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Exploring the Relationship Among Ethical Leadership, Psychological Safety, Conflict Management Strategies, and Job Performance: The Moderating Role of Inclusive Environment

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Abstract: This study examines the relationship between ethical leadership (EL), psychological safety (PS), conflict management strategies (CMSs), job performance, and the moderating role of an inclusive environment in non-governmental organizations (NGOs) in Pakistan. Data for this research were collected through quantitative means from NGOs operating in Gilgit-Baltistan, Pakistan. A total of 170 employees from NGOs (females = 44.7%, males = 55.3%) completed the ethical leadership, psychological safety, conflict management strategies, inclusive environment, and job performance scales. We applied structural equation modeling (SEM) for analysis. As compared with previously conducted studies, the findings determined an insignificant moderating role of an inclusive environment. Social identity theory was utilized to delve deeper into the categorization of ingroups and outgroups within the organizations. The implications of this study extend to both researchers and practitioners. Future research will include an exploration of the effectiveness of organizational interventions.

Keywords: ethical leadership; psychological safety; inclusive environment; conflict management strategies; job performance; NGOs; Gilgit-Baltistan; Pakistan



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1. Introduction

The changing dynamics of organizational behavior highlight the preeminent role of ethical leadership, an inclusive culture, and psychological safety, especially in the presence of accelerating global changes and increasing workplace diversity [1]. Ethical leadership, which is often described using the words honesty, moral direction, and fairness, is nowadays known as the major foundation for developing a positive organizational culture, motivating employees, and achieving better performance [2]. It not only sets guidelines of ethics, but also builds the basis of trust, which is crucial for the effective functioning of organizations.

Ethical leadership and the concept of an inclusive environment are complementary concepts. This culture encourages a work environment in which diversity cannot only be tolerated but also appreciated, making individuals coming from different backgrounds feel respected, supported, and part of the organizational family. This is the place where the employees develop their full potential, creativity, and performance on the job through the integration of different views and skills. Psychological safety, that is, the collective perception of the team as safe for interpersonal risk-taking, is a catalyst for open communication, innovation, and adaptability [3]. It provides workers a venue to express their opinions, report problems, and embody a positive attitude towards their work, which is a key to organizational learning and development [3].

This study aims to investigate the moderating influence of an inclusive environment on the association between ethical leadership and job performance, with the mediation effect of PS in focus. Through this exploration, this research has the objective of providing a perspective on how leaders can create a culture that not only promotes ethical and

inclusive practices, but also boosts employee well-being and productivity, which is a gap in organizational research today. Even though a number of studies have been conducted to assess the influence of EL on employee behavior and organizational performance, there is still a significant knowledge gap as to how these dynamics are affected by the organizational climate, especially one that is welcoming. The research to date has centered on the effects of EL and an inclusive environment, and the interactions between these factors and their cumulative impact on job performance are often overlooked. Given the outlined gap, this research aims to achieve the following:

Investigate the Moderating Role of an Inclusive Environment:

This study aims to investigate how an inclusive environment can either support or undermine the correlation between EL and job performance. This goal was aimed at explaining if the existence of a positive atmosphere of inclusion magnifies the positive consequences of ethical leadership or if it is an essential factor without which the benefits of ethical leadership may be limited.

Explore the Impact of an Inclusive Environment on PS:

This study seeks to find out the boundaries of how an inclusive climate can supersede the mediating role of psychological safety between ethical leadership and job performance. This entails evaluating whether employees will have strong PS when they work in an environment that is encouraging and inclusive, which will ultimately lead to the positive impact of EL on job performance.

Quantify the Relationship Between Ethical Leadership, an Inclusive Environment, and Job Performance:

Besides the moderating effects, this study seeks to scientifically determine the direct and indirect relationships among these three important organizational constructs. The purpose is to offer an insightful view of how ethical leadership and inclusive climate independently or together impact job performance.

Identify Practical Implications for Organizational Policy and Leadership Development:

This study aimed to offer practical recommendations to organizational leaders and policy-makers by investigating the interplay between ethical leadership, an inclusive environment, and psychological safety.

The research paper is structured as follows:

- **Introduction:** In the Introduction, we set out the context for the study. The Introduction outlines the research aims, objectives, and research question.
- **Literature Review and Hypotheses Development:** In this section, previously conducted studies are outlined and, based upon the present gaps in the literature, hypotheses are developed.
- **Materials and Methods:** In the Materials and Methods, the data collection procedures and tools and techniques are outlined.
- **Results:** In this section, a reliability and validity and moderation analysis is provided.
- **Discussion and Conclusion:** A comparison with previously conducted studies and new findings is provided in this section.

2. Literature Review and Hypotheses Development

Ethical leadership has become one of the most important ideas of organizational behavior and management, and it effects a lot of organizational outcomes. EL is based on the principle that leaders can direct their followers to the accomplishment of organizational goals through ethical means, thereby creating an environment where trust, respect, and high moral standards are upheld [2]. The historical evolution of ethical leadership theories highlights the shift from the traditional leadership models that were based on command and control to the more transformational approaches that give priority to ethics and moral integrity [4].

Ethical leadership is a set of principles and behavioral standards that are demonstrated by the leader personally, in interpersonal relationships, and through communication with followers [5]. Research on leadership ethics has shown positive effects on organizational results. Ethical leaders have a profound impact on job satisfaction and organizational commitment by building a culture of justice, trust, and respect, which in turn increases employees' attachment and job satisfaction [6]. Furthermore, ethical leadership often leads to better ethical conduct among employees. Leaders who exhibit ethical conduct and implement ethical policies and codes of conduct within the organization play a crucial role in creating norms that discourage unethical behavior and promote actions that are in line with organizational values and social norms [7].

2.1. Ethical Leadership and Job Performance

It has been evident that within the past few years, new forms of leadership have been taking place for managing individuals. The high-profile cases of leaders in different cases and settings have led to the exploration of styles of leadership. One of the most discussed leadership styles in this new age is ethical leadership. A previous study [8] examined the concept of ethical leadership, which is described along with two other dimensions. These include being a moral person and being a moral manager. This research examined the rapidly developing field of ethical leadership from the perspective of psychology and organizational behavior. The findings of the research suggested that several existing challenges are faced in terms of ethical leadership.

Ethical leadership is a construct that is often found to be ambiguous and includes various dimensions. It is considered one of the most influential factors for the success of an organization. One study [9] aimed to investigate the relationship between team performance and ethical leadership within the virtues. The data for the study were collected from 408 employees among private companies in the region of Iraq. The study found that temperance, ethical leadership, wisdom, and justice are positively associated with the effectiveness of leadership and team performance.

The role of leadership within the organization is encouraging, often in the form of pro-organizational, pro-environmental, and pro-social behavior, and staff need support, understanding, and empathy in the workplace [10]. However, the effectiveness and efficacy of the leaders influence the dependencies of other factors. These include the abilities and attitudes of the followers. A study [11] assessed that ethical leadership influences voluntary environmental behavior, and voluntary environmental behavior influences sustainable performance. The data for this research were collected from 327 mid-level managerial employees from a cross-sectional industry in Bangladesh. Other studies [12,13] found that both ethical leadership and transformational leadership have positive relationships with the media, employees, customers, and NGOs.

Job performance is one of the most studied and important variables in the field of organizational behavior and industrial management. It can be determined as one of the individual behaviors that provides value to the organizations. Job performance can also be evaluated as one of the achievement-related behaviors with an evaluative component. This component can be determined where the employees can meet certain performance expectations of the organizations. Over the last decade, the meaning of job performance has varied from a more traditional focus on employment to a broader understanding of the work roles in a dynamic organizational context. A previous study [14] determined how the combined effects of work environmental factors and behaviors of leadership lead to the absence or presence of job performance in industrial employees. The results of the study determined that some of the important variables include transformational leadership and social support.

The job satisfaction variable has often been associated with the work–life balance and job performance. As per a previous study [14], job performance and job satisfaction have been studied within the context of small- and medium-sized enterprises (SMEs). Even though several studies on the work–life balance have been conducted, fewer studies have

focused on the implications for SMEs. Within this research, empirical data were collected to assess a moderating relationship between job performance and the work–life balance.

Hypothesis 1. *Ethical leadership (EL) positively influences job performance (JP).*

2.2. Ethical Leadership and Psychological Safety

Psychological safety, a term coined by Amy Edmondson, is the degree to which a person believes that taking a risk in the context of team or organizational relationships will not have negative repercussions for them. It is the confidence that one will not be penalized or ridiculed for saying out loud ideas, questions, worries, or mistakes. The concept is crucial in the development of environments that make the employees feel valued and respected, and helps in the creation of open communication, creativity, and innovation. There are two primary sources of fulfillment for workers' requirements for self-sufficiency in the workplace: first, the sense of psychological freedom to express themselves freely. Second, the freedom to choose how tasks are completed and work independently [15].

A conceptual model for understanding psychological safety in teams and organizations that stresses its role as a facilitator for learning, engagement, and risk-taking is present [16]. Psychological safety serves as the basis for them to know that they can express themselves without any fear of the negative consequences in relation to their self-image, status, or career [17]. It is about two sides showing respect and trust to each other, which are the main components of teamwork and organizational learning. The effect of psychological safety and innovation on each other is strong, as supported by the statistics of research studies. Psychological safety results in more creativity and innovation, since people are not afraid to question the established paradigm and go beyond the borders to think outside the box [17]. Furthermore, psychological safety assists in the generation of new ideas that constitute innovation. Teams with higher psychological safety levels experience more learning behaviors, including asking for feedback, sharing information, and discussing mistakes as well as unexpected outcomes, which in turn can lead to breakthrough ideas [18].

Furthermore, a psychologically safe work environment affects both the learning and performance of the organization. Ref. [19] conducted studies in hospitals and ascertained that the more psychological safety there is, the better the learning outcomes and performance are [20]. Additionally, the results in [21] showed that the relationship between leadership styles and psychological empowerment was insignificant in NGOs. Based on the above evidence, we suppose the following:

Hypothesis 2. *Ethical leadership (EL) positively influences psychological safety (PS).*

2.3. Role of Conflict Management Strategies

Conflict management is one of the critical issues in organizational behavior, and it can affect several relevant outcomes related to employee satisfaction, organizational effectiveness, and job performance [13]. Effective conflict management points to a set of processes and practices that identify and constructively handle conflicts as a critical enabler of innovation, effective communication, collaboration, and quality relationships within organizations [22].

One of the more popular theoretical bases for conflict management is the Thomas and Kilmann Conflict Mode Instrument, which identifies five conflict management styles along axes of cooperativeness and assertiveness. These are competing, collaborating, avoiding, compromising, and accommodating strategies [23]. Applying these strategies in a team setting significantly affects the team effectiveness.

2.3.1. Types of Conflict Management

1. Competing:

This style tends to be highly assertive and not very cooperative [24]. For example, it involves enforcing unpopular rules or standing on the ground in a negotiation. This style

should be effective only when speed is necessary for actions; otherwise, it would strain relationships if carried out too frequently. Handling controversy in such a style is resorted to during crises where decision-making has to be very fast to avert further complications.

2. Collaboration:

High in both assertiveness and cooperativeness, collaborating seeks win–win solutions that regard the interests of all [25]. It enhances team dynamics and innovation, as is manifested through cross-functional teams working on projects wherein everybody is accorded space for the input of novel perspectives. Collaborating calls for open communication and openness to understand different viewpoints to find mutually beneficial outcomes.

3. Avoiding:

The lowest level of assertiveness and cooperativeness, avoiding is best suited for minor problems or when conflict resolution is more harmful than the actual conflict [26]. However, chronic avoidance may cause unresolved issues to pile up and create feelings of resentment.

4. Compromise:

This style is moderate in both assertiveness and cooperativeness. It seeks a middle ground. It is practical for temporary solutions or in situations in which both parties have the exact nature of priority goals [27]. For example, negotiating work schedules to meet team needs should follow a compromising approach. Compromising can lead to partial satisfaction with concerns and can create an opening toward finding a solution that may be somewhat more permanent.

5. Accommodating:

Low on assertiveness and high on cooperativeness, accommodating works best when relationships are to be built and tension reduced [28]. It consists of putting other's needs first before yours; although this could bring in goodwill in the longer run, it may result in neglecting oneself if used too much.

2.3.2. Conflict Management in Diverse Work Environments

Cultural differences may significantly influence the choice of conflict resolution approach in multicultural teams. In managing disputes, understanding and respecting such differences are always essential [29]. Cultural competency training helps the strategies and encourages open communication in managing conflicts within diverse work settings. For example, high-context cultures prefer indirect communication approaches, while low-context cultures favor direct approaches. Based on the above evidence, we suppose the following:

Hypothesis 3. *Conflict management strategies (CMSs) mediate the relationship between ethical leadership (EL) and job performance (JP).*

2.4. Role of Inclusive Environment

An inclusive environment in organizations means a working environment or atmosphere that invites everyone to participate, regardless of their background, identity, or opinion. This idea is one of the fundamental ones that lead to diversity and equity, and make people from different backgrounds feel empowered and have their unique perspectives and ideas to offer. The climate of diversity and inclusion is the perception of employees about the extent to which their organization is open and welcoming of differences and diversity, where all people can flourish and reach their maximum potential [30]. The Framework of the Climate of Inclusion is usually closely linked to the principles of justice, equality, and equal chances of participation and growth. Ref. [30] suggested that access to information and resources, including the level of inclusive decision-making, are the most influential components of employees' inclusion. These factors are the foundation of a working environment where people are recognized and treated as valuable individuals.

A positive climate that nurtures inclusion is seen as a key driver of diversity and productivity in an organization. Studies demonstrate that employees who see high levels of inclusiveness at work are more likely to have job satisfaction, organizational commitment, and motivation [31]. Additionally, environments that allow inclusiveness help to reduce turnover rates and, in return, increase innovativeness and creativity because a diversity of viewpoints is valued and taken into account. Additionally, a favorable environment of inclusion has been found to be associated with better productivity outcomes, including better team problem-solving and decision-making skills [32]. The variety of thoughts and ways of thinking in a diverse environment enriches the collective knowledge, which in turn aids in more comprehensive and effective approaches to organizational problems. Therefore, ref. [33] proposed that inclusion stimulates organizational dexterity and that firms can then react more rapidly to market changes and opportunities. Based on the above discussion, we predict the following:

Hypothesis 4. *Inclusive environment (IE) moderates between ethical leadership (EL) and psychological safety (PS).*

Hypothesis 5. *Inclusive environment (IE) moderates the relationship between psychological safety (PS) and job performance (JP).*

2.5. Theoretical Framework

The integration of ethical leadership, an inclusive environment, and job performance within a theoretical framework is backed by several key theories, which help explain the interdependence of the mentioned facts. Transformational leadership theory, explained in [34], accentuates the role of ethical leadership in inspiring and motivating employees to work for higher levels of performance [35]. This theory implies that ethical leaders create a certain level of trust and respect through their example, which, in turn, creates a place where employees are motivated to give their best.

Social exchange theory further supports this by arguing that ethical leadership fosters a positive social exchange between leaders and followers, which in turn results in improved job performance [36]. This exchange is based on trust, mutual respect, and reciprocal benefits, where employees feel valued, and, in return, they become more engaged and committed to achieving organizational goals. In addition, the idea of an ‘inclusive environment’ is based on social identity theory, which shows that a sense of belonging and social inclusion improves individual and group performance [37].

2.6. Research Aim and Questions

The basis of the research hypotheses rests on a comprehensive literature review and associated theories that focus on the relationship between ethical leadership, an inclusive environment, conflict management strategies, and psychological safety, while at the same time considering their joint influence on job performance. This paper puts forward the proposition that ethical leadership is based on the transformational leadership theory, which assumes that ethical leadership can be used to increase employee involvement and efficiency at work and positively affects job performance. This concept means that ethical leaders create a working environment where the employees can work at a high performance level through individualized consideration and inspirational motivation.

Social identity theory and social exchange theory could be the bases for the societal influence of climate inclusivity. According to theorists, in those environments in which workers are included, they feel more belonging and enthusiasm, which in turn contributes to their performance at work. As a result, this study hypothesizes that the climate of inclusion will act as a mediating factor between ethical leadership and job performance. Along with that, according to [19], psychological safety theory argues that failure-friendly workplaces tend to promote risk-taking and innovativeness [20], and, therefore, this study proposes that psychological safety is a mediator between ethical leadership and job per-

formance. This study proposes that the climate of inclusion will be a moderator between ethical leadership and psychological safety, which will upsurge the effect of ethical leadership on job performance.

3. Materials and Methods

3.1. Research Design and Participants

This research examines the relationship between ethical leadership, inclusive climate, and its consequences for work performance and psychological safety. It used a quantitative research methodology. A quantitative approach was used to show and analyze quantitatively the change in the variables mentioned. This allowed us to collect a large amount of quantitative data from a wide sample, which are more generalizable to the population as a whole.

The researchers' application of structural equation modeling (SEM) was particularly suitable to the research's aims. SEM is a highly advanced statistical modeling method that looks at the complicated relationship between dependent and independent variables [38]. A conceptual framework is also developed in Figure 1. Thus, it is necessary to examine not only the short-term consequences but also the variables that mediate and moderate the models to bring these models to a logical conclusion. As the leading role of an inclusive environment in ethical leadership, psychological safety, and conflict management strategies linkage is the primary goal of our research, structural equation modeling (SEM) was the most suitable method to explore such processes in depth. In addition, the application of a 5-point Likert scale to measure variables here presents the significance of the structured and standardized method of data collection, hence ensuring the reliability and validity of the responses.

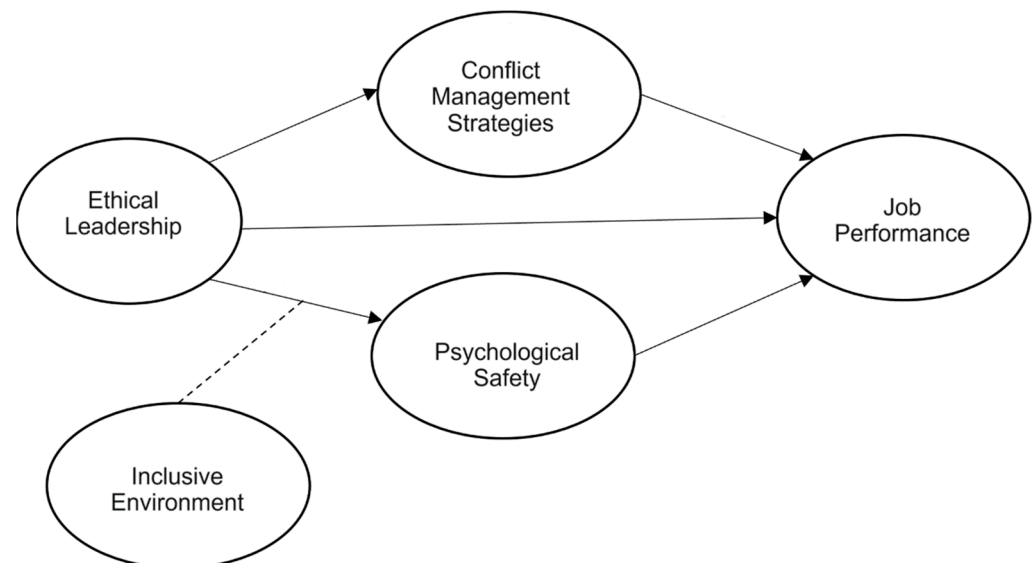


Figure 1. Conceptual framework.

3.2. Sample and Data Collection

The research methodology of this study followed a quantitative approach, where a survey-based strategy was employed to collect information from the non-governmental organizations (NGOs) operating in Gilgit-Baltistan. The sampling frame was designed with the intention to include as many NGOs of different scales and focus as possible so that the represented organizations would cover as much diversity of their missions as possible. This diversity provided an all-around knowledge of the ways in which ethical leadership and an inclusive climate determine job performance and psychological safety in different organizational contexts. The investigation used stratified random sampling to pick the respondents. By enabling all the subgroups of NGOs to be represented in the

sample, the results of the research can be generalized adequately. The stratification criteria included the number of employees and the areas of focus, which were health, education, or environment.

Data collection was performed through an online survey that was sent to the employees of the different levels of the NGOs that were accessible. The sample size in this study was 170, of which 94 (55.3%) respondents were men, and 76 (44.7%) were women. The study concerned the ethical leadership perception, inclusive environment, psychological safety, conflict management strategies, and job performance assessed with validated scales that were adapted to the context of NGOs. While a sample size of 170 may seem small, it is sufficient to perform the necessary statistical analyses based upon several considerations. For studies where the researchers employ structural equation modelling (SEM), the minimum sample size guidelines are preferred by the researchers. The primary reason is the effectiveness of such an approach in terms of getting more people involved and letting the respondents remain anonymous to ensure honest answers. Participants were briefed on the study objective, the voluntary nature of their participation, and the confidentiality of their answers following the ethical standards for research.

The common method bias was detected through the use of Harman's Single-Factor Test. The results indicated that the first factor accounted for less than 50% of the total variance. Also, Variance Inflation Factors (VIFs) were calculated for the measurement items. All the values were below the threshold of 3.3.

3.3. Data Analysis

This investigation utilized the most appropriate tools, the accuracy of which are accepted in organizational research, to measure variables like ethical leadership, inclusive environment, psychological safety, conflict management strategies, and job performance. As shown in Table 1, the Ethical Leadership Scale (ELS) in [39] is a known unique instrument to measure ethical leadership and its dimensions [39]. ELS is a 10-item scale in which we measure the ethics, fairness, and equality of all the beneficiaries using a 5-point Likert scale, from 1 (strongly disagree) to 5 (strongly agree). The scale had a good internal consistency as Cronbach's alpha was over 0.90; this is a great measure of reliability. The level of inclusion was measured on the Inclusion Environment Scale (ICS). The feeling of the employees that they are appreciated and they belong to the team was measured using a 12-item scale. Additionally, the results were demonstrated in the form of a 1–5 scale.

Psychological safety was determined using the Psychological Safety Scale (PSS) from [19], which was built on seven items that measure the level of safety of the team members involved in risk behaviors like questioning or admitting mistakes [40]. The theory has been employed in many different settings, and it has been found that it consistently has a Cronbach's alpha value of around 0.87. Conflict management strategies were measured by using the conflict management strategies scale (CMSS) in [41]. CMSS is a 15-item scale. Job performance was measured by using Job Performance Scale (JPS) from [42], which has two domains: job performance and the level of civil behavior. Each section has seven things, which are assessed using a five-point rating scale. The scale has proved to have high convergent and discriminant validity, and reliability scores (Cronbach's alpha) are usually well above 0.80.

Table 1. Research items.

Job Performance [42] from [43]	
JP1	The amount of work I finish exceeds the expectations of my boss.
JP2	I am able to finish the work that my boss requires of me before the deadline.
JP3	I can reduce the time needed to complete a routine task.
JP4	My work performance consistently exceeds the objective that my boss sets.
JP5	I can make creative and useful suggestions for the organization.
JP6	I always satisfy the customers' needs.
JP7	I have never been late in my work or caused any harm due to personal carelessness.
JP8	I have never received any complaints about lousy performance.
JP9	My boss has always been satisfied with my work performance.
JP10	I cooperate well with my colleagues and have their respect and support.
JP11	I interact well with colleagues in other departments, and have their trust and respect.
Ethical Leadership [39] from [44]	
ELS1	My leader conducts his/her personal life in an ethical manner.
ELS2	My leader defines success not just by results but also by the way that they are obtained.
ELS3	My leader listens to what employees have to say.
ELS4	My leader disciplines employees who violate ethical standards.
ELS5	My leader makes fair and balanced decisions.
ELS6	My leader can be trusted.
ELS7	My leader discusses business ethics or values with employees.
ELS8	My leader sets an example of how to do things the right way in terms of ethics.
ELS9	My leader has the best interests of employees in mind.
ELS10	My leader, when making decisions, asks "what is the right thing to do?"
Inclusive Environment [39] from [45]	
IE1	This department/branch has a fair promotion process.
IE2	The performance review process is fair in this department/branch.
IE3	This department/branch invests in the development of all of its employees.
IE5	This department/branch provides safe ways for employees to voice their grievances.
IE6	This department/branch is characterized by a non-threatening environment in which people can reveal their "true" selves.
IE7	This department/branch values work–life balance.
IE13	In this department/branch, everyone's ideas for how to do things better are given serious consideration.
IE14	In this department/branch, employees' insights are used to rethink or redefine work practices.
Psychological Safety [19,46]	
PS_1	I can bring up problems and tough issues.
PS_2	People in this organization do not reject others for being different.
PS_3	It is safe to take a risk in this organization.
PS_4	It is easy for me to ask other members of the organization for help.
PS_5	No one in this organization would deliberately act in a way that undermines my efforts.

Table 1. Cont.

Conflict Management Strategies [41]	
CMS1	I argue my case with my co-workers to show the merits of my position.
CMS2	I am firm in pursuing my side of the issue.
CMS3	I hold on to my solution to a problem.
CMS4	I satisfy the expectations of my co-workers.
CMS5	I avoid open discussion of my differences with my co-workers.
CMS6	I go along with the suggestions of my co-workers.
CMS7	I negotiate with my co-workers so that a compromise can be reached.
CMS8	I accommodate the wishes of my co-worker.
CMS9	I propose a middle ground for breaking dead lock.
CMS10	I try to investigate an issue with my co-workers to find a solution acceptable to everyone.
CMS11	I use give and take so that a compromise can be made.
CMS12	I try to bring all our concerns out in the open so that the issues can be resolved in the best possible way.
CMS13	I attempt to avoid discussing about my conflicts and try to keep my conflict with my co-workers to myself.
CMS14	I exchange accurate information with my co-workers to solve a problem together.
CMS15	I try to keep my disagreements with my co-workers to myself in order to avoid hard feelings.

4. Results

4.1. Reliability and Validity

The validity was accessed through the average variance extracted (AVE). For testing the reliability and validity of the constructs, Table 2 determines that the AVE for the moderating variable inclusive environment was greater than 0.50. Furthermore, cross-loadings are another method to test the discriminant validity. In this method, the cross-loadings of the construct must be higher than the values of other constructs.

Table 2. Constructs reliability and validity.

Variable	Items	Factor Loadings	Cronbach's Alpha	(rho_c)	Average Variance Extracted (AVE)
CMS			0.734	0.824	0.501
CMS_AS	CMS_AS1	0.899	0.840	0.904	0.759
	CMS_AS2	0.915			
	CMS_AS3	0.796			
CMS_AVOS	CMS_AVOS1	0.926	0.918	0.948	0.860
	CMS_AVOS2	0.936			
	CMS_AVOS3	0.919			
CMS_COLS	CMS_COLS1	0.817	0.762	0.863	0.678
	CMS_COLS2	0.871			
	CMS_COLS3	0.779			
CMS_COS	CMS_COS1	0.778	0.780	0.872	0.695
	CMS_COS2	0.839			
	CMS_COS3	0.879			
CMS_CS	CMS_CS1	0.727	0.721	0.841	0.640
	CMS_CS2	0.870			
	CMS_CS3	0.796			

Table 2. Cont.

Variable	Items	Factor Loadings	Cronbach's Alpha	(rho_c)	Average Variance Extracted (AVE)
IE	IE1	0.892	0.921	0.931	0.629
	IE2	0.861			
	IE3	0.843			
	IE5	0.798			
	IE6	0.708			
	IE7	0.763			
	IE13	0.733			
	IE14	0.725			
EL	EL1	0.749	0.858	0.892	0.540
	EL2	0.700			
	EL3	0.741			
	EL5	0.765			
	EL6	0.704			
	EL7	0.738			
	EL8	0.747			
	JP				
JB_EFCNY	JB_EFCNY1	0.856	0.707	0.837	0.633
	JB_EFCNY2	0.781			
	JB_EFCNY3	0.745			
JB_EFCT	JB_EFCT1	0.822	0.758	0.860	0.673
	JB_EFCT2	0.849			
	JB_EFCT3	0.789			
JB_QULT	JB_QULT2	0.790	0.713	0.840	0.636
	JB_QULT3	0.819			
	JB_QULT4	0.783			
PS_	PS_1	0.895	0.921	0.940	0.760
	PS_2	0.911			
	PS_3	0.889			
	PS_4	0.842			
	PS_5	0.818			

Note: IE = inclusive environment, CMS = conflict management strategies, EL = ethical leadership, PS = psychological safety, JB_EFCNY = job performance efficiency, JB_EFCT = job performance effectiveness, JB_QULT = job performance quality, AVE = average variance extracted.

In the same way, the constructs must be loaded better on the parent construct rather than another construct. Thus, the items of particular constructs load well onto their construct instead of the other constructs. Conflict management strategies (CMS) showed a Cronbach Alpha of 0.734 and an AVE of 0.501. As per Table 3, the results show that the cross-loadings in this study were well constructed. Hence, this study shows discriminant validity.

Table 3. Cross loadings.

	Cross Loadings										
	CMS_AS	CMS_AVOS	CMS_COL	CMS_COS	CMS_CS	IE	EL	JB_EFCNY	JB_EFCT	JB_QULT	PS_
CMS_AS1	0.899	0.172	0.314	0.206	0.387	0.044	0.405	0.269	0.377	0.132	0.084
CMS_AS2	0.915	0.149	0.287	0.213	0.300	0.055	0.394	0.306	0.355	0.186	0.101
CMS_AS3	0.796	0.143	0.241	0.215	0.344	0.023	0.372	0.245	0.327	0.187	0.068
CMS_AVOS1	0.193	0.926	0.501	0.303	0.149	0.015	0.272	0.190	0.261	0.106	0.108
CMS_AVOS2	0.110	0.936	0.517	0.311	0.103	−0.002	0.241	0.236	0.209	0.149	0.112
CMS_AVOS3	0.190	0.919	0.512	0.338	0.136	0.031	0.287	0.210	0.203	0.128	0.105
CMS_COLS1	0.267	0.465	0.817	0.515	0.333	0.099	0.461	0.327	0.443	0.337	0.274
CMS_COLS2	0.262	0.544	0.871	0.554	0.356	0.134	0.504	0.471	0.444	0.358	0.184
CMS_COLS3	0.273	0.336	0.779	0.468	0.366	0.088	0.434	0.237	0.358	0.240	0.083

Table 3. Cont.

Cross Loadings											
	CMS_AS	CMS_AVOS	CMS_COL	CMS_COS	CMS_CS	IE	EL	JB_EFCNY	JB_EFCT	JB_QULT	PS_
CMS_COS1	0.204	0.231	0.422	0.778	0.226	0.061	0.296	0.276	0.187	0.221	0.132
CMS_COS2	0.170	0.281	0.546	0.839	0.331	0.068	0.371	0.316	0.253	0.195	0.142
CMS_COS3	0.232	0.336	0.579	0.879	0.270	0.066	0.373	0.379	0.256	0.300	0.144
CMS_CS1	0.375	0.203	0.439	0.324	0.727	0.073	0.499	0.338	0.488	0.176	0.216
CMS_CS2	0.310	0.089	0.282	0.200	0.870	0.054	0.416	0.224	0.305	0.134	0.277
CMS_CS3	0.231	0.007	0.259	0.252	0.796	−0.004	0.386	0.144	0.312	0.118	0.268
IE1	0.039	0.007	0.138	0.091	0.065	0.892	0.077	0.142	0.098	0.118	0.142
IE13	0.073	−0.035	0.061	0.046	0.011	0.733	0.100	0.017	0.087	−0.044	0.067
IE14	0.019	0.068	0.062	0.109	−0.015	0.725	0.082	0.043	0.053	−0.004	0.040
IE2	0.012	0.097	0.183	0.060	0.088	0.861	0.093	0.105	0.101	0.112	0.101
IE3	0.003	−0.019	0.074	0.040	0.012	0.843	0.043	0.068	0.044	0.052	0.056
IE5	0.037	−0.034	0.015	0.010	0.012	0.798	0.053	0.024	0.044	0.059	0.028
IE6	0.025	−0.046	0.042	0.068	0.010	0.708	0.031	0.072	−0.002	0.079	0.026
IE7	0.125	−0.033	0.088	0.033	0.092	0.763	0.090	0.008	0.093	0.076	0.041
EL1	0.411	0.233	0.420	0.246	0.431	0.012	0.749	0.291	0.463	0.400	0.167
EL2	0.274	0.208	0.402	0.206	0.351	0.116	0.700	0.320	0.477	0.457	0.279
EL3	0.310	0.367	0.572	0.406	0.360	0.104	0.741	0.348	0.427	0.396	0.202
EL5	0.383	0.201	0.496	0.380	0.481	0.056	0.765	0.492	0.471	0.360	0.281
EL6	0.316	0.120	0.320	0.190	0.415	0.072	0.704	0.314	0.448	0.371	0.284
EL7	0.325	0.091	0.351	0.390	0.413	0.072	0.738	0.391	0.540	0.351	0.245
EL8	0.281	0.245	0.328	0.309	0.402	0.052	0.747	0.382	0.390	0.327	0.288
JB_EFCNY1	0.263	0.186	0.357	0.405	0.260	0.126	0.444	0.856	0.345	0.438	0.312
JB_EFCNY2	0.246	0.200	0.340	0.277	0.260	0.002	0.393	0.781	0.367	0.475	0.319
JB_EFCNY3	0.240	0.159	0.318	0.248	0.219	0.105	0.346	0.745	0.407	0.368	0.208
JB_EFCT1	0.271	0.191	0.347	0.137	0.404	0.024	0.459	0.293	0.822	0.312	0.347
JB_EFCT2	0.436	0.258	0.535	0.366	0.444	0.130	0.680	0.482	0.849	0.519	0.262
JB_EFCT3	0.266	0.132	0.333	0.154	0.320	0.069	0.359	0.355	0.789	0.304	0.208
JB_QULT2	0.153	0.072	0.259	0.166	0.118	0.129	0.359	0.457	0.412	0.790	0.243
JB_QULT3	0.103	0.124	0.264	0.222	0.122	0.061	0.374	0.421	0.339	0.819	0.302
JB_QULT4	0.202	0.135	0.393	0.306	0.203	0.008	0.509	0.408	0.380	0.783	0.212
PS_1	0.084	0.081	0.178	0.095	0.305	0.103	0.334	0.357	0.314	0.281	0.895
PS_2	0.098	0.206	0.252	0.198	0.261	0.078	0.341	0.391	0.286	0.324	0.911
PS_3	0.101	0.114	0.192	0.143	0.303	0.167	0.303	0.301	0.336	0.283	0.889
PS_4	0.042	0.115	0.188	0.147	0.249	0.025	0.243	0.231	0.261	0.229	0.842
PS_5	0.092	−0.041	0.144	0.147	0.253	0.060	0.232	0.223	0.223	0.247	0.818

4.2. Moderation Analysis

Moderation analysis consists of determining the effective relationship among independent and dependent variables. As shown in Table 4, the value of R^2 must be significant as the increase within each value must correspond with the t-value. For analyzing the moderating effect of an inclusive environment on the relationship between psychological safety and ethical leadership, the interaction term was created by using SmartPLS 4. The moderating role of inclusive environment (IE) in the relationship between ethical leadership (EL) and psychological safety (PS) was assessed. The R^2 value for PS was 0.121. This determines that EL accounts for 12.1% of the change in PS.

Table 4. SEM results.

Relationship	Beta	Std. Error	T-Value	p-Value
EL → PS_	0.329	0.066	4.969	0.000
IE → PS_	0.074	0.066	1.119	0.263
Mediating Effect EL → CMS_ → JP	0.150	0.058	2.583 *	0.010
Mediating Effect EL → PS_ → JP	0.063	0.028	2.248 *	0.025
Moderating Effect (IE × EL → PS)	−0.027	0.053	0.507	0.612

Note: * denotes significance at the 5% level ($p < 0.05$).

When the interaction shows a non-significant effect, it can be statistically determined that the moderator variable does not have any significant impact on the relationship between the independent and the dependent variable. However, when the p -values are

close to 0.5, the results may be determined as one of the trend-tendency moderators. When this interaction shows a non-significant effect, then it can be statistically concluded that the moderator variable has no significant impact on the relation between independent and dependent variables. However, when the p -values are close to 0.05, the results may be interpreted as a trend-tendency moderator. In some academic fields, the statistical cut-off of the p -value is not as strict as 0.05. In such cases, obtaining a p -value between 0.05 and 0.10 could be considered as a moderator, showing a tendency towards working as a significant moderator. Hence, the moderating effect will not be statistically significant, but it can be posited that there is a tendency for moderation.

The findings for H3 reveals that conflict management strategies (CMS) mediates between ethical leadership (EL) and job performance (JP). While the mediating effect was significant, the findings also suggest that ethical leadership does influence job performance through conflict management. However, other contributing factors may also possibly contribute to this. The results indicate that while CMS is significant, broader perspective on dynamics of performance and leadership are needed.

Moreover, the f^2 effect size was 0.001. It is proposed that 0.005, 0.01, and 0.025 constitute small, medium, and large effect sizes of moderation, respectively. There is not a significant and positive moderating effect of IE on the relationship between EL and PS.

Although the moderating role of IE was not strongly supported by this analysis, the theoretical importance is still substantial. The previously conducted studies have overlooked how the inclusive environment may foster psychological safety by aligning ethical leadership with a culture of support and openness. While the statistical results showed a weak moderating effect, it can be proposed that the practical implications for creating an inclusive environment cannot be dismissed. Leaders who tend to give priority may enhance the sense of safety among the employees. It may, however, lead to a stronger correlation among the variables. Future research may benefit from alternative methods or longitudinal research to better capture the dynamic interplay between the variables.

5. Discussion and Conclusions

The present research explored the relationship between an inclusive environment, ethical leadership, conflict management strategies, and psychological safety. This research was conducted in NGOs in Gilgit-Baltistan, a city situated in Pakistan. The concept of an inclusive environment was presented and defined as one in which all the employees are found to be equally involved in the process of decision-making. The purpose of opting for such an approach is to strive for the collective welfare of the stakeholders, organizations, and beneficiaries. It has been determined that an inclusive environment for the employees strives for and fosters employee engagement and commitment despite the changes in circumstances.

However, as per the findings of the research, it has been determined that there is an insignificant moderating effect of an inclusive environment on the relationship between ethical leadership and psychological safety. This study result is in contrast to many studies that have found a positive and significant relationship between inclusivity and organizational outcomes. For example, ref. [45] found that an inclusive work climate fosters an environment where diversity is valued and leveraged to enhance creativity, innovation, and group performance. Similarly, ref. [47] asserts that ethnic minorities who perceived a highly inclusive environment reported higher job self-efficacy and fewer depressive symptoms. Another study [48] showed that empathetic leadership can increase follower workplace engagement by creating an inclusive environment, ultimately leading to an organization achieving its goals efficiently. However, our study's findings suggest that the dynamics of inclusivity may be more complex, particularly in underdeveloped regions where organizational culture may not prioritize inclusivity as much as in other contexts.

A particular organizational culture in Gilgit-Baltistan NGOs may explain the difference. A previous study [49] discovered that in various organizational environments inclusion promotes psychological safety and trust. Our findings suggest that power dynamics,

favoritism, and a misalignment between leadership behaviors and employee expectations might impact the perception of inclusion in areas like Gilgit-Baltistan that have more hierarchical and conflict-prone work settings.

In order to determine the relationship between the variables, we used social identity theory to examine deeper insights for the research. As per this theory, individuals are found to categorize themselves according to outgroups and ingroups. This grouping is performed based on the characteristics of the individuals, which influences the perception and psychological safety within the organizations. For instance, if a certain group makes a perception of the absence of inclusion, it can likely nullify the sense of psychological safety and ethical leadership within the organization. Favoritism is another instance where a certain group can have a feeling of a lack of inclusion and psychological safety, particularly if ethical leadership practices are applied.

The ingroup dynamics within the organization need to be identified, as they can give rise to conflicts and threats when the employees observe a misalignment between actual organizational practices and adopted values. In this way, psychological safety is found to be undermined considerably. There is also an increased importance found among interpersonal trust and relationships, which considerably shapes the perceptions of the employees of the climate of an organization. This is found to be due to a perceived lack of inclusivity, which weakens trust and weakens the moderating effect of an inclusive environment. In contrast to expectations, this study revealed that an inclusive environment has a negative and insignificant impact. This was a moderating variable in the relationship between ethical leadership and psychological safety. The outcomes of this study are not aligned with those previously conducted, as this research has offered new insights for the researchers. Studies have demonstrated that an inclusive environment has a positive impact on the outcomes of the organization such as managerial performance and the degree of centrality. Also, the research has revealed that ethnic minorities who tend to perceive a high level of inclusion reported a higher level of self-efficacy and fewer depressive symptoms.

Several key aspects have contributed to the weakening moderating effects of this research. NGOs in Pakistan tend to have a different organizational culture, which might not place a priority on inclusivity as has been observed within other contexts. Additionally, there is a presence of conflicting and confusing leadership styles that might neglect the psychological safety of the employees. Not only this, but the perception of an inclusive environment may also vary among different employees, which can further weaken the moderating effects of the variables. Policies, organizational structure, and external influences, such as uncertain economic conditions, may also cause complications within the relationship.

This study has contributed to the existing body of knowledge by providing new insights into the dynamics between an inclusive environment, ethical leadership, and psychological safety. While previous studies have highlighted a positive correlation between inclusivity and organizational outcomes, this research underscores the complex nature of the relationship among the variables. The research that was conducted offers various implications for practitioners as well as researchers. The findings of the present study provide insights into the importance of an inclusive environment along with practices of ethical leadership and psychological safety. Organizational efforts must prioritize the alignment of these practices and values to cultivate a culture of trust and inclusivity. This could considerably enhance the psychological safety of the employees.

Any research conducted is not free from limitations, and this particular research also has some limitations. One of the limitations of this study is that it focused on the underdeveloped region of Gilgit-Baltistan, Pakistan. NGOs were selected, and a reliance on self-reporting was evident in the study. In the future, more diverse samples could be selected to add richness to the existing literature. More exploration could be made on the dimensions of psychological safety and organizational climate. In the future, research can be conducted to explore the effectiveness of organizational interventions. This could include programs of inclusive leadership and diversity in training. The purpose of these

programs would be to enhance the psychological safety of the employees. Longitudinal studies could be conducted to investigate the impact of ethical leadership practices on the organizational climate and PS. Another dimension of the research that we could realize is to draw a comparative analysis across various cultural contexts.

Based upon the findings of the research, there is insufficient evidence to provide support for a strong positive recommendation concerned with the moderating role of an inclusive environment (IE) between psychological safety (PS) and ethical leadership (EL). In order to improve the value of this research, a larger and more comprehensive survey must be conducted. Other moderators or mediators, such as leadership styles, team dynamics and organizational culture, could be considered in future. Some of the theoretical contributions that could be offered through this research include expanding the literature on ethical leadership, exploring the organizational climate and psychological safety, and focusing on unexplored areas. The managerial implications include focusing on leadership training and future policy designs.

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