Inclusive Leadership and Employees Pro-Social Rules Breaking in Banking and Insurance Sector of Peshawar: Mediating Role of Psychological Safety and Moderating Effect of Leader-Member Exchange

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Abstract

This research critically investigated the intervening effect of psychological safety and the role of Leader member exchange (LmX) as a moderator on inclusive leadership and employee pro-social rule-breaking. The study analyzed the data gathered via survey questionnaires from 250 workers in the insurance and banking sectors in Peshawar. The validity and reliability of the scales were verified, and hypotheses were tested. The research comes to the conclusion that inclusive leadership has a positive effect on Pro-Social Rules breaking (PsRb). The research also found that psychological safety affects the relationship between Inclusive leadership (InCl) and employees' pro-social rules breaking (PsRb). The researcher also noticed that the relationship between InCl and Psychological Safety (PsySafety) is moderated by LmX, which indicates that high LmX implies a high relationship between InCl and PsySafety and low LmX means a low relationship between the two. The study recommended that the insurance and banking sectors should adopt inclusive leadership characteristics to encourage employees to work for organizational benefits, customers and their colleagues.

Keywords: inclusive leadership, pro-social rules breaking, psychological safety, leader-member exchange

Introduction

Organizations' external environment has become uncertain and complex in today's global world. In turn, the prevailing frame of rules and regulations creates hurdles in handling such a complex environment due to employees' inflexibility and lack of boldness (*Shum et al., 2019; Huang et al., 2014).* So, for the benefit of organizations, some of the employees may break the prevailing rules, which is known as Pro-social rules breaking behavior *(Morrisson, 2006).* According to *Dahling et al. (2012)*, Pro-social rules breaking (PsRb) helps employees with better performance and customer service. PsRb also helps management note prevailing policy weaknesses and advise new procedures for better organizational

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performance. However, there needs to be more research work in the field of PsRb (*Morrisson, 2006; Kahari et al., 2017*).

The leader has a vital role in motivating employees, i.e., Effective leadership can bring innovation in the employees' behavior *Jaussi & Dionne, 2003*).

According to *Reiter-Palmon and Illies (2004),* Leaders give more time, informational, and financial resources to facilitate subordinates' creative thinking. Leaders can encourage subordinate involvement in new activities *(Atwater & Carmeli, 2009)*. According to *Amabile (1983)*, there is a direct relation between motivation and creativity. Leaders can motivate employees to be involved in new activities by providing different rewards, i.e., incentives and Bonuses (*Carmeli & Schaubroek, 2007*). Leaders support their subordinates to adopt creative behavior (*Arad et al., 1997; Tierney et al., 1999*). Due to a high level of motivation, it has been proved that the leadership role has a positive link with employees' responses and engagement in new activities. *Hunter, Bedell, and Mumford (2007)* have also proved that leaders' positive behavior directly relates to employees' creative responses.

According to *Mumford et al. (2002),* leadership is directly connected with creativity. However, it is important to understand particular behaviors in leaders that are essential for creative behavior in employees. The leaders' supporting behavior is one of the critical behaviors pointed out in many research studies *(Oldham & Cummings, 1996; Tierney et al., 1999)*. Understanding effective leadership has become a topic of interest and challenging for every researcher, organization, and society to understand effective leadership worldwide.

Despite breaking present rules for the benefit of the organization, employees will still be faced by employees for violating such rules. Social information processing (SIP) theory tells that before breaking the rules, workers need to keep in mind the reaction of their leaders, who may face criticism from external factors as they are the makers of the rules (*Salancik & Pfeffer, 1978; Zhu et al., 2018).* In past, researchers have examined the impact of Inclusive leadership (InCl) on PsRb, but there is a gap of research on the link between InCl and its characteristics on PsRb (*Majeed et al., 20*18). Those employees who perceive characteristics of their inclusive leaders may be found more engaged in PsRb due to no negative results from their leaders or managers. This behavior from supervisor will encourage workers to violate further present rules for the benefit of organizations (*Choi et al., 2017*). So, this study aims to examine the effect of inclusive leadership and its characteristics on PSRB.

Inclusive leadership has a direct relationship with workers' PsRb; that's why; leaders' behaviors have a significant psychological impact on employees' perception of their leaders (*Walumbwa & Shaubroek, 2009*). The philosophy of "daring to do it" and "wanting to do it" relates to employees' engagement in PsRb. According to *Carmeli & Gittel (2009)* and *Baer & Frese (2003)*, the term 'daring to do it" means that employees do not feel risk of criticism from their supervisors and also feel psychologically safe for their behaviors. On the other side, the term 'wanting to do it" means level of motivation and confidence in employees to violate present rules and tackles issues in new way (*Hogg & Knippenberg, 2003; Ellemerd et al., 2004).* Inclusive leadership increases. The level of "daring to do it" and "wanting to do it," which also causes an increase in the level of psychological safety (PsySafety) and leadership identification is increased by inclusive leadership (*Guillen et al., 2015; Javed et al., 2017*). So, it is concluded that PsySafety mediates the relationship between InCl and PsRb.

According to *Van Breukelen et al. (2006) and Schriesheim et al. (1999),* leader member exchange (LmX) is vital in effective leadership. The concept of "Insiders" and "outsiders" are also formed for the exchanges between supervisors and employees. This will create more opportunities for insiders to remain close to their leaders and have positive relations with them *(Graen & Uhl-Bien, 1995; Dienesch & Liden, 1986).* The way of acquiring information and having a positive attitude also affect employees' Psy safety and leadership identification to a large extent (Liu et al., 2015). Thus, LmX can improve the perception of individual positive attitudes and inclusive behavior, which will improve the level of psychological safety and increase PsRb behaviors *(Nishii & Mayer, 2009; Carmeli et al., 2010).*

In the current chaotic and fiercely competitive market, businesses are always looking for new and innovative ways to offer their clients the greatest goods and services possible. Similar to other service firms, banks and insurance companies face ongoing challenges in adapting to the external environment, given the swift changes in customer priorities and preferences *(Kim and Cruz, 2022).* While traditional customers focus on price, in the last ten years, customers have become more concerned with quality and have ignored pricing. Most firms were unable to adapt their current policies and procedures to meet the changing needs of their customers due to the quick changes in customer behavior. This places organizations in a position where the laws and policies in place, which are designed and implemented to increase organizational efficiency, actually

work against the growth of those organizations *(Khattak et al., 2022; Shum et al., 2019).*

Proactive employees may break the law in such circumstances in order to increase organizational effectiveness rather than for personal gain. Pro-social rule breaking is the phrase used to describe the occurrence where individuals disobey organizational rules for the sake of organizational efficiency, consumer facilitation, or stakeholder benefits *(Morrison, 2006).*

In the current competitive landscape, companies must motivate their staff to deliver superior customer service regardless of compliance with established policies and guidelines (*Khattak et al., 2022)*. As a result, PsRb is the only option available to businesses looking to thrive in the marketplace. The problem, though, can occur when the people who create the rules see that their subordinates are breaching the rules and decide to take harsh measures against those who do so. As a result, even when breaking the law helps the company, employees of the companies could be reluctant to do so *(Wang and Shi 2021)*. As a result, managers in companies ought to exhibit these kinds of actions and determine the proper cause for rule breach (*He et al., 2018; Li and Peng, 2022)*. As a result, inclusive leadership, as practiced by *Qasim et al. (2022)*, possesses the ability to enable subordinates to make decisions that are advantageous to the organization. Therefore, the primary goal of this endeavor is to ascertain whether inclusive leadership affects workers' pro-social rule-breaking behaviors. The current study additionally looks at PsySafety intervening processes on the link between in InCl) and PSRB, as suggested by earlier studies *(e.g., Wang and Shi, 2021; Khattak et al., 2022; He et al., 2021*). Furthermore, the moderating function of LmX is also examined. Therefore, the association between InCl and PsySafety is regulated by LmX in this study's example of moderated mediation.

Literature Review
Inclusive Leadership and Pro-Social Rule Breaking

Employees with close relations with their leaders will be found to violate organizational rules compared to those not close to their leaders *(Fleming, 2019).* The literature suggests that the LmX concept is more concerned with the relationship between managers and their followers *(Graen & Uhl- Bien, 1995).* The relation between leaders and followers is called LMX and contains both in and out-group members. Due to mutual interest and understanding, leaders establish close relationships with their in-group members *(Day & Miscenko, 2016).* According to *Myers (2006),*

the relationship between leaders and out–group members is not close. Due to close relationships with their upper management, the members of group perform better than members of out-group *(Illies et al., 2007)*. *Lee et al. (2019)* stated that the high-quality relationship between leader and followers enhances the level of trust of leaders in their employees, which encourages subordinates to perform better in difficult situations as they have support from their leaders.

Nguyen, in 2020, stated that a leader's success is directly connected with organizational success; therefore, LmX motivates subordinates to play their role for the sake of the organization. According to *Liao et al. (2019),* High LmX means the close relationship between leaders and employees, motivating employees to perform better for all stakeholders. Group members are fully supported by their leaders *(Gooty & Yammarino, 2016)*. Employees will be found engaged in breaking organizational rules due to their leaders' support and trust for the sake of organizational benefits. Research has proved that positive leadership behavior positively affects employees PsRb *(Tu & Luo, 2020)*. InCl has positive effect on employees PsRb *(Wang & Shi, 2020)*. Due to high trust and understanding, leaders have positive relations with their in-group members *(Zhu et al., 2018)*. These factors encourage subordinates to take risks and violate existing rules for the benefit of their organizations.

The theory which explains the relation between leaders and followers is called social identity theory (SIT). According to SIT, person identification is based on affiliation to a particular group. There are two groups called in-group and out-group members. The members of in group are found more involved in PsRb *(Tajfel & Turner, 1986)*. According to *Wang et al. (2019)*, the in-group members are found to be more involved in PsRb. Thus, members with highly close relations with their leaders will be more involved in breaking existing rules than those with low, close relations with their leaders due to trust and support.

H1: There is positive relationship between InCl and PsRb.

Role of Psychological Safety

Psychological safety is when employees do not care about their self–image, status and career in performing duties *(Hu et al., 2018)*. Workers will work freely if they have no risk of punishment from their leaders *(Detert & Burris, 2007)*. PsRb means breaking organizational rules by employees for the organization's benefit, for which they may face consequences *(Salancik & Pfeffer, 1978)*. Therefore, employees will

consider their leaders' behavior before engaging in breaking rules *(Dahling et al., 2012).*

Employees feeling psychologically safe and having no worry of blame for their PsRb behavior will be found more engaged in PsRb *(Javed et al., 2017).* Inclusive leadership provides employees with the supportive and inclusive environment required for psychological safety *(Carmeli et al., 2010).* Employees are encouraged by steps taken by inclusive leaders and play a role in bringing innovation to their products *(Hantula, 2009; Choi et al., 2017).* So, inclusive characteristics of leaders will motivate employees to engage more in PsRb for the development of the organization due to no negative actions from their leaders.

Psychological safety is a variable of an individual level and response to the work environment and individual level characteristics, as quoted in *Yang Minxi (2002).* Every individual describes a situation from his perspective as per expected results and takes the initiative from what they perceive from their psychological climate *(Jones & James, 1979).* Psychological safety is when employees feel the work environment is helpful. It may also mean that employees do not worry about their status, self-image, and career growth (*Brown & Leigh, 1996).*

According to *Schein & Bennis (1995),* employees will be psychologically safe if they can change with change in an organizational environment. Psychological safety means when employees do not feel any risk to their career growth, status, self-image, and position while behaving differently as per situation demand *(Kahn, 1990).* The psychological safety hierarchy consists of individual, group, and organizational levels *(Ling Bin, 2010).*

PsySafety measures employees' psychological contracts and the organization's trust. *Kahn (1990)* stated that psychological safety may be vital when the interpersonal environment is trustworthy for individuals. The perception of PsySafety is considered as an intermediary link between the characteristics of the organization and individual outcomes, i.e., the attitude of employees, performance, and motivation *(Li Rui, 2009; Edmondson, 2003).*

The importance of trust at both group and organizational levels has been highlighted by researchers from the very beginning *(Kramer, 1999). Robinson (1996)* stated that trust means the expectation that the actions of other colleagues should be in favor of one's benefit, and one should be ready for such actions. The risk factor makes the two concepts similar, as trust and psychological safety depend on risk minimization. These two concepts have positive results for both organizations and teams.

H2: PsySafety mediates the relationship between InCl and PsRb.

Moderating Role of Leader-member Exchange

According to *Wang. H et al. (2005),* leadership effectiveness depends on leaders' behavior and LmX. Due to a shortage of resources, the exact relations between leaders and employees may not be established. However, the managers will try to keep close relationships with their employees as per their performance and vice versa *Breevaart et al., (2015).* The close relationship between leaders and subordinates will create trust, and employees will feel like insiders (*Liden et al., 1997; Dulebohn et al., 201; Kimura, 2013)*. Creating trust among employees will lead to a sense of Psy safety *(Carmeli & Gittell, 2009).*

LmX affects each individual PsySafety as well as LI. In regular administration, it is seen that because of stronger relationships and higher quality, employees are more receptive to the opinions of their leaders and more readily persuaded by them *(Qu et al., 2015; Harris et al., 2009).* Openness, availability, and accessibility—all-inclusive behaviors—may benefit workers; these followers will also internalize the values of their leaders *(Loi et al., 2014).* As insiders, workers might have more possibilities to communicate with their superiors, which will improve subordinates' comprehension of their leaders' objectives and help them develop their sense of self *(Walumbwa et al., 2011; Z. Liu et al., 2013).* Employees will therefore be increasingly tied to InCl at higher LMX. Increased LI will inspire workers to emulate their leaders' behavior and establish values by using them as a point of reference *(Johnson et al., 2012).* According to *Choi et al. (2015) and (2017),* inclusive leaders think that staff members can improve organizational efficiency by bringing fresh perspectives and approaches. Subordinates who are aware of this will act in a way that will further the organization's growth, even if it means going against the rules as they currently stand.

Research revealed a strong correlation between the idea of LmX and the relationship between leaders and followers *(Graen & Uhl-Bien, 1995).* The relationship between managers and staff is referred to as LmX, and it is made up of both group members and out group members. There is a strong bond between leaders and members of the in group based on benefits and mutual trust *(Day & Miscenko, 2016),* while there is not as much of a closed relationship between leaders and members of the out group *(Myers, 2006).* Members of the in group perform better than members of the out group because of their superior quality and close bond with their leaders *(Ilies et al., 2007).* Good relationships between managers

and staff foster confidence in their subordinates, which in turn motivates workers to take risks when faced with challenges because they know their managers will stand by them *(Lee et al., 2019).*

Due to the sense of insiders, the employees will work more than their duties and try to keep good relations with their managers *(Aryee & Chen, 2006; Hui et al., 2008)*. The inclusive characteristics will create a sense of psychological safety among employees, which will increase employees' PsRb behavior *(Carmeli et al., 2010).* According to *Liden et al. (2006)*, workers with high levels of LmX will engage more in PsRb as compared to low LmX as employees with high LmX will feel psychologically safe and have no worry of punishment from their leaders in case of any mistake, while the employees with low LmX will feel unsafe from their leaders. According to *Johnson et al. (2012)*, a high level of LmX directly relates to Inclusive leadership.

Nguyen (2020) stated that the success of a leader is closely related to the organization's success. Therefore, higher LmX motivates employees to perform better for organizational benefits. Inclusive leadership has a positive and direct relation with PsRb *(Wang & Shi, 2020).* According to *Tu & Luo (2020),* constructive PsRb is the result of the positive behavior of leaders. Leaders establish strong relations with their subordinates based on mutual trust and affiliations (*Zhu et al., 2018).* The statement issued by *Denesch & Liden (1986),* that "The dialogue between leaders and employees cannot be determined to know out the type of exchanges" has opened a new Pandora for researchers to know out the process of development of LmX *(Wayne & Ferris, 2009; Liden et al., 1993).*
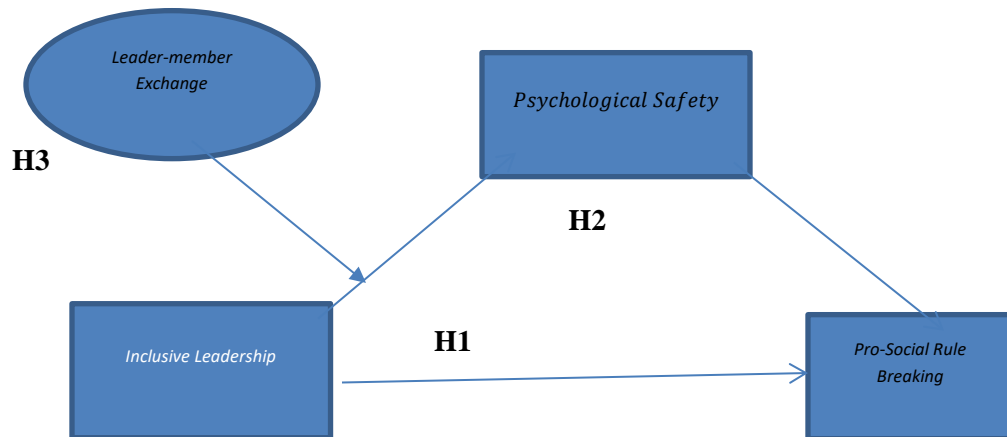*H3: LmX moderates the relationship between InCl and PsRb.*

Figure 1: Framework of the study

Methodology
Population and Sample

The present population of the study was employees in banking and insurance organizations operated in Peshawar. The total population was about 3500 employees working in insurance and banking sector of Khyber Pakhtunkhwa. The study used a non-probability sampling technique. This technique was used for time saving and easy collection of data from target population. The present study used a power analysis procedure through G* Power estimation for sample size selection. Based on G*Power analysis, it was recommended that a sample size of 250 is appropriate sample size for the present research. Therefore, the current research chooses a sample size of 250 for the data collection procedure.

Measurement

A three-dimensional scale (availability, openness, and accessibility) developed by *Carmeli et al., (2010)* was adopted for measurement of InCl This scale has total nine items. The dimension availability has four statements, e.g., "My leader listens to me". The dimension of openness consists of three statements, e.g., "My leader likes to hear new ideas." The dimension of accessibility has two items, e.g., "My leader is always accessible whenever his support is required." A thirteen-item scale given by Dahling et al., (2012) was used for measurement of PsRb. It consists of three dimensions, e.g., efficiency, customer assistance, and co-worker assistance. *Edmondson (1999)* developed a five-item scale for measuring psychological safety. It is a single-dimension scale. A scale created by *Graen and Uhl-Bien* in 1995 was applied for measurement of LmX. All the statements were measured on five–point Likert scale. The scales have also previously been used in past research works, e.g., *Carmeli et al. (2010); Khattak et al., 2022; Irshad et al., 2022 and Chen et al., 2019; Alfes et al., 2013*.

Results
Reliability analysis
Table 1
Reliability Statistics

Variable name	No. of items	Cronbach's Alpha
IncL	9	.962

PsySafety	5	.901
PsRb	13	.951
LmX	7	.938

According to *Khattak et al., 2018 Field, 2013 Sekeran and Bougie, 2016*, a value of alpha closer to 1 is more appropriate, and minimum should not be less than .06. In the above table, the alpha values of all the scales used in the study are more than .06, which confirms the reliability of the items.

Hypotheses Testing
Regression Analysis
Table 2.
Regression

Model		Unstandardized Coefficient		Standardized Coefficient	t
F	Sig				
		B	Std. Error	Beta	
Constant	.411		.067		
6.021	3112.050		.000		
1 InCl	.901		.014	.944	
56.602					
R²: .893					

The value of R^2 represents that InCl explains 89.3% variation in PsRb. The figures in the table depicts that there is positive and significant relation between InCl and PsRb. The values of *F* and *t* also confirm fitness of the model.

Moderated Mediation Analysis
Table 3
Mediation Effect

	Coeff	se	t	p	
LLCI	ULCI				
Constant	.18	.07	3.47	.00	
.08	.30				
InCl	.51	.04	16.21	.00	
.42	.54				
PsySafety	.43	.04	14.45	.00	
.37	.50				

 Dependent: PsRb

The t values of both variables, i.e., PsySafety and InCl, are well above the standard value. The p values of these variables are also less than 0.05, which means that InCl and PsySafety have a significant relation with PsRb. The decision of the mediator effect is also based on t and p values. In this case, the mediation is partial, as there is a significant relationship between InCl and PsRb in the inclusion and non-inclusion of a mediating variable.

Table 4
Moderation Effect

Model	Coeff	se	t	p	LLCI	ULCI	R	R^2
F	Effect							
Const	-1.06	.46	-2.25	.01	-2.01	-.13		
InCl	1.08	.10	9.07	.00	.84	1.32		
LmX	.63	.12	4.63	.00	.35	.90		
Int 1	.10	.02	-3.37	.00	-.15	-.04		
							.92	
.84	669.59							
Direct effect		.02	16.30	.00	.42	.54		
.51								

The t values of InCl, LmX, and interactive effect are well above the standard value of -+(1.96), and the p values of these variables are significant, which confirms the significant relationship between InCl, LmX, and PsySafety. The interactive effect also shows that moderating variables, i.e., LmX, positively affect InCl and PsySafety. *Hayes and Preacher's (2013)* model were used for moderated mediation analysis. The result proves that InCl affects PsRb indirectly through PsySafety by using moderation variable at all levels, e.g., low, medium, and high.

Findings and Recommendations

The present study aimed to determine the direct impact of InCl on PsRb and the indirect effect through intervening variable psychological safety via moderated variable leader-member exchange in Peshawar's banking and insurance sector. The data was collected from 250 employees of the selected field, and finally, 215 questionnaires were used for analysis.

The remaining questionnaires either needed to be completed or filled correctly. After confirming the scales' reliability and validity, different tests were conducted to dig out the relationship among the study variables. The study found that there is positive and significant relation between InCl PsRb. Therefore, hypothesis H1 was accepted. The results of the research agree with past work in the field. According to *Wang & Shi (2020)*, InCl has a direct and positive relationship with PsRb. Huang et al., in their study in 2014, also found that leadership positively affects employees PsRb. *Khattak et al. (2022*) also proved that InCl directly and positively affects employees PsRb.

The study also found that psychological safety mediates the relationship between InCl and PsRb. Therefore, the H2 was accepted. The result of the study is same as in previous research. *Wang & Shi (2020)* stated that psychological safety intervenes the relationship between InCl and PsRb. According to *Khattak et al. (2022),* the relationship between InCl and PsRb is also mediated via psychological safety. This research found that moderator naming LmX also moderates the relationship between InCl and PsySafety. Therefore, hypothesis H3 was also accepted. The results are tally with that of *Wang &Shi (2020) and Adrie Octavio (2020)* studies results.

In today's competitive environment, leaders are advised to adopt InCl characteristics to motivate employees to break existing rules for organizational benefits. Leaders should assure their employees that no action will be taken against them if they violate organizational rules for organizational benefits. Leaders should provide such environment to their employees in which they feel safe in case of pro-social rules-breaking behavior. Therefore, leaders should keep close and positive relations with their employees and solve their problems.

Conclusion

The goal of the current study was to determine the direct correlation between INCL and PSRB. Examined were the mediating variables' indirect effects on the associations, such as PsySafety. Additionally, LmX's moderating influence on the link between INCL was also investigated. In Khyber Pakhtunkhwa, the relationship was investigated in the banking and insurance sectors. Once the fundamental prerequisites for the analysis were satisfied, basic regression, mediation, and moderation analyses were conducted. The study came to the conclusion that InCl and PsRb had a positive and substantial relationship. Additionally, the study discovered that PsySafety, a mediating variable, had a considerable impact on the association between InCl and PsRb. However, this study discovered

that LMX, the moderating variable, functions as a moderator between InCl and PsySafety.

Limitations, Delimitations and future directions

This study contributes to the prevailing work in different aspects but has some delimitation that gives a gap for future work. Firstly, this study has been conducted in the private sector, i.e., banking and insurance, so a question on the generalizability of the research findings may be raised. Therefore, the same study may be conducted in the government sector, and the results may be compared. Secondly, this study has only been conducted in the banking and insurance sector; the same may be conducted in other industries like health, manufacturing, education, etc. Third, in this research, the mediating effect of PsySafety has only been checked. In future, researchers may check the mediating role of another variable, i.e., Leadership identification, on the relationship of InCl and PsRb. In this study, the impact of InCl on PsRb has only been checked; in the future, the impact of other leadership styles on PsRb may also be checked.

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