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The Mediating Effect of Psychological Safety On Inclusive Leadership and Employee Voice a Study of Smes in Pakistan's Hatter Industrial Estate

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Abstract

This research examines the interaction among inclusive leadership, psychological safety, and employee voice within the SME sector of Pakistan's Hatter Industrial Estate. Utilizing a mixed-methods approach, this study probes the role of psychological safety as a mediator between inclusive leadership and employee voice. Data were collected from 191 employees across SMEs, employing validated survey instruments to measure these variables. The findings suggest a significant positive relationship between inclusive leadership and employee voice; however, the mediating role of psychological safety was found to be context-dependent. This research highlights the need for tailored leadership practices to foster employee engagement and innovation within SMEs in developing economies. Practical implications and avenues for future research are discussed.

Introduction

Background and Context: In the world today characterized by quick pace of change, it can be firmly argued that perhaps with all other factors held constant, leadership focus has a most profound impact on the extent to which the organizational objectives are met. In this case, the triangular professional construct, which consists of employee centricism, creativity and engagement, can be regarded to be significantly instrumental in ensuring that workers are fully nagged. It is equally important to recognize the 'employee voice' i.e. the ability of workers to constructively express their ideas, concerns, and opinion as extremely important for the restructuring and transformation of many processes within the organization(Spector 2019). However, achieving such an enabling environment for the employee voice to flourish would often require that it is not managerial dominance that prevails but the fear of interdependence risks which can only be trusted in an environment that is sometimes referred to as having psychological safety(Safety and Güven 2003).The context of small and medium sized enterprises (SMEs) in the developing economies especially Pakistan are important in exploring these dynamics in relation to other parts of the world because they offer a lot of interesting challenges and opportunities. SMEs in Pakistan have huge impact on the overall Gross Domestic Product of the country and the employment levels of the country but unfortunately they do so in a resource starved and stratified setting which may be counter intuitive to collaboration. Leadership in such cases is rarely

professional and trained for the task at hand, hence the duality or nothing approach to inclusive practices may be the order of the day. So it is not surprising that new knowledge which delves into how inclusive leadership engenders employee participation in outcome mechanisms of SMEs becomes a necessity(Assad, Asif et al. 2021).

Recent Studies and Developments
Recent research, more so since the pandemic, has pointed out the relevance of inclusive leadership in fostering resilience and adaptation in organizations (Naji, Isha et al. 2021, Zhang, Zhang et al. 2024). Research of this elimination shows that inclusive leadership is beneficial during such time because it enhances innovation and engagement while providing a sense of safety in the center. Additionally, (Wang, Liu et al. 2018, Wang, Chen et al. 2021) analyze inclusive practices and their effectiveness in overcoming difficulties related to remote and hybrid work which have become the norm since the pandemic. This cluster of works places the current study in a more extensive initiative whose aim is to understand how leadership practices may be de-linked from the usual and embedded in the new organizational contexts(Siyal 2023).

Research Problem and Gap
While the literature extensively explores inclusive leadership and employee voice, the mediating role of psychological safety remains under examined, particularly in the SME context of developing countries. Studies such as those by Edmondson (1999) and Carmeli et al. (2010) emphasize the importance of leadership behaviors in fostering employee engagement (Carmeli, Reiter-Palmon et al. 2010, Edmondson and Lei 2014), but few have examined these dynamics in the cultural and organizational contexts of Pakistan. This study addresses this gap by investigating these relationships in the Hatter Industrial Estate, an economic hub of SMEs in Pakistan.

Research Objectives
To examine the relationship between inclusive leadership and employee voice.
To investigate the impact of psychological safety on employee voice.
To evaluate the mediating role of psychological safety between inclusive leadership and employee voice.

Literature Review
Inclusive Leadership: Inclusive Leadership: Inclusive leadership involves behaviors that promote equity, respect, and engagement within a diverse workforce. Research highlights that inclusive leaders create environments that encourage employees to share their ideas without fear of reprisal. Carmeli et al. (2010) emphasize the importance of leader accessibility and openness in fostering a sense of belonging and contribution among team members(Carmeli, Reiter-Palmon et al. 2010). Other studies, such as Shore et al. (2011), argue that inclusivity in leadership can directly impact team innovation and performance(Shore and Chung 2022), especially in diverse and resource-constrained environments. Recent research by Liu et al. (2021) indicates that inclusive leadership is particularly effective in mitigating uncertainties brought about by the COVID-19 pandemic, demonstrating its critical role in organizational resilience(Yang, Li et al. 2021).

Psychological Safety
Psychological safety, introduced by Edmondson (1999), refers to a belief that one can voice opinions and take interpersonal risks without fear of negative consequences. Studies link psychological safety

to improved team performance, innovation, and employee engagement. For instance, Kahn (1990) suggests that psychological safety enhances individual engagement by reducing anxiety and creating trust within teams(Edmondson, Kramer et al. 2004). Recent findings by Feng et al. (2020) highlight that psychological safety is a key enabler for knowledge sharing and creativity in organizations, particularly in emerging markets where hierarchical structures are prevalent. Research by Hu et al. (2022) further underscores the mediating role of psychological safety in fostering collaboration in diverse workgroups(Zhao, Hu et al. 2023).

Employee Voice
Employee voice is defined as the discretionary communication of ideas, suggestions, or concerns aimed at organizational improvement. Research by Morrison (2011) identifies employee voice as a critical driver of organizational learning and innovation(Morrison, Wheeler-Smith et al. 2011). However, factors such as organizational culture, leadership style, and individual perceptions of safety significantly influence voice behaviors. In SMEs, hierarchical structures and limited resources often hinder open communication, making leadership behaviors even more critical in facilitating voice. Wang et al. (2022) found that employee voice significantly enhances organizational adaptability, particularly in SMEs navigating post-pandemic recovery(Wang, Kang et al. 2022).

Conceptual Framework
Building on the theoretical underpinnings of Edmondson (1999) and Carmeli et al. (2010), this study posits psychological safety as a potential mediator in the relationship between inclusive leadership and employee voice(Carmeli, Reiter-Palmon et al. 2010, Carmeli, Sheaffer et al. 2014). This framework seeks to explore the direct and indirect effects of inclusive leadership on employee voice while considering the contextual nuances of Pakistani SMEs.

Methodology
Research Design
This study is quantitative and cross-sectional in nature. They gathered data through structured surveys conducted among employees of SMEs located within Hatter Industrial Estate. A mixed-methods approach was also considered, though it was not selected, because of time and resource limitations. The quantitative approach reinforces more objectivity and statistical dependability the complementing factors explained in best practices by Sekaran (2000) for example(Kumar 2010). Leadership studies investigating organizational issues at a given point in time have more recently, Zhao et al. (2021), captured a reasonable support across cross-sectional frameworks(Zhao, Yang et al. 2023).

Sample and Population
The target population included the employees of SMEs within the industrial estate in the region. Purposive sampling was deployed and samples of 191 participants were achieved. This method was considered reasonable because the study is exploratory and there is a need to look into different organizational contexts. The sample size was calculated for the purpose of attaining statistical accuracy through the guidelines of Krejcie and Morgan (1970)(Chuan and Penyelidikan 2006). Recently, Lee and Park (2022) have introduced new methods of sampling that endorse purposive sampling even in heterogeneous organizations such as SMEs(Ko, Lee et al. 2022). Selected respondents were according to the length of service and position, in order to guarantee sound exposure to leadership practices of the NPOs.

Instruments

Inclusive Leadership: it was measured using the Inclusive Leadership Scale (Carmeli et al., 2010) which constitutes 9 items assessing leader openness, accessibility, and availability(Carmeli, Reiter-Palmon et al. 2010).

Psychological Safety

it was assessed through Edmondson's (1999) Psychological Safety Scale composed of 7 items that seek to capture an individual's assessment of the level of protection of his or her feelings when speaking out(Edmondson 1999).

Employee Voice

it was assessed using the Employee Voice Scale of Van Dyne and LePine (1998) which comprised of 6 items regarding extra exchange directed towards the betterment of the organization(LePine and Van Dyne 1998). All the responses were scored using a five point Likert scale, where 1 meant Strongly Disagree and 5 meant Strongly Agree. 20 respondents were engaged in the pilot testing to ascertain clarity and reliability of the survey instruments. Recent research by Li et al (2020) emphasizes the adequacy of these scales in perusal of leadership and organizational behavior(Li, Yang et al. 2020). Cronbach's alpha for the scales varied between 0.78-0.85 which is acceptable.

Data Collection

Data were collected over a two-month period using a combination of online and paper-based surveys. Participation was voluntary, and confidentiality was assured to minimize social desirability bias. The researchers maintained regular communication with SME management to encourage participation and clarify any concerns about the study. Xu and Fang (2021) advocate for these practices to improve response rates and data quality in organizational research(Li, Pierce et al. 2024).

Data Analysis

Data were analyzed using SPSS and AMOS. Descriptive statistics provided an overview of the demographic characteristics of the sample. Pearson correlation analysis was used to examine relationships between the study variables. Structural equation modeling (SEM) was employed to test the hypothesized relationships and mediation effects. The bootstrapping method, recommended by Hayes (2013), was applied to assess the significance of indirect effects. Recent applications of SEM in leadership research by Zhang et al. (2022) support its efficacy for exploring complex mediating relationships(Hayes and Scharkow 2013, Zhang, Min et al. 2022).

Research Design

This study employs a quantitative, cross-sectional research design. Data were collected using structured surveys administered to employees of SMEs in Hatter Industrial Estate. A mixed-methods approach was also considered but not adopted due to constraints in time and resources. The quantitative design ensures objectivity and statistical reliability, aligning with best practices outlined by Sekaran (2000)(Bougie and Sekaran 2019). Responses were recorded on a five-point Likert scale, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Pilot testing was conducted with 20 respondents to ensure clarity and reliability of the survey instruments. Cronbach's alpha for the scales ranged from 0.78 to 0.85, indicating acceptable internal consistency.

Results
Descriptive Statistics
The sample comprised 60% male and 40% female respondents, with an average age of 32 years. The majority (70%) had more than five years of work experience in their respective organizations.

Correlation Analysis
Significant positive correlations were found among the study variables:
Inclusive Leadership and Employee Voice ($r = 0.68$, $p < 0.01$).
Inclusive Leadership and Psychological Safety ($r = 0.55$, $p < 0.05$).
Psychological Safety and Employee Voice ($r = 0.60$, $p < 0.05$).

Table 1: Descriptive Statistics of Study Variables

Variable	Mean	Standard Deviation	Minimum	Maximum
Inclusive Leadership	4.21	0.61	3.10	4.85
Psychological Safety	4.10	0.55	3.20	4.90
Employee Voice	3.95	0.60	3.00	4.80

Mediation Analysis
Mediation analysis revealed that psychological safety partially mediates the relationship between inclusive leadership and employee voice. The direct effect of inclusive leadership on employee voice remained significant ($\beta = 0.70$, $p < 0.01$), while the indirect effect via psychological safety was also significant ($\beta = 0.15$, $p < 0.05$).

Table 2: Results of Regression Analysis

Variable	Coefficient (β)	Standard Error	p-value
Inclusive Leadership	0.70	0.08	< 0.01
Psychological Safety	0.15	0.07	< 0.05

Key Findings
Inclusive leadership significantly enhances employee voice.
Psychological safety partially mediates this relationship, indicating its importance but also suggesting the influence of other contextual factors.

Discussion
Hypothesis Testing
H1: Inclusive Leadership is positively related to Employee Voice (Accepted).
H2: Psychological Safety mediates the relationship between Inclusive Leadership and Employee Voice (Partially Accepted).

Implications of Findings

The results of this study provide robust evidence that inclusive leadership positively influences employee voice. This finding aligns with Liu et al. (2021), who identified inclusive leadership as a critical driver of employee engagement and innovation. The partial mediation effect of psychological safety corroborates recent work by Hu et al. (2022), which highlights psychological safety as a foundational element for fostering open communication in teams(Wu, Wu et al. 2022). The contextual factors of SMEs, such as resource constraints and hierarchical structures, may moderate the strength of these relationships. For instance, Wang et al. (2022) suggest that leadership interventions tailored to SME dynamics can amplify the positive effects of inclusive leadership and psychological safety.

Practical Implications

Organizations should prioritize training programs that enhance inclusive leadership competencies, such as effective communication, active listening, and fostering trust. Furthermore, cultivating psychologically safe work environments can empower employees to express their ideas without fear, ultimately driving innovation and organizational resilience. Building on insights from Feng et al. (2020), firms could implement policies that encourage collaborative practices and mitigate the barriers to psychological safety, particularly in resource-constrained SMEs(Feng, Yang et al. 2024).

Limitations and Future Research

While this study sheds light on critical dynamics within SMEs, its cross-sectional design limits the ability to infer causality. Future research could adopt longitudinal approaches to capture temporal changes in the relationships between the studied variables. Additionally, qualitative studies could explore the nuanced experiences of employees in different organizational contexts, providing richer insights into the mediating role of psychological safety. Recent advancements in mixed-method research, as noted by Zhao et al. (2021), offer promising avenues for further exploration(Zhao, Liang et al. 2022).

Conclusion

This study advances our understanding of the interaction between inclusive leadership, psychological safety, and employee voice in SMEs. By highlighting the partial mediating role of psychological safety, it provides valuable insights for both scholars and practitioners. Tailored leadership development initiatives and organizational interventions are recommended to leverage these dynamics for enhanced employee engagement and organizational performance.

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