measurements, offering a robust framework for analyzing the constructs in question.

**Result and Discussion**

**Reliability and Validity Analysis**

Analysis of data reliability and validity preceded data processing by systematically examining the information presented in Table 2. The Cronbach's alpha coefficient of each variable passed a threshold of 0.8 indicating robust internal consistency throughout all established reliability checks. The validity assessment of each construct came from separate confirmatory factor analyses (CFAs). The analysis results confirmed sufficient convergent validity because all factor loadings surpassed 0.5 in the measurement model assessment**.**

**Results**

Our research used hierarchical linear regression as the main analytical technique to test our hypotheses. The regression analysis preceded by examining variable relationships using Pearson correlation analysis. The presented data can be found in Table 3. The regression analysis used variance inflation factor (VIF) calculations to detect any potential multicollinearity present in the variables. The study showed that every VIF value remained below 3 so multicollinearity remained insignificant throughout this research.

**Table: 1 Pearson Correlation Analysis**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Variable | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Mean | S.D. |
| 1. Firm size | 1 |  |  |  |  |  |  | 2.71 | 0.845 |
| 2.Industry | -0.118 | 1 |  |  |  |  |  | 0.72 | 0.502 |
| 3.Work age | 0.125 | -0.082 | 1 |  |  |  |  | 5.37 | 2.512 |
| 4. WS | 0.198\*\* | 0.061 | -0.089 | 1 |  |  |  | 4.02 | 1.238 |
| 5. MH | -0.122 | -0.035 | 0.071 | -0.489\*\* | 1 |  |  | 4.82 | 1.292 |
| 6. SL | -0.137 | -0.029 | 0.074 | -0.298\*\* | 0.472\*\* | 1 |  | 5.42 | 1.148 |
| 7. EP | -0.025 | 0.045 | 0.091 | -0.245\*\* | 0.465\*\* | 0.578\*\* | 1 | 5.18 | 1.021 |

\*p < 0.05, \*\*p < 0.01, \*\*\*p < 0.001

**Table 2: Results of Linear Regression Analysis (Models 1–6)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Variable | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Firm size | −0.04 | 0.05 | 0.06 | 0.07 | −0.15 | −0.05 |
| Industry | 0.09 | 0.12 | 0.13 | 0.14 | −0.07 | −0.02 |
| Work age | 0.05 | 0.04 | 0.03 | 0.02 | 0.04 | 0.02 |
| OS | −0.22\*\* | −0.04 | −0.48\*\*\* |  |  |  |
| MH |  |  |  | 0.37\*\*\* | 0.31\*\*\* |  |
| F-value | 0.67 | 3.25\* | 12.45\*\*\* | 10.13\*\*\* | 1.24 | 14.87\*\*\* |
| R² | 0.02 | 0.07 | 0.22 | 0.21 | 0.03 | 0.26 |
| Adj-R² | −0.01 | 0.05 | 0.19 | 0.18 | 0.01 | 0.24 |

\*p < 0.05, \*\*p < 0.01, \*\*\*p < 0.001

**Table 3: Combined Results of Linear Regression Analysis (Models 7–9)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Model 7** | **Model 8** | **Model 9** |
| **Firm size** | **−0.18** | **0.02** | **0.03** |
| **Industry** | **−0.08** | **0.01** | **0.00** |
| **Work age** | **0.04** | **0.01** | **0.01** |
| **OS** | **−0.45\*\*\*** | **−0.43\*\*\*** |  |
| **SL** |  | **0.39\*\*\*** | **0.38\*\*\*** |
| **OS×SL** |  |  | **0.05** |
| **F-value** | **1.20** | **21.34\*\*\*** | **18.45\*\*\*** |
| **R²** | **0.02** | **0.36** | **0.35** |
| **Adj-R²** | **0.01** | **0.34** | **0.33** |

**\*p < 0.05, \*\*p < 0.01, \*\*\*p < 0.001**

As the initial model Model 1 tests how control variables connected to company size influences employee performance and sectors and age demographics. The analysis of this model proved that control variables demonstrate no impact on employee performance measurement.

The second model included occupational stress (WS) as an independent variable which allowed researchers to evaluate its relationship to employee performance. The analysis shows occupational stress produces negative outcomes on employee performance (β = −0.201, p < 0.01). The research outcome verifies that employee performance decreases as occupational stress levels increase. Employee outcomes significantly depend on proper attention to occupational stress since all evidence demonstrates its vital influence. The following models perform additional examinations to detect moderation and mediation effects. Model 5 acts as the base model to analyze the influence of firm size, industry and work age on mental health status. None of these variables demonstrate a meaningful relationship to mental health. The analysis of Model 6 includes occupational stress (OS) as an independent variable which evaluates OS impact on mental health outcomes. Mental health shows a strong negative relationship with occupational stress according to the study results (β = −0.447, p < 0.001). The findings from this analysis strongly validate Hypothesis 2 by demonstrating that occupational stress negatively affects mental health condition of employees.

The evaluation of mental health as a mediator between occupational stress and employee performance (EP) based on the Kenny et al. (1998) approach includes three sequential steps.

1. The employee performance serves as the dependent variable while the independent variable consists of OC measurements.

2. The independent variable creates a significant connection with the mediating variable (mental health).

3. When the independent variable is controlled the mediator variable shows a significant relationship with the dependent variable.

4. A reduction in the relationship between independent and dependent variables until significance maintains indicates partial mediation occurs in such cases.

5. When the independent variable shown to have no statistical significance for predicting the dependent variable it demonstrates complete mediation.

The research from Model 4 shows that employee performance has a significant positive relation with mental health status (β = 0.354, p < 0.001). The effect of OC on employee performance has become insignificant based on the present findings (β = −0.023, p > 0.05). The research data supports a complete mediation effect of mental health between Occupational stress and employee performance through its direct link to employee performance. The research establishes that mental health fully mediates the effect between Occupational stress and employee performance making Hypothesis 3 strongly valid. The study outcome shows that mental health plays an essential protective role to lessen the negative consequences OC stress presents for employee performance. A stepwise regression analysis enabled us to determine the moderating effect of servant leadership (SL) on the connection between occupational stress (WS) and mental health (MH). The researchers established their regression models by adding WS followed by SL then the interaction term WS × SL one after the other. A table summarizing all findings of the analysis has been prepared (Table 5). The mental health relationship measurement involving WS × SL interaction failed to yield significance with a value of β = 0.034 (p > 0.05). Research results demonstrate that servant leadership does not affect the relationship between OC and MH thus rejecting Hypothesis 4. While servant leadership maintains its importance as a construct its capacity to reduce negative mental health effects from organizational crime demands investigation across diverse situations. Research found no substantial evidence to prove servant leadership affects the link between organizational cynicism and mental health among SME employees probably because of unique types of organizational cynicism present in this environment. Staff in this context experience their work stress mainly from worrying about the economic environment and pandemic uncertainties as the primary factors causing stress at work. The stressors possess underlying reasons which leadership strategies alone cannot adequately reduce because macroeconomic mental health problems prove resistant to solutions at an individual leadership level. The challenges created by the COVID-19 pandemic intensified OC among employees thus creating psychological disorders that degrade employee performance levels. The positive benefits of servant leadership toward employee well-being are limited by the need to tackle fundamental mental health influencers in organizations' structures. Servant leadership development constitutes an essential approach that SMEs can implement to create supportive interactive spaces which help tackle OC. It remains essential for organizations to develop favorable organizational cultures which serve as a means to decrease mental health problems. SMEs should build work environments where employees experience well-being alongside open channels for communication alongside dedicated psychological support systems to decrease the impact of organizational citizenship on team performance while improving overall organization stability.

**Discussion**

Small and medium-sized enterprises depend heavily on their employees for survival and growth thus employee well-being stands as their essential organizational life force (Shan et al., 2022). The pandemic has made organizational chaos worse leading to job burnout manifestations according to Choi et al. (2019) and Barello et al. (2020) which strains worker performance. Research on OC and its relationships with mental health and servant leadership and employee performance remains insufficiently studied despite the extensive practitioner and researcher attention dedicated to this topic (Karatepe et al., 2020; Gao, 2021). The research fills this knowledge gap through its important outcomes which reveal that SME employees experience increased occupational challenges because of COVID-19 leading to performance changes. The pandemic created external stressors which generated unpredictable conditions concerning the future survival and development of SMEs (Adam & Alarifi, 2021). The lack of certainty negatively affects employees’ career outlook causing new sources of stress to emerge. The pandemic made employees experience dramatic changes to their workplace environment through office layout modifications and changes in work hours and the increasing fusion between work-life domains. The disruptions have generated increased employee stress because workers now face unprecedented pressure according to Gao (2021). Employee performance together with productivity levels have declined because of these circumstances. Mental health acts as a medium through which OC affects employee performance based on the findings from this research. Employee mental health negatively deteriorates because of OC which subsequently leads to performance decline at work. The psychological conditions of anxiety and nervousness from the pandemic (Tan et al., 2020) cause employees to be less focused on their assignments which leads to decreased performance results. Worker mental health needs immediate attention at workplaces since external forces like the COVID-19 pandemic create an urgent requirement for intervention. The study highlights the fundamental value of leadership in organizational success because leaders form the essential foundation of every organization (Ahn et al., 2018). Leadership behaviors strongly affect how employees think about work and how they act as well as their job performance. Prior research confirms that servant leadership stands as a special leadership approach because leaders show humility while passing authority to others and strive to boost team spirit while insisting employees matter more than personal gains (Eva et al. 2019). A conceptual model demonstrates how servant leadership minimizes the negative consequences of OC when it comes to employee mental health. The application of servant leadership creates organizational protection because it creates supportive workplace conditions which reduce stress-related psychological strain and enhances employee health and performance. Significant empirical evidence is limited due to the fact that SME employees experience their organizational stress mainly from macroeconomic market forecasts. The mental health problems that emerge cannot find their solution only through leadership-based strategies. The combined impact of COVID-19 pandemic on the original condition creates major psychological problems that eventually damage employee work output.

Servant leadership development emerges as the primary mitigation tool for SMEs because it enables them to build workplaces that support staff mental health. Business organizations must develop positive organizational cultures in addition to implementing servant leadership approaches as crucial organizational elements. Organizational cultures that offer support help minimize mental health issues which subsequently reduces performance-degrading effects of OC. In order to handle OC-related challenges and enhance both employee performance and well-being SMEs need to focus on leadership practices alongside organizational culture improvement.

**Theoretical Implications**

Academic research about the relationship between OC and employee performance has produced conflicting outcomes. Research findings demonstrate that Organization Culture has positive effects ( Soomro et al., 2019) and negative effects (Nawaz Kalyar et al., 2019; Purnomo et al., 2021) as well as U-shaped limited relationships (Hamidi & Eivazi, 2010) and occasionally shows no connection (Tanăsescu & Ramona-Diana, 2019) with employee performance. Through studying SMEs during COVID-19 our research shows OC leads to negative performance results thus expanding knowledge about the situational impact of OC. Research outcomes give a better understanding of environmental determinants in OC while delivering essential information about positive psychology in work environments. Through this study researcher identified a research pathway that demonstrates how employee performance relates to OC through mental health functions as the intermediary. The work performance of individuals depends directly on their mental psychological wellbeing state. The exploration of mental health as a mediation factor enables researchers to disclose the hidden mechanisms between OC and employee performance. This research enhances the comprehension of operational mechanisms in the distinct COVID-19 pandemic environment which provides better insights into psychological performance drivers affected by OC. This research reveals various factors under servant leadership which explain how certain SMEs specifically struggled against pandemic success when compared to counterparts. Previous studies investigated negative aspects of OC (Purnomo et al., 2021) yet available research remains scarce regarding possible solutions to address these effects. Our research establishes servant leadership as a significant factor which helps understand how to handle OC problems within SMEs. Upper echelons theory obtained broader application according to this study which confirms that organization responses in critical situations depend heavily on what leaders choose to do.

**Practice Implications**

This study identifies the origins and operational processes which create OC in SMEs during the COVID-19 pandemic period. Employees should engage in continuous skill development as this practice acts to minimize OC risks that could generate adverse psychological effects. Organizational success becomes more attainable when workers develop new abilities which also helps them avoid being replaceable at work. Time management together with emotional regulation skills development will shield employees from work-related stress before and after it starts to manifest psychological damage. Secondly SME leaders need to actively monitor their employees' mental health because this action helps prevent the negative effects of hindrance stress. The business environment in SMEs creates high levels of stress for employees because of both safety and health risks as well as lowered productivity standards and damaging emotional responses. Leaders who want to resolve these issues must maintain consistent dialogue with employees to develop supportive settings where workers experience both understanding and effective service response. Organizational leaders who identify and solve work-related stress factors will decrease mental health problems created by workload requirements. The macroeconomic environment stands as a main factor which generates OC for employees in SMEs according to current research. To boost SME confidence among the public stakeholders should create and launch supporting strategies. The implementation of proper policies establishes necessary security which empowers employees with calmness at times of instability like the current COVID-19 pandemic which helps minimize occupational stress. Small and medium-sized enterprise owners must understand the critical role of physical and mental health care for their employees since OC affects mental fitness. The development of available psychological support strategies supported by workplace platforms for Employee discussion of mental health remains a vital foundation for maintaining worker wellness. Society should develop psychological programs intended for SME employees to help them manage mental stress caused by COVID-19 organizational changes.

**Conclusions**

The study analyzed occupational stress effects on SME employee performance while the COVID-19 pandemic was in effect. The study employed a sample consisting of 196 Small and Medium Enterprises operating in Pakistan to investigate such relationships. Emergency events often create similar negative effects because OC reduces employee performance in a way that especially damages mental health. This research evaluate how servant leadership supports an accommodating workplace structure which helps employees avoid the adverse outcomes from OC in Small and Medium Enterprises. Organizations particularly small and medium enterprises require immediate action to understand and address performance and psychological effects of organizational change specifically when facing emergency situations such as the COVID-19 pandemic. The study demonstrates that organizations should employ servant leadership methods because they help diminish the negative effects which organizational change produces on staff well-being and productivity. Organizations can boost their employee resilience and performance through positive care giver and support systems even during major difficulties. The results underpin the need for strong leadership in emergencies while delivering and implementation guidance for organizational success in challenging conditions.

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