Employee Well-Being as a Mediating Mechanism Between Leadership, Team Dynamics, Empowerment, and Performance in UAE Manufacturing SMEs

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ABSTRACT

Employee performance in manufacturing small and medium enterprises (SMEs) is increasingly influenced by psychological and relational factors rather than solely technical or operational aspects. This study investigates the role of employee well-being as a mediating mechanism linking engaging leadership, team effectiveness, employee empowerment, and performance among employees in UAE manufacturing SMEs. Data were obtained from 352 employees across multiple manufacturing organisations in several emirates through a structured questionnaire addressing leadership, empowerment, teamwork, well-being, and performance, employing a cross-sectional quantitative research design. The analysis utilised Partial Least Squares Structural Equation Modelling (PLS-SEM) via SmartPLS, applying a two-step procedure to estimate both the measurement and structural models. Findings indicate that supportive leadership and employee empowerment exert direct effects on individual performance, whereas team effectiveness predominantly impacts performance indirectly by enhancing employee well-being. Employee well-being emerged as a significant determinant of performance and served as the principal mediator connecting leadership, teamwork, and empowerment to performance outcomes. The model demonstrated substantial explanatory capacity for both employee well-being and performance, indicating robust predictive validity. The study emphasises that a supportive and empowering leadership approach is critical for performance improvement when psychological well-being is prioritised within the workforce of manufacturing SMEs. These results carry theoretical, managerial, and practical implications for SME managers, policy-makers, and researchers seeking to foster workforce sustainability, organisational resilience, and competitive performance within the UAE manufacturing sector.

Keywords: Employee Well-Being; Engaging Leadership; Employee Empowerment; Team Effectiveness; SME Performance

INTRODUCTION

Efficiency performance remains a persistent strategic concern for SMEs, particularly within the manufacturing sector, where productivity, operational efficiency, and adaptability

determine competitiveness and survival in a fluctuating market. In the UAE, manufacturing SMEs contribute significantly to economic diversification and industrial growth but face limitations due to resource scarcity, technological disruptions, variable demand, and labour market challenges. Such conditions elevate job demands and workplace stress, undermining employee well-being and organisational functioning.

Consequently, understanding how SMEs can enhance performance while maintaining employee welfare has become a critical management and research issue. Evidence increasingly indicates that employee well-being is not merely an outcome of organisational practice but serves as a fundamental psychological antecedent to work performance. Well-being has been demonstrated to mediate the relationship between workplace engagement and performance, representing a vital pathway through which organisational conditions influence productivity. Psychological well-being is a recognised predictor of job performance, operating via motivational, affective, and cognitive mechanisms that support effort and effectiveness. High workplace stress negatively affects productivity, emphasising the need for well-being to be managed strategically rather than maximised indiscriminately. In SMEs, promoting employee well-being generates both economic and social value, positioning it as a strategic organisational resource rather than a stand-alone human resource function.

Leadership constitutes a critical determinant of employee well-being and performance, particularly in resource-constrained SME contexts. Research suggests that relational leadership supports employee well-being and human resource management practices, whereas poor relational exchange is linked to suboptimal performance. Leadership styles influence well-being through the quality of leader–member exchange, highlighting the psychological dimensions of managerial effectiveness (Das & Pattanayak, 2022). Ethical leadership fosters a psychologically healthy climate by promoting trust, fairness, and prosocial behaviours within organisations (Benlahcene et al., 2022). Emerging evidence indicates that emotional processes significantly explain how leader effectiveness enhances employee well-being and demonstrate that performance outcomes are shaped by both structural and affective factors. In the UAE, sustainable leadership practices adopted by SMEs during and after the COVID-19 pandemic positively influenced employee resilience and well-being under turbulent conditions.

Employee empowerment is a further key driver of well-being and performance. Psychological empowerment enhances well-being by providing employees with perceived autonomy, significance, competence, and impact. Empowerment facilitates performance in dynamic work contexts, enabling employees to address problems adaptively and independently (Malik et al., 2021). Both structural and psychological empowerment influence work engagement and well-being across national contexts, highlighting the role of empowerment as a strategic organisational resource. Empowering leadership has also been linked to improved project performance by strengthening employees' psychological and social resources.

Team dynamics and collaboration are central to employee well-being and performance, particularly within contemporary hybrid work environments where remote work is prevalent. Positive team interactions foster well-being and performance through social support, collective objectives, and group efficacy. Teamwork contributes to psychological health and job performance, particularly when integrated into socially responsible organisational policies. Historically, team-building interventions have enhanced employee performance in both public and private sectors by cultivating cooperation and trust. In the UAE, employee well-being must

be interpreted within broader cultural and institutional frameworks.

Emirati perspectives emphasise the influence of national context, labour structures, and organisational practices on work-related outcomes. For instance, people-centred lean strategies in manufacturing SMEs sustain and improve operational performance, underpinning long-term competitiveness. Innovation dynamics mediate the impact of human resource development on SME performance, facilitating capability enhancement, organisational learning, and improved outcomes (Almansoori et al., 2025; Saoula et al., 2019). Despite high SME failure rates during economic downturns, socially responsible practices are perceived to enhance organisational resilience and employee outcomes, particularly in crises such as COVID-19 (Al Blooshi et al., 2023).

Although prior research has explored leadership, empowerment, teamwork, and well-being, there remains limited understanding of their interrelationships within a single integrative model in UAE manufacturing SMEs. Existing studies often examine these factors in isolation, neglecting the mediating role of employee well-being in connecting managerial practices to performance outcomes. Addressing this gap is theoretically significant, enhancing comprehension of psychological mechanisms in organisational performance, and practically relevant, providing SMEs with evidence-based strategies. Drawing on Conservation of Resources (COR) theory, this study focuses on engaging leadership, employee empowerment, and team effectiveness as key organisational resources that enhance employee well-being, thereby improving performance outcomes.

Work conditions influence well-being through resource gains and losses, supporting a resource-based perspective (Wang et al., 2023). Psychological resources, including positive affect and ego-resilience, have been identified as mediators of performance outcomes, underscoring the importance of well-being in organisational success. Consequently, this paper examines the mediating effect of employee well-being on the relationships among engaging leadership, team effectiveness, employee empowerment, and employee performance within UAE manufacturing SMEs. Employing PLS-SEM, the study provides empirical evidence on both direct and mediating effects, contributing to theoretical development, empirical research, and managerial practice in organisational behaviour, leadership, and human resource management.

LITERATURE REVIEW

Theoretical Discussion

This study is grounded in COR theory, which provides a robust framework for understanding how organisational contexts influence employee well-being and performance. COR theory proposes that individuals are motivated to acquire, preserve, and develop valuable resources, including psychological assets such as resilience, social assets like social support, and organisational resources including work-related tools. Stress arises when these resources are threatened, lost, or insufficiently replenished. Within organisational settings, leadership, empowerment, and team-related factors can be conceptualised as key resources that either enhance or diminish employee well-being, thereby affecting performance outcomes. From a COR perspective, EW functions as a central psychological resource enabling employees to manage job demands, maintain motivation, and perform effectively. Research indicates that

workplace conditions influence employee well-being through processes of resource gain and loss, underscoring the importance of applying COR theory to organisational contexts (Wang et al., 2023).

Psychological resources, including positive affect and ego-resilience, have been identified as mediators of performance outcomes, positioning well-being as a primary reservoir of personal resources (Khan et al., 2022). Leadership is viewed as a critical provider of resources within organisations. Engaging and ethically oriented leadership delivers emotional, social, and psychological resources, enhancing employee well-being and reducing work-related strain. This underpins the hypothesis that leadership acts as a resource multiplier, whereby the support provided for one task may simultaneously improve employee performance and well-being (Salas-Vallina et al., 2020). Empirical evidence demonstrates that ethical leadership strengthens psychological well-being by fostering trust, fairness, and a moral organisational climate, thereby improving employees' perceptions of resource security.

Recent studies further suggest that the influence of leadership effectiveness on EW is mediated by emotions, highlighting the psychological pathways through which leaders affect employees (Rodrigues et al., 2024). Employee empowerment aligns with COR theory by expanding the availability of psychological and social resources, including autonomy, competence, and meaningfulness at work. Psychological empowerment enhances EW through perceptions of control, work significance, and self-efficacy (Marin-Garcia & Bonavia, 2021). Both structural and psychological empowerment jointly predict work engagement and EW across diverse national contexts, indicating that empowerment replenishes personal and social resources (Monje-Amor et al., 2021). Empowering leadership has also been shown to positively influence project performance by strengthening employees' psychological resources, consistent with COR principles (Zheng et al., 2022).

Team effectiveness can similarly be conceptualised as a social resource. Creating effective teams provides employees with resource reserves to draw upon under pressure. Teamwork, encompassing support, shared responsibilities, and collaborative problem-solving, mitigates stress and positively influences EW. Socially responsible organisational practices embedded in teamwork have been associated with improvements in psychological health and job performance (Kim et al., 2022). In hybrid work environments, strong team dynamics enhance EW and performance by promoting social connectedness and collective purpose (Rahmatullah et al., 2024). Team-building interventions have also been shown to foster coordination, trust, and collective performance, indirectly supporting employee well-being and productivity (Abbas, 2021).

Hypotheses Development

Engaging leadership is widely recognised as a critical mechanism through which leaders shape employee attitudes, motivation, and work behaviours, particularly in SMEs, where the influence of owner-managers is often direct and interpersonal. Supervisors demonstrating accessibility, empathy, and emotional support cultivate a work environment that fosters commitment, effort, and exceptional performance. Evidence indicates that supportive leadership enhances employees' psychological safety, trust, and relational exchange, leading to higher motivation and greater work engagement (Salas-Vallina et al., 2020). Ethical leadership further contributes to improved performance by promoting fairness, integrity, and organisational citizenship behaviours that reinforce collective effectiveness (Huang et al.,

2021). Recent studies suggest that leadership effectiveness operates not only through structural mechanisms but also via affective pathways, influencing engagement and persistence. In the UAE, sustainable leadership approaches adopted by SMEs during and after the COVID-19 pandemic have been shown to strengthen employee resilience and job performance under conditions of uncertainty (Tantry et al., 2025).

H1: Engaging leadership has a positive effect on employee performance.

Autonomy, discretion, and involvement in decision-making, as afforded by employee empowerment, are essential determinants of performance in dynamic manufacturing environments. Psychological empowerment encourages employees to adopt a proactive approach, demonstrate initiative, and adapt to changing circumstances while resolving problems, thereby enhancing task completion and fostering innovation. Empirical evidence supports the positive influence of psychological empowerment on performance in agile and project-oriented work contexts, highlighting improvements in adaptability, creativity, and self-directed behaviour. Moreover, empowering leadership reinforces employees' psychological and social resources, which in turn facilitates higher performance outcomes. Empowered employees also exhibit increased responsibility for their actions and results, greater resilience, engagement, and commitment to deliverables, collectively contributing to superior job performance. Within the constraints typical of SMEs, employee empowerment enables individuals to act independently without constant managerial supervision, thereby reducing inefficiency and organisational rigidity.

H2: Employee empowerment has a positive effect on employee performance.

Team effectiveness fosters collaboration, communication, and shared ownership, thereby promoting superior performance in team-based work environments. Structured team-building interventions enhance employee productivity by strengthening collaboration, trust, and collective problem-solving (Abbas, 2021). In hybrid work arrangements, supportive team dynamics contribute to higher productivity by facilitating social interaction and reducing employee isolation. Work teams not only encourage the sharing of knowledge and mutual assistance but also minimise errors and improve overall task outcomes. Within manufacturing SMEs, where employee interdependence is pronounced, well-coordinated teams are essential for operational efficiency and high-quality performance.

H3: Team effectiveness has a positive effect on employee performance.

Leadership is a critical determinant of employee well-being, particularly in high-demand manufacturing environments. Supportive and engaging leaders can mitigate workplace stress by fostering psychologically safe environments where employees feel valued, recognised, and respected. Research indicates that ethical and transformational leadership significantly enhances psychological well-being by promoting trust, fairness, and social support (Huang et al., 2021). Leader effectiveness has been shown to influence employee well-being through emotional mediation, highlighting the role of interpersonal climate and emotional regulation in shaping employees' mental states (Rodrigues et al., 2024). In UAE SMEs, crisis-driven sustainable leadership practices have been associated with improved employee resilience, mental health, and overall well-being (Tantry et al., 2025). This study examines whether engaging leadership functions as a protective factor, alleviating strain and supporting well-being, relative to employees who have not experienced such leadership interventions.

H4: Engaging leadership has a positive effect on employee well-being.

Team dynamics play a critical role in shaping employees' psychological well-being by providing social support, a shared sense of identity, and emotional security. Effective teamwork has been linked to enhanced psychological health and job satisfaction, particularly when integrated with socially responsible organisational practices that foster trust and cooperation. In hybrid work contexts, strong team relationships mitigate stress and improve employee mental well-being by cultivating a sense of belonging and mutual support. Healthy teams create a community atmosphere that protects against isolation, uncertainty, and workplace-related stress. Within the operational practices of manufacturing SMEs, where workloads are often substantial, team support is especially crucial for maintaining employee mental health and morale.

H5: Team effectiveness has a positive effect on employee well-being.

Psychological empowerment enhances employees' experiences of meaning, competence, self-determination, and impact, all of which are core elements of well-being. Evidence indicates that empowerment positively influences employee well-being by improving self-efficacy, perceived control, and job satisfaction. Cross-national studies further demonstrate that both structural and psychological empowerment are strongly associated with work engagement and mental health across diverse organisational contexts (Monje-Amor et al., 2021). When employees perceive themselves as empowered, their work becomes more meaningful and manageable, reducing stress and fostering psychological resilience. In resource-constrained SMEs, empowerment plays a crucial role in safeguarding employee mental health while maintaining productivity.

H6: Employee empowerment has a positive effect on employee well-being.

There is substantial evidence that employee well-being exerts a significant influence on job performance. Well-being has been found to mediate the relationship between work environment, engagement, and performance, highlighting its role as a central psychological mechanism in organisational effectiveness (Rabuana & Yanuar, 2023). Psychological well-being affects cognitive functioning, emotional regulation, and motivation, which collectively contribute to enhanced job performance (Kundi et al., 2020). Furthermore, research indicates that workplace stress reduces productivity, emphasising the importance of fostering employee well-being rather than focusing solely on organisational efficiency (Bui et al., 2021). Investments in employee well-being yield both economic and social benefits for SMEs, reinforcing its strategic significance (Rubio-Andrés et al., 2022).

H7: Employee well-being has a positive effect on employee performance.

Leadership impacts employee performance not only directly but also indirectly through its influence on psychological well-being. Evidence indicates that employee well-being improves when leaders demonstrate trust, provide emotional support, and cultivate psychological safety. Ethical leadership further enhances well-being by promoting fairness and a moral organisational climate. Research suggests that leadership effectiveness may influence performance through the emotional mechanisms of employees, positioning well-being as a critical psychological pathway linking leadership to performance outcomes. Given that engaging leadership strengthens employee well-being and well-being, in turn, is associated

with performance, it is reasonable to propose that well-being mediates the relationship between leadership and performance.

H8: Employee well-being mediates the relationship between engaging leadership and employee performance.

Team effectiveness influences performance not only through coordination and task execution but also by promoting psychological well-being. Effective teams enhance mental health by providing social support, fostering a shared identity, and creating emotional security. In hybrid work settings, strong team dynamics reduce stress and improve well-being by cultivating a sense of belonging and mutual assistance among members. Given that organisational support through effective teamwork strengthens employee well-being, and well-being is positively linked to performance, it is reasonable to assert that well-being mediates the relationship, serving as an indirect pathway through which team effectiveness improves performance.

H9: Employee well-being mediates the relationship between team effectiveness and employee performance.

Empowerment influences performance in part through its positive impact on psychological well-being. Psychological empowerment enhances well-being by fostering greater self-efficacy, autonomy, and perceived control. As employees experience increased empowerment, they report lower stress levels and higher engagement, both of which support overall performance. Given that empowerment strengthens well-being and well-being, in turn, predicts performance, it is reasonable to propose that employee well-being mediates the relationship between empowerment and performance.

H10: Employee well-being mediates the relationship between employee empowerment and employee performance.

METHODOLOGY

This study employed a cross-sectional quantitative design to investigate the mediating role of employee well-being in UAE manufacturing SMEs, linking engaging leadership, employee empowerment, team effectiveness, and employee performance. Given the aim to examine psychological and organisational constructs as latent variables within a sizeable sample, a survey-based methodology was adopted. Cross-sectional survey designs combined with structural equation modelling have been widely validated for research on employee well-being, leadership, and performance, ensuring methodological appropriateness. The sample comprised employees from manufacturing SMEs across various emirates in the UAE. Data were collected using a structured questionnaire, yielding 352 valid responses, a sample size sufficient for Partial Least Squares-Structural Equation Modelling (PLS-SEM) and exceeding contemporary guidelines for complex mediation models. Prior SME research indicates that samples exceeding 300 are preferable to achieve robust parameter estimates and model stability (Iqbal et al., 2021).

Five multi-item scales adapted from established literature were employed, each demonstrating high validity. High-involvement leadership was assessed through supportive, participative, and relational behaviours. Employee autonomy was measured using psychological dimensions of autonomy, competence, and perceived impact, consistent with previous studies. Work unit

performance captured coordination, communication, and cooperation among teams. Employee well-being was evaluated via psychological well-being, emotional stability, and perceived workplace wellness. Employee performance was assessed through self-reported task effectiveness, productivity, and goal achievement. All items were rated on a five-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree").

Data analysis was conducted using SmartPLS 4.0 and the PLS-SEM technique, chosen for its suitability in prediction-oriented modelling, mediation analysis, and studies involving multiple latent constructs with complex interrelations. Recent methodological literature confirms PLS-SEM as appropriate for social science and management research involving latent variables with non-normal data distributions (Purwanto & Sudargini, 2021). The analysis proceeded in two stages. First, the measurement model was tested to ensure indicator reliability and validity, examining item loadings, Cronbach's alpha, composite reliability (CR), and average variance extracted (AVE).

Discriminant validity was assessed using the Heterotrait-Monotrait (HTMT) ratio, a recommended criterion in PLS-SEM (Méndez-Suárez, 2021). Second, hypotheses were tested within the structural model, evaluating direct and indirect effects. Mediation, path significance, and confidence intervals were examined using bootstrapping with 5,000 resamples, consistent with PLS-SEM mediation procedures. Collinearity diagnostics ensured that multicollinearity among independent variables did not bias structural parameter estimates. Model fit was assessed through R^2 values for the endogenous variables employee well-being and employee performance (Purwanto & Sudargini, 2021). Ethical considerations were observed throughout data collection. Participation was voluntary, respondents were informed about confidentiality, and no personally identifiable information was collected. Data were exclusively used for academic purposes.

FINDINGS

This section presents the findings from the structural model examining the relationships among engaging leadership, employee empowerment, team effectiveness, employee well-being, and employee performance in UAE manufacturing SMEs. The analysis was conducted in two phases using PLS-SEM: the first phase involved testing the reflective measurement model, and the second phase encompassed structural equation modelling, including the evaluation of hypotheses and mediation effects.

Descriptive statistics and univariate normality for all constructs—employee performance, engaging leadership, employee empowerment, team effectiveness, and employee well-being—are presented. Mean scores for all constructs ranged from 4.188 to 4.256 on a five-point Likert scale, indicating generally high perceptions of leadership quality, empowerment, teamwork, well-being, and performance among employees in UAE manufacturing SMEs. Specifically, team effectiveness had an average score of 4.188 (SD = 0.982), while employee well-being scored 4.256 (SD = 0.970). All means exceeded the midpoint of the scale, despite some variation across constructs. Regarding normality, skewness values ranged from −0.957 to −1.086 and kurtosis values ranged from −0.089 to 0.196 for all variables. These fall well within the conventionally accepted thresholds of ±2.0 for skewness and ±3.0 for kurtosis, indicating no significant violations of univariate normality. Therefore, the data were deemed appropriate for further PLS-SEM analysis without concerns of distributional bias.

Table 1: Skewness and Kurtosis for Univariate Normality

Variables	Mean	S.D	Skewness	Kurtosis
Employee Performance	4.233	0.957	-1.027	0.119
Engaging Leadership	4.196	1.043	-1.073	-0.089
Employee Empowerment	4.203	0.975	-0.957	-0.065
Team Effectiveness	4.188	0.982	-1.086	0.196
Employee Well-Being	4.256	0.970	-1.038	-0.041

Table 2 presents the assessment of multicollinearity among the predictor variables in the structural model. Variance inflation factor (VIF) values for engaging leadership, employee empowerment, team effectiveness, and employee well-being ranged from 2.471 to 4.303, all below the commonly accepted threshold of 5.0. Corresponding tolerance values ranged from 0.256 to 0.446, exceeding the critical value of 0.10. These results indicate the absence of significant multicollinearity, confirming that the independent constructs are sufficiently distinct to allow reliable estimation of structural paths within the PLS-SEM framework.

Table 2: Result for Test of Multicollinearity

Variables	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Engaging Leadership	0.256	4.303
Employee Empowerment	0.327	3.376
Team Effectiveness	0.446	2.471
Employee Well-Being	0.395	2.793

The final PLS-SEM structural model is illustrated in Figure 1, displaying the relationships among engaging leadership, team effectiveness, employee empowerment, employee well-being, and employee performance. The figure presents the measurement indicators for each construct along with the proposed structural paths connecting the variables. The model indicates that engaging leadership, team effectiveness, and employee empowerment have direct effects on employee well-being, whereas engaging leadership, employee empowerment, and employee well-being exert direct influences on employee performance. The graphical representation of the theoretical model highlights the central role of employee well-being as a mediator, positioned between the independent variables and employee performance as the outcome.

Table 3 presents the final measurement model results for all latent constructs, including standardized factor loadings, Cronbach's alpha, CR, and AVE. All indicator loadings exceeded the recommended threshold of 0.70, ranging from 0.668 to 0.875, demonstrating satisfactory indicator reliability and confirming that each item adequately represents its respective construct. Construct reliability was assessed using Cronbach's alpha, with values ranging from 0.886 to 0.909, surpassing the conventional threshold of 0.70. Composite reliability values similarly ranged from 0.888 to 0.909, indicating strong reliability across all measurement scales. Convergent validity was evaluated through AVE values, which varied between 0.548 and 0.644, exceeding the recommended minimum of 0.50. These results confirm that each construct accounts for more than 50% of the variance in its indicators, supporting the convergent validity of the measurement model.

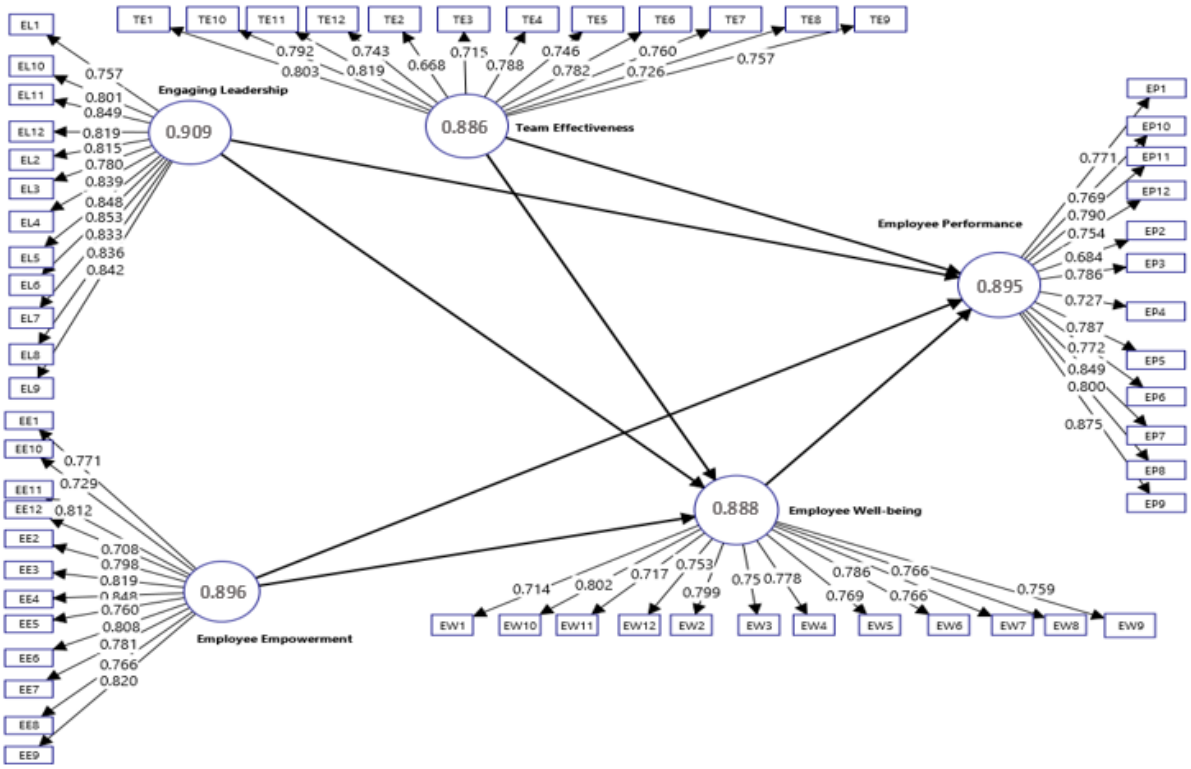

Figure 1: Final Model Measurements

Table 3: Final Model Measurements

Latent Constructs and Indicators	Standardised Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
EE1	0.771	0.896	0.898	0.587
EE10	0.729			
EE11	0.812			
EE12	0.708			
EE2	0.798			
EE3	0.819			
EE4	0.848			
EE5	0.76			
EE6	0.808			
EE7	0.781			
EE8	0.766			
EE9	0.82			
EL1	0.757	0.909	0.909	0.644
EL10	0.801			
EL11	0.849			
EL12	0.819			
EL2	0.815			
EL3	0.78			
EL4	0.839			
EL5	0.848			
EL6	0.853			
EL7	0.833			
EL8	0.836			
EL9	0.842			

Table 3(continued): Final Model Measurements

Latent Constructs and Indicators	Standardised Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
EP1	0.771	0.895	0.897	0.580
EP10	0.769			
EP11	0.79			
EP12	0.754			
EP2	0.684			
EP3	0.786			
EP4	0.727			
EP5	0.787			
EP6	0.772			
EP7	0.849			
EP8	0.8			
EP9	0.875			
EW1	0.714	0.888	0.888	0.554
EW10	0.802			
EW11	0.717			
EW12	0.753			
EW2	0.799			
EW3	0.751			
EW4	0.778			
EW5	0.769			
EW6	0.786			
EW7	0.766			
EW8	0.766			
EW9	0.759			
TE1	0.803	0.886	0.888	0.548
TE10	0.792			
TE11	0.819			
TE12	0.743			
TE2	0.668			
TE3	0.715			
TE4	0.788			
TE5	0.746			
TE6	0.782			
TE7	0.76			
TE8	0.726			
TE9	0.757			

Note: EL = Engaging Leadership; TE = Team Effectiveness; EE = Employee Empowerment; EW = Employee Well-Being; EP = Employee Performance.

Discriminant validity indicates the extent to which a construct is empirically distinct from other constructs (Aman-Ullah et al., 2022). Table 4 summarises the HTMT ratio values used to assess discriminant validity among the constructs in this study, including employee empowerment, engaging leadership, employee performance, employee well-being, and team effectiveness. HTMT values ranged from 0.904 to 0.971. These values are below the conservative 0.85 threshold for most construct pairs and remain within the more permissive 0.90 bound recommended in contemporary PLS-SEM research. No confidence intervals included the value of 1.0, indicating that the constructs are empirically distinguishable. Where HTMT values were

elevated, such as between employee empowerment, engaging leadership, and employee performance, these high values are indicative of strong theoretical relatedness rather than a lack of discriminant validity. Overall, the findings confirm that each construct represents a distinct concept and that multicollinearity does not compromise construct differentiation. Therefore, discriminant validity is established, supporting the suitability of the measurement model for subsequent structural analysis.

Table 4: Heterotrait-Monotrait (HTMT) Ratio Criterion Values

Latent Variables	1	2	3	4	5
1. Employee Empowerment					
2. Engaging Leadership	0.904				
3. Employee Performance	0.993	0.951			
4. Employee Well-Being	0.951	0.948	0.968		
5. Team Effectiveness	0.938	0.971	0.951	0.966	

Figure 2 presents the structural model, illustrating the direct relationships among engaging leadership (EL), team effectiveness (TE), employee empowerment (EE), employee well-being (EW), and employee performance (EP). The figure includes the measurement indicators for each latent construct and the hypothesized structural paths connecting them. In the model, engaging leadership, team effectiveness, and employee empowerment are depicted as antecedents of employee well-being, while engaging leadership, employee empowerment, and employee well-being serve as direct predictors of employee performance. The directional arrows represent the causal relationships tested in the structural model, with employee well-being positioned as a mediating variable through which leadership, teamwork, and empowerment influence performance outcomes.

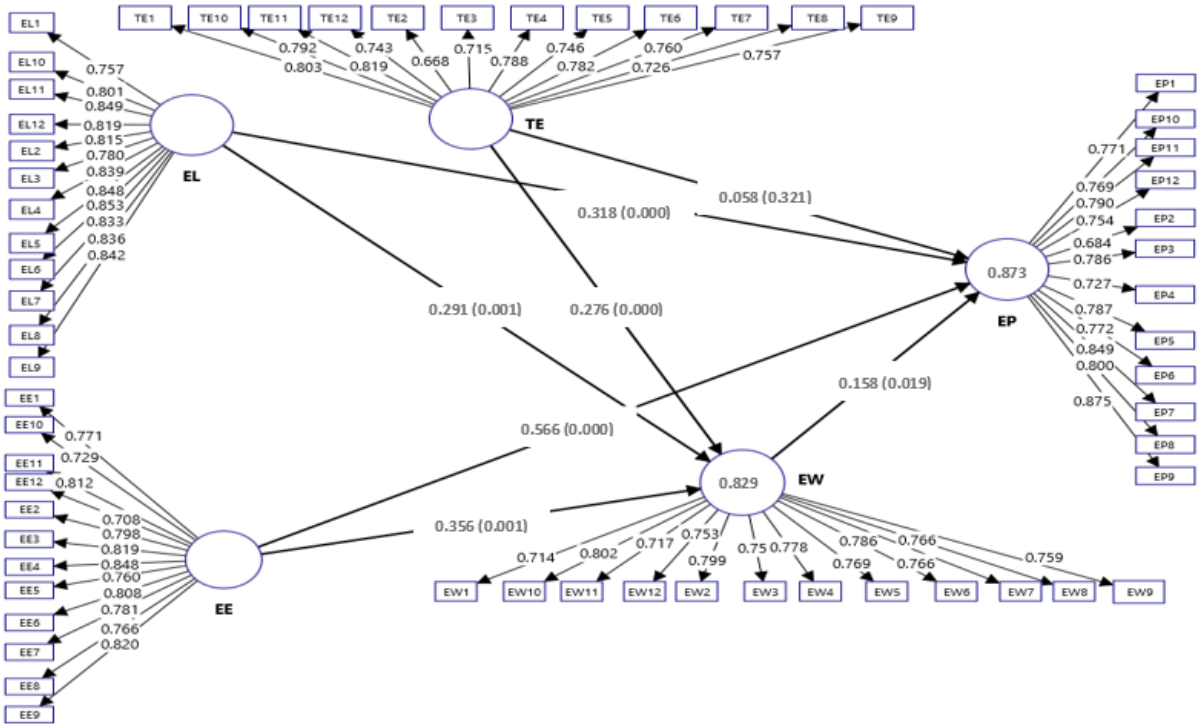

Figure 2: Structural Model of Direct Hypotheses

Table 5 summarises the structural model results for the direct relationships among EL, TE, EE, EW, and EP. The significance of each path was assessed using standardized beta coefficients, t-values, p-values, and bias-corrected accelerated confidence intervals derived via bootstrapping. Regarding antecedents of EP, EL demonstrated a positive and statistically significant effect on EP ($\beta = 0.318$, $t = 4.286$, $p < 0.001$), supporting H1. This indicates that higher levels of EL are associated with improved EP in UAE manufacturing SMEs. EE also exhibited a strong positive and significant influence on EP ($\beta = 0.566$, $t = 7.200$, $p < 0.001$), supporting H2, and highlighting EE as the most substantial direct predictor of EP in the model. Conversely, TE showed a positive but non-significant effect on EP ($\beta = 0.058$, $t = 0.910$, $p = 0.321$), indicating that H3 is not supported and suggesting that TE may primarily impact EP indirectly rather than directly.

Table 5: The Results of Direct Hypotheses

Relationship	Std Beta	Std Error	T-Values	P-Values	BCI LL	BCI UL	f^2	VIF
EL -> EP	0.318	0.070	4.286	0.000	0.182	0.466	0.113	2.090
TE -> EP	0.058	0.060	0.910	0.321	-0.068	0.172	0.040	2.033
EE -> EP	0.566	0.075	7.200	0.000	0.423	0.687	0.387	1.995
EL -> EW	0.291	0.086	3.186	0.001	0.100	0.458	0.041	2.014
TE -> EW	0.276	0.071	3.669	0.000	0.142	0.406	0.040	2.138
EE -> EW	0.356	0.107	3.158	0.001	0.157	0.541	0.041	1.948
EW -> EP	0.158	0.067	2.217	0.019	0.020	0.293	0.040	1.786

Note: EL = Engaging Leadership; TE = Team Effectiveness; EE = Employee Empowerment; EW = Employee Well-Being; EP = Employee Performance.

For predictors of EW, EL positively influenced EW ($\beta = 0.291$, $t = 3.186$, $p = 0.001$), supporting H4, while TE also significantly predicted EW ($\beta = 0.276$, $t = 3.669$, $p < 0.001$), providing evidence for H5 and underscoring the relevance of supportive team dynamics for psychological health. EE was positively and significantly associated with EW ($\beta = 0.356$, $t = 3.158$, $p = 0.001$), supporting H6, indicating that empowered employees experience higher EW. Finally, EW had a positive and significant effect on EP ($\beta = 0.158$, $t = 2.217$, $p = 0.019$), confirming H7. Although the effect size is smaller than those of EL and EE, this finding affirms that EW serves as an important contributor to enhancing EP outcomes.

Table 6 presents the R^2 values for the two endogenous constructs within the structural model, namely EP and EW. The model explains 87.3% of the variance in EP ($R^2 = 0.873$), indicating very high predictive power and showing that EL, EE, TE, and EW together provide a strong explanation of performance outcomes in UAE manufacturing SMEs. For EW, the model accounts for 82.9% of the variance ($R^2 = 0.829$), suggesting that the combination of EL, EE, and TE effectively predicts employees' psychological well-being. According to accepted PLS-SEM benchmarks, R^2 values above 0.75 are considered substantial, confirming that the proposed model has strong explanatory and predictive capability for both EW and EP.

Table 6: Variance Explained in the Endogenous Latent Variables

Latent Variables	Variance Explained (R^2)
Employee Performance (EP)	0.873
Employee Well-Being (EW)	0.829

The mediation analysis of the indirect effects of EL, TE, and EE on EP via EW is presented in Table 7. Bootstrapping with bias-corrected confidence intervals (BCI) was used to test mediation, with significance indicated when the interval does not include zero. Results show that EW mediates the relationship between EL and EP, with a positive coefficient of 0.262 ($t = 3.154$, $p < 0.001$). The BCI ranges from 0.120 to 0.415, confirming a significant indirect effect, supporting H8 that EL enhances EP through the improvement of EW. EW also mediates the link between TE and EP ($\beta = 0.252$, $t = 3.710$, $p < 0.001$), with a BCI of 0.128 to 0.378, corroborating H9. This finding explains why TE does not have a direct impact on EP but contributes indirectly via EW. Finally, EW mediates the relationship between EE and EP ($\beta = 0.327$, $t = 3.185$, $p = 0.001$), with a BCI of 0.150 to 0.518, providing support for H10. This indicates that EE improves EP not only directly but also indirectly by enhancing EW.

Table 7:The Results of Mediator Effects

Relationship	Std Beta	Std Error	T-Values	P-Values	BCI LL	BCI UL
EL → EW → EP	0.262	0.079	3.154	0.001	0.120	0.415
TE → EW → EP	0.252	0.065	3.710	0.000	0.128	0.378
EE → EW → EP	0.327	0.098	3.185	0.001	0.150	0.518

DISCUSSION

The findings provide strong empirical support for EW as a mediating mechanism linking EL, TE, EE, and EP in UAE manufacturing SMEs. The model's high R^2 values for EW and EP indicate that these constructs are pivotal psychological and organizational determinants of performance in this context. These results reinforce the perspective that EP is influenced not only by technical skills and managerial authority but also by relational, motivational, and psychological dynamics in the workplace. A notable contribution of this study is the empirical demonstration that EL impacts EP both directly and indirectly through EW. The substantial direct effect of EL on EP aligns with prior research showing that leaders who foster trust, provide emotional support, and encourage participation cultivate environments that stimulate employees and enhance productivity. The indirect effect via EW further supports the notion that EL operates through emotional and psychological pathways, not solely structural ones, highlighting that leadership in UAE manufacturing SMEs functions as a social influence affecting employees' mental health, resilience, and engagement.

EE emerged as the strongest direct predictor of EP in the model, underscoring its strategic significance for SME competitiveness. This aligns with evidence indicating that psychological empowerment enhances initiative, flexibility, and problem-solving, which are critical for effective performance in dynamic and resource-constrained settings (Malik et al., 2021). Additionally, EE significantly predicted EW, confirming that autonomy, competence, and perceived impact at work contribute positively to psychological states (Marin-Garcia & Bonavia, 2021). The pronounced mediation effect suggests that EE improves EP not only by granting employees discretion and accountability but also by fostering EW and psychological security.

TE did not directly predict EP but exerted an indirect influence via EW. This indicates that in UAE manufacturing SMEs, teamwork impacts performance indirectly through the psychological experiences of employees. TE appears to facilitate positive group processes that

promote individual outcomes, consistent with prior research showing that TE enhances belongingness and social support, which in turn contribute to mental health and improved work performance (Kim et al., 2022). Effective TE is particularly relevant in hybrid and collaborative environments, reducing stress and isolation while supporting EW and sustained performance (Rahmatullah et al., 2024). Managers should, therefore, view teamwork not merely as an operational mechanism but as a social system that cultivates psychological resources.

EW itself had a direct and significant positive effect on EP, further confirming its role as a mediator between organizational practices and employee outcomes. This supports evidence that EW mediates the relationships between work environment, engagement, and performance, highlighting its centrality as a driver of organizational effectiveness (Rabuana & Yanuar, 2023). EW underpins cognitive coherence, emotional stability, and motivation, which are critical for high-level sustained performance (Kundi et al., 2020). Prior research also indicates that workplace stress impedes productivity, demonstrating that safeguarding mental health is essential alongside operational efficiency (Bui et al., 2021). These findings are particularly pertinent in UAE manufacturing SMEs, which face competitive pressures, labour shortages, and rapid technological change. Sustainable leadership practices implemented during and post-COVID-19 have been shown to enhance employee resilience and EP. The present study extends this by demonstrating that the combined influence of EL, EE, and TE promotes EW, which in turn improves EP, emphasising the need for SME leaders to integrate people-centred approaches into operational processes.

From a theoretical standpoint, the results reinforce resource-based and psychological perspectives of performance. The significant indirect effects of EL, EE, and TE via EW support the view that social, psychological, and relational resources accumulate to generate improved individual and organizational outcomes (Zheng et al., 2022). Mediation findings indicate that EW serves as a vital psychological resource translating leadership and organizational practices into performance outcomes. This underscores the importance of incorporating EW explicitly into performance models rather than treating it as a secondary variable. Practically, the results suggest that UAE manufacturing SMEs should develop leadership programs emphasising emotional intelligence, ethical conduct, and employee engagement. Organizations should also enhance EE by granting autonomy, decision-making authority, and involvement. Team-level interventions promoting communication, trust, and cooperation can strengthen EW and indirectly boost EP. Investments in EW-focused programs such as stress management, counselling, and work-life balance policies are likely to yield both social and financial benefits (Rubio-Andrés et al., 2022).

CONCLUSION

The aim of this study was to examine EW as a mediating mechanism through which EL, TE, and EE influence EP in UAE manufacturing SMEs. The findings provide strong empirical support for the mediating function of EW in explaining how leadership practices, team dynamics, and empowerment translate into improved performance. Rather than being peripheral, EW emerges as a central psychological pathway through which organizational and managerial practices shape employee outcomes. Results indicate that EL and EE are significant antecedents of EW and EP, emphasising the importance of human-centred management approaches in the operational context of manufacturing SMEs. TE did not directly predict EP but exerted an indirect influence via EW, highlighting that teamwork contributes to

performance not only through coordination and task execution but also by shaping employees' psychological and emotional states. This underscores the notion that TE functions as a social and psychological resource, which indirectly supports performance outcomes. Overall, the study confirms that sustainable organizational performance in SMEs depends on balancing operational efficiency with EW. A workforce that experiences transformational EL, participative work practices, and effective TE is more likely to be motivated, resilient, and high-performing. By integrating the treatment of employees into performance models, this research provides a comprehensive understanding of how human, social, and organizational dimensions interact to drive success in contemporary manufacturing SMEs. The findings further suggest that future organizational strategies should incorporate EW considerations into leadership development, team management, and EE initiatives to enhance long-term competitiveness and sustain a capable and engaged workforce.

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