

**A STUDY ON THE IMPACT OF PSYCHOLOGICAL CAPITAL ON PERCEIVED
AUTHENTIC LEADERSHIP: ABC COMPANY IN APPAREL INDUSTRY IN
SRI LANKA**

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ABSTRACT

Organizations often try to foster authentic leadership in their employees to achieve stability and reduce costly turnover. The present study empirically evaluated as why there is a low level of perceived authentic leadership with the effect of four dimensions of psychological capital as self-efficacy, hope, resilience and optimism of the executive grade employees of ABC Company in apparel industry in Sri Lanka. The study was carried out with the entire 66 executive level employees without going for a sample. Data were collected through a standard and validated questionnaire survey. Perceived Authentic Leadership was measured by using the Authentic Leadership Questionnaire (ALQ) and the psychological capital was measured by using Psychological Capital Questionnaire (PCQ). Data were analyzed by using the multiple linear regression in backward elimination method. Whereas self- efficacy, hope and resiliency had a positive and significant impact on perceived authentic leadership, optimism had no any significant impact on perceived authentic leadership among the executive grade employees of ABC Company in apparel industry in Sri Lanka. This study contributes new knowledge to the apparel industry by suggesting the appropriateness of three dimensions of psychological capital in enhancing authentic leadership. PsyCap can provide enormous benefits for leaders to explore their potential as a fundamental asset in authentic leadership. The contemporary businesses should be duty-bound to conduct an employee awareness program explaining significance of the psychological capital especially on the way of leading people authentically.

Keywords: *Hope, Optimism, Perceived Authentic Leadership, Psychological Capital, Resilience, Self-efficacy*

1 INTRODUCTION

One of the most fundamental challenges in today's business environment is obtaining the best result and effective outcome through providing guidance for subordinates in order to perform their tasks in an ideal manner. The goal can be achieved by proper leaders within businesses and by employees' confidence on their managers (Zamahani, Ghorbani, & Rezaei, 2011). The apparel industry is Sri Lanka's leading foreign exchange earner and a major source of employment generation. It is in the labor intensive market with a huge competition and consists of target output oriented organizations. Leaders in the apparel industry are under an enormous amount of pressure to perform their tangible results. Organizations expect leaders to raise revenues and it creates an environment which leaders feel overwhelmed in their power and positions. In this situation, even though individuals possess high moral standards, they are open to high level of stress. Therefore the leaders can become corrupted with prevailing organizational norms and mechanisms. There is a trend to examine this issue of unethical behaviors by leaders and to find ways to avoid it. Authenticity is a concept that has come forward to protect leaders from the pressure and it helps them to make ethical and moral decisions in the face of pressure (Tibbs, Green, Wheeler, Carmody, 2015).

The field of leadership has covered in many researches and there seems to be no shortage of literature on leadership theories and practices. Researchers in this area have identified the importance on topics such as leader traits and behaviors, follower characteristics, leader-follower relationships, and situational contingencies of leadership as well as other related topics and there has been growing interest in the field around a new construct, authentic leadership. Walumbwa, Avolio, Gardner, Wernsing, and Peterson (2008) describes authenticity as a pattern of leader behavior that draws upon and promotes both positive psychological capacities and a positive ethical climate, to foster greater self-awareness, an internalized moral perspective, balanced processing of information, and relational transparency on the part of the leaders working with followers and fostering positive self-development. As per the research on Rego, Lopes, and Nascimento (2015), there is a literature gap of discovering the importance of authentic leadership to the organizations and its antecedents.

Research Problem

Ethical leadership behaviors create an inspiring vision of the future and it is the secret behind organizational success. Employees motivate to engage with that vision, strengthening the bond between employees and organization through it. Leaders at all levels and all types of organizations should focus on what is wrong with their human resources and how to fix its weaknesses and problems

genuinely. In consequence developing ethical leaders with maximum potentiality remains some of the biggest challenges for today's organizations (Avolio, Walumbwa & Weber, 2009). Unethical leadership practices always result negative impacts on survival of the organization. If an organization happens to move with bad leaders, organizational culture will turn into a meaningless term where employees become frustrate about both themselves and the job.

ABC Company has started based on the concept of humanity and the initial investment for the company was nine million dollars. It owns 1395 total employees as of 31st August 2018. ABC Company differentiates itself through its best practices to position in the industry as the preferred destination for ethical apparel solutions in Sri Lanka. As the company is a new born company to the apparel industry in Sri Lanka and majority of the employees has been transferred and promoted to their positions from its mother company, adopting brainstorm sessions. The company has identified it as one of the reasons for different leadership practices within the organization. Most of the organizations spend billions of dollars in leadership development programs as a solution for poor leadership practices. The situation in ABC Company is same as the other organizations and they conduct leadership program called "Talent and Development" in order to improve and promote effective leadership practices within the company.

Although there is a problem of authentic leadership in organizations no sufficient ethnographical evidences to prove. Therefore, the researcher decided to conduct a preliminary survey for all grades of employees in the organization using Authentic Leadership Questionnaire (ALQ) developed by Avolio, Gardner, and Walumbwa (2007) in order to find out strong quantitative evidences. The questionnaire was equipped five point likert scale type questions and it consists with four major dimensions namely, self-awareness, internalized moral perspective, balanced processing and relational transparency. The preliminary survey questionnaire was distributed among 10 randomly selected subordinates from each category of worker grade, staff grade, executive grade and manager grade in the organization and it was translated into Sinhala for understanding of the respondents in worker grade in the organization. They were asked to respond to the questionnaire considering the leadership behaviors of their immediate leaders/supervisors.

The level of perceived authentic leadership of executive grade employees is 1.71, which shows a low perceived authentic leadership level compared to the expected mean value of 2.0 ("Not at all"=0 to "Frequently/if not always"=4). The other grades in the organization disclosed higher mean values than executive grade employees; worker grade (2.56), staff grade (2.58), manager grade (2.14). By considering the above evidences the researcher concluded and formulated there search problem of the current study as; why do executive

grade employees of ABC Company have low level of perceived authentic leadership?

Leadership and psychological capital are the two important fields in the study and new knowledge of psychological capital can be applied to the organizational leadership. The significance of consideration in Sri Lankan context studies of psychological capital and leadership is highlighted and lacks of investigations are there regarding this subject area. Identification of impact on psychological capital on perceived authentic leadership will help to the organization itself and future researches.

2 LITERATURE REVIEW

Excellent reviews of the origins and history of authenticity within the fields of philosophy and psychology are provided by Harter, Schmidt, and Keyes (2002) and Erickson (1995). Authenticity is defined as owning one's personal experiences, emotions, needs, preferences, or beliefs processes captured by the injunction to know oneself" and behaving in accordance with the true self (Harter et al., 2002, p. 382). Leadership is an evolving field of study with the changes in society in diverse approaches. (Diane, 2008) Ethical leadership behaviors of the leaders resulted in the empowerment of followers and their development as leaders. With the incorporation of a moral and ethical perspective, the theory of authentic leadership moves beyond transformational on the full-range model of leadership (Avolio and Gardner, 2005) to serve as a foundation for understanding leadership and to be independent of leadership style. Hughes (2005), Luthans and Avolio (2003) and Avolio and Gardner (2005) argue that authentic leadership can be viewed as a "root construct" for developing leadership processes.

Human capital is usually equated with knowledge, skills, abilities or competencies derived from education, experience and specific identifiable skills" (Youssef & Luthans, 2007). Positive Organizational Behavior (POB) was first defined as "the study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today's workplace" (Luthans, 2002). But more specifically work done by Luthans and his colleague, Youssef (2007) has combined conceptually into the higher-order core construct called as positive psychological capital. They proposed that psychological capital goes beyond the widely recognized concept of human capital. .

In 2007, the construct of psychological capital or higher order positive construct has newly developed by Luthans and his academic subordinates. The construct has been defined as "an individual's positive psychological state of development and is characterized by: 1) having

confidence (self-efficacy) to take on and put in the necessary effort to succeed at challenging tasks; 2) making a positive attribution (optimism) about succeeding now and in the future; 3) persevering toward goals and redirecting paths to goals (hope) in order to succeed; 4), sustaining and bouncing back and even beyond (resilience) to attain success in an adversity” (Luthans et al.,2007). These four components can be identified as dimensions of psychological capital.

Recent studies by Tibbs et al. (2015) investigated the relationship between a leader’s authentic leadership and psychological capital from the followers’ perspective using snowball sampling method. The sample included 130 female participants and 66 male participants. They used authentic leadership questionnaire and psychological capital questionnaire to rate the participant’s direct supervisors. They calculated the Cronbach’s alpha coefficient for each scale and also the initial correlation analysis to calculate the inter-correlation of all four psychological capital components. Not only that but also five multiple regression analyses were run as the primary statistical technique. They revealed that the perceived authentic leadership and psychological capital scores were highly inter-correlated. With the study findings, they concluded, empirically investigated and provided support for leaders’ psychological capital as a predictor of leaders’ authentic leadership.

3 METHODOLOGY

After developing the research model as the first step of the study, the researcher developed hypotheses and then designed a research strategy to test the hypotheses. Since the researcher test the existing theories related to the psychological capital and perceived authentic leadership, the deductive approach was used as the research approach in the study. Since the research project is time constrained, data will be gathered from each and every individual in the selected section at a particular phenomenon at a particular time as across sectional study. Cross sectional studies often employ the survey strategy (Easter-Smith et al., 2002; Robson, 2002 as cited in Saunders et al., 2008). Hence the researcher distributed 66 questionnaires among the executive grade employees at ABC Company proving a study which is based on quantitative research methodology.

The researcher collected the independent variable, psychological capital data from the immediate leaders/supervisors and dependent variable, authentic leadership data as perceived by their subordinates. Therefore researcher used two parties in collecting data. Therefore the unit of analysis or the major entity that is being analyzed of the study will be the dyad level. Total executive grade employees of ABC Company were 66 and there were 10 managers and assistant managers. Therefore the census method can be applied in data collection in the study as the researcher has direct access to whole population

of 66 executive grade employees and 10 manager grade employees in the organization. ALQ measures the component factors of authentic leadership as identified by Avolio et al (2007). There are two versions of ALQ, one for the leaders' self-assessment and the rater form of the scale, which measures the perceived authenticity of leaders by their followers. According to the Peus et al (2012), the ALQ rater form also has good validity as its subscales have been shown to be positively correlated with his research variables of follower satisfaction and perceived team effectiveness. Avolio et al., 2007 examined the ALQ's psychometric properties when they developed the scale. The estimated internal consistency of Cronbach's alpha for each of the measures were also at acceptable levels: self-awareness, 0.92; relational transparency, 0.87; internalized moral perspective, 0.76; and balanced processing, 0.81. The standardized factor loadings of the authentic leadership model are ranging from 0.66 to 0.93 and there was substantial convergent validity among the four measures of authentic leadership. Part A of the subordinates' questionnaire consisted 16 items regarding the dependent variable of perceived authentic leadership and five-point likert scale has been used to identify perceived authentic leadership level of executive grade employees of ABC Company, ranging are from 0-Not at all, 1-Once in a while, 2-Sometimes, 3-Fairly Often, 4-Frequently/if not always.

Part A of the immediate leaders/supervisors questionnaire includes 24 items regarding psychological capital as 6 questions per each dimension of self-efficacy, optimism, hope and resilience in the scale. The self-form of the questionnaire is 6 point likert scale ranging from 1 for strongly disagree to 6 for strongly agree. According to the developers, this scale is appropriate to use in the area of management and leadership. Considering the validity and reliability of the scale, the overall psychological capital reliability includes self-efficacy, hope, resilience and optimism are 0.88, 0.89, 0.89, 0.89 respectively and the scale has both face validity and predictive validity.

4 DATA ANALYSIS AND RESULTS

Primary data were collected from 66 executive grade employees in the organization and descriptive statistics were used to analyze the personal profile of the respondents. Both graphical and numerical methods were used to analyze the respondent's gender, leader/supervisor's gender, age, duration of being supervised, highest level of education and job status under the personal profile. The total percentage of male respondents was 73 percent and female was 27 percent and in the case of the immediate leaders of respondents, 86 percent of male managerial grade employees and only 14 percent of female managerial grade employees were included in the sample, which indicates a higher male representation in the managerial grade in the company. Most of the respondents (64%) were in age between 26-35 years and there are less

number of very young executive employees and no respondents over 45 years old. According to this study the P value is 0.244 under the Shapiro-Wilk test and it indicated that data were normally distributed. Cronbach's alpha value for all the variables are greater than the acceptable Cronbach's alpha value (0.7). Hence all those measures were in acceptable range with good internal consistency. The KMO and Bartlett's test value of 0.615 indicated that the adequacy of the sample size to generalize the findings to the population. Therefore it indicates the external validity.

There was a high degree of positive correlation ($0.75 < r < 1$) between authentic leadership and self-efficacy (0.783) and hope (0.766). Authentic leadership and resilience follows a moderate degree of positive correlation ($0.5 < r < 0.75$) as 0.605 and finally authentic leadership and optimism correlation value is 0.328 indicating a low degree of positive correlation ($0 < r < 0.5$). The positive relationship implied that increment of level of one variable cause to increase the authentic leadership.

The researchers developed four hypotheses as how each PsyCap dimension impacts on perceived authentic leadership of executive grade employees in ABC Company. However result of the hypotheses testing using multiple regression analysis shows that all the other three dimensions (Self-efficacy, Hope and Resilience) were accepted except optimism, as p-values of these variables were less than the critical p value of 0.05. Therefore the rejected variable was eliminated to develop the final fitted model and Equation 2 shows the final fitted model of the study which was prepared based on the simple regression format given in Equation 1.

$$E (Y_1 / X_{11}, X_{21}, X_{31}) = \beta_0 + \beta_1 X_{11} + \beta_2 X_{21} + \beta_3 X_{31} \quad (1)$$

$$E (\text{Perceived Authentic Leadership} / \text{Self-Efficacy, Hope, Resilience}) = -2.321 + 0.423 \text{ Self-Efficacy} + .0.307 \text{ Hope} + 0.399 \text{ Resilience} \quad (2)$$

Adjusted R square represented the modification of R square that adjusted for the number of explanatory in the model. The adjusted R square value was 0.842 in the study and it is suggested that 84 percent variation of the dependent variable can be explained from the independent variables of self-efficacy, hope and resilience and remaining 16 percent could be due to the effect of extraneous factors.

5 DISCUSSION OF THE FINDINGS

The research reported here provides a number of important insights. It empirically investigated and provided support for leaders' self-rated psychological capital as a predictor of authentic leadership perceived by their subordinates. This study finding may serve as both a basis for future research on psychological capital and authentic leadership as a point of intervention for

developmental initiatives. This study serves the study by Peus et al. (2012) which calls for more clear understanding of the skills leaders need to develop in order to be perceived as authentic leaders. According to the data analysis, three dimensions of psychological capital are significantly impact on perceived authentic leadership except optimism.

Three findings from this research were interesting to study and the first one was the impact of leaders' assessments of their own self-efficacy and their subordinates' ratings of their authentic leadership. The results of the study show that self-efficacy was the most impactful psychological capital component with β value of 0.423. According to the PCQ developed by Luthans et al. (2007), two main indicators of self-efficacy includes confident and communication. The apparel industry leaders should be confidence on their business activities such as meetings, goal setting and discussions. Therefore the organization should consider on developing self- efficacy especially within their leaders and the researcher can suggest comfortable work environment, organizational structure, organization culture with less task complexity. As well as less power focus leaders enrich with high level of self-efficacy (Roux, 2010).

Highly hopeful employees tend to be independent thinkers and they are creative and resourceful even with tight budgets in organizations (Luthans et al., 2007). Making strategies is one of the main tasks as managers in a manufacturing organization and in 1995, Snyder's study of "conceptualizing, measuring and nurturing hope" identified that people who are lower in hope have lack of ability to conceive of strategies to meet goals and to overcome obstacles and the motivation to pursue the strategies that lead to goal achievement.

The third objective is intended to investigate the impact of resilience on perceived authentic leadership and resilient people are characterized by a staunch view of reality (Luthans et al., 2006). Consistent with the previous literature, the findings of the research evidenced an impact of resilience on perceived authentic leadership. It was also proved that there was an effect of resilience on authentic leadership in this research context of ABC Company's executive grade employees and Masten (2001) argued that the resilience factors can be managed, developed, and accelerated in later life.

According to the Luthans et al. (2005) and Youssef & Luthans (2007) has found in their studies that optimism has a link to several work place outcomes such as performance, job satisfaction, organizational commitment and leadership practices. Although the previous research findings (Tibbs et al., 2015; George, 2003) proved that optimism is positively impacting on leadership behaviors, the argument violates in the context of ABC Company. According to the researcher's point of view the contextual gap may influenced on this finding because most of the previous researchers based on psychological capital and

authentic leadership were done in western context. Thus the study was not able to reveal the significant impact of optimism on authentic leadership perceived by the executives in ABC Company.

6 CONCLUSION AND CONTRIBUTIONS

Both researchers and practitioners accept that the psychological capital as an important phenomenon when considering authentic leadership practices. Researcher concluded that lack of psychological capital due to the self-efficacy, hope and resilience was cause to create perceived authentic leadership issue in ABC Company. Thus it answers the research problem.

This study explored the impact of dimensions of psychological capital on perceived authentic leadership as measured by PCQ (Luthans et al., 2007) and ALQ (Avolio et al., 2007). While the all the psychological capital dimensions are positively correlated with dependent variable, regression results revealed that among those four dimensions, self-efficacy, hope and resilience were significant and positively impact on perceived authentic leadership. And the other dimension, optimism was not significant and not impact on authentic leadership as perceived by executives about their leaders in managerial positions. Important research has been conducted over the last few years on the measurement, antecedents and outcomes of psychological capital. Leaders with psychological capital are not only manages themselves but also effectively manage and direct others within the organization. The results of this study suggest that as dimensions of psychological capital; self-efficacy, hope and resilience have a significant effect on perceived authentic leadership. Therefore improving employee psychological capital on those will result effective leadership within the organization. Psychological capital can be improved with training and development (Jacobs, 2016). Therefore training programs within ABC Company should focus on creating or gearing training and development programs towards improving levels of existing leaders' psychological capital.

Existing talent and development programs of the organization should focus on improving experiences and education of employees by adding new programs to improve the level of self-efficacy, hope and resiliency in employees. These programs will also allow employees to learn shared leadership skills from their job, gain mind-based skills to enhance and improve self-learning, develop leaders as mentors, and evaluate and develop psychological competencies throughout the organization. It is difficult to assess a leaders' level of psychological capital during the interview process, hence the recruitment team of the company can creates an assessment tool to include a measure of psychological capacities to increase the probability of successful hiring of best fit individual for the job roles. Finally, this study results provide important information for improving authentic leadership within the organization and

also the findings can be used in designing strategies to improve desired organizational outcomes, for example, reduced stress level and turnover, improve employee commitment and job satisfaction.

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ABBREVIATIONS AND ACRONYMS

ALQ	Authentic Leadership Questionnaire
PCQ	Psychological Capital Questionnaire
PsyCap	Psychological Capital