Psychological Capital and Employee Performance: Moderating Role of Leader’s Behavior

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Abstract
The objective of this study is to inspect the connection between psychological capital (comprised of hope, optimism, efficacy and resilience) and employee performance keeping leader behavior as moderator with the help of numerous studies and methods of data. Data was collected from the 121 employees working in both Public and Private sector Banks and financial Institutions by well-developed questionnaires. The study results reveal that positive relationship indeed exists between psychological capital and performance of employees. The moderation role of leaders’ behavior in a link of psychological capital and employee job performance was also confirmed.

Keywords: Hope, Resiliency, Optimism, Self-efficacy, Employee Performance, Leader Behavior

1. Introduction
For the last ten years psychology has been linked with mental illness. In the middle of twentieth century, a new concept was introduced in psychology which is called psychological capital. This new approach (psychological capital) has gained popularity in the middle of twentieth century. Positive psychology tells about the right and positive things in human beings. Many attempts have been made to concentrate on embroiled resources of positive psychological capital in area of human resource management (Luthans, 2002). Many researchers have studied and it is found that psychological capital plays very important role in positive organizational behavior. Scientifically it is exhibited that psychological capital is an important concept (Luthans, Avey & Avolio, 2007). Psychological capital has been recognized by four resources: hope, optimism, resiliency and efficacy. Each of these is measured in valid scales and has a constructive effect on the employee performance (James, 2011). Psychological capital emphasis more on power, success, embellishment and happiness (Donaldson, 2013). Psychological capital is given much importance in the work place. The positive psychological capital can be
estimated, developed, and fruitfully managed for the betterment of employee overall performance (Youssef, 2008). It includes Self-efficacy, Hope, Optimism, and Resilience, and is mutually referred as psychological capital (Avey & Wernsing, 2013).

Employee with higher psychological capital gives better performance at work place than employee with low psychological capital (Bono, 2009). The correlation between psychological capital and employee performance has been unnoticed in the past researches with the moderating role of leader behavior (Gupta, 2014). So, by following the said recommendation this study has been carried out. It is the duty of employees to adjust into new organization and to follow the strategies made by the management (Stewart, 2001). During the organizational changes, employee psychological capital must put into test; employees learn many things, and have to be very confident so they can perform better in future (Adler, 2004). For the last ten years, paying attention to promote and develop positive psychological capital was the main point of focus by researchers (Allen, 2010).

Psychological capital emphasis on how employees can live happy and satisfied life in their organizations. Time has come to focus on interventions of training for developing positive psychological capital. These interventions can increase the effectiveness in human resource field (Valentine, 2013). According to (Luthans, 2002), the effect of psychological capital (hope, efficacy, optimism and self-efficacy) and their effectiveness on employee performance is proportional.

2. Literature Review
2.1 Psychological Capital

In an organization, psychological capital is an important concept (Luthans, 2006). Psychological capital basically emphasizes on the strength of employees so that performance of employees can be improved (Baker, 2008). There are four dimensions of psychological capital, namely hope, optimism, resilience and self efficacy. The dimension of psychological resources is connected in all work place attitudes and performance, for example employees satisfaction, employees presentation (Avey, Wernsing & Luthans, 2010). Many researches has been made and recent research states that psychological capital is significant part of positive organizational conduct and it has positive effects on performance of employees (Avey & Wernsing, 2013). Though these researches have been valuable in serving to set up an early association between workers mental level and their management, they are incomplete in two significant ways. Primary, preceding facts are incomplete relating to go-ahead surroundings of the psychological capital build (e.g., inside-person alter crossways occasion or a enlargement route is missing). Second, prior information is also incomplete concerning between-human being difference in the modification in psychological capital that can be used to predict performance (Bollen, 2014).

2.2 Hope

According to (Bandura, 1997), effectual strategy amplified self efficacy. Hope is an important concept and it can be defined as individual willpower and way power (Synder, 1991). Hope can be measured in state-hope scale (Snyder, 2009). Recent studies have discovered that in small factories, level of hope is linked to commitment and employee performance (Larson, 2006). Hope enables a person to be provoked to accomplish goals with the mission at hand by looking for the best trail (Avey, 2008).
Hope has made an important involvement to positive psychological capital and has established significance in the work place (Duggleb, 2009). Researchers exposed that hope predicts performance of employees additional than cognitive aptitude and self-efficacy (Myrowitz & Peterson, 2009). Hope had a positive effect on performance of employees and work happiness; it also shelters an entity’s realization of weakness, violence and irresponsibility (Synder, 2002). Psychologically describe important events in the vision can also assist the hope development procedure. Because of this tough hypothesis and beginning proof, it possess that the expectations holds much possible for more work on expansion programs and the authority for strength of hope to force place of work presentation (Quinn, 1999). Some researchers also pay attention on the relationship between hope and performance of employees (Bono, 2009).

Hence after critical review of literature, following hypothesis has been developed.

**H1: Hope has positive impact on perceived employee performance.**

### 2.3 Optimism

Being optimistic, in the typical sense of the word, ultimately means one expects the best possible outcome from any given situation. This is usually referred in psychology as dispositional optimism (Harris, 2003). Psychological capital is associated with optimism which includes motivation and emotions (luthans, 2002). Optimism can estimate that something cannot be accomplished in specific situation. Optimism is developing and changeable (Peterson, 2000). In early 20th century, (expectancy) theories of motivation had been introduced for the optimism just like positive psychological capacities, this theory also describes for seeking of goals (Carifio, 2002). The other dimension is expectancy which describes the level of confidence to achieve the goals. Higher level of performance would definitely increase the performance of employees whereas low level of confidence would definitely decrease the performance of employees and employee will not be in position to face the challenge. Competency is the most important unit in optimism (Campbell, 1990). Optimism has been linked to many organization outcome for example performance of employees and satisfaction of employees (Youssef, 2003). If employees wants better future so they should take the responsibility of organization and must be committed with organization. Optimism provides benefits to the employees and it helps in improving physical and mental health and helps in achieving organizational goals. Optimism emphasis in the power of self confidence second is to believe negative events are not permanent and third is to believe on positive thinking. Hence, following hypothesis has been developed.

**H2: Optimism has positive impact on perceived employee performance.**

### 2.4 Resiliency

According to (Masten, 2002) resiliency means a positive change in general problems and difficulties. In an organization, resilience is defined as positive change in failure, angry disagreement between people, improving and to increase in responsibility (luthans, 2002). Experiments prove that positive emotions improve resilience (Tugade, 2002) in unfavorable conditions, individual become resilient and in case of worse conditions positive attitudes have been found. according to (Maddi, 1987) resilient employees hardly maintain their health, performance and their happiness. Technical examination of flexibility goes back to early 1960s and 1970, the study of kids with important appropriate challenges, together with psychologically unwell parents (Rutter, 2002), and people earning was in deficiency or unhelpful relations environment (Garmezy, 2000). Research was conducted by (Combs, 2006) which tells when workers
recognize helpless actions at workplace, persons with elevated level of Psychological Capital are more probable to settle in positivity and rebound back from bad actions. It is stated that resilience must be linked through affirmative feelings, mainly when person experienced tough situation (Tugade, 2002). Moreover investigation has additional indicated achievable associations between resilience, commitment and work engagement, and helpful connection linking resilience and happiness of work (Anderson, 1991). Resilience is connected with successful cope devices and behaviors that assist expansion and growth (Harris, 2003). Hence, following hypothesis has been developed.

**H3:** Resilience has positive impact on perceived employee performance.

### 2.5 Self-efficacy

Self efficacy means positive thought and having self confidence (Avolio, 2001). Employees in organization are confident about their skills and they are confident for the accomplishment of task. Self efficacy has positive relationship with employee performance (Locke, 2002). Many experiments and scientific theories have described relationship among self efficacy and employee performance as well as leadership improvement (May, 2000). Self-efficacy has also been exposed to be connected with socialization and preservation of new employees (Bauer, 2012) and it is also linked to organizational commitment and revenue intentions of obtainable staff (Cameron, 2002). It can include three dimensions of self-efficacy, together with magnitude, strength, and generality (Bandura, 1991). Though, self-efficacy exists within precise domains, events should also be area precise, with less prominence on generalization (Maddux, 2004). Hence after critical review of literature, following hypothesis has been developed.

**H4:** Self-efficacy has positive impact on perceived employee performance.

### 2.5 Leader Behavior

Leader behavior is termed as the influencing behaviors and actions which are aligned with the actions the leader may take and the methods they use for effective accomplishment of goals and maintaining cohesive and morale (Mouton, 2014). Leader behavior is termed as influencing the activities of any individual(s) or groups towards the attainment of a certain pre-aimed goal (Daft, 2005). Four factors relating to leader behavior are established by (Bass, 1984) i.e. Idealized influence, which is related to trust and faith in the leader (Burke, 2006), idealized influence was later changed to charisma. The second factor was individual consideration which is self-explanatory that the attention leader gives to an individual, and then comes intellectual stimulation that relates to bring innovation and creativity within followers. The fourth factor was inspirational leadership which relates to create vision (Bass, 1984). Leaders behavior found five factors, first is the challenging the process, which relates to leaders nature of risk taking and experimenting new things. Second factor was inspiring a shared vision, which relates to create a vision and ability to make your followers to achieve that vision. Third factor, enabling others to act, relates to promote teamwork among others. Modeling the Way–set examples for others to follow. Last factor identified was encouraging the heart that relates to recognizing others performance (Kouzes, 2013).

Leader behavior can be viewed as a creative behavior and some specific behaviors dealing with creative aspects of leadership, revealing positive results depicted by most of the researchers (Jung, 2003). Many studies and tests have been conducted to study the affiliation between leader behavior and creativity focusing broadly on the concept of bringing transformational leadership (Gong, 2008). The apparent differences between the leader behavior requirements of traditional and empowered environments
suggest that traditional measures of leadership may be, at most, only partially applicable to empowered team environments (Yukl, 2008).

2.6 Employee Performance

According to (Ambrossini, 2003), capabilities are an important determinant of employee’s performance. These capabilities are covered with knowledge and knowledge comes by the experience of labor. Employees are more satisfied when they achieve their goals (Frese, 1998). If management wants to maximize the profit, they must focus on performance of employees (Hmieleski, 2005). It is stated by (Bass, 1984), that if employee faces difficulty in organization it is important for top management to focus on employee’s knowledge rather than employee’s performance. Psychological capital motivates tendency effort to produce better results for understanding this concept (Campbell, 1994) proposed a frame work in which eight dimensions of performance have predicted. These dimensions are job-specific task proficiency, non-job-specific task proficiency, written and oral communications, demonstrating effort, maintaining personal discipline, facilitating peer and team performance, supervision/leadership, and management administration. Organization must improve the relationship between employees and employer it includes satisfaction of job apparent emotional agreement. It is stated by (Ambrossini, 2003), if employee’s thoughts and their satisfaction with their work influenced how consumers perceived the organization management and the superiority of the service they expected from the organization. Latest research has exposed that employee’s insight about maintenance of work has greatly influenced employee behavior and work behavior for example - coworker, supervisor and organization has an influence on employee’s attitude and work behavior particularly through reciprocity process (Thompson, 2014).

According to (Gupta, 2014), the moderating impact of leader behavior between relationship of psychological capital and employee performance can be future research area as psychological capital is considered one of the most important terms in field of psychology and its impact on employee performance. Also suggested by (Harms, 2013), that future researches in the framework of psychological capital should be aimed at studying the variables like conflict, leadership employee performance and leader behavior. Moreover as suggested by (Thompson, 2014), psychological capital may also be studied in the context of various organization behavior constructs like employee performance, commitment and leader behavior. It can be assumed that the leader behavior moderate the relation between psychological capital and employee job performance in such a way that more positive behavior will strengthen the said relation and vice versa. Hence, following hypotheses have been developed.

\( H5: \text{Leader Behavior has significant relation with employee job performance.} \)

\( H5a: \text{Leader behavior moderates the relationship between hope and employee performance.} \)

\( H5b: \text{Leader behavior moderates the relationship between optimism and employee performance.} \)

\( H5c: \text{Leader behavior moderates the relationship between resiliency and employee performance.} \)

\( H5d: \text{Leader behavior moderates the relationship between efficacy and employee performance.} \)
3. Methodology
3.1 Sampling
For the current study data was collected for employees working in both Public and Private sector banking as well as in financial institutions. Data was collected from officer ranked employees. For conduction of any research study minimum 50 respondents are enough Neumann (2007). Data was collected via well-established questionnaire adopted from previous literature. A cover letter was attached with questionnaire in order to take ethical consideration and privacy. Common method variance is not a serious problem as it has been exaggerated generally (Spector, 2006). Time lagged data collection technique was adopted in order to avoid bias. In first episode data regarding psychological capital and leaders’ behavior was collected. While in second episode (i.e. after 10 days) data regarding job performance was collected. The immediate supervisor/Boss filled the questionnaire for subordinates regarding job performance. A total of 340 questionnaires were distributed and in return 121 questionnaires were restored and was further used for analysis. The demographic characteristic disclosed that most of the respondents were male 73.3%. Regarding age distribution it was found that the 51% were having age between 25-36 years. In case of total experience only 5% were having 20 years plus job experience.

Table 1: Measures

<table>
<thead>
<tr>
<th>S No.</th>
<th>Variables</th>
<th>No of Items</th>
<th>Adapted From</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Hope</td>
<td>09</td>
<td>(Synder, 1996)</td>
</tr>
<tr>
<td>2.</td>
<td>Optimism</td>
<td>07</td>
<td>(Scheier, 1985)</td>
</tr>
<tr>
<td>3.</td>
<td>Self efficacy</td>
<td>07</td>
<td>(Bosscher and Smit, 1998)</td>
</tr>
<tr>
<td>4.</td>
<td>Resiliency</td>
<td>09</td>
<td>(Block, 1996)</td>
</tr>
<tr>
<td>5.</td>
<td>Leader behavior</td>
<td>08</td>
<td>(Charles, 2012)</td>
</tr>
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Table 2: Correlations

<table>
<thead>
<tr>
<th></th>
<th>HO</th>
<th>OP</th>
<th>SE</th>
<th>RE</th>
<th>LB</th>
<th>EP</th>
</tr>
</thead>
<tbody>
<tr>
<td>HO</td>
<td>.74</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OP</td>
<td>.20*</td>
<td>.72</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SE</td>
<td>.32</td>
<td>.37*</td>
<td>.75</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RE</td>
<td>.30**</td>
<td>.43**</td>
<td>.23**</td>
<td>.72</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LB</td>
<td>.21*</td>
<td>.37**</td>
<td>.58**</td>
<td>.41**</td>
<td>.81</td>
<td></td>
</tr>
<tr>
<td>EP</td>
<td>.33**</td>
<td>.34**</td>
<td>.48**</td>
<td>.31**</td>
<td>.36*</td>
<td>.79</td>
</tr>
</tbody>
</table>

N= 121; Cronbach's Alpha presented in parenthesis

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

The correlation analysis confirmed the positive relation at (p<0.01) among the study variables. And all the values was in acceptable range i.e below 0.7.

4.2 Moderating Regression Analysis
In order to check the direct and moderation analysis the multiple regression analysis was carried out. The result obtained are given in the table given below. It is clear from the table that there is positive relation between hope and employee job performance (β=0.31, p<0.001) supporting the hypothesis 1. The relation between optimism and job performance was also found significant (β=0.38, p<0.001) thus supporting the hypothesis
The direct positive relation between Resiliency and employee job performance was also confirmed ($\beta=0.35, p<0.001$). In case of Self Efficacy it was confirmed that the said relationship is significant ($\beta=0.51, p<0.001$), it was also found that the leader behavior has direct effect on employee job performance and was also confirmed ($\beta=0.39, p<0.001$). thus, supported the 5th hypothesis.

In order to check the moderation analysis of hypotheses (5a, 5b, 5c, and 5d) Cohen, Cohen, West and Aiken (2013) analysis technique was carried out. It’s a three steps process. In step first gender was entered as control variable. In step 2 the independent and moderating variables were entered. And in the last step the interactive terms (HO x LB, OP x LB, RE x LB and SE x LB) were entered. The result of moderation analysis shows that the leader behavior moderates the relation between hope and employee job performance ($\beta=0.45, p<0.001, \Delta R^2 =0.09, p<0.01$) and hypothesis 5a was supported. In case of moderating role of leader behavior in a link of optimism and employee job performance, the propose hypothesis was supported ($\beta=0.52, p<0.001, \Delta R^2 =0.11, p<0.01$). Hypothesis 5c stated that leader behavior will moderate the relation between resiliency and employee job performance, and thus was supported whereas ($\beta=0.70, p<0.001, \Delta R^2 =0.17, p<0.01$). The last hypothesis was to check the moderating role of leader behavior in a link of self-efficacy and employee job performance and was also supported ($\beta=0.50, p<0.001, \Delta R^2 =0.12, p<0.01$).

### Table 3: Regression and Moderations

<table>
<thead>
<tr>
<th>Step 1</th>
<th>$\beta$</th>
<th>$R^2$</th>
<th>$\Delta R^2$</th>
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<tbody>
<tr>
<td>Gender</td>
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<td>.001**</td>
<td>.001</td>
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</table>

#### Step 2

<table>
<thead>
<tr>
<th>Variable</th>
<th>$\beta$</th>
<th>$R^2$</th>
</tr>
</thead>
<tbody>
<tr>
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<td>.31**</td>
<td></td>
</tr>
<tr>
<td>OP</td>
<td>.38**</td>
<td></td>
</tr>
<tr>
<td>RE</td>
<td>.51**</td>
<td></td>
</tr>
<tr>
<td>SE</td>
<td>.35**</td>
<td></td>
</tr>
<tr>
<td>LB</td>
<td>.39**</td>
<td>.12**</td>
</tr>
</tbody>
</table>

#### Step 3

<table>
<thead>
<tr>
<th>Interaction</th>
<th>$\beta$</th>
<th>$R^2$</th>
<th>$\Delta R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>HO x LB</td>
<td>.45**</td>
<td>.19**</td>
<td>.09**</td>
</tr>
<tr>
<td>OP x LB</td>
<td>.52**</td>
<td>.22**</td>
<td>.11**</td>
</tr>
<tr>
<td>RE x LB</td>
<td>.70**</td>
<td>.31**</td>
<td>.17**</td>
</tr>
<tr>
<td>SE x LB</td>
<td>.51**</td>
<td>.21**</td>
<td>.12**</td>
</tr>
</tbody>
</table>

N=121. **=p<0.01

5.1 Discussion

Many researchers believe that hope has positive impact on performance of employees. The word hope is the study of developing a thought for future goals (Anderson, 1991). The term hope is an important concept in the psychological capital and it is defined as individual expectations with the organizations (Synder, 2002). Study revealed that hope is motivation tools for employees to achieve their organizational objectives. Generally employees with more expectations and hope are more successful than those who expect less (Adams, 2002). Hope is link with leader behavior and employee performance (Larson, 2006). In an organization employees always hope for the best and they always give their best to achieve outcome (Luthans,
Many researchers also give attention on the relationship between hope and stress. In my opinion, when employees in organization are in critical situation hope is the only solution of problem. We believe that hope always motivates employees when they are in critical situation. In large organizations, hope is linked with satisfaction of employees and employee happiness. The current study also found that there is positive relation between hope and job performance.

Optimism is a positive psychological construct. Any optimist individual will have positive thinking and aptitude and will accept the reality in a positive sense. Being optimistic, in the typical sense of the word, ultimately means one expects the best possible outcome from any given situation. This is usually referred in psychology as dispositional optimism (Harris, 2003). Psychological capital is associated with optimism which includes motivation and emotions (luthans, 2002). Optimism can estimate that something cannot be accomplished in specific situation. Optimism is developing and changeable (Peterson, 2000). Optimistic personnel considers the assigned tasks and thus, try to accomplish at a given time period. The current study also found the direct relation between optimism and employee job performance.

The concept of resilience is to bring positive changes in difficult situations (Masten, 2002). Many experiments prove that positive emotions improve resilience (Barrett, 2004). And overall result shows that positive emotions can improve resilience. Success always comes when effort is made (Bandura, 1991). Recent studies basically focus on how depress people change their life style and how they can live normal life (Zunz, 1998). Resilience has positive impact on performance of employees and leader behavior (Sutcliffe, 2003). Resilience is ordinary magic that affects person’s ability and skills and the encouragement of growth (Sutcliffe & Vogus, 2003). Many kids are talented to react optimistically to anxiety or hardship, conquer the difficult situations, and continue to live sensibly standard lives (Serwer, 2009). In my opinion, resilience has positive impact on performance of employees because resilient people move on in life after having had a stressful experience or event such as personal adversity, conflict and or failure. Resilience is also connected with successful cope devices and behaviors that assist expansion and growth.

Overall result shows that self efficacy has positive impact on employee performance. There are many reasons for positive results sample size of population is 200 or employees of Banks may believe in the concept of self efficacy. According to (Locke, 2002), employees in organization are confident about their skills and are also confident for the accomplishment of task only when leaders are loyal and sincere with their employees. Over all result shows that resilience has significant relationship with employee performance and had positive impact on employees. And the moderating role of leader behavior was also confirmed.

The concept of leader is about how much leaders are loyal with their employees and how they are committed with their subordinates (Mouton, 2014). But result shows that leader behavior moderates the relationship between hope and perceived employee performance. If employees are more loyal and sincere with their organization level of hope would definitely increase. And the positive behavior of leader will strengthen the said relationship.

From the critical review of literature leader behavior moderates the relationship between optimism and perceived employee performance (Daft, 2005). Optimistic employees consider their assigned tasks. They try to accomplish the assigned task with in
due date. The leaders have the vision and guide their followers to achieve the targeted goals. When the behavior of leader is positive, the employees will be motivated and optimistic. Thus, the positive behavior will strengthen their attitude towards performance.

According to (Masten, 2002) resiliency means a positive change in general problems and difficulties. Experiments prove that positive emotions improve resilience (Tugade, 2002) in unfavorable conditions, individual become resilient and in case of worse conditions positive attitudes have been found. The motivating behavior of leader will spur the attitude and behavior of the employees, thus result in high performance. Employees in organization are confident about their skills and they are confident for the accomplishment of task. Self efficacy has positive relationship with employee performance (Locke, 2002). Many experiments and scientific theories have described relationship among self efficacy and employee performance as well as leadership improvement (May, 2000). Leaders act like a coach and sometimes employees consider their leaders as mentor. When the employees have the belief on themselves and also the behavior of the leader in organization will be motivating and trustworthy, will result in higher performance.

5.2 Limitation and Future direction

This study found some limitation. First and major limitation was the use of purposive sampling technique which cannot be generalized. The second limitation was about the gender. The gender ration of the respondents were lesser in number. Interesting results can be obtained if the data is collected from those organizations where the top positions are occupied by female. Another limitation of the current study the banking sector. In private sector the behavior of leader does matter, but in most of the public sector organization the leader behavior is given the priority. So, if only public sector organization can be considered as target population the result may not be the same. Sometime the decision making is solely dependent on the manager. If such organization is targeted where the decision making is carried out by democratic style it is quite possible that the leader behavior will not moderate the behavior of the employees. Ethical leadership and ethical climate can also be studied as moderator variable with other work attitude as dependent variables.

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