

Examining the Impact of Inclusive Leadership and Human Resource Management Practices on Employee Productivity: The Mediating Role of Psychological Safety in Malaysian Small and Medium Enterprises

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SUBMITTED: 21 May 2026; REVISED: 25 June 2026; ACCEPTED: 27 June 2026

ABSTRACT: Small and Medium Enterprises (SMEs) are vital to Malaysia's economy, contributing significantly to Gross Domestic Product (GDP) and employment. However, challenges such as high turnover, skill shortages, and multicultural workforce dynamics hinder productivity. Leadership styles and Human Resource Management (HRM) practices are increasingly recognized as critical drivers of employee performance, with psychological safety serving as a potential mediating mechanism. This study investigates how inclusive leadership, workplace spirituality, green HRM, and relational Human Resource (HR) practices influence employee productivity in Malaysian SMEs, with psychological safety as a mediator. A quantitative survey approach was employed, targeting SME owners, managers, and HR practitioners. Reliability and validity tests confirmed strong internal consistency across constructs. Structural equation modeling was used to examine direct and indirect relationships among variables. Findings revealed that relational HR practices ($\beta = 0.362$, $p < 0.001$), workplace spirituality ($\beta = 0.174$, $p < 0.001$), and green HRM ($\beta = 0.153$, $p < 0.001$) significantly enhanced employee productivity. Psychological safety strongly predicted productivity ($\beta = 0.634$, $p < 0.001$) and mediated the effects of HRM practices and workplace spirituality. Interestingly, inclusive leadership showed no significant direct effect on psychological safety or productivity. The model explained 40.1% of the variance in productivity and 60.9% in psychological safety. The study highlights psychological safety as a pivotal mechanism linking HRM practices and workplace spirituality to productivity in SMEs. These insights extend leadership and HRM literature in non-Western contexts and provide practical guidance for SME leaders and policymakers to foster resilient, engaged, and productive workforces.

KEYWORDS: Inclusive leadership; psychological safety; HRM practices; workplace spirituality; employee productivity; Malaysian SMEs

1. Introduction

Small and Medium Enterprises (SMEs) is viewed as one of the vital drivers to the economic development of Malaysia as it accounted for about 38.2% of Malaysia's Gross Domestic Product (GDP) and almost 48% of the total employment [1]. SMEs are the backbone of the national economy and are increasingly facing the challenge to sustain productivity in the face of the rapidly changing technology, labor market and competition with other regions of the country [1]. Employee productivity, which is known as a key factor in the performance of the organization and its competitiveness, is increasingly influenced by the leadership style, human resource management (HRM) practices and workplace dynamics [2]. Previous leadership and HRM conceptualizations have been more focused on the hierarchical nature of leadership and uniformity of practices [3] and recent studies showed that inclusive leadership and HRM practices are a key to enhancing employee engagement, innovation, and resilience [4, 5].

Inclusive leadership is an established approach to improve employee performance, e.g., by creating psychological safety, which enables employees to openly express themselves, share their ideas and take interpersonal risks without fear of consequences [6, 7]. Psychological safety is related to proactive behaviors, knowledge sharing, and creativity, resulting in productivity outcomes [8]. Yet the empirical studies concerning the interplay between inclusive leadership and HRM practices have mainly focused on large-scale multinational companies in western countries and the understanding of the interplay between inclusive leadership and HRM practices on the productivity in SMEs in emerging countries such as Malaysia is still limited [9, 10].

What is more, HRM practices and their relational aspects—in this case, flexible working arrangements, training for development and mentoring, also play an important role in employees' experiences and performance outcomes [11]. At times, however, leadership practices, and culture can be a factor. These practices can foster an inclusive culture that makes employees feel that HRM practices are fair and developmental, or in contrast, when the leadership is authoritarian, it can make HRM practices seem bureaucratic and ineffective [12]. However, despite these insights, little research has looked at the relationship between inclusive leadership and HRM practices in SMEs or the Mediation models between inclusive leadership and HRM practices and psychological safety [13, 14].

Malaysia's SME sector is a special environment that allows such dynamics to be studied. Even with government initiatives that focus on enhancing the competitiveness of SMEs like SME Masterplan and Industry4WRD policy framework, SMEs are still facing challenges such as high employee turnover, skills shortage, and low employee engagement [15]. Multicultural staffing makes the achievement of leadership and HRM effectiveness even more challenging as cultural values and communication styles shape the employee's perceptions and experiences of the workplace, as well as their interactions with leadership [16, 17]. To overcome these challenges, there is a need to evidence-based insights on how inclusive leadership and HRM practices can combine and create a psychological safe space that will result in productivity.

This study attempts to fill in these gaps by examining how inclusive leadership and workplace spirituality along with green HRM and relational HR practices affect employee productivity in Malaysian SMEs with the mediation of psychological safety. To get an overall picture of the relationship between leadership and HRM systems and their role in boosting productivity in resource-constrained SMEs, the study brings together the theory of Social

Exchange Theory (SET) and the Job Demands-Resources (JD-R) Model. The findings are hoped to be useful in both theoretical and practical aspects as it would not only expand literature in the field of leadership and HRM studies in non-Western context of SMEs, but also provide certain recommendations to leaders, HR practitioners and policymakers which could help in enhancing the resilience and competitiveness of the workforce in the emerging business environment in Malaysia.

2. Literature review

2.1. Inclusive leadership.

Inclusive leadership has become a critical factor to boost employees' productivity particularly in SMEs. When it is open, accessible, and embraces diversity, inclusive leadership can help create a psychological safe space for employees to show who they are and engage with the organization [4]. The inclusive leaders lead to a more proactive staff, sharing of knowledge and commitment to the organization [18]. Inclusive leadership is a new paradigm of leadership that is about collaboration and trust rather than authority or visionary leadership to get results [6]. Nevertheless, there is still little empirical research regarding inclusive leadership in SMEs, especially in non-Western countries such as Malaysia (Abbas, 2024). The study of future research can be focused on inclusive leadership and HRM practices in sustaining productivity in the context of limited resources.

2.2. Workplace spirituality.

Today spirituality in workplaces is a new aspect of HRM with emphasis on meaning, purpose and connectedness in the workplace. Currently, it is perceived as a means to boost employee engagement, productivity, and a feeling of belonging and values to the organization [19]. Spirituality in the workplace might be a crucial aspect in promoting positive cultures and psychological safety in a less formalised SME. By integrating spirituality into HRM practices, a workplace that values employees for their productivity as well as their spiritual well-being can be created that can engender a sense of belonging and resilience. While workplace spirituality has been examined in a wider organisation setting, there is a lack of studies examining the impact of workplace spirituality in Malaysian SMEs and thus more empirical studies of workplace spirituality's impact on productivity outcomes are required.

2.3. Green HRM.

Green HRM is a form of HRM which focuses on sustainability and development of employees. These practices involve sustainable training, green incentives and policies which foster the sustainable culture within the organization [14]. Through the study, it is seen that Green HRM can not only increase the competitiveness of the organization but can also help the employees in having a purpose to work better, which means that it can help in having high employee engagement and productivity levels [11]. However, Green HRM in the context of SMEs can be more effective, since not only it highlights the psychological safety and inclusiveness in SMEs, but also it has significant impact in a resource limited environment. But there is a lack of empirical research on Green HRM in Malaysian SMEs and the interaction between Green HRM and leadership behaviors and their impact on productivity need to be explored.

2.4. Relational HR practices.

The focus of relational HR practices is on development and support in recruiting, training and career management. Relational HRM is more concerned with the well-being of employees, mentoring, and personalized career development plans, as opposed to transactional HRM which focuses on administrative effectiveness [5]. Additionally, inclusive leadership has a positive impact on the employee's experience of fairness and growth-oriented HRM practices, which leads to higher levels of employee motivation and commitment [4]. HRM practices in SMEs are relevant particularly when it comes to the effect of leadership behavior on effectiveness of HRM as in SMEs there is no formal structure but relationship. While these are important, there is lacking research on the importance of relational HR practices in Malaysian SMEs and to investigate their role in psychological safety and productivity.

2.5. Psychological safety.

Psychological safety is the shared belief that the workplace is safe to take interpersonal risks in is being recognized as a middle-ground between leader and productivity [7, 20]. A psychologically safe work environment creates a sense of security so that team members can speak up, challenge the status quo, and take risks without suffering any repercussions. This promotes joint work, creativity and learning behaviors, which are directly related to productivity [8]. Psychological safety has been shown to be related to leadership [21] and to HRM practices [14]. However, few studies have investigated the potential of psychological safety as a potential mediator between inclusive leadership, HRM and employee productivity in SME contexts. This understanding is key to understand this mediating role particularly in the multicultural workforce of Malaysia and the dynamic SME environment [9, 16].

2.6. Employee productivity.

Employee productivity is still a determinant for the good performance of the organisation and the growth of the country's economy, particularly in small and medium enterprises (SMEs) which contribute significantly to the country's GDP and employment [1]. A few factors like leadership styles, HRM practice, workplace culture etc. have been found in the literature to have a positive impact on productivity, which in the case of inclusive leadership, is shown to enhance productivity through creative behaviours and psychological safety [6, 22]. Similarly, HRM practices aligned with the goals of the organization positively affect the motivation, skill development and commitment of employees which in turn positively influences the performance outcomes [11]. However, limited empirical studies have been conducted focusing on the relationship between leadership and HRM and their impact on productivity in SMEs, particularly in non-Western context [10]. This study aims to fill the above gap and investigates how inclusive leadership relates positively to workplace spirituality, green HRM, relational HR practices and employee productivity in Malaysian SMEs with the help of psychological safety as a mediator.

2.7. SME performance in Malaysia.

Despite the importance of SMEs in the nation, the high turnover, lack of skills, and lesser engagement are still happening [1, 15]. The SME Masterplan and policy framework

Industry4WRD are government efforts to boost the competitiveness of SMEs. However, HRM systems have yet to be integrated and leadership styles have not been effective in achieving productivity results. Multicultural workforce is another challenge as the cultural values and communication styles affect the effectiveness of leadership and HRM practices [17]. To address the challenges, evidence-based understanding of the ways of inclusive leadership and HRM practices can coexist to improve productivity through the psychological safety space is required.

2.8. Hypothesis development.

2.8.1. Inclusive leadership and psychological safety.

Inclusive leadership fosters openness, accessibility, and respect for diversity, creating environments where employees feel safe to express ideas without fear of negative repercussions [4]. Research shows that inclusive leaders encourage proactive behaviors and knowledge sharing, which are strongly linked to psychological safety [6]. By emphasizing collaboration and trust-building rather than hierarchical authority, inclusive leadership reduces interpersonal risks and promotes a supportive climate [18]. In SMEs, where organizational structures are less formalized, leadership behaviors play a more direct role in shaping employee experiences. Thus, inclusive leadership significantly enhances psychological safety, enabling employees to engage constructively and contribute to organizational productivity.

H1: Inclusive Leadership has a significant positive effect on Psychological Safety.

2.8.2. Workplace spirituality and psychological safety.

Workplace spirituality emphasizes meaning, purpose, and connectedness, fostering environments where employees feel valued beyond transactional roles [19]. By cultivating a sense of belonging and alignment with organizational values, workplace spirituality reduces fear of judgment and strengthens interpersonal trust. This supportive climate enhances psychological safety, as employees are more willing to voice concerns, share ideas, and challenge norms without apprehension. In SMEs, where formal HR structures are limited, workplace spirituality can serve as a critical resource for building inclusive cultures. Empirical evidence suggests that spirituality-oriented practices encourage collaboration and resilience, thereby reinforcing psychological safety as a foundation for innovation and productivity.

H2: Workplace Spirituality has a significant positive effect on Psychological Safety.

2.8.3. Green HRM and psychological safety.

Green HRM integrates sustainability into HR practices, such as eco-friendly training, green incentives, and environmentally conscious policies [14]. These practices provide employees with a sense of purpose and shared responsibility, which strengthens trust and openness in the workplace. When employees perceive organizational commitment to sustainability, they are more likely to feel supported and secure, thereby enhancing psychological safety [11]. In SMEs, adopting Green HRM not only improves competitiveness but also fosters inclusive environments where employees can engage without fear of reprisal. Thus, Green HRM

contributes positively to psychological safety by aligning organizational values with employee well-being and collective engagement.

H3: Green HRM has a significant positive effect on Psychological Safety.

2.8.4. Relational HR practices and psychological safety.

Relational HR practices emphasize mentoring, developmental training, and personalized career management, focusing on employee well-being rather than transactional efficiency [5]. When implemented under inclusive leadership, these practices are perceived as fair and supportive, thereby fostering trust and psychological safety [4]. In SMEs, where bureaucratic structures are minimal, relational HR practices play a critical role in shaping employee experiences and reducing interpersonal risks [23]. By encouraging open communication and developmental opportunities, relational HR practices create environments where employees feel safe to contribute ideas and collaborate. Consequently, relational HR practices significantly enhance psychological safety, which supports innovation and productivity.

H4: Relational HR Practices have a significant positive effect on Psychological Safety.

2.8.5. Psychological safety and employee productivity.

Psychological safety, defined as the shared belief that the workplace is safe for interpersonal risk-taking, directly influences employee productivity [7]. In psychologically safe environments, employees are more likely to engage in learning-focused behaviors, cooperation, and creativity, which enhance performance outcomes [8]. Research demonstrates that psychological safety reduces fear of failure, encourages innovation, and strengthens engagement, all of which contribute to higher productivity [22]. In SMEs, where leadership and HRM practices directly shape employee experiences, psychological safety serves as a critical mediator linking organizational culture to performance. Thus, psychological safety significantly improves employee productivity by enabling constructive participation and resilience.

H5: Psychological Safety has a significant positive effect on Employee Productivity.

2.8.6. Psychological safety as mediator.

Psychological safety plays a pivotal mediating role in linking leadership and HRM practices to employee productivity. It represents the shared belief that the workplace is safe for interpersonal risk-taking, enabling employees to voice opinions, share ideas, and engage in innovative behaviors without fear of negative consequences [7]. Inclusive leadership fosters openness and trust, workplace spirituality provides meaning and belonging, Green HRM aligns organizational values with sustainability, and relational HR practices emphasize fairness and developmental support. Each of these constructs contributes to psychological safety, which in turn enhances employee engagement, cooperation, and creativity [4, 8]. In SMEs, where organizational structures are generally less formalized and interpersonal interactions are more pronounced, psychological safety plays a pivotal role in translating organizational and

leadership practices into improved employee outcomes. A psychologically safe environment enables employees to express ideas, share concerns, and take interpersonal risks without fear of negative consequences, thereby fostering greater engagement, collaboration, and productivity. Consequently, psychological safety is expected to function as the underlying mechanism through which inclusive leadership, workplace spirituality, green human resource management (Green HRM), and relational HR practices enhance employee productivity. Specifically, it is hypothesized that psychological safety mediates the relationship between inclusive leadership and employee productivity (HM1), workplace spirituality and employee productivity (HM2), Green HRM and employee productivity (HM3), and relational HR practices and employee productivity (HM4).

2.9. Underpinning theories.

This study draws on Social Exchange Theory (SET) and the Job Demands-Resources (JD-R) Model. SET posits that employee behaviors are shaped by reciprocal exchanges between leaders and employees, where inclusive leadership fosters trust and psychological safety, leading to higher productivity [21]. The JD-R Model emphasizes the balance between job demands and resources, suggesting that HRM practices and inclusive leadership provide resources that enhance employee engagement and performance [14, 24]. Integrating these theories provides a comprehensive framework for examining how leadership and HRM interact to influence productivity through psychological safety.

2.10. Conceptual framework.

The conceptual framework of this study, illustrated in Figure 1, depicts the proposed relationships among inclusive leadership, HRM practices, psychological safety, and employee productivity in Malaysian SMEs. The framework proposes that inclusive leadership has a direct influence on both HRM practices and psychological safety. In turn, psychological safety serves as a mediating mechanism through which inclusive leadership and HRM practices contribute to enhanced employee productivity. Specifically, relational HRM and green HRM are expected to strengthen this relationship by providing developmental support and sustainability-oriented resources that foster a psychologically safe work environment [11, 19]. Overall, the framework emphasizes the strategic integration of inclusive leadership and HRM practices to cultivate psychological safety, thereby improving employee productivity and organizational resilience in dynamic business environments..

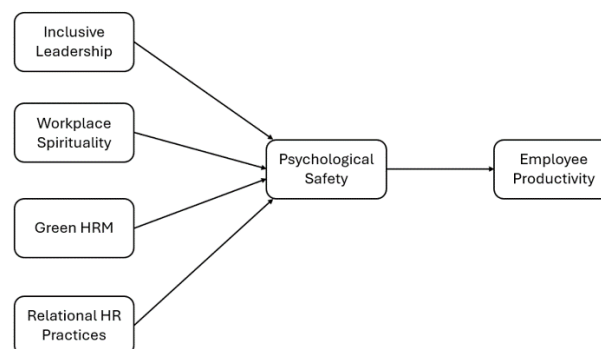


Figure 1. Proposed conceptual framework illustrating the relationships among inclusive leadership, HRM practices, psychological safety, and employee productivity in Malaysian SMEs.

3. Results and Discussion

3.1. Sampling and data collection.

This research aimed to examine the determinants of employee productivity in Malaysian SMEs, focusing on inclusive leadership, workplace spirituality, green HRM, relational HR practices, and psychological safety. The performance of SMEs in Malaysia is heavily influenced by leadership behaviors, HRM systems, and workplace culture, particularly given the challenges of high turnover, skill shortages, and multicultural workforce dynamics. To capture these dynamics, the study employed a quantitative research approach using survey data to measure the proposed constructs. Malaysia has approximately 1.15 million SMEs across various sectors, with a significant proportion operating in manufacturing and services. A purposive sampling technique was adopted to select respondents who were SME owners, managers, and HR practitioners, as they possess direct knowledge of organizational practices, employee experiences, and productivity outcomes. This ensured that the data collected reflected informed perspectives on leadership and HRM effectiveness within SMEs. The final sample size was determined using power analysis, which confirmed that the number of respondents was sufficient to meet the statistical requirements of the research objectives. This methodological rigor ensured that the study's findings are both reliable and generalizable within the Malaysian SME context, providing robust insights into how leadership and HRM practices interact to shape employee productivity. As illustrated in Figure 2, the measurement model demonstrated satisfactory reliability, indicating that all constructs met the recommended reliability thresholds. This methodological rigor enhances the reliability and generalizability of the findings, providing robust evidence of how leadership and HRM practices interact to influence employee productivity in Malaysian SMEs.

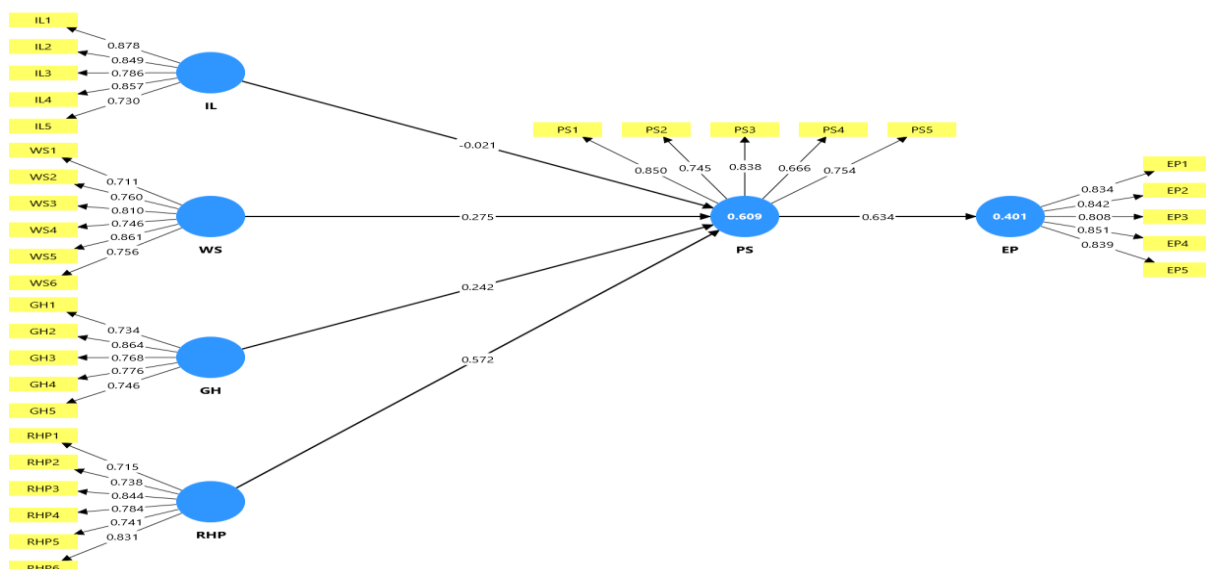


Figure 2. Reliability assessment of the measurement model showing the internal consistency of the study constructs based on the established reliability criteria.

3.2 Construct reliability and validity

Reliability and validity are essential for ensuring the robustness of the measurement model. The study evaluated construct reliability using Cronbach's alpha and composite reliability. Table 1 and Figure 2 shows that Cronbach's alpha values for all constructs ranged from 0.831 (Psychological Safety) to 0.892 (Employee Productivity), exceeding the acceptable threshold of 0.70, which indicates strong internal consistency across the measurement items [34]. Composite reliability values, ranging from 0.852 (Psychological Safety) to 0.947 (Relational HR Practices), further confirmed the reliability of the constructs, demonstrating that the indicators consistently measure their respective latent variables. To assess construct validity, both convergent and discriminant validity were evaluated. Convergent validity, measured through Average Variance Extracted (AVE), showed values ranging from 0.599 (Psychological Safety) to 0.697 (Employee Productivity), all above the recommended threshold of 0.50, thereby confirming that each construct explains more than half of the variance in its indicators [25]. This provides strong evidence of convergent validity, ensuring that the items used in the study adequately represent the intended constructs.

Table 1. Construct reliability and validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
EP	0.892	0.900	0.920	0.697
GH	0.840	0.877	0.885	0.607
IL	0.881	0.912	0.912	0.675
PS	0.831	0.852	0.881	0.599
RHP	0.880	0.947	0.901	0.604
WS	0.867	0.879	0.900	0.602

Discriminant validity was assessed using the Heterotrait-Monotrait Ratio (HTMT) and the Fornell-Larcker criterion. Table 2 shows that HTMT values ranged from 0.119 (Workplace Spirituality–Green HRM) to 0.731 (Workplace Spirituality–Employee Productivity), all below the threshold of 0.85, suggesting that the constructs were adequately distinct from one another. Furthermore, Table 3 demonstrates that the Fornell-Larcker criterion confirmed discriminant validity, as the square root of the AVE for each construct (e.g., 0.835 for Employee Productivity, 0.822 for Inclusive Leadership, 0.776 for Workplace Spirituality) exceeded its correlations with other constructs. This indicates that each construct shares more variance with its own indicators than with those of other constructs, thereby validating the distinctiveness of the measurement model.

Table 2. Heterotrait-monotrait ratio (HTMT) – Matrix.

	EP	GH	IL	PS	RHP	WS
EP						
GH	0.126					
IL	0.372	0.251				
PS	0.713	0.400	0.352			
RHP	0.503	0.210	0.334	0.686		
WS	0.731	0.119	0.469	0.529	0.355	

Table 3. Fornell-Larcker criterion.

	EP	GH	IL	PS	RHP	WS
EP	0.835					
GH	0.070	0.779				
IL	0.338	0.167	0.822			
PS	0.634	0.343	0.319	0.774		
RHP	0.504	0.193	0.325	0.709	0.777	
WS	0.657	-0.022	0.413	0.463	0.353	0.776

3.3 R-square

The coefficient of determination (R^2) measures the proportion of variance in the endogenous constructs explained by the predictor variables, thereby indicating the model's explanatory power. As presented in Table 4, the R^2 value for Employee Productivity (EP) was 0.401, with an adjusted R^2 of 0.399. This indicates that the model explains 40.1% of the variance in employee productivity. Although this represents a moderate level of explanatory power, it suggests that inclusive leadership, workplace spirituality, Green HRM, relational HR practices, and psychological safety collectively make a substantial contribution to employee productivity in Malaysian SMEs. For Psychological Safety (PS), the R^2 value was 0.609, with an adjusted R^2 of 0.603, indicating that 60.9% of the variance in psychological safety is explained by inclusive leadership, workplace spirituality, Green HRM, and relational HR practices. This relatively high explanatory power underscores the importance of organizational leadership and HRM practices in fostering employees' perceptions of psychological safety. These findings are consistent with previous studies demonstrating that effective leadership behaviors and supportive HRM systems are key antecedents of psychological safety in SME settings [9]. Overall, the R^2 results indicate that the proposed model has satisfactory explanatory power, particularly for psychological safety, supporting its role as a key mediating mechanism through which leadership and HRM practices enhance employee productivity [6].

Table 4. Coefficient of determination (R^2) and adjusted R^2 values.

	R-square	R-square adjusted
EP	0.401	0.399
PS	0.609	0.603

3.4 Hypothesis testing.

The results of the structural equation modeling (SEM) analysis for the direct relationships are presented in Table 5. Green Human Resource Management (Green HRM) had a significant positive effect on Employee Productivity ($\beta = 0.153$, $t = 6.669$, $p < 0.001$), indicating that sustainability-oriented HRM practices enhance employee performance by fostering greater engagement and organizational commitment [11, 14]. Green HRM also had a significant positive effect on Psychological Safety ($\beta = 0.242$, $t = 6.741$, $p < 0.001$), suggesting that environmentally responsible HRM practices promote a workplace climate characterized by trust and employee well-being [10]. Inclusive Leadership did not significantly influence Employee Productivity ($\beta = -0.013$, $t = 0.499$, $p = 0.618$) or Psychological Safety ($\beta = -0.021$, $t = 0.496$, $p = 0.620$). These findings indicate that, within the sampled Malaysian SMEs, inclusive leadership alone was insufficient to directly improve employee productivity or foster psychological safety, contrasting with previous studies that have reported positive relationships [4].

Table 5. Results of the structural model analysis showing the direct effects among inclusive leadership, workplace spirituality, Green HRM, relational HR practices, psychological safety, and employee productivity.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
GH -> EP	0.153	0.155	0.023	6.669	0.000
GH -> PS	0.242	0.244	0.036	6.741	0.000
IL -> EP	-0.013	-0.013	0.026	0.499	0.618
IL -> PS	-0.021	-0.021	0.042	0.496	0.620
PS -> EP	0.634	0.635	0.039	16.360	0.000
RHP -> EP	0.362	0.364	0.022	16.612	0.000
RHP -> PS	0.572	0.574	0.030	19.140	0.000
WS -> EP	0.174	0.176	0.030	5.810	0.000
WS -> PS	0.275	0.277	0.040	6.868	0.000

Furthermore, Table 5 shows that Psychological Safety had a strong positive effect on Employee Productivity ($\beta = 0.634$, $t = 16.360$, $p < 0.001$), demonstrating that employees who perceive a psychologically safe work environment are more likely to achieve higher levels of productivity [7, 8]. Relational HR Practices significantly influenced both Employee Productivity ($\beta = 0.362$, $t = 16.612$, $p < 0.001$) and Psychological Safety ($\beta = 0.572$, $t = 19.140$, $p < 0.001$), highlighting the importance of mentoring, developmental opportunities, and supportive HRM practices in enhancing employee performance and creating a psychologically safe workplace [5, 23]. Similarly, Workplace Spirituality had significant positive effects on Employee Productivity ($\beta = 0.174$, $t = 5.810$, $p < 0.001$) and Psychological Safety ($\beta = 0.275$, $t = 6.868$, $p < 0.001$), indicating that a work environment characterized by meaning, purpose, and shared values strengthens employees' sense of trust and belonging, ultimately improving productivity [17, 19].

The results of the mediation analysis are presented in **Table 6**. The findings indicate that Psychological Safety significantly mediated the relationships between Relational HR Practices and Employee Productivity ($\beta = 0.362$, $t = 16.612$, $p < 0.001$), Workplace Spirituality and Employee Productivity ($\beta = 0.174$, $t = 5.810$, $p < 0.001$), and Green HRM and Employee Productivity ($\beta = 0.153$, $t = 6.669$, $p < 0.001$). These significant indirect effects suggest that organizational practices enhance employee productivity by fostering a psychologically safe work environment. However, the indirect effect of Inclusive Leadership on Employee Productivity through Psychological Safety was not significant ($\beta = -0.013$, $t = 0.499$, $p = 0.618$), indicating that Psychological Safety did not mediate this relationship in the present study.

Table 6. Results of the mediation analysis showing the specific indirect effects of inclusive leadership, workplace spirituality, Green HRM, and relational HR practices on employee productivity.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
RHP -> PS -> EP	0.362	0.364	0.022	16.612	0.000
WS -> PS -> EP	0.174	0.176	0.030	5.810	0.000
GH -> PS -> EP	0.153	0.155	0.023	6.669	0.000
IL -> PS -> EP	-0.013	-0.013	0.026	0.499	0.618

3.5. Discussion

This research explores the intricate relationships between inclusive leadership, workplace spirituality, green HRM, relational HR practices, psychological safety, and employee productivity in Malaysian SMEs. The results indicate that psychological safety (PS) plays the most significant role in enhancing employee productivity, consistent with existing literature emphasizing the importance of safe and supportive work environments for fostering innovation and engagement [7, 8]. The positive path coefficient of 0.634 with a highly significant p-value ($p = 0.000$) confirms that psychological safety is a critical driver of productivity outcomes. This finding reinforces the argument that SMEs which cultivate trust, openness, and supportive climates are better positioned to improve operational efficiency and resilience. Relational HR practices (RHP) also demonstrated a strong and significant effect on both psychological safety ($\beta = 0.572$, $p = 0.000$) and employee productivity ($\beta = 0.362$, $p = 0.000$). This suggests that mentoring, developmental training, and supportive HRM systems directly enhance employee outcomes, while simultaneously fostering environments where employees feel safe to contribute ideas and collaborate [5, 14]. Workplace spirituality (WS) and green HRM (GH) similarly showed significant positive effects on psychological safety and productivity, highlighting the importance of values-driven and sustainability-oriented HRM practices in shaping employee experiences [11, 19]. Interestingly, inclusive leadership (IL) did not exhibit a significant direct or indirect effect on psychological safety or productivity ($p > 0.05$). This result contrasts with prior studies that emphasize the role of inclusive leadership in fostering psychological safety [4, 9]. One possible explanation is that in Malaysian SMEs, HRM practices and organizational culture may play a more dominant role than leadership behaviors in shaping employee perceptions. This finding suggests that leadership inclusiveness alone may be insufficient unless supported by strong HRM systems and workplace practices. The results confirm that psychological safety is the central mediating mechanism through which HRM practices and workplace values translate into productivity outcomes. The significant indirect effects of RHP, WS, and GH on productivity via psychological safety further reinforce this conclusion.

3.6. Main findings and implications.

The main findings highlight the central role of psychological safety in driving employee productivity in Malaysian SMEs. SMEs that invest in relational HR practices, workplace spirituality, and green HRM are better positioned to foster psychological safety, which in turn enhances innovation, cooperation, and resilience. The study also reveals that inclusive leadership, while conceptually important, did not show a significant effect in this context, suggesting that HRM systems and workplace culture may be more influential in shaping employee outcomes. For policymakers and practitioners, these findings imply that strategies to strengthen SME competitiveness should prioritize HRM practices that emphasize employee well-being, sustainability, and values alignment. Government initiatives such as the SME Masterplan and Industry4WRD can be further supported by policies that encourage SMEs to adopt relational and green HRM practices, thereby fostering psychological safety and improving productivity.

3.7. *Theoretical contributions.*

This research contributes to the literature by providing empirical evidence on the interplay between leadership, HRM practices, psychological safety, and employee productivity in SMEs. While previous studies have examined these factors in isolation, this study integrates them into a cohesive model, offering a more comprehensive understanding of how organizational practices interact to influence productivity. The findings extend Social Exchange Theory (SET) by demonstrating that reciprocal exchanges between employees and organizations are strengthened through psychological safety, and they support the Job Demands-Resources (JD-R) Model by showing that HRM practices provide critical resources that enhance engagement and performance [21, 24].

3.8. *Practical contributions.*

The study's findings offer valuable insights for SME owners, HR practitioners, and policymakers in Malaysia. SMEs should prioritize relational HR practices such as mentoring and developmental training, alongside workplace spirituality and green HRM, to foster psychological safety and improve productivity. Inclusive leadership should be integrated with these practices to maximize its effectiveness [24]. Policymakers can support SMEs by designing frameworks that encourage sustainability-oriented HRM, promote values-driven workplace cultures, and provide resources for employee development [25]. By adopting these strategies, SMEs can strengthen workforce resilience and competitiveness in Malaysia's evolving business landscape [26].

4. Conclusion

This research highlighted the key factors influencing employee productivity in Malaysian SMEs, focusing on inclusive leadership, workplace spirituality, green HRM, relational HR practices, and psychological safety. The study underscored the need for a comprehensive and integrated approach to SME growth, with psychological safety as the central driver of productivity. While inclusive leadership did not show a significant effect, HRM practices and workplace values were found to be critical in shaping employee outcomes. The findings emphasize that SMEs must prioritize relational HR practices, sustainability-oriented HRM, and values-driven workplace cultures to foster psychological safety and resilience. These results align with Malaysia's national initiatives aimed at strengthening SME competitiveness, suggesting that workforce development and organizational culture are pivotal for sustaining productivity. Future research should adopt longitudinal designs and explore additional variables such as organizational culture, leadership styles, and external policy frameworks to deepen understanding of the drivers of SME performance.

Acknowledgments

The authors would like to acknowledge assistance of the Editor and Reviewers in the preparation of the article for publication.

Author Contribution

Wahida Chowdhury, Niaz Pervez, Fahrin Saif, and Shanjida Arafat contributed to the conceptualization, discussion, conclusion, and writing of the manuscript. Niaz Pervez and Fahrin Saif were responsible for the methodology. All authors reviewed and approved the final version of the manuscript.

Competing Interest

The authors declare no conflicts of interest.

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