



How Empowering Leadership Impact Employees' Creative Behavior in SMEs: The Role of Psychological Safety

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Abstract. Creativity is crucial for the competitiveness and sustainability of Small and Medium Enterprises (SMEs), particularly in dynamic markets where employee creativity drives organizational growth. This study examines the relationship between empowering leadership and employee creativity, focusing on the mediating role of psychological safety. Despite the growing interest in empowering leadership, the impact on creativity remains mixed, particularly in SMEs. The study employs a quantitative research design, collecting data from 156 employees in the creative industries (handicrafts and fashion) in Kabumen, using a survey distributed through online forms. Partial Least Squares Structural Equation Modeling (PLS-SEM) was used for data analysis. The findings reveal that while empowering leadership does not directly impact creativity, it enhances psychological safety, which in turn positively affects creativity. This study emphasizes the importance of fostering an environment of trust and openness to encourage creative behavior in SMEs. Leaders should focus on both empowering employees and promoting psychological safety to boost creativity and innovation.

Keywords: Creative Behavior; Creative Industries; Employee Creativity; Empowering Leadership; Psychological Safety.

1. BACKGROUND

Innovation is a key factor for the competitiveness and sustainability of Small and Medium Enterprises (SMEs). Innovation not only focuses on products but also on efficient and effective processes. SMEs that fail to innovate risk falling behind in an increasingly competitive market (Hassi, 2022). Therefore, employee creativity plays a crucial role, as organizational innovation will only thrive if supported by creativity at the individual level. Creative employees can generate new ideas that positively impact products, processes, and systems within the company (Mahmoud et al., 2023; Taked, 2025). Thus, it is essential for SMEs to create an environment that fosters employee creativity to adapt and grow in a dynamic market.

Several studies support that empowering leadership has a positive influence on employee creativity. Empowering leaders provide autonomy, freedom, and opportunities for employees to take initiative, which can foster the generation of new ideas and innovation (Eyiusta, 2025; Hassi, 2022; Pett, 2025). However, the research findings on the impact of empowering leadership on employee creativity are mixed. While some studies find a positive relationship, others fail to identify such an impact. Studies that did not find a positive effect often explain that excessive delegation of authority can lead to stress among employees, which, in turn, hinders creativity (A Nuzul et al., 2020; Joo et al., 2023). Additionally, a high power

distance in SMEs may limit creative initiatives, as rigid hierarchical structures and dependence on seniority often reduce the empowerment impact of leaders (Lo, 2025).

This study further investigates the mediating roles of psychological safety and in the relationship between empowering leadership and employee creativity within SMEs. Previous research has shown that when employees feel psychologically safe and are more involved in their jobs, they are more likely to engage in creative behavior (Asad, 2021). In the context of SMEs, fostering a sense of psychological safety allows employees to express their ideas freely without fear of negative consequences (Xu et al., 2022). By enhancing psychological safety and job involvement, SMEs can create an environment that encourages innovation, ultimately supporting organizational growth and competitiveness.

2. LITERATURE REVIEW

Empowering Leadership and Creative behavior

Empowering Leadership (EL) is a leadership style that emphasizes delegation of authority, autonomy, and responsibility to employees (A Nuzul et al., 2020). It encourages individuals to take initiative, make decisions, and actively contribute to organizational goals. By empowering employees, leaders foster a sense of ownership and self-efficacy, which enhances intrinsic motivation (Asad, 2021). Previous research has demonstrated that EL positively influences employee performance, job satisfaction, and engagement (Burhan, 2024; Eyiusta, 2025). Studies show that employees led by empowering leaders tend to be more motivated, committed, and satisfied with their work, leading to higher performance outcomes.

Creative behavior refers to the generation of novel and useful ideas that contribute to problem-solving, innovation, and organizational improvements (Takeed, 2025). In SMEs, creative behavior is particularly crucial for staying competitive and adapting to market changes. Empowering leadership can significantly enhance creative behavior by creating a work environment where employees feel safe to share their ideas and take risks (Hassi, 2022; Joo et al., 2023). Employees with high levels of empowerment are more likely to engage in creative thinking and propose innovative solutions. In SMEs, where flexibility and innovation are key to survival, empowering leadership can drive creativity by fostering an atmosphere of trust and support, encouraging employees to contribute creatively to organizational growth:

H1: Empowering leadership has positive influence on employees' creative behavior.

Empowering Leadership and Psychological Safety

Empowering Leadership involves delegating authority, autonomy, and responsibility to employees, motivating them to take initiative and actively contribute to organizational goals

(Eyiusta, 2025). By fostering a sense of ownership and self-efficacy, empowering leadership enhances intrinsic motivation. Furthermore, empowering leadership directly impacts psychological safety by fostering an environment of trust and openness. Psychological safety is characterized by an environment where employees feel comfortable taking interpersonal risks, such as sharing ideas or expressing concerns, without fear of negative consequences (Li, 2025; Sharif et al., 2024). In SMEs, psychological safety plays a crucial role in promoting open communication and fostering innovation. Employees who experience psychological safety are more likely to contribute creative ideas, suggest improvements, and take risks (Andersson, 2020). Empowering leadership enhances psychological safety by promoting trust, respect, and openness. Leaders who empower their employees create an environment where individuals feel supported and safe to engage fully, expressing their ideas without fear of judgment or repercussions (Asad, 2021).

H2: Empowering leadership has positive influence on employees creative behavior.

Psychological Safety and Creative Behavior

Psychological safety refers to an environment where employees feel comfortable taking interpersonal risks, such as sharing ideas or expressing concerns, without fear of negative consequences (Lan, 2025). In organizations, particularly in SMEs, psychological safety is critical for fostering open communication and innovation. Employees who feel psychologically safe are more likely to engage in creative behavior, such as generating new ideas, suggesting improvements, and taking risks (Tang, 2021). This sense of safety encourages individuals to think outside the box and contribute innovative solutions to organizational challenges. In SMEs, where adaptability and creativity are essential for survival, psychological safety becomes a key enabler for creative behavior (Khattak, 2024). Leaders who promote psychological safety create an environment that supports idea generation and collaboration, ultimately leading to greater innovation and organizational growth. Therefore, fostering psychological safety is crucial for organizations that aim to drive creativity and remain competitive in a rapidly changing market.

H3: Empowering leadership has positive influence on employees creative behavior.

Mediating role of psychological safety

Empowering Leadership involves granting employees autonomy and responsibility, which motivates them to take initiative and contribute to organizational goals. By fostering trust and self-efficacy, EL creates an environment that enhances psychological safety, where employees feel comfortable taking risks and sharing ideas without fear of negative consequences (Andersson, 2020). Psychological safety is essential for encouraging creativity,

as it allows employees to freely express innovative ideas and suggestions . Psychological safety mediates the relationship between empowering leadership and creative behavior. When employees feel psychologically safe, they are more likely to engage in creative behavior, such as generating new ideas, proposing improvements, and taking risks (Imran, 2025). EL, by creating a safe and supportive work environment, encourages employees to express their ideas freely without fear of judgment or repercussions. In SMEs, where adaptability and creativity are crucial, empowering leadership that promotes psychological safety enhances employees' willingness to innovate, leading to greater organizational growth and competitiveness (Tang, 2021). Therefore, empowering leadership indirectly fosters creative behavior by enhancing psychological safety, making it a key driver of creativity and innovation in SMEs.

H4: Psychological safety mediates the relationship between empowering leadership and creative behavior in SMEs.

3. METHOD

This study employs a quantitative research design to investigate the relationships between Empowering Leadership, psychological safety, and creative behavior in SMEs. The research is conducted in the Kabumen region, specifically focusing on creative industries such as handicrafts and fashion. Data collection was carried out through a survey conducted from January to February 2025. The survey was distributed using Google Forms, ensuring accessibility and convenience for the respondents. The target respondents are employees working in SMEs within the selected creative industries. A total of 156 respondents participated in the survey. For data analysis, this study utilizes Partial Least Squares Structural Equation Modeling (PLS-SEM) with the help of Smart PLS software. This method is chosen due to its suitability for analyzing complex relationships and testing the mediating effects in the proposed model (J. Hair et al., 2010; J. F. Hair et al., 2019). The measurement of the creative behavior variable is based on 3 items adapted from Clercq & Pereira, (2024). The empowering leadership variable is measured using 4 items from Wong Humborstad et al. (2014), and the psychological safety variable is measured using 7 items from Yin et al. (2019), and the psychological safety variable is measured using 7 items from Yin et al. (Yin et al., 2019).

4. RESULT

Measurement Model Analysis

Measurement model analysis was conducted to evaluate the relationship between indicators and latent constructs in the study. This analysis aimed to assess the validity and reliability of the research instrument through convergent validity, discriminant validity, and construct reliability using Cronbach's Alpha and Composite Reliability values.

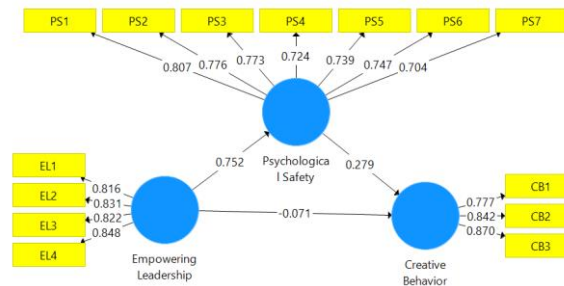


Figure 1. Measurement Model Analysis.

Table 1. Convergent Validity and Construct Reliability.

Constructs		Loading	CA	CR	AVE
Creative Behavior	CB1	0.777	0.776	0.869	0.689
	CB2	0.842			
	CB3	0.870			
Empowering Leadership	EL1	0.816	0.849	0.898	0.688
	EL2	0.831			
	EL3	0.822			
	EL4	0.848			
Psychological Safety	PS1	0.807	0.873	0.902	0.568
	PS2	0.776			
	PS3	0.773			
	PS4	0.724			
	PS5	0.739			
	PS6	0.747			
	PS7	0.704			

The measurement model analysis (see table 1) reveals that all constructs show good measurement quality. The loadings for all indicators exceed the acceptable threshold of 0.7, indicating that each item is a reliable measure of its respective construct. Empowering Leadership and Creative Behavior have strong internal consistency, with Composite Reliability (CR) values above 0.8 (Henseler et al., 2009). Psychological Safety also shows high reliability with a CR of 0.902. The Average Variance Extracted (AVE) for all constructs is above the 0.5 threshold, confirming that the constructs explain sufficient variance in their indicators. Overall,

the measurement model demonstrates good reliability and validity, making the constructs suitable for further analysis in the structural model (Shmueli et al., 2019).

Table 2. Discriminant Validity.

Constructs	CB	EL	PS
Creative Behavior (CB)	0.830		
Empowering Leadership (EL)	0.139	0.830	
Psychological Safety (PS)	0.226	0.752	0.753

The discriminant validity results in Table 2 show that all constructs meet the Fornell-Larcker criterion, as the square roots of the Average Variance Extracted (AVE) for Creative Behavior (0.830), Empowering Leadership (0.830), and Psychological Safety (0.753) are higher than their correlations with other constructs. Specifically, correlations between constructs are low (CB-EL = 0.139, CB-PS = 0.226, EL-PS = 0.752), confirming adequate discriminant validity.

Structural Model Evaluation

inner model analysis was conducted to examine the relationships among latent constructs in the research model. This analysis was used to evaluate the influence between variables through path coefficient values, R-square values, and hypothesis testing to determine the significance of the relationships among variables in the study.

Table 3. Structural Model Evaluation.

Variables	Original Sample	Standard Deviation	t-Statistic	p-Values	
Empowering Leadership -> Creative Behavior	-0.071	0.101	0.710	0.478	H1:Not supported
Empowering Leadership -> Psychological Safety	0.752	0.048	15.819	0.000	H2:supported
Psychological Safety -> Creative Behavior	0.279	0.105	2.671	0.008	H3:supported
Empowering Leadership -> Psychological Safety -> Creative Behavior	0.210	0.080	2.617	0.009	H4:supported

The structural model evaluation results indicate that hypothesis 1 (empowering leadership → creative behavior) is not supported, as the relationship is not significant with a p-value of 0.478 (J. Hair et al., 2017). Hypothesis 2 (empowering leadership → psychological safety) is supported, with a significant positive effect (p-value = 0.000), showing that empowering leadership influences psychological safety. Hypothesis 3 (psychological safety → creative behavior) is also supported, as there is a positive effect on creative behavior (p-value = 0.008).

Finally, hypothesis 4 (empowering leadership → psychological safety → creative behavior) is supported, with psychological safety mediating (full mediation) the relationship between empowering leadership and creative behavior (p-value = 0.009).

Discussion

The findings of this study provide valuable insights into the relationships between empowering leadership, psychological safety, and creative behavior within smes. Firstly, the lack of direct effect between empowering leadership and creative behavior suggests that simply empowering employees may not be enough to foster creativity on its own. This result aligns with previous research indicating that creativity may require additional factors, such as a supportive environment or specific conditions that stimulate innovative thinking. The absence of a direct link emphasizes the importance of understanding the underlying mechanisms that connect leadership styles to creativity. In the context of SMEs in Indonesia, high power distance may also be a contributing factor. Many employees still await directives from their superiors or business owners, which can inhibit their willingness to be creative. Even though empowering leadership seeks to provide autonomy, employees may be hesitant to take initiative due to a fear of stepping out of line or making mistakes in a hierarchical culture.

Furthermore, the significant positive relationship between empowering leadership and psychological safety aligns with existing theories that suggest leaders who empower their employees foster an environment of trust and openness. This result indicates that empowering leaders create a safe space for employees to express ideas and take risks, which is a crucial precursor to innovation. Additionally, the significant mediation effect of psychological safety emphasizes its role as a key driver in the relationship between empowering leadership and creative behavior. Empowering leadership influences creativity indirectly by enhancing psychological safety, which encourages employees to contribute innovative ideas. This supports the notion that leadership styles can shape an organization's culture and impact employee behavior, particularly in creative contexts.

5. CONCLUSION

This study emphasizes the importance of empowering leadership in fostering psychological safety, which in turn enhances creative behavior in SMEs. While empowering leadership alone does not directly influence creativity, it creates an environment where employees feel safe to share ideas and take risks, which is essential for innovation. These findings suggest that leaders should focus on both empowering employees and promoting a supportive, safe work environment to foster creativity and growth within SMEs. However, this

study has several limitations. The sample was limited to SMEs, which may restrict the generalizability of the findings. Future research could expand the sample to include SMEs from different regions and industries. Additionally, the cross-sectional nature of the study limits causal conclusions, so future research using a longitudinal approach would provide deeper insights. Finally, exploring other potential mediators, such as organizational culture, could further enhance the understanding of how leadership affects creativity.

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