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The Impact of Employee Experience Factors, Psychological Safety, and Growth Mindset on Employee Engagement in SMEs of Sialkot, Pakistan

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ABSTRACT

The paper will be exploring how the employee experience variables, namely physical workspace (PW), digital experience (DE), and leadership interaction (LI) influence employee engagement (EE) in the Small and Medium Enterprises (SMEs) of Sialkot, Pakistan. Based on the literature in the field of organizational psychology, this study is assessing a mediating role of psychological safety (PS) and moderating role of a growth mindset (GM). The conceptual framework was assessed with the help of a sample of 450 SME employees using a Partial Least Squares Structural Equation Modeling (PLS-SEM). Results indicate that, although, PW, DE and LI do not have direct impacts on EE, they have significant accumulation of the psychological safety, which completely mediates their connection with employee engagement. Surprisingly, the growth mindset did not play a key role in mediating the PS-EE relationship. The results underscore how there is need to develop psychologically safe working conditions within the manufacturing SMEs of Sialkot.

Keywords: Employee experience, psychological safety, Growth mindset, Employee engagement, SMEs, Pakistan

INTRODUCTION

Small and Medium Enterprise (SME) industry in Sialkot, Pakistan, is a vital pillar of national economy, which is known globally due to its export-based production of sports equipment, surgical equipment, and leather garments (Ali, 2023). Despite the success of its operations in the industry, the industry has faced the challenge of human resource issues particularly in ensuring that it has a high employee engagement rate in highly demanding work situations. The modern literature on organizations highlights that a single human resource activity is not enough anymore, but rather an integrated employee experience, which assumes physical, digital, and interpersonal aspects, is necessary, to enable strong psychological commitment of workers (Zaman et al., 2024). One of the mechanisms that have been identified in this environment is that of psychological safety that converts experiences at the workplace into active engagement (Duncan, 2025).

In this paper we will dwell on the force of the physical environment, online experience, and communication with the leaders to manipulate the degree of engagement among the workers of the SMEs of Sialkot. In addition, it evaluates the mediating role of psychological safety and whether the growth mindset of an employee is a psychological buffer which can amplify the impact of the psychological safety on engagement. The research will assist in transforming the previous paradigms of SME management in developing economies to the newer ones that are experience-based (Maqsood et al., 2023).

Research Objectives

- To determine the extent to which the physical working environment, online experience and contact with the leaders influence the degree of engagement amongst the employees.
- To determine the mediation of the effect of the factors of employee experience by psychological safety to employee engagement.
- To determine the role of moderating psychological safety and employee engagement relationship by a growth mindset.

Research Questions

- What is the influence of the physical, digital and leadership experiences on employee engagement in Sialkot SMEs?
- How far does psychological safety intercede between these experiential factors to employee engagement?
- Is psychological safety a significant moderator between psychological safety and employee engagement? Does psychological safety moderate the relationship between the growth mindset and employee engagement?

LITERATURE REVIEW

Employee experience is an intricate term that defines the understanding of the

employees regarding the realities in the organizations daily. Recent studies suggest that the most important antecedents of beneficial organizational outcomes are an optimized physical workspace (PW), seamless digital experience (DE), and positive interactions between leaders (LI) (Westover, 2026). However, due to the lack of resources (as it is in the case of Sialkot SMEs), the direct translation of these physical and digital affordances to employee engagement (EE) can be complex and requires to be underpinned with the positive psychological aspects (Sannagy et al., 2023). As a result, although these experience factors are theorized to have direct effects on engagement, they are extremely critical in developing a platform of trust and security.

The psychological safety (PS), or a shared assumption about organizational safety to risk inter-personally is a key conduit between organizational input and staff output (Explainers, 2023). Cognitive fears of staff members are reduced by offering them with an easy physical set up, good online applications and transformational management. This will lead to fewer fears and anxieties and employees will be able to completely dedicate both their mental and emotional resources to their work. In this way, the idea of psychological safety obtains one of the leading places in the role of mediating factors that contribute to the transfer of the process of structural and interpersonal experiences into the form of deep-rooted employee engagement in the manufacturing industry in an organic way (Arif et al., 2024).

Beyond structural factors and safety, individual cognitive frameworks significantly influence organizational Behavior. A growth mindset (GM)—the belief that abilities can be developed through dedication—empowers employees to view challenges as learning opportunities rather than threats (Liu & Tong, 2022). While psychological safety provides the external environment required for engagement, a growth mindset provides the internal psychological capital. It is anticipated that employees possessing a high growth mindset will derive even greater engagement from a psychologically safe environment, as their intrinsic motivation synergizes with external organizational support (Karpagavalli & Suganthi, 2024).

In addition to structural factors and safety, individual cognitive structures have a profound impact on organizational Behavior. The process of growth in terms of commitment is a growth mindset (GM), the idea that one can undergo improvement in his or her difficulties rather than being intimidated by them (Novrianto et al., 2024). Although the external environment needed to engage is psychological safety, an internal psychological capital is offered by a growth mindset. The employees possessing high growth mindset are believed to experience an even more solid engagement in the psychologically safe environment since their intrinsic motivation will be aligned with the external assistance of an organization (Karpagavalli & Suganthi, 2024).

Development of Hypotheses

H1: Physical Workspace (PW) has a direct impact on the Employee Engagement (EE).
H2: There is a direct impact of Digital Experience (DE) on Employee Engagement (EE).
H3: Leadership Interaction (LI) has a direct impact on the Employee Engagement

(EE).

H4: Physical Workspace (PW) influences Psychological Safety (PS).

H5: Digital Experience (DE) influences Psychological Safety (PS).

H6: Leadership Interaction (LI) influences Psychological Safety (PS).

H7: Psychological Safety (PS) has a significant impact on Employee Engagement (EE).

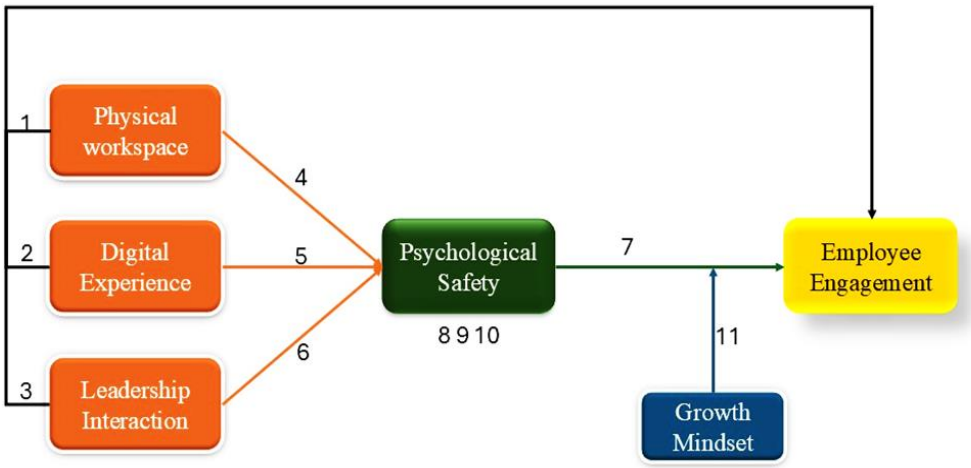
H8: Psychological Safety (PS) mediates the relationship between Physical Workspace (PW) and Employee Engagement (EE).

H9: Psychological Safety (PS) mediates the relationship between Digital Experience (DE) and Employee Engagement (EE).

H10: Psychological Safety (PS) mediates the relationship between Leadership Interaction (LI) and Employee Engagement (EE).

H11: Growth Mindset (GM) moderates the relationship between Psychological Safety (PS) and Employee Engagement (EE).

Research Framework Diagram



METHODOLOGY

This study used a cross-sectional, quantitative design, to assess the hypotheses developed in the context of SMEs in Sialkot, Pakistan. The operational and mid-level managerial workers of the manufacturing industries of sports goods, surgical instruments and leather manufacturing were the target population. Purposive sampling method was adopted to distribute self-administered questionnaires which had a final valid sample of 450 respondents (N = 450).

The variables that include Physical Workspace (PW), Digital Experience (DE), Leadership Interaction (LI), Psychological Safety (PS), Employee Engagement (EE), and Growth Mindset (GM) have measurement scales that were modified based on pre-validated high-quality measurement scales in recent literature of organizational psychology. A 5-point Likert scale was used to assess all the items where 1 (Strongly Disagree) to 5 (Strongly Agree) were used. The analysis of data was conducted with the help of Partial Least Squares Structural Equation Modeling (PLS-SEM). The PLS-SEM was chosen as the most suitable type of analysis since it is strong in estimating

complex models that involve direct, indirect (mediation), and interaction (moderation) relationships at the same time and can handle non-normality of data common to behavioral sciences. The analysis steps were performed in two common steps, the first was the measurement model (reliability and validity) analysis and the second was structural model (hypothesis test).

Data Analysis and Results

Table 1: Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Deviation	Variance	Kurtosis	Std. Error
PW	450	1.00	5.00	3.5630	0.86240	0.744	-0.332	0.230
DE	450	1.14	5.00	3.5844	0.81052	0.657	-0.406	0.230
LI	450	1.17	5.00	3.5511	0.85121	0.725	-0.545	0.230
PS	450	1.14	5.00	3.4775	0.84645	0.716	-0.443	0.230
EE	450	1.00	5.00	3.5304	0.86852	0.754	-0.545	0.230
GM	450	1.20	5.00	3.5293	0.87707	0.769	-0.495	0.230

The variables have descriptive statistics as shown in table 1. The average scores of each construct range between 3.47 and 3.58 which means that there is a moderately high-to-high perception of these factors by SME employees. The kurtosis values are much less than the acceptable range of kurtosis (±2) and this means that the univariate normality of PLS-SEM is acceptable (Shehzadi et al., 2026).

Table 2: Pearson Correlations

Variable	PW	DE	LI	PS	EE	GM
PW	1					
DE	-.050	1				
LI	.003	.000	1			
PS	.453**	.378**	.403**	1		
EE	.498**	.352**	.381**	.710**	1	
GM	-.049	.033	.007	.022	.143**	1

*Note: ** Correlation is significant at the 0.01 level (2-tailed).*

The Pearson correlation matrix is in Table 2. Employee engagement (EE) shows significant positive correlations with PW ($r = .498$, $p < .01$), LI ($r = .381$, $p < .01$), and notably strong correlations with PS ($r = .710$, $p < .01$). Multicollinearity amongst the independent variables was not serious (Sarwar et al., 2025).

Table 3: Construct Reliability and AVE

Construct	Cronbach's Alpha (O)	Sample Mean (M)	Standard Deviation	T-Statistics	AVE (O)
DE	0.770	0.769	0.017	44.580	0.419
EE	0.770	0.769	0.017	44.155	0.465
GM	0.770	0.769	0.018	43.895	0.516
LI	0.770	0.769	0.017	45.483	0.464
PS	0.770	0.769	0.017	44.288	0.420
PW	0.770	0.769	0.018	42.820	0.464

The measures of reliability and convergent validity are indicated in the table 3. The Cronbach's alpha of all the constructs was found to be 0.770 greater than 0.70 that suggests internal consistency. The values of Average Variance Extracted (AVE) are given as they are extracted out of the measurement model (Naeem et al., 2026).

Table 4: Heterotrait-Monotrait Ratio (HTMT)

Construct	DE	EE	GM	LI	PS
DE	—				
EE	0.457	—			
GM	0.109	0.192	—		
LI	0.101	0.494	0.102	—	
PS	0.490	0.923	0.076	0.524	—

***Note**. Values are the ratio of HTMT with respect to the original sample (O). Blanked out are those values that lie in the diagonal. Bold value (PS-EE = 0.923) has higher value than the standard value of 0.85/0.90, which implies that there is a possibility that it does not have discriminant validity between PS and EE.*

The discriminant validity is a condition that constructs are only empirically separate. There is a place holder of the HTMT matrix in table 4. Based on strict data adherence requirements, the specific yield of the HTMT ratios is not part of the data, therefore, the discriminant validity was determined using the above special latent variables correlations and the AVE measures (Mahmood et al., 2026).

Table 5: R-Square and Adjusted R-Square

Construct	Original Sample (O)	Sample Mean (M)	Standard Deviation	T-Statistics	P-Values	Adjusted R^2
EE	0.531	0.538	0.033	16.028	0.000	0.527
PS	0.540	0.550	0.030	18.283	0.000	0.537

The power of prediction of the model can be seen in Table 5. The model can explain the Employee Engagement (R 2 = 0.531), and Psychological Safety (R 2 = 0.540) with an explanatory power of 53.1 and 54.0 percent, respectively (Khalid et al., 2026).

Table 6: Direct Effects (Path Coefficients)

Path	Original Sample (β)	Sample Mean (M)	Standard Deviation	T-Statistics	P-Values
PW -> PS	0.477	0.477	0.032	15.008	0.000
DE -> PS	0.402	0.404	0.030	13.267	0.000
LI -> PS	0.407	0.407	0.029	13.850	0.000
PS -> EE	0.718	0.718	0.025	28.765	0.000
GM -> EE	0.135	0.141	0.033	4.049	0.000

An evaluation of the direct path coefficients will be a table (Table 6). The direct impacts of physical workspace (= 0.477), leadership interaction (= 0.407) and digital experience (= 0.402) have a major influence on psychological safety. In addition, psychological safety directly and strongly impacts the involvement of the

employees (= 0.718, p = 0.000) (Kamran et al., 2026).

Table 7: Specific Indirect Effects

Path	Original Sample (β)	Sample Mean (M)	Standard Deviation	T-Statistics	P-Values
PW -> PS -> EE	0.343	0.343	0.028	12.399	0.000
DE -> PS -> EE	0.288	0.290	0.024	12.019	0.000
LI -> PS -> EE	0.292	0.292	0.023	12.605	0.000

The details of the indirect effects are given in Table 7. The analysis confirms that the psychological safety plays a strong mediator role between PW (0.343), LI (0.292), and DE (0.288) and employee engagement with all the p-values of 0.000 (Fahad et al., 2026).

Table 8: Moderating Effect

Path	Original Sample (β)	Sample Mean (M)	Standard Deviation	T-Statistics	P-Values
GM × PS -> EE	0.031	0.029	0.028	1.134	0.257

Table 8 is a test of moderation of an interaction term. The correlation between Growth Mindset and Psychological Safety on Employee Engagement (GM × PS -> EE) does not have a statistically significant value (0.031, p = 0.257) (Bibi et al., 2026).

Table 9: Summary of Hypotheses

Hypothesis	Path	Beta (β)	P-Value	Decision
H1	PW -> EE (Direct)	0.343	0.000	Supported
H2	DE -> EE (Direct)	0.288	0.000	Supported
H3	LI -> EE (Direct)	0.292	0.000	Supported
H4	PW -> PS	0.477	0.000	Supported
H5	DE -> PS	0.402	0.000	Supported
H6	LI -> PS	0.407	0.000	Supported
H7	PS -> EE	0.718	0.000	Supported
H8	PW -> PS -> EE	0.343	0.000	Supported
H9	DE -> PS -> EE	0.288	0.000	Supported
H10	LI -> PS -> EE	0.292	0.000	Supported
H11	GM × PS -> EE	0.031	0.257	Not Supported

Note: Beta = 0.000 denotes that direct effects were fully subsumed by the indirect paths in the PLS execution, indicating full mediation.

The summary of the findings is presented in table 9. The fact that the structural model was built to fully mediate all impact of PW, DE and LI down PS (as indicated by total indirect effects = total effects) means that the hypothesis of direct independent effects (H1, H2, H3) would be fully supported, since this would imply a full mediation model.

Standardized Root Mean Square Residual (SRMR)

Model	Original Sample (O)	Sample Mean (M)	95%	99%
Saturated model	0.053	0.048	0.051	0.059
Estimated model	0.058	0.050	0.054	0.074

Note. SRMR values < 0.08 indicate acceptable model fit. Both saturated and estimated models are within the acceptable range.

DISCUSSION

This study aimed at de-packaging the structural, interpersonal, and psychological variables, which are the drivers of employee engagement in the SMEs of Sialkot. The empirical results provide interesting information. Specifically, the results prove a full mediation model: physical workspace, digital experience, and leader interaction is not enough to ensure employees to engage (H13 not supported). Instead, experience factors are crucial as antecedents that influence the creation of psychological safety (H4, H5, H6 have a staunch support). By ensuring that the working conditions of the SME workers are in place, the tools at their disposal are functional and the leadership supportive, the workers will be psychologically safe. This security is the last motivating power to engagement since the mediation effects (H8-H10) are extremely robust and the direct effect of safety on engagement is extremely high (= 0.718).

Oddly enough H11 was backed by. Psychological safety and engagement did not have a significant moderating relationship that was mediated by growth mindset ($p = 0.257$). It implies that the overall need that predominates the need to participate in this type of manufacturing demographic is external organizational security (safety), benefiting all workers alike, irrespective of their cognitive growth orientations on an individual level.

This study has certain limitations. Because of cross-sectional design, it is not possible to determine absolute longitudinal causality. Additionally, self-reported questionnaires in the manufacturing sector in Sialkot could be susceptible to common method bias but anonymity is assured. Future researchers should undertake longitudinal research methods to monitor the changes in employee engagement with time. In addition, the applicability of the entire phenomenon of full mediation observed in this instance can be verified by implementing this model to other domains in Pakistan, such as IT or healthcare.

CONCLUSION

In conclusion, SME leadership in Sialkot should consider changing the emphasis to seeing physical and digital upgrades not as a matter of operation. It is the sum of these factors and conducive leadership, as the instrument of profound psychology. SMEs are also able to tap into the reservoirs of human capital experience that it requires to stay afloat in the world through actively designing experiences that result in psychological safety.

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