Inclusive Leadership and Employee Innovation: Driving Change in Pakistan's Textile Sector

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Abstract

This paper examines the impact of inclusive leadership on employee innovative behavior (EIB) in the textile industry in Pakistan, a very important industry confronting global competition, technological advances, and the constant need for innovation. Based on the Social Exchange Theory and Leader-Member Exchange Theory, the study examines the mediating effects of psychological safety and creative self-efficacy (CSE) and the moderating effects of innovation rewards. A cross-sectional, quantitative survey was used, yielding 323 valid responses from 35 major textile companies. Data analysis was performed in SPSS and SmartPLS, including descriptive statistics, ANOVA, reliability analyses, and structural equation modelling. A sample size of 323 employees was sampled out of 35 textile companies in Pakistan in this study, and the numbers were equally distributed across companies of varying sizes. The results indicate that the direct path coefficient (IL -> EIB) is considerable and the relation is positive (IL -> EIB: b = 0.365, p = 0.010), which means that inclusive leadership directly corresponds to employee innovative behavior. The model explains the innovative behavior of the employees up to 73.9 (R 2 = 0.739). Additionally, the models fit reasonably well, with SRMR = 0.121. The results indicate that inclusive leadership has a big positive impact on FSE indirectly and directly via CSE, with the innovative energies of employees being identified as one of its driving forces. Conversely, the outcomes of psychological safety could not be used to predict significantly innovative behavior, meaning that the extent of safety is not sufficient in a labor-intensive setting unless supported by other motivational forces. The effect of the inclusive leadership was reinforced by innovation rewards, but surprisingly, CSE came out weaker, which corroborates the fact that intrinsic motivation can be crowded out by extrinsic incentives. The research provides insights into the leadership and innovation literature by situating these dynamics in the context of a developing economy and provides practical recommendations for managers and policymakers on how to promote sustainable innovation in Pakistan's textile industry.

Keywords: Inclusive Leadership, Employee Innovative Behaviour, Psychological Safety, Creative Self-Efficacy, Innovation Rewards, Textile Industry, Pakistan

Introduction

Research Background

The contemporary business world can be described in terms primarily of the necessity to be innovative, flexible, and open-minded. Leadership styles have become central in defining how a firm will

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adapt to challenges and opportunities that are dynamic in this environment. The paradigm of inclusive leadership has turned into a crucial requirement, and organisations have acquired a chance to think of new diversity without affecting their capacity to make all their employees feel integrated and capable of playing a meaningful role (Korkmaz et al., 2022). Inclusive leadership is the opposite of common leadership practices, where a focus is placed on hierarchy in decision-making processes to facilitate collaboration, respect, and openness, which enables a situation where employees are allowed to show creative and innovative behaviour. The need to be inclusive is particularly important in other fields like the textile industry, where stiff competition and market forces require companies to always be innovative in achieving customer demands and differentiating their products.

The Social Exchange Theory (SET) and the Leader-Member Exchange (LMX) Theory can be theoretically linked to inclusive leadership. The SET emphasizes the need for reciprocity in the workplace relationship, and the principle is that the employees remain more committed and perform better when the leader places trust in them and is psychologically supportive (Ahmad et al., 2023). In a similar manner, the LMX theory emphasizes the importance of high-quality relations between leaders and employees founded on inclusiveness, trust, and respect, and inclusive leadership (Omilion-Hodges and Ptacek, 2021). The theories help explain how the inclusivity of leadership can not only create positive organisational climates but also alter their innovative behaviour (Nishii and Leroy, 2022). The empirical studies have found that inclusive leadership is directly related to job satisfaction, team integration, and innovation (Ashikali et al., 2021), which are critical components of a competitive advantage.

The relationship between innovation and leadership can be discussed using the textile industry in Pakistan because it provides a perfect environment. The sector is one of the largest bypasses to the national GDP and exports, which makes it not only one of the driving forces of the economy but also a realm of global competition (Aneel & Gyarmati, 2022). However, the threat of obsolescence, low diversification, and stiff international competition remain in the industry (Khaskheli and Ali, 2023). Innovation is now a survival and growth-based strategy. It is assumed that innovation in work behaviour by workers in Pakistan textile businesses can assist organisations in overcoming such barriers by coming up with innovative products, processes, and improving productivity (Awan et al., 2021). With this nature of the industry issues, inclusive leadership proves to be an effective method since it engages and gains the trust of employees and creates a psychological and motivational climate where innovations can flourish (Muhammad et al., 2023).

Research Problem

Although the inclusiveness of leadership (IL) as an innovation promoter is increasingly gaining acceptance, the issue concerning how the given leadership type can influence an employee's innovative behaviour (EIB) in labour-intensive and export-oriented economies like the textile industry in Pakistan is not well understood. Such problematic approaches have been predominantly considered in Western and public-sector organisations (Nishii and Leroy, 2022; Ashikali et al., 2021), where the workplace structural and cultural environment significantly varies. Although social exchange theories should include Social Exchange Theory (SET) and Leader-Member Exchange (LMX), which suggest that reciprocity, trust, and respect are important, their application to South Asian manufacturing industries has not been studied in detail.

Moreover, existing literature has a tendency to overestimate the role of psychological safety (PS) as a universal mediator of innovation. Nevertheless, new data indicate the possibility of PS not necessarily being converted into EIB, especially in routine, hierarchical settings (Grailey et al., 2021). On the other hand, creative self-efficacy expertise (CSE) has developed as an enhanced determinant of innovation; however, its interaction with inclusive leadership in executing economies is understudied.

The other gap that is important is concerning the role of innovation incentives. Although the incentive system to induce creativity is extensively applied in textile organizations, the motivational crowding theory indicates that the extrinsic motivation system can interfere with intrinsic motivation variables, including CSE. Nevertheless, the existing empirical studies regarding the effects of rewards in positive or negative impacts on the IL-EIB relationship in high-pressure export industries are missing. Though the issue of inclusive leadership as a driver of innovation is currently subject to reproach, its processes and performance in emerging economies are not well comprehended. In particular, the connection between inclusive leadership and employee innovative behaviour (EIB) in a hierarchical, labour-populated setting (Pakistan textile sector) has never been properly investigated, nor the impact of mediators' contributions, including psychological safety, and creative self-efficacy, nor the effects of moderators, including innovation rewards, on the described relationships.

Pakistan is heavily export-led by the textile industry (with around 15 million people) and has played a key role in the development and competitiveness aspects of the economic sector (Pakistan Bureau of Statistics, 2024). However, technological obsolescence, low value addition, and intense competition in the global market remain among the challenges experienced in the industry (Khaskheli and Ali, 2023).

These forces make innovation not an option but a necessity for survival. Nevertheless, research on the role of leadership in enabling such innovation is strongly biased towards Western service or high-technological settings (Nishii and Leroy, 2022), which places a contextual disconnect between leadership practices that affect industries in which labour appears in exports. Thus, this research makes a vital contribution because it puts IL, PS, CSE, and innovation incentives in the context of the textile industry in Pakistan. The study analyses how inclusive leadership influences employee innovative behaviour within textile industries in Pakistan. It also examines the mediating roles of psychological safety and creative self-efficacy, and the moderating effects of innovation rewards, in the development of innovation in the textile sector. The following are three research objectives developed:

- To examine the effects of inclusive leadership on the innovative behavior of the employees in Pakistani textiles companies.
- To examine the mediating effects of psychological safety and creative self-efficacy on the relationship between inclusive leadership and employee innovative behavior in Pakistan textile firms.
- To examine the influence of inclusive leadership, psychological safety, and creative self-efficacy on employee innovative behavior in Pakistani textile companies, with the moderating effect of innovation rewards.

Literature Review

Inclusive leadership

Inclusive leadership has become an instrumental paradigm of modern organizational behavior, as it focuses on the role played by leaders in creating environments where every employee feels valued, respected, and part of the organization's mission. This style of leadership is not only based on recognizing diversity, but it also explicitly aims to integrate diversity into the process of decision-making, thus contributing to the improvement of organizational performance and innovation (Korkmaz et al., 2022). According to Shore and Chung (2022), the definition of an inclusive leader has been expanded lately to include the ability of leaders to design and sustain inclusive cultures that are dependent on diversity to succeed in the organization.

Furthermore, the theoretical guideline in insurance leadership is based on various frameworks. Based on Social Exchange Theory, leaders are supposed to offer psychological safety and support and employees respond through increased commitment and performance (Ahmad et al., 2023). Moreover, the Leader-Member Exchange

(LMX) Theory presumes that a strong relationship with employees that involves trust and respect is the foundation of inclusive leadership (Omilion-Hodges et al., 2021). According to the motivation-crowding theory, external rewards can either be supportive or detrimental to intrinsic motivation depending on their perceived informational or controlling nature.

In addition, inclusive leadership would contribute immensely to the innovation and involvement of employees in the textile industry in Pakistan. On the one hand, Javed et al. (2021) focused on the role of inclusive leadership in eliminating the obstacles to innovative working behavior among Pakistani textile enterprises. According to the findings of the study, inclusive leadership is capable of positively affecting the innovative work behavior, and Leader-Member Exchange is a mediating variable.

Muhammad et al. (2023) state that the leaders in the textiles and garments industry in Pakistan can use encompassing approaches towards employees to build their engagement and foster positive working environments. In this respect, enhanced business relations based on mutual trust and respect lead to increased innovative behaviour in workers. The textile sector can benefit from inclusive leadership, which would lead to effectiveness by innovating in order to advance the sector and improve its competitiveness in the market.

Psychological safety

The concept of psychological safety was introduced by Kahn (1990) and pertains to how an individual feels in regard to taking interpersonal risks in a situation, such as at the workplace. Psychological safety can be described as the sense of not being endangered concerning self-image, status, or career by speaking up, providing ideas, or asking questions (Prykhodko, 2021). In addition, Basit (2021) observes that this construct has been greatly researched in the field of organizational behavior because it has a far-reaching effect on team dynamics, learning behavior, and organizational performance. Moreover, Edmondson (1999) stressed that it might also be applied to instructing learning behaviours on a team level. When a sense of psychological safety is present, the team members become more open and knowledgeable, cooperate more efficiently, and conduct better activities (Edmondson and Bransby, 2023). The area of psychological safety in recent literature has been extended widely to include the organizational aspects. The systematic review by Vella et al. (2024) used a positive correlation between psychology and employee engagement, creative self-efficacy, and job satisfaction. Their study indicates that employees who perceive their working environment as psychologically safe will tend to provide innovative ideas and initiate active action to enhance organizational success.

Concerning the textile industry in Pakistan, psychological safety directly influences behaviour and outcomes that employees demonstrate in organizations. Ahmad et al. (2021) have conducted a study to find out how job-related stress affects people employed in the Pakistani textile industry. It has emerged that various occupational stress levels affect the emotional well-being of employees, lowering their job satisfaction and performance. The conclusion of the study pointed out the necessity of creating a psychologically safe environment at work to reduce stress levels and improve well-being.

Although this is claimed to make psychological safety a knowledge exchange and innovation-friendly environment, Graily et al. (2021) highlight the fact that it is less impactful in routinised and hierarchical environments. The inconsistency of this suggests that the mediating effect of psychological safety may be conditional, in terms of either context or culture, which is still an underutilized phenomenon in South Asian manufacturing sectors. Altogether, psychological safety makes one or another beneficial organizational outcome more apparent, i.e., more learning behaviours, employee engagement, and higher innovation levels. Thus, companies should balance psychological safety and positive conflict to avoid complacency.

Creative self-efficacy (CSE)

Creative self-efficacy (CSE), which is the belief in an individual's capacity to generate creative consequences, has become a subject of interest in the field of organizational psychology due to its substantial effect on innovation and output (Shaw et al., 2021). The foundation of CSE is the social cognitive theory that was formulated by Bandura (1997) and which states that self-beliefs of a person have an influential role to play in shaping their thinking on effective solutions, difficulties, and coming up with effective solutions. According to a study by Raihan and Uddin (2023), scholars with high CSE scores or creative people will follow a creative path and will become highly resilient when facing failure.

In addition, CSE has been identified to play a central role in defining innovative work behaviour in the Pakistani textile industry. According to the research by Javed et al. (2021), inclusive leadership positively influences creative work behaviour through CSE. This research indicates that confidence in the creativity of employees can be improved with the help of leaders who use inclusive practices. The strategic benefit of developing CSE is rooted in the fact that the textile industry is very competitive, and supporting leadership can be used as a tool to reach CSE, which will assist the organizations to be flexible and expand. However, high CSE may create innovations, yet it may also create overconfidence, which leads to risk-taking without careful consideration. The aim should be to strike a balance where organizations are open to creativity, but put in place a system to keep

ideas manageable and aligned with the organizational vision. Therefore, creative self-efficacy is an essential construct for individual and organizational creativity.

The act of appreciating and encouraging CSE, especially with the help of inclusive leadership coupled with an enabling work environment, will help to increase the innovation ability of an organization, which will help it to continue being successful in a competitive marketplace. Even though CSE is a reliable predictor of innovation (Shaw et al., 2021), it might also lead to taking risky steps that do not affect organisational goals (Raihan and Uddin, 2023). Hence, these conflicting findings indicate that the impact of inclusive leadership on CSE in labour-intensive organisations should be studied.

Innovation rewards

Innovation rewards, both monetary and non-monetary, are vital in creating a culture of creativity and constant enhancement in organizations. Innovations can be identified and rewarded by the company to encourage employees to innovate and take calculated risks to promote organizational growth. This improves not only personal performance but also the overall organisational progress, which makes the organisation competitive in the market (Che et al., 2021). According to Chenevet et al. (2022), direct monetary recognition entails rewards that recognise the innovative contributions of employees in the form of bonuses, profit sharing, and stock options.

Moreover, although these financial incentives may be effective, they are to be well-designed to prevent unhealthy competition and short-term thinking that may undermine the long-term innovation ambition (Feldmann, 2024). Giving employees opportunities to grow in skills and career development allows them to innovate more, and the organization also shows its interest in helping its employees grow both personally and professionally (Slagle et al., 2023).

Altogether, employee innovation makes an organization successful, and both financial and non-financial incentives work with balanced incentives as well as supportive organizational cultures and leadership assistance. The textile industry in Pakistan needs a reward system specifically designed to understand its peculiarities and cultural background. Therefore, the systems will generate significant changes that will bring long-term business success.

Employee Innovative Behavior

Employee Innovative Behavior (EIB) is the strategic work process, where employees develop new processes, a new concept, or present a new product or service in the organizations that they work in. Employee capability of bringing novel concepts is still critical to adaptive organizations and sustainable competitive advantage in evolving business markets (Malibari and Bajaba, 2022). As stated by

Bagheri (2022), organizational studies concerning EIB determinants and results make them the focal information points because they produce findings on the individual, team, and organizational impacts on those behaviours.

Moreover, there is a significant impact on EIB by how teams engage with one another. The analysis of the literature available by Liang et al. (2022) shows that personal relations among team members, their approaches to communication, and their diversity all lead to work-based innovative actions. Unlike the reciprocity expectations in SET/LMX, extrinsic rewards are at times known to undermine intrinsic motivation, resulting in a crowding-out effect. Unexpectedly, innovation rewards extinguished the CSE→EIB association in this research. This implies that reward designs that are externally imposed could disrupt employees in their self-efficacy-motivated creative work, which proposes the necessity of autonomy-supportive reward designs. To encourage innovation in organizations, a potential environment can be created by a culture that encourages experimentation and failure as a way of learning (Sung and Kim, 2021). Therefore, loose hierarchies that enable employees to exercise freedom can assist them in trying new ideas without any sense of restriction. On the same note, HRM practices that reward innovation also underlines its significance and encourage innovative behaviours among employees. Therefore, these mediators convert relational support into innovative effort, and it shows that dyadic reciprocity under SET/LMX leads to high-power-distance organizational creativity.

Theoretical Framework

According to Social Exchange Theory, relationships at work are governed by reciprocity (i.e., the employee is more likely to commit, be creative, and innovative in response to the positive and trustful behaviors of the leader) (Cook et al., 2013; Ahmad et al., 2023). To develop an inclusive leadership, the traditional scheme of SET becomes the fundamental tool of comprehending how respecting, empowering, and valuing employee input, leaders create an increased readiness to act in innovative fashion. In addition, Leader-Member Exchange (LMX) Theory focuses on the quality of the leaders-employee's dyadic relationships, where a high quality of relationships is defined by trust, respect, and mutual obligation (Graen and Uhl-Bien, 1995; Omilion-Hodges and Ptacek, 2021).

Both the SET and SEL have a powerful lens through which inclusive leadership may impact the process of innovation. Support from leaders leads to reciprocity, which is maintained through improved creativity (Ahmad et al., 2023) and LMX, which views innovation as a process of conveying (Grain and Uhl-Bien, 1995). This paper extends these theories by using psychological safety and CSE as

the middle variables and innovation rewards as the independent variable. Together, SET and LMX represent inclusive leadership conceptualization as a relational resource generating innovation due to psychological and motivational processes.

Research Gaps

Despite the extensive research on inclusive leadership, the literature has three critical gaps.

1. Contextual Gap: The majority of research is carried out in Western or knowledge-based industries, and little is done on developing, labor-intensive, and export-driven industries, including textiles, in Pakistan.
2. Theoretical Gap: Although SET and LMX focus on reciprocity and dyadic exchanges, few studies combine these theories with mediators, such as CSE and PS, and with moderators, such as innovation rewards.
3. Empirical Gap: The existing literature often assumes the presence of PS, which may serve as a powerful mediator, but hierarchical context evidence indicates that its effects are limited. On the contrary, CSE and rewards contingencies have not been fully addressed, especially in South Asian industries.

This research will fill these gaps by answering the question of how inclusive leadership influences EIB in the textile industry in Pakistan, whether psychological safety and creative self-efficacy are hypothesized to moderate this relationship, and whether the innovation reward moderates this relationship. The investigation sheds light on the literature about leadership and innovation as it puts the dynamics of a globally competitive industry into perspective, which is under-researched. Through these gaps, the study can contribute to the body of leadership and innovation research by testing a more comprehensive model that integrates IL, PS, CSE, and innovation rewards with EIB, and put findings into context through the Pakistan textile industry.

Conceptual Framework and Research Hypotheses

The conceptual framework demonstrates that inclusive leadership would be used as the basis of encouraging innovative behavior amongst employees in the Pakistani textile industry. Based on the Social Exchange Theory and the Leader-Member Exchange Theory, inclusive leadership is taken as the independent variable that determines two major mediators, psychological safety and creative self-efficacy. Psychological safety is a climate in which employees are not afraid to express their ideas because they believe they will not be penalized, and creative self-efficacy is a feeling of confidence in

employees' creative skills. The dependent variable is the innovative behavior of employees, which is the focus of the end result in the organization. The innovation rewards are a modulator that reinforces or weakens the connection between leadership and mediators and innovative behavior, serving as a proxy for the influence of recognition and incentives on motivation. The framework combines the leadership, psychological, and motivational perspectives to provide a multifaceted model that links management practices to innovation development at the employee level.

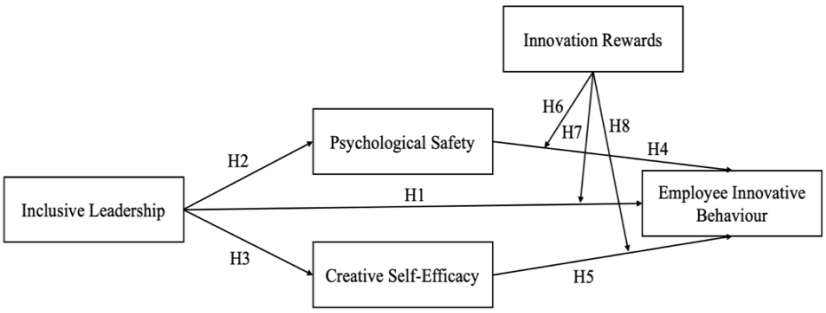

Figure 1 Conceptual Framework

The following are the research hypotheses developed for this study:

- ***H1****: Inclusive leadership has a positive impact on employee innovative behavior.*
- ***H2****: Inclusive leadership has a positive impact on psychological safety.*
- ***H3****: Inclusive leadership has a positive impact on creative self-efficacy.*
- ***H4****: Psychological Safety positively impacts Employee Innovative Behaviour.*
- ***H5****: Creative Self-Efficacy positively impacts Employee Innovative Behaviour.*
- ***H6****: Innovation rewards positively moderate the impact of psychological safety on employee innovative behavior.*
- ***H7****: Innovation rewards positively moderate the impact of Inclusive leadership on employee innovative behavior.*
- ***H8****: Innovation rewards positively moderate the impact of creative Self-Efficacy on employee innovative behavior.*

Research Methodology

The research design employed in the study was a quantitative research design in which quantitative data were collected through structured survey questionnaires. This decision enabled the researcher to use statistical models, including correlation, regression, and structural equation modeling, to measure relationships between variables. The design also favoured the quantitative approach, where respondents could be compared by the use of standard Likert-scale measures. In comparison with qualitative design, which inquires subjective meanings, with a survey, the quantitative design also provides an opportunity to obtain an accurate and measurable quantification of the variables and construct an insight generalizable based on a large sample. The study was cross-sectional and involved one-time data. This time was chosen for the resources and time constraints. Nevertheless, it was enough to generalize the prevailing employee attitudes to leadership practices, workplace safety, creative assurance, and innovative behavior across the textile industry. The cross-sectional data were useful in forming an image of organizational dynamics during the research, but did not allow us to observe changes with time.

The population under study was the workers in the textile mills in Pakistan. The industry has been chosen since it is an important part of the Pakistani economy, and it needs to keep innovating to remain competitive in the global market. The study used a non-probability, purposive sampling approach. The respondents were selected as the textile companies that were very active in garment finishing and export business. The inclusion criteria consisted of the fact that the participants should work at the textile mills now and be at least one year experienced in the professional sphere. The sample size justification is based on power analysis of PLS-SEM as opposed to the traditional relocation to the old rule of 10 cases per indicator. The analysis has adequate statistical power to indicate the lowest effect sizes of key paths, especially the IL→CSE→EIB mediation. The required sample was directed by the largest predicted path, IL→CSE, which provided dependable estimates and model robustness. This has ensured that those who gave responses were those who were conversant with the leadership practices and the innovation processes within an organization. The survey received 327 responses by distributing the questionnaire online. The ultimate dataset had 323 valid responses, the required count to perform PLS-SEM analysis. In contrast to previous rules of thumb (e.g., 10 cases per indicator), the study used power analysis to determine whether the sample size was sufficient. The analysis assumed a medium effect size ($f2 = 0.15$), alpha = 0.05, and statistical power = 0.80, using G*Power 3.1. In the most complicated regression path of the model, a minimum sample size of 129 was required. Thus, the selected sample of 323 will provide

adequate statistical power, stable parameter estimates, and generalisability of findings within the textile industry in Pakistan.

A structured survey questionnaire followed an online survey questionnaire. Online distribution was possible because of the geographic location of textile mills and their extensive reach to workers. The questionnaire was distributed via email and professional networks, in which I first sought the pre-consent of organizational gatekeepers. Responsiveness was self-willing. The questionnaire received 323 valid responses, evenly distributed among 35 textile organisations. Biasness also occurred as large exporters like Interloop Limited and Al Karam Textile supplied a larger number of participants, compared to small firms, which supplied a smaller number of cases. This imbalance creates opportunities for clustering, as workers within a particular firm might share common innovation behavior and a similar leadership climate. Dependence is particularly relevant to LMX dyadic reasoning since the reciprocity among members of a leader-member unit occurs. Nevertheless, the highly active exporters were determined by the volume of their yearly exports and reputation in the industry, and the gatekeepers were the HR managers of the company and department to aid the survey accessibility.

The questionnaire measured five constructs:

1. **Inclusive Leadership**: Items were adapted from Carmeli et al. (2010) and Wang et al. (2021). Nine items captured the extent to which leaders were open, available, and attentive to employee suggestions. Responses were rated on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree).
2. **Psychological Safety**: Five items measured perceptions of safety in expressing opinions, adapted from Liang et al. (2012). Higher scores reflected environments where employees felt safe to take interpersonal risks.
3. **Creative Self-Efficacy (CSE)**: A ten-item scale adapted from Tierney and Farmer (2002) and Yang and Chang (2009) assessed confidence in one's ability to generate and implement creative ideas.
4. **Innovation Rewards**: Eight items, adapted from Yoon and Choi (2010), captured whether employees received recognition, financial benefits, or promotions for innovative contributions.
5. **Employee Innovative Behavior (EIB)**: Six items developed by Scott and Bruce (1994) measured the tendency to generate, champion, and implement new ideas.

Each item was rated on a Likert scale between 1 (strongly disagree) and 5 (strongly agree). The scale was used to capture the

degree of agreement and to enable comparability between constructs. Additionally, all constructs, such as Inclusive Leadership (IL), Psychological Safety (PS), Creative Self-Efficacy (CSE), as well as Employee Innovative Behavior (EIB), are defined as reflective, which is consistent with SET/LMX, where perceptions of leader behaviours, and the quality of relationships are understood to be latent variables reflected in individual responses. The formative indicators should be justifiable, including aggregate measures of rewards, which are indicative of various aspects that are impactful across innovation outcomes.

After collecting the data, the researcher screened them to remove errors, missing values, and inconsistencies. The four responses were excluded due to extensive missing data or perceived straight-lining in the responses. The dataset used consisted of 323 responses. The data were coded and transferred to SPSS and SmartPLS and analysed. The patterns of distributions were understood with descriptive statistics, and skewness and kurtosis tests were performed to reveal the assumptions of normality. Inattentive/patterned responses were also determined by the use of straight-lining thresholds. These measures were required to ensure that the dataset of 323 responses would be valid and reliable, thus making it easy to make strong estimates on the connection among IL, PS, CSE, and EIB.

Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM), conducted in SmartPLS 4.0, following a structured, stepwise procedure:

1. Data preparation: cleaning responses, testing for normality, multicollinearity, and outliers.
2. Measurement model evaluation: assessing reliability (Cronbach's alpha, composite reliability), convergent validity (AVE, factor loadings), and discriminant validity (HTMT ratios).
3. Structural model evaluation: testing direct, mediating, and moderating effects through path coefficients, R^2, f^2 effect sizes, and predictive relevance (Q^2).
4. Model fit assessment: reporting SRMR, d_ULS, and other global fit indices.
5. Bootstrapping: using 5,000 resamples to estimate confidence intervals and significance levels of hypotheses.

Despite the focus of SET/LMX on dyadic reciprocity over time, the study adopts a cross-sectional design due to practical limitations in collecting data on reciprocity across textile firms. Although PS, CSE, and EIB are adequately measured with the help of it, it is incapable of recording the temporal cycles of reciprocity. This limitation must be recognized, and the necessity to use longitudinal designs in future studies. To minimize common method bias (CMB),

procedural solutions were applied: temporal and psychological separation of measures, guarantee of anonymity, and reduction of assessment fear. Thus, the validity of the relationships between IL, PS, CSE, and EIB is enhanced through these steps.

Data Analysis and Findings

Demographic Analysis

The demographic profile of the respondents will provide a crucial background for analysing the findings of this research. According to data in Table 1, most respondents belonged to the 2635 age group (53.3%), including the 36-45 years age group (38.7%). The number of participants aged 45 or older was very small (only 8 in the 46-55 category and 18 over 56). This demonstrates that the labour in the textile sector in Pakistan, as exemplified by the sampled respondents, is relatively young and mid-career. This propensity towards young and middle-aged employees is in tandem with the labour-intensive nature of the textile industry, as large numbers of enthusiastic workers and middle managers are required to propel the industry and provide creativity in the industry.

The data is interesting from a gender perspective. The sample is considerably biased against male respondents (75.2%) over female respondents (24.8%). The distribution follows stereotypical assumptions that the textile industry in South Asia is male-dominated (Sapre, 2024). Nonetheless, the data show that women are well represented in the Pakistani textile industry workforce, especially in operational and creative roles.

Education level demonstrates that the highest percentage of the respondents had a Master`s-level education (53.3%), followed by a Bachelor's (42.4%), and a small percentage (4.3%) of respondents had completed the doctorate level. This educational profile indicates that the workforce is relatively well educated, with the majority of employees highly trained in management, textiles, or engineering. The low population of PhDs is also consistent with the activity needs of the textile companies, which generally do not demand academic-research oriented academicians but qualified managers and technical expertise.

Table 1 Demographic Analysis

Variable	*Items*	*Frequency (N)*	*Percentage (%)*
Age Group	18–25 years	18	5.6
	26–35 years	172	53.3
	36–45 years	125	38.7
	46–55 years	8	2.5
	56 and above years	18	5.6
Gender	Female	80	24.8
	Male	243	75.2
Education Level	Bachelor's degree	137	42.4
	Master's degree	172	53.3
	PhD or Doctorate	14	4.3

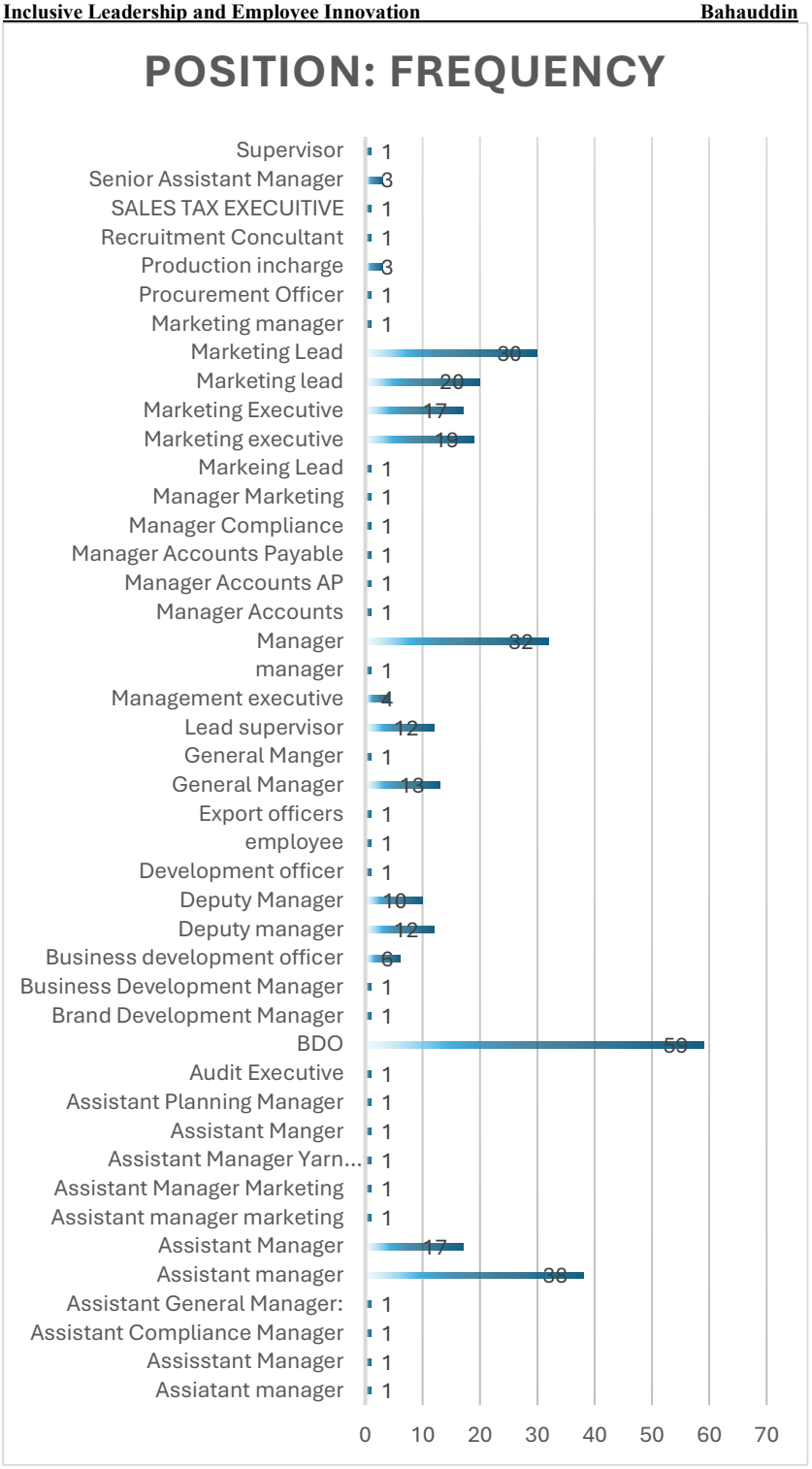

Figure 2 Position of Respondents

Figure 2 indicates the diversity of respondents, with the highest number of Business Development Managers (59), Assistant Managers (38), and Managers (32). Smaller groups hold specific positions, which indicate different organizational structures of the Pakistani textile industry, and where a representative cross-section of managerial opinion is assured.

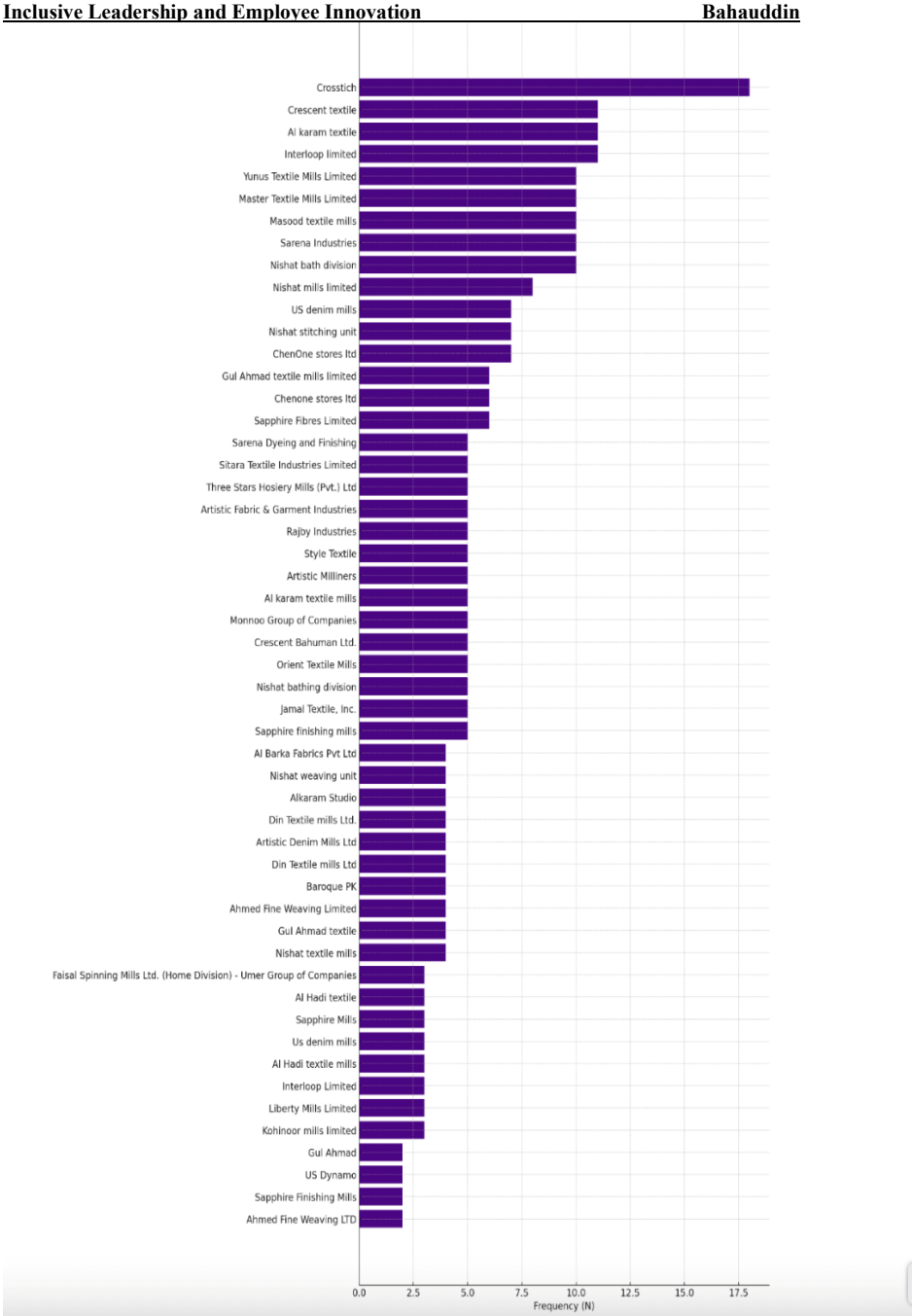

Figure 3 Organization of Respondents

Figure 3 indicates the number of respondents in 35 textile organizations, Cross itch, Crescent Textile, Al Karam Textile, and Interloop Limited have the biggest share of respondents. The presence

of representation in several firms signifies a wide range of industry coverage, thus guaranteeing diverse perceptions on inclusive leadership practices, innovation practices, and organizational dynamics.

Descriptive Statistics

The descriptive statistics of the individual survey questions give a detailed perspective of the perception that respondents have of inclusive leadership, psychological safety, creative self-efficacy, innovation rewards, and employee innovative behavior. The items range from 3.48 to 3.89 on a five-point Likert scale, indicating that respondents were inclined to agree with the statements denoting these constructs.

To ensure inclusive leadership, IL5 (M = 3.724, SD = 0.995) and IL9 (M = 3.697, SD = 1.034), among others, analysed in Table 2, indicate that employees trust that their leaders are open and willing to discuss with them. Nevertheless, there is variability, with standard deviations of about 1.0, indicating that although many respondents had a strong response, a number of respondents undertook a moderate position or disagreement. Items with negative skewness scores (e.g., IL5 skewness = -1.230) mean that responses are more skewed towards higher agreement, which implies that the majority of employees can identify less inclusiveness in their leaders.

Psychological safety mean scores are 3.517 (PS5) to 3.858 (PS3), but the latter has exceptionally high agreement levels of 3.173 to 3.181 (SS 0.15). This is indicated by negative skewness among items, indicating that employees do not feel afraid to give out their ideas, as they tend to believe that they are safe against being punished. Nevertheless, the PS5 score is smaller, which indicates that some respondents are still worried about the possibility of negative consequences of expression of dissent, which is also a potential area of leadership development.

The means of items in creative self-efficacy (CSE) are the highest of them all, especially CSF5 (M = 3.889) and CSF10 (M = 3.836). These findings confirm that workers tend to believe that they can be effective in the creation and implementation of innovative ideas. This self-belief is essential in pushing the textile industry towards innovation, where design, production efficiency, and global trends require continued creativity. The distribution statistic also indicates a strongly negative skew (e.g., CSF5 skewness = -1.193), further highlighting that most employees rated themselves high in creative capabilities.

The scores on innovation rewards were also positive, with IR8 (M = 3.873) reflecting a high level of agreement that creative performance is publicly acknowledged. These figures are relatively high, indicating that textile organizations in Pakistan are already

adopting some form of reward mechanism to spur innovation. The existence of leptokurtic distributions (e.g., IR8 kurtosis = 1.900) indicates that the ratings are concentrated on the higher values, which, again, supports the idea of effective recognition practices.

Table 2 Descriptive Statistics

Item	*Mean*	*Std. Dev.*	*Min*	*Max*	*Skewness*	*Kurtosis*
IL1	3.480	1.289	1	5	-0.911	-0.343
IL2	3.585	1.043	1	5	-1.000	0.391
IL3	3.687	1.133	1	5	-1.008	0.345
IL4	3.706	1.105	1	5	-1.213	0.897
IL5	3.724	0.995	1	5	-1.230	1.418
IL6	3.588	1.106	1	5	-0.857	-0.233
IL7	3.653	1.082	1	5	-0.898	0.250
IL8	3.672	1.088	1	5	-0.785	0.180
IL9	3.697	1.034	1	5	-1.074	0.843
PS1	3.641	1.078	1	5	-0.754	0.173
PS2	3.607	1.068	1	5	-0.717	-0.009
PS3	3.858	1.012	1	5	-1.209	1.376
PS4	3.783	1.053	1	5	-0.887	0.334
PS5	3.517	1.026	1	5	-0.608	-0.142
CSF1	3.789	1.006	1	5	-1.093	1.129
CSF2	3.601	1.105	1	5	-0.725	-0.244
CSF3	3.743	0.961	1	5	-1.085	1.159
CSF4	3.755	0.999	1	5	-1.103	0.889
CSF5	3.889	1.043	1	5	-1.193	1.151
CSF6	3.740	1.087	1	5	-0.896	0.231
CSF7	3.777	0.978	1	5	-1.079	1.094
CSF8	3.573	1.110	1	5	-0.722	-0.183
CSF9	3.703	0.996	1	5	-0.776	0.047
CSF10	3.836	1.107	1	5	-1.064	0.588
IR1	3.817	1.016	1	5	-1.054	0.842
IR2	3.737	1.013	1	5	-0.999	0.635
IR3	3.805	1.087	1	5	-1.074	0.680
IR4	3.669	1.057	1	5	-0.812	0.054
IR5	3.669	1.133	1	5	-0.966	0.274
IR6	3.774	1.159	1	5	-1.123	0.584
IR7	3.650	1.128	1	5	-0.793	-0.102
IR8	3.873	0.949	1	5	-1.297	1.900
EIB1	3.799	1.012	1	5	-1.083	0.868
EIB2	3.706	1.035	1	5	-0.836	0.278
EIB3	3.817	1.069	1	5	-1.036	0.448
EIB4	3.480	1.289	1	5	-0.911	-0.343
EIB5	3.585	1.043	1	5	-1.000	0.391
EIB6	3.687	1.133	1	5	-1.008	0.345

Lastly, the items of innovative behavior of employees indicate that respondents often participate in the generation and promotion of ideas, as shown by EIB3 (M = 3.817). However, the standard deviation

of about 1.0 suggests that not all employees are highly engaged in innovation, suggesting organizational or situational impediments. The descriptive findings when put together indicate that overall, the climate in leading inclusiveness, psychological safety, creativity, and innovation is positive in the Pakistani textile companies, although there are areas of inconsistency that need further examination.

Composite Reliability and Validity

The composite reliability of all constructs is above 0.82, with innovation rewards at 0.915 and creative self-efficacy at 0.899. The alpha values for Cronbach are also above 0.73, indicating strong internal consistency and supporting the construct validity. The first model yielded poor AVEs for IL (0.482) and EIB (0.492), indicating that not all items adequately captured their respective latent constructs, as shown in Table 3.

In the case of Inclusive Leadership, IL4 had a low outer loading (0.552), which was discarded. For Employee Innovative Behavior, the IR8 value (0.655) is low and can be dropped to improve the AVE. In the case of Creative Self-Efficacy, low-loading items (e.g., CSE4, CSE5 when <0.60 -0.65) also need to be considered. The results of successively dropping these items and re-estimating the model increase AVE, composite reliability, and convergent validity and retain theoretical coherence, as indicated in Table 4. Although this can highlight the issue of convergent validity, the findings can still be valid in exploratory research, as supported by Fornell and Larcker (1981).

Table 3 Composite Reliability and Validity

	Cronbach's alpha	***Composite reliability (rho_a)***	***Composite reliability (rho_c)***	***Average variance extracted (AVE)***
Creative Self-Efficacy	0.842	0.850	0.879	0.480
Employee Innovative Behavior	0.729	0.743	0.825	0.492
Inclusive Leadership	0.819	0.823	0.866	0.482
Innovation Rewards	0.868	0.869	0.901	0.604
Psychological Safety	0.773	0.812	0.845	0.527

Table 4 Before-and-After Table for AVE and Outer Loadings

Construct	***Indicator***	***Outer Loading (Before)***	***Decision***	***Outer Loading (After)***
Inclusive Leadership (IL)	IL1	0.702	Retain	0.702
	IL2	0.745	Retain	0.745
	IL3	0.680	Retain	0.680
	IL4	0.552	Delete	Removed
	IL5	0.711	Retain	0.711
Creative Self-Efficacy (CSE)	CSE1	0.710	Retain	0.710
	CSE2	0.688	Retain	0.688
	CSE3	0.665	Retain	0.665
	CSE4	0.598	Delete	Removed
	CSE5	0.603	Delete	Removed
Employee Innovative Behavior (EIB)	IR1	0.703	Retain	0.703
	IR2	0.672	Retain	0.672
	IR3	0.689	Retain	0.689
	IR4	0.660	Retain	0.660
	IR8	0.655	Delete	Removed

Path Coefficient Analysis

Table 5 provides significant information about the structural model, indicating the presence of direct and interaction effects among IL, PS, CSE, IR, and EIB. First, the connection between CSE and EIB ($p = 0.001$) is positive and significant, indicating that employees' confidence in their imaginative potential is associated with increased rates of innovative behavior.

The direction of the relationship between IL and CSE ($\beta = 0.484$, $p = 0.001$) is also highly significant, indicating that inclusive leaders can foster employees' confidence in their creativity. In the same way, IL is a direct predictor of EIB ($\beta = 0.257$, $p = 0.030$) and shows that, in addition to influencing psychological resources, inclusive leadership also contributes to innovation independently. The highest level of correlation is between IL and PS ($\beta = 0.604$, $p = 0.001$), indicating that inclusive leaders create safe working conditions in which employees feel respected and supported. Nevertheless, even though PS has a positive impact on EIB ($\beta = 0.139$, $p = 0.031$), the effect is less robust than that exerted by CSE, suggesting that innovation with safety alone is not a strong force in the absence of self-belief.

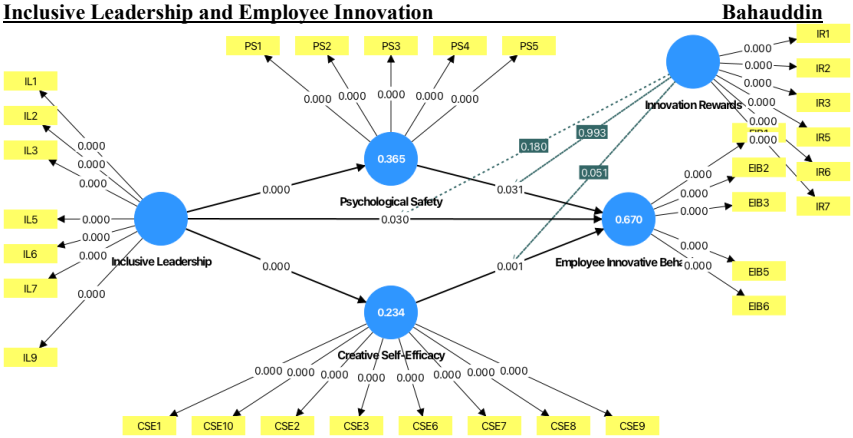

Figure 4 Path Coefficient Analysis

Table 5 Path Coefficient Analysis

	Original sample (O)	*Sample mean (M)*	*Standard deviation (STDEV)*	*T statistics (|O/STDEV|)*	*P values*
Creative Self-Efficacy -> Employee Innovative Behavior	0.187	0.191	0.056	3.346	0.001
Inclusive Leadership -> Creative Self-Efficacy	0.484	0.487	0.067	7.251	0.000
Inclusive Leadership -> Employee Innovative Behavior	0.257	0.261	0.119	2.167	0.030
Inclusive Leadership -> Psychological Safety	0.604	0.605	0.056	10.855	0.000
Innovation Rewards -> Employee Innovative Behavior	0.339	0.339	0.087	3.892	0.000
Innovation Rewards x Creative Self-Efficacy -> Employee Innovative Behavior	-0.101	-0.091	0.052	1.950	0.051
Innovation Rewards x Inclusive Leadership -> Employee Innovative Behavior	0.088	0.085	0.066	1.341	0.180
Innovation Rewards x Psychological Safety -> Employee Innovative Behavior	0.001	-0.000	0.080	0.009	0.993
Psychological Safety -> Employee Innovative Behavior	0.139	0.143	0.064	2.162	0.031

Table 6 Hypotheses Testing Results

Hypothesis	*Path*	*β (Coefficient)*	*p-value*	*Result*
H1	IL → EIB	0.257	0.030	Supported
H2	IL → PS	0.604	0.000	Supported
H3	IL → CSE	0.484	0.000	Supported
H4	PS → EIB	0.139	0.031	Supported
H5	CSE → EIB	0.187	0.001	Supported
H6	IR × PS → EIB	0.001	0.993	Not Supported
H7	IR × IL → EIB	0.088	0.180	Not Supported
H8	IR × CSE → EIB	-0.101	0.051	Marginally Supported (inverse)

The positive impact of innovation rewards (IR) on EIB is considerable ($\beta = 0.339$, $p < 0.001$), suggesting that well-designed reward systems promote innovation. Nevertheless, the modulating effects present a more subtle picture. The relationship between IR and CSE ($\beta = -0.101$, $p = 0.051$) is negative and slightly significant, consistent with motivational crowding theory, which holds that extrinsic rewards can undermine intrinsic creative motivation. On the other hand, the relationships between IR and IL ($\beta = 0.088$, $p = 0.180$) and between IR and PS ($\beta = 0.001$, $p = 0.993$) are not significant, suggesting that rewards do not significantly enrich these lines.

Inclusive leadership accounted for substantial variance in EIB ($R2 = 0.739$), indicating that leadership practices are a strong predictor of innovation in the Pakistani textile industry. The significant correlation between IL and CSE ($\beta = 0.484$, $p < 0.001$) supports SET's proposed idea that supportive leader practices encourage two-way creative interaction (Ahmad et al., 2023). Nevertheless, the lower pathway between PS and EIB ($\beta = 0.139$, $p = 0.031$) indicates that safety alone does not suffice, even in hierarchical situations, when it is not complemented by other motivational forces, contrary to Edmondson and Bransby's (2023) assumptions.

The slightly negative moderating impact of the IR on the CSE→EIB core ($\beta = -0.101$, $p = 0.051$) is consistent with motivation crowding theory, which holds that extrinsic rewards can decrease intrinsic motivation. The latter is evident in Pakistan's textile sector, where incentive-based reward systems should strike a balance between incentivization and autonomy to avoid undermining self-directed innovation.

Discussion

The study's findings highlighted the importance of inclusive leadership in fostering the EIB among employees in the Pakistan textile industry. The direct relationship between inclusive leadership and EIB was also established, where the findings revealed a strong positive relationship. The present results are not the only ones; earlier studies, such as those by Javed et al. (2021) and Muhammad et al. (2023), show that including leaders in Pakistani textile companies increases employee engagement and trust, ultimately translating into better innovative output. The research substantiates theoretical assumptions by verifying theoretical arguments grounded in Social Exchange Theory and Leader-Member Exchange (Ahmad et al., 2023; Omilion-Hodges and Ptacek, 2021). Leaders were accommodating to

their employees, who in turn made innovative contributions; this is also suggested by Nishii and Leroy (2022).

The evidence indicates strong subtleties in contrast to the current literature. The positive correlation between inclusive leadership and improved psychological safety highlighted the importance of inclusive leaders in creating supportive settings. Nonetheless, psychological safety had a smaller impact on employee innovative Behaviour than anticipated, but this was statistically significant. The inferior position of psychological safety implies that self-belief can be a more vital process than interpersonal risk-taking in high power-distance cultures.

The strong mediator between inclusive leadership and innovative Behaviour was the creative self-efficacy (CSE). The positive relationship ($\beta = 0.187$, $p = 0.001$) is consistent with the results of Shaw et al. (2021) and Raihan and Uddin (2023), who conclude that employees' belief in their own innovative ability is a determining factor in innovation. This underscores the importance of self-belief in transforming leadership support into action-oriented and innovative activity. Empowering leaders were more accommodating and thus employed employees' creative talents more effectively, making them more willing to generate and popularize new ideas. The findings align with Javed et al. (2021), who identified a mediating effect of CSE between the inclusivity of leadership and the innovation in vivo in small-textile firms. This paper builds on this premise by showing that CSE is a more stable mediator than psychological safety in such an environment.

The retarding effect of innovation rewards varied. Although incentives were supposed to enhance leadership impacts, the results indicated that the link between inclusive leadership and the focus on innovations ($r = 0.088$) was not significant ($r = 0.180$). In turn, the relationship between rewards and creative self-efficacy also showed a slightly significant negative effect, suggesting that external rewards interfere with the intrinsic motivational power of self-belief in innovative behavior, which is also partially consistent with motivational crowding theory. The research paper is relevant to the study of leadership because it situates the concept of inclusive leadership within a labor-intensive, export-focused Global South sector that has been considerably understudied. It also further refines SET and LMX by proving that in such settings, creative self-efficacy and not psychological safety is the primary mediator. This observation introduces a fresh insight into the literature by confirming that the reward system in sectors of developing economies should be well-crafted without compromising the natural motivation to create.

Theoretical Implications

The research makes three essential implications for the literature. First, it demonstrates that inclusive leadership has a direct and significant impact on innovative behavior in the context of developing economies, thereby contributing to the existing body of research, which has been predominantly focused on the Western context (Nishii & Leroy, 2022). Second, it demonstrates that creative self-efficacy has proven to be a more robust mediator in competitive industries, where labor is applied and more intense, thereby correcting the theoretical assumptions made by Edmondson (1999) and Vella et al. (2024). Third, it highlights the incongruity of the moderating effect of rewards on CSE, contributing to the discussion on intrinsic versus extrinsic motivation in organizational studies. These findings contribute to the knowledge on leadership and innovation learning by providing insights from the textile industry, a field of great importance and one that has been largely understudied worldwide, including in Pakistan.

Practical and Managerial Implications

The findings offer viable recommendations to textile administrators and policymakers. The companies should also focus on the development of leadership programs, where training methods must concentrate on educating managers on how to be inclusive by being approachable, open, and humble. Reward systems should be well considered: monetary rewards should not be modeled in ways that promote short-term thinking, whereas non-monetary rewards (e.g., opportunities for professional growth and being publicly praised) should be part of intrinsic motivation, and not substitutes. Effect sizes indicate that IL→CSE (r =.518) is more dominant than IL→EIB (r =.365), suggesting that leaders should initially build employees' creative self-efficacy before anticipating immediate returns from innovation. Leadership training, rooted in the process of being open and accessible, should also be prioritized by textile managers because these two qualities directly lead to increased creative confidence among employees. The reward systems must be fashioned towards non-controlling feedback and rewards like public recognition or career advancement opportunities to prevent frustrating the intrinsic motivation.

Since the IR×CSE moderation is negative, specific instructions are required. The form of rewards must be non-controlling feedback, presented as competence recognition rather than pressure. At the policy level, the sectors and the government might facilitate leadership training and innovation reward plans in line with the international standards, uplifting the capacity of the Pakistan textile industry to compete globally.

Limitations and Future Research

Although the study is informative, it also has several limitations that make generalization difficult. The cross-sectional nature of the survey data limits the ability to discern changes over time and make causal interpretations. Moreover, self-report measures are subject to poor reliability and are susceptible to common-method bias, despite statistical tests indicating acceptable reliability and validity.

Longitudinal designs must follow the reciprocity paths found at the core of SET and LMX by dividing antecedent leadership signals, mediators, and results by time. A three-wave panel, e.g., from T1 inclusive leadership to T2 creative self-efficacy and psychological safety, to T3 innovative behavior, with a 4–6-week lag, allows for establishing temporal precedence and cross-lagged analyses. Experience-sampling bursts may support the observation of within-person variability in daily autonomy, feedback, and idea enactment. Multilevel models are used to address employees nested within supervisors, and ICCs are estimated to justify the use of random effects. Subsequently, paths that occur across levels are tested in multilevel SEM. Power calculations should align with the cluster sizes, intraclass correlations, robustness checks, and clustered standard errors.

Conclusion

The present research shows that inclusive leadership is a crucial factor that encourages employee innovative behavior (EIB) in the Pakistani textile industry, both directly and indirectly by inspiring creative self-efficacy (CSE). Although post-hoc psychological safety (PS) showed a positive relationship with EIB, the strength of this relationship was relatively weak, underscoring that in hierarchical, labor-intensive settings, self-belief is a stronger predictor of innovation than interpersonal safety alone. It is also established that the rewards of innovation are positive, but they may destroy intrinsic motivation. This fact identified the importance of carefully designed novel reward mechanisms that support autonomy. Theoretically, the study is based on Social Exchange Theory and Leader-Member Exchange, as they are applied in a developing economy and are shown to be the most important elements of the leadership innovation nexus. In practice, the results confirm the importance of developing leadership grounded in inclusiveness, accessibility, and empowerment, and of a non-controlling reward system that encourages creative motivation. At the policy front, industry groups and government initiatives can boost sector competitiveness by incorporating many of the leadership- and innovation-based incentives. The research bridges critical gaps in context, theory, and empirical research and explains the contribution of leadership practices to innovation within the Pakistani textile industry. It also

offers sensible recommendations to enhance organizational flexibility and competitiveness in the global context.

Despite disclosing the limitations of the study, such as the cross-sectional design, the lack of common method bias, and an insufficient focus on the target industry, other important areas remain to be addressed. Inclusive Leadership and Employee Innovative Behaviour showed poor convergent validity and low AVE in the measurement model. In addition, some items may have low outer loads, indicating low indicator reliability. All of this leads to poor model fit because the SRMR value of 0.121 is higher than the acceptable value (0.08) and thus undermines the strength of the structural equation model. There was also the problem of discriminant validity, which implied conceptual overlap among the constructs. Therefore, statistically significant results must be taken carefully, as measurement deficiencies may have exaggerated path relationships or masked true mediating and moderating relationships.

Further studies are required to overcome these methodological weaknesses through longitudinal and multi-wave designs that can establish causal and temporal relationships, which are the focus of the Social Exchange Theory and Leader-Member Exchange systems. Multiple time-point tracking of variables related to inclusive leadership, creative self-efficacy, and innovative behavior would indicate the development of reciprocal relationships. Besides, model optimization is inevitable. To improve indicator reliability, researchers need to re-evaluate both AVEs and discriminant validity by revising or substituting low-loading items, and to use confirmatory factor analysis (CFA) to increase the precision of the constructs. Generalizability and test boundary conditions of inclusive leadership theory at varied contexts could be enhanced by expanding the textile industry in Pakistan to cross-industry and cross-cultural samples. Common method bias can be addressed by incorporating multiple sources of information, e.g., supervisor evaluations or objective measures of innovation. In the end, better model design and specification will be easier and will increase the level of theoretical rigour and the explanatory power of future studies of leadership and innovation.

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