

## RESEARCH PAPER

# Effect of Leadership Styles on Employee Performance by Considering Psychological Capital as Mediator: Evidence from Airlines Industry in Emerging Economy

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## ABSTRACT

**PURPOSE:** This study explores the different types of leadership styles and how they influence employee performance through the mediation of psychological capital factor. The present work examines leadership style attributes and investigates the most efficient style to achieve higher employee performance.

**METHODOLOGY:** A hypothetical model and a quantitative approach were used through structural equation models (PLS SEM). A population sample of 98 Pakistani employees working in an airline company was used to develop a conceptual model of leadership styles and their impact on employee performance with the mediation role of psychological capital factor. The data were collected using a snowball sampling method.

**FINDINGS:** Our findings widen the scope of knowledge of each leadership style and rationalise how and why such styles with the mediation effect of psychological capital impact employee performance in the context of airline companies.

**ORIGINALITY:** This study fills this gap and calls for more in-depth investigations in this area to better understand the dynamics of the relationship between leadership styles and employee performance from a mediating effect perspective.

**KEYWORDS:** *Leadership Styles; Employee Performance; Positive Psychological Capital; Emerging economy*

## INTRODUCTION

The global market is witnessing a dramatic change in its structure, evolution and level of complexity and competitiveness. Organisations are becoming more aware about the importance of these changes occurring in the local and international environment. Consequently, they are looking to revise their management approaches and adapt new styles more aligned with these changes; they would consider them as new rising tendencies. In this context, human resource can be turned into a strategic choice to gain competitive advantage. Employees and leaders alike are concerned with the quality and type of leadership styles applied in a particular organisation. These styles should be applied in such a way that they enable better employee performance and higher organisation development (Raziq *et al.*, 2018).

Leadership practices are seen within the academic and business literature as a conceptual umbrella encompassing a variety of different leadership styles and approaches rather than a unique mode to manage the company and its human capital (Alheeta *et al.*, 2021). However, only three leadership styles, transactional, laissez-faire and transformational leadership, have gained specific interest from researchers and scholars (Antonakis *et al.*, 2003; Antonakis and House, 2013). This particular focus fosters a tendency among researchers, scholars and practitioners to import the best practices of these approaches from thriving businesses without regard to the underling internal and environmental attributes and factors on which the success of these styles depend (Baig *et al.*, 2021). This is in part due to the tendency for research on leadership to focus on the relationship between the leadership style and employee's outcome while ignoring how environmental, human and psychological factors impact and drive employee behaviour and performance (Raziq *et al.*, 2018; Yang *et al.*, 2011).

In this perspective, and in order to fill this gap, earlier scholars introduced the concept of "psychological capital" while analysing the relationship between leadership style and employee

performance (Luthans *et al.*, 2007). Psychological capacity is comprised of four psychological resource capacities: hope, self-efficacy, resilience and optimism. These capacities can be developed, managed, boosted and used effectively through appropriate leadership practices. The discussion of the “psychological capital” elements largely focused on the role and relationship between these resource capacities and the workers’ ability to handle and manage their work-related tasks (Li *et al.*, 2015; Luthans *et al.*, 2007). This paper also addresses this gap by examining the attributes constituting the leadership styles, their relationships with psychological capital elements, and how they influence employee productivity and performance. In order to be an effective theoretical construct, leadership styles need to be more than a label for managing human capital (Ramay *et al.*, 2017). This helps differentiate the outcomes of a successful leadership style from the internal elements and governance strategies that support it (Alheeta *et al.*, 2021). It also emphasises the fact that there are multiple pathways a leadership approach can undertake to stimulate employee performance (Baig *et al.*, 2021).

The illustrative case study of Pakistan International Airlines (PIAC) is used to explore the different possible configurations of leadership styles and how this affects employee performance and work behaviour. This relationship is driven by a psychological capital factor that plays the role of a mediating variable (Baig *et al.*, 2021). The article argues that successful leadership practices are not defined by high rates of sales and profit generated by the organisation, but rather how the interaction between the attributes of the leadership style creates a supportive organisational environment that increases the individual performance and productivity of the employee.

## LITERATURE REVIEW

The theoretical framework is derived from the literature and based on a Fiedler leadership contingency model and path goal theory that is helpful to evaluate the relationship between employee performance and leadership styles (Famakin and Abisuga, 2016). According to the Fiedler leadership contingency model, effective employee performance depends essentially on a leader’s ability to lead properly, their capabilities, skills, behaviours and desired style of leadership, as well as the attitudes and abilities of employees (Khuwaja *et al.*, 2020). This theory proposed that the leadership style adopted by leaders should be appropriate for the situation and contribute to significantly enhance employee performance.

### Leadership Style

The concept of leadership has emerged from different origins and has been debated in different contexts; despite its high popularity, no common definition has been agreed amongst researchers and scholars (Baig *et al.*, 2021; Alheeta *et al.*, 2021). In fact, this variety of definitions can be explained with regard to the variability of ways, scales, research design, dimensions and data used to conceptualise leadership (Asrar-ul-Haq and Kuchinke, 2016). Leadership represents more of a conceptual umbrella encompassing a variety of different perspectives regarding a leader’s ability to

influence, guide, stimulate, motivate, and support their employees towards the achievement of the desired results (Asrar-ul-Haq and Kuchinke, 2016; Baig *et al.*, 2021; Veliu *et al.*, 2017).

In general, most of the proposed conceptualisations emphasise three main dimensions of the leadership process that contribute to increased worker and organisational performance (Li *et al.*, 2015). First, the ability of a leader to convince people to willingly follow guidance or adhere to decisions with enthusiasm and confidence. Second, the capability of a leader to impact and inspire the employees through a shared culture that eases inter-worker cooperation and normalises practices, such as knowledge sharing and personal development. Finally, the ability of a leader to help and support followers towards the attainment of an organisation's goals and the achievement of their full potential by removing barriers and by training, mentoring and guiding skilled workers (Khuwaja *et al.*, 2020).

### Positive Psychological Capital

Positive organisational behaviour is described as the application and study of positive human resource capital strengths whose mental capability can be developed, measured and successfully accomplished for the performance enhanced. The influences of positive psychology are being focused in the studies of organisational behaviour sciences (Adil *et al.*, 2018). The discovery of the value of positivity is not claimed by positive psychology. It is particularly defined as the psychological state of an individual that is developed, is positive in nature and is distinguished by:

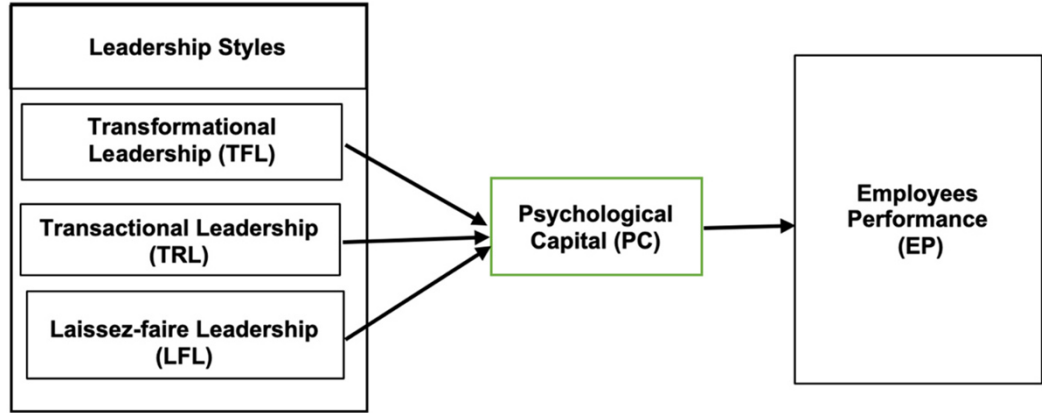
- (1) having confidence (self-efficacy); taking on tasks and putting in the necessary amount of effort so that the challenging tasks could be accomplished;
- (2) being optimistic (optimism), and making a positive attribution regarding success in both the present and future;
- (3) continuing striving to achieve the goals, if necessary, redirect the path (hope) so that they can succeed; and
- (4) To bounce-back and sustain and go even further than that if bothered by adversity or problems (resiliency) so as to achieve success (Anglin *et al.*, 2018; Luthans *et al.*, 2007).

### Employee Performance

The influence of leadership on employee performance has been discussed by numerous studies, including the role and function of leadership on the employees and therefore on an organisation's performance. It was also discovered that the behaviour of leaders related to the tasks is directly related to the performance of an organisation (NawoseIng'ollan and Roussel, 2017). Employee performance includes meeting deadlines, carrying out allotted duties, efficiency and effectiveness in executing the work, and possessing employee competency. Different organisations require leadership styles that are strong and that can stimulate employee performance. For this purpose, they require a leader who is not only effective but also leads the people in the direction of change and the improvement of performance (Baig *et al.*, 2021; Veliu *et al.*, 2017).

## CONCEPTUAL MODEL AND RESEARCH HYPOTHESIS

The conceptual model of this study is focused on three styles of leadership (Figure 1). The proposed leadership style model stands on the assumption that certain elements of the leadership style portfolio might have greater impact on employee performance given the mediating role of psychological capital.



**Figure 1: Conceptual Model**

Source: Constructed by authors

There is an obvious harmony among the conceptualisations of transformational leadership and employee behaviour. Each argues that a transformative style is more visionary, innovative, productive, effective, and satisfying to followers; this is because both leaders and followers work closely towards achieving organisational goals and mission (Alheeta *et al.*, 2021). This visionary style relies on sharing employee visions and values, as well as mutual trust and respect. In this context, leaders usually lead their employees through their vision and charisma by motivating and influencing their beliefs, values, attitudes and behaviour (Asrar-ul-Haq and Kuchinke, 2016).

The precise role of transformational leader was introduced by Burns (1978), who identified that transformational leaders modify the beliefs and attitudes of followers by inspiring and motivating them in such a way that it goes beyond rewards and exchanges (Asrar-ul-Haq and Kuchinke, 2016). These leaders help their followers to accomplish organisational goals and mission by working with them and through them, and by engaging themselves in the process of improving the self-confidence, knowledge, capabilities and skills of their followers (İşcan *et al.*, 2014; Peterson *et al.*, 2009). Furthermore, transformational leadership theory confirms that by employing this style, transformational leaders are usually able to create the emotional attachment of their followers and consequently gain their trust and respect. This psychological attachment will stimulate followers to exhibit extraordinary behaviour, fulfil their leader's expectations and achieve the required performance level (Asrar-ul-Haq and Kuchinke, 2016).

This leadership style benefits firms through the continuous improvement of the followers' abilities and performance and the normalisation of particular behaviour and attitude, such as self-confidence, co-operation, exchange, creativity and innovation. Transformational leadership is similarly marked by a particular relational governance style that reinforces the informal and impersonal interactions between leader and followers. In so doing, leaders will succeed in positively impacting the followers' productivity and performance results by stimulating and developing positive psychological capital elements (Bledsoe, 2006; Rizan *et al.*, 2020; Nanjundeswaraswamy, 2015).

**H1:** *Transformational leadership has a significant, positive effect on employee performance.*

**H2:** *There is a positive relationship between transformational leadership style and employee performance with a mediating effect of psychological capital.*

The original contribution towards the conceptualisation of transactional leadership style goes back to Burns' research in 1978. Here the emphasis was on the role of transactional leaders in motivating their followers by appealing to their self-interest. These leaders are supposed to motivate their followers to achieve expected levels of performance by helping them; appreciation to high achiever followers will be shown by rewards. In this context, researchers (Asrar-ul-Haq and Kuchinke, 2016) claimed that in the transactional leadership mode, followers' behaviour and all the exchange processes are governed by a conditional system of rewards, including financial rewards, physical rewards and promotions in order to get the desired results from their followers (Farooqui and Alwi, 2019).

Transactional leaders usually do not expect any innovation or creativity from the employees' side while doing the tasks assigned to them (Antonakis *et al.*, 2003; Avolio *et al.*, 1999). However, they have more concerns about task completion, employee performance and attainment of organisational goals. As such, followers will be rewarded for accomplishing their tasks and achieving higher performance levels. Moreover, according to Luthans *et al.* (2007) and Toor and Ofori (2010), this reward system plays an important role in boosting employee satisfaction through the reinforcement of a positive psychological state. In so doing, leaders would reinforce employee productivity (Toor and Ofori, 2010).

**H3:** *Transactional leadership has a significant positive effect on employee performance*

**H4:** *There is positive relationship between transactional leadership style and employee performance, with a mediating effect of psychological capital.*

A laissez-faire leadership style is a totally passive form of leadership associated with an inactive style of management. This style can be practiced and implemented if the organisation requires counteractive actions (Asrar-ul-Haq and Anwar, 2018). The particularity of this style

compared to the two other styles is that followers do their tasks by themselves, except for the very few times where they might ask for help from others. In this context, leaders do not usually provide their followers with any feedback and prefer that they solicit help from their peers, other managers or even from other members of an organisation. Furthermore, laissez-faire leaders do not even use a rewards system to motivate and satisfy their followers' needs; this negatively impacts the followers' level of job satisfaction, self-confidence and work performance (Fiaz *et al.*, 2017). Few studies have examined how laissez-faire practices affect the psychological health of people within an organisation (Nguyen *et al.*, 2017). For example, Mullen *et al.* (2011) argue that a laissez-faire style negatively influences employee behaviour by lowering their feeling of job security and producing psychological suffering.

Other research declared that laissez-faire leadership negates the follower's perception about leadership, making it seem as a passive form of management with no career guidance, or as something that would deleteriously influence the followers' welfare by raising their stress level and thereby reducing their work performance (Yahaya and Ebrahim, 2016). This relationship is derived by the level of psychological and emotional connection existing between the leader and the followers, assuming that a follower is more likely to adopt positive and productive behaviour if good guidance and support are provided by the leader and positive emotional reactions are provoked along the leadership process. Subsequently, negative triggers generated by passive leadership will lead to negative psychological capital (Crawford, 2005; Judge and Piccolo, 2004).

**H5:** *Laissez-faire leadership has a significant positive effect on employee performance.*

**H6:** *There is a positive relationship between a laissez-faire leadership style and employee performance, with a mediating effect of psychological capital.*

An exception is a study conducted by Luthans *et al.* (2007) that examined the role of positive psychological capital in promoting employee performance within organisations. The researchers found a significant and positive relationship between psychological capital with its four capacities (hope, resilience, efficacy and optimism) and performance, highlighting that psychological capital may be a useful concept for the prediction of individual outcomes. Moreover, Peterson *et al.* (2011) found that psychological capital factors (hope, tenacity, optimism and self-efficacy) can positively impact employees' attitude and job performance (Gong *et al.*, 2019). Correspondingly, individuals with high psychological capital have the determination to find creative ways to solve complex problems (resilience), respond confidently to obstacles and difficulties (self-efficacy), and positively anticipate outcomes (hope and optimism), thereby achieving high performance and obtaining better outcomes (Avey *et al.*, 2011; Polatci and Akdogan, 2014; Rabenu *et al.*, 2017).

**H7:** *Positive psychological capital has a positive impact on employee performance.*



## METHODOLOGY

This research is focused on the impact of leadership styles on employee performance with mediating effect of psychological capital in the airline companies' context. The target population comprises all elements defined before selecting the sample (Hashmi *et al.*, 2020; Malhotra, 2007). The sample pool for this research consisted of employees working in different departments at Pakistan International Airlines (PIAC), considered to be a prominent and well positioned corporation in Pakistan with 18,000 employees. During the last few years, however, this corporation has witnessed a remarkable downfall (Mehmood and Maitlo, 2020; Nawaz *et al.*, 2012) due to leadership problems. According to Mehmood and Maitlo (2020), the losses of this airline company were attributed to the deficiency of "experienced and proficient leadership". The report considers the top-level leadership of this carrier to be the main cause of the troubles that the company has faced.

For this study, a non-probabilistic purposive sampling method was used to get the sample unit and, through a snowball sampling technique, recruit employees from both genders working at different management levels of Pakistan International Airlines, Karachi.

To collect the data, 120 questionnaires were distributed to PIAC employees; 98 valid responses were received, representing a response rate of 82% of the sample. The 98 valid questionnaires were carefully chosen for data examination, which is sufficient for using PLS-SEM, for model measurement. To ensure clarity and accuracy, the survey was reviewed and validated by three subject experts and distributed first to 20 pilot respondents before distributing it to the entire sample. An online questionnaire was administrated and used to collect the data. A five-point Likert scale was used to measure the variable construct elements (Hashmi *et al.*, 2021; Rashid *et al.*, 2022a).

## Participant Profile

A total of 98 employees working in PIAC participated in this study (35% female; 65% male). Most respondents (41%) were above 50 years of age. It is worth noting from our sample results that the highest percentages of respondents were aged between 35 and 50, usually the age of work maturity and career development orientation. This sample consisted of 19% marketing workers, 16% operating in the logistic department, another 16% part of the field service department, and 14% were in the catering section. Engineering and finance were represented respectively by 14% and 9% of the respondents (see Table 1).



Table 1: Participant Profile

|            |                  | Percentage |
|------------|------------------|------------|
| Age        | 35-40            | 26%        |
|            | 45-50            | 33%        |
|            | 50 and above     | 41%        |
|            | Total            | 100%       |
| Gender     | Male             | 65%        |
|            | Female           | 35%        |
|            | Total            | 100%       |
| Department | Finance          | 8%         |
|            | Marketing        | 19%        |
|            | Flight operation | 12%        |
|            | Logistics        | 16%        |
|            | Engineering      | 13%        |
|            | Catering         | 14%        |
|            | Field service    | 16%        |
|            | Total            | 100%       |

Source: Constructed by authors

Measurements

To test the instrument’s reliability and stability, internal consistency using Cronbach’s alpha coefficient was used. The obtained result was above 0.7 (Tavakol and Dennick, 2011; Rashid *et al.*, 2022b). Table 2 shows that scales had good internal consistency. All variables have Cronbach’s alpha values ranging between 0.846 and 0.951, indicating their usefulness for analysis.

Table 2: Reliability and Construct Validity

| Constructs                        | Cronbach Alpha |
|-----------------------------------|----------------|
| Transformational Leadership (TFL) | 0.897          |
| Transactional Leadership (TRL)    | 0.933          |
| Laissez-faire Leadership (LFL)    | 0.846          |
| Psychological Capital (PC)        | 0.919          |
| Employees Performance (EP)        | 0.951          |

Source: Constructed by authors

## DATA ANALYSIS

### Reliability and Convergent Validity of Data

In order to interpret results, smart PLS-SEM 3.0 was used; this helped to find the inner and outer model (Hair *et al.*, 2017). Table 3 shows reliability and validity analysis that summarises the factor loading of each item, average variance and composite reliability of different variables (Cheah *et al.*, 2018; Rasheed *et al.*, 2022). The factor loading of each item must be greater than or equal to 0.7, and average variance of each variable must be 0.5 or greater than 0.5. Composite reliability was used to measure the construct reliability. Table 3 shows that factor loading of each item is greater than 0.7. The criteria of convergent validity are Average Variance Extracted (AVE) that should be  $>0.5$  and the outer loading of all items should be  $>0.7$  (Khan *et al.*, 2022).

**Table 3: Reliability and Convergent Validity**

| Constructs | Items | Factor Loading | AVE   | CR    |
|------------|-------|----------------|-------|-------|
| TFL        | TF1   | 0.797          | 0.710 | 0.924 |
|            | TF2   | 0.810          |       |       |
|            | TF3   | 0.892          |       |       |
|            | TF4   | 0.886          |       |       |
|            | TF5   | 0.824          |       |       |
| TRL        | TRL1  | 0.840          | 0.791 | 0.950 |
|            | TRL2  | 0.925          |       |       |
|            | TRL3  | 0.921          |       |       |
|            | TRL4  | 0.900          |       |       |
|            | TRL5  | 0.858          |       |       |
| LFL        | LFL1  | 0.874          | 0.689 | 0.897 |
|            | LFL2  | 0.882          |       |       |
|            | LFL3  | 0.898          |       |       |
|            | LFL4  | 0.637          |       |       |
| PC         | PC1   | 0.915          | 0.806 | 0.943 |
|            | PC2   | 0.922          |       |       |
|            | PC3   | 0.874          |       |       |
|            | PC4   | 0.879          |       |       |
| EP         | EP1   | 0.931          | 0.804 | 0.961 |
|            | EP2   | 0.862          |       |       |
|            | EP3   | 0.91           |       |       |
|            | EP4   | 0.939          |       |       |
|            | EP5   | 0.901          |       |       |
|            | EP6   | 0.831          |       |       |

Source: Constructed by authors

## Discriminant Validity

The results of discriminant validity are reported in Table 4, showing the level of correlation among the variables that should be greater than other variables. Table 4 shows that all square roots of AVE have greater value than corresponding variables correlations (Henseler, 2017). The following results are EP 0.897, LFL 0.830, PC 0.898, TRL 0.889 and TFL 0.843, and all have higher values than corresponding values of the constructs (Fornell and Larcker, 1981).

**Table 4: Discriminant Validity Fornell Larker Criterion**

|     | EP           | LFL          | PC           | TRL          | TFL          |
|-----|--------------|--------------|--------------|--------------|--------------|
| EP  | <b>0.897</b> |              |              |              |              |
| LFL | 0.670        | <b>0.830</b> |              |              |              |
| PC  | 0.866        | 0.761        | <b>0.898</b> |              |              |
| TRL | 0.833        | 0.780        | 0.905        | <b>0.898</b> |              |
| TFL | 0.661        | 0.797        | 0.769        | 0.905        | <b>0.843</b> |

Source: Constructed by authors

Heterotrait-Monotrait (HTMT) value is based on two conditions for obtaining discriminant validity: first, HTMT values are  $<0.9$  and second, the cross-loading of all items must be greater than in its own construct as compared to other constructs; the discriminant validity will then be established (Hair *et al.*, 2017; Ringle *et al.*, 2020). Table 5 shows the HTMT ratio to confirm discriminant validity. In Table 5, HTMT values are LFL 0.721, PC 0.923, TRL 0.853 and TFL 0.706, and all values are less than 0.9; discriminative validity is therefore established.

**Table 5: Heterotrait-Monotrait (HTMT)**

|     | EP    | LFL   | PC    | TRL   | TFL |
|-----|-------|-------|-------|-------|-----|
| EP  |       |       |       |       |     |
| LFL | 0.721 |       |       |       |     |
| PC  | 0.923 | 0.847 |       |       |     |
| TRL | 0.884 | 0.853 | 0.975 |       |     |
| TFL | 0.706 | 0.913 | 0.841 | 0.817 |     |

Source: Constructed by authors

## Path Coefficient and Hypotheses Testing

Table 6 illustrates the results of the structural equation model as conducted for this study, showing both the t-value and p-value for the adopted independent variables across the seven hypotheses. Table 6 shows that the statistical values for the relationship between the transformational leadership variable and psychological capital ( $SD=0.090$ ,  $t\text{-value}=1.96$ ,  $p\text{-value}=0.025$ ,  $\beta\text{-value}=0.176$ ) are

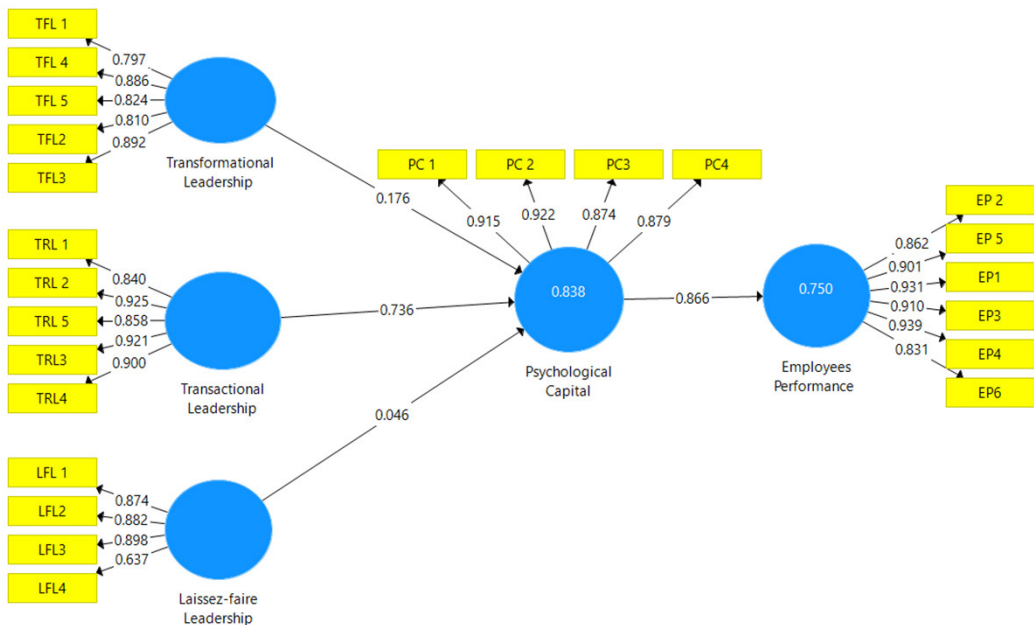
all significant, supporting the decision to accept H1. Additionally, the resulting t-value, p-value and  $\beta$ -value of the relationship between transformational leadership and employee performance as mediated by psychological capital ( $SD=0.159$ ,  $t\text{-value}=1.959$ ,  $p\text{-value}=0.026$ ,  $\beta\text{-value}=0.153$ ) indicate a strong significant relationship between transactional leadership style and employee performance with a mediating effect of psychological capital, as well as signifying that the formulated hypothesis H2 is accepted.

**Table 6: Path Coefficient and Indirect Effect**

| Hypothesis Testing | Original Sample | Standard Deviation | T Statistics | P Value | Decision |
|--------------------|-----------------|--------------------|--------------|---------|----------|
| H1: TFL->PC        | 0.176           | 0.090              | 1.978        | 0.025   | Accepted |
| H2: TFL->PC->EP    | 0.153           | 0.159              | 1.959        | 0.026   | Accepted |
| H3: TRL->PC        | 0.736           | 0.069              | 10.609       | 0.000   | Accepted |
| H4: TRL->PC->EP    | 0.638           | 0.068              | 9.324        | 0.000   | Accepted |
| H5: LFL->PC        | 0.046           | 0.081              | 0.569        | 0.285   | Rejected |
| H6: LFL->PC->EP    | 0.040           | 0.071              | 0.567        | 0.286   | Rejected |
| H7: PC->EP         | 0.866           | 0.038              | 23.016       | 0.000   | Accepted |

Source: Constructed by authors

The hypothesis testing Table 6 indicates the existence of a positive relationship between transactional leadership and psychological capital variables with scores within the accepted ranges ( $SD=0.069$ ,  $t\text{-value}=10.96$ ,  $p\text{-value}=0.000$ ,  $\beta\text{-value}=0.736$ ). In addition, the resulting values related to H4 ( $SD=0.068$ ,  $t\text{-value}=9.324$ ,  $p\text{-value}=0.000$ ,  $\beta\text{-value}=0.638$ ) show that the relationship between transformational leadership style and employee performance with a mediating effect of psychological capital is significant. This confirms that the transactional leadership construct is consistently (positively) statistically related to subsequent employee performance through psychological capital elements, and thereby H3 and H4 are supported. Moreover, Table 6 shows that the resulting values ( $SD=0.038$ ,  $t\text{-value}=23.016$ ,  $p\text{-value}=0.000$ ,  $\beta\text{-value}=0.866$ ) for psychological capital and employee performance variables, are all higher than the threshold criteria ( $\beta\text{-values} > 0.1$ , standard deviation  $\sigma$  value  $< 1$ ,  $t\text{-value} > 1.96$  and  $p\text{-value} < 0.05$ ). Therefore, it can be stated that H7 is accepted. Regarding the specific relationship between laissez-faire leadership and psychological capital, the obtained results show that there is no positive correlation between these two variables with non-significant levels ( $SD=0.081$ ,  $t\text{-value}=0.569$ ,  $p\text{-value}=0.285$ ,  $\beta\text{-value}=0.046$ ); this means that H5 related to these two variables is rejected. Furthermore, H6 related results as indicated in Table 6 show that the obtained t-value and p-value of the laissez-faire style of leadership and employee performance as mediated by psychological capital variable ( $SD=0.071$ ,  $t\text{-value}=0.567$ ,  $p\text{-value}=0.286$ ,  $\beta\text{-value}=0.040$ ) are respectively lower than  $\leq 1.96$  and higher than  $0.05$ , therefore H6 is rejected. Figure 2 shows the results of factor loading and R square by analysis of the measurement model.



**Figure 2: Results of PLS factor loading and R square**

Source: Constructed by authors

## DISCUSSION AND IMPLICATIONS

The present research was designed to determine how leadership styles impact employee performance given the mediating role of psychological capital. The findings of this research stipulate that transactional and transformational styles of leadership are effectual leadership styles in PIAC, with significant impact on employee performance. From the transactional leadership perspective, employees with high achievement are appreciated through the attribution of rewards. The rewards help motivate and engage employees and therefore boost their performance level (Farooqui and Alwi, 2019).

With reference to transformational leadership, employees are more likely to perform well and achieve high results if they perceive supportive, motivational and inspiring leadership practices from their leaders (Nanjundeswaraswamy, 2015). A lack of guidance and support can demotivate employees and adversely impact their self-confidence and productivity. The analysis orientated to laissez-faire practices suggests that followers who are not supported, satisfied, motivated and rewarded by their leaders within an organisation would be more likely to contribute less towards the achievement of the organisation's economic objectives (Yahaya and Ebrahim, 2016). This confirms that the psychological health of the followers within an organisation is considerably affected, whether in a positive or negative way, by the selected leadership style (Nguyen *et al.*, 2017).

Furthermore, our results showed that psychological capital correlated scientifically with employee performance and leadership styles, although only one association was recognised as non-significant related to laissez-faire leadership. These findings are important in three ways.

First, they stress the importance of considering the interaction between psychological capital and leadership styles in leadership research, and specifically, the need to examine the efficiency of using psychological capital with appropriate leadership capabilities in order to improve employee performance. Second, the current results demonstrate that positive psychological capital has significant impact on employee performance and behaviour. Specifically, our results suggest that more emotionally connected individuals are more likely to engage in organisational activities. This is in line with previous research, suggesting that individuals who are empowered, satisfied, motivated and inspired tend to have higher affectivity, informing creative dispositions and therefore facilitating innovation and displaying higher performance. In addition to the leadership-employee performance link, the current study showed that leadership practices, in particular transactional and transformational styles, and psychological capital factors are important to explain employees' differences in terms of work performance.

Third, transformational and transactional leadership were found to be significant predictors of higher employee performance compared to laissez-faire leadership practices. These findings indicate that transformational and transactional leadership are very powerful governance practices and that, although they have a weak relationship with employee outcomes, laissez-faire practices might be a concept worthy of increased attention in future leadership research. In fact, the current results have pointed to the mixed and perhaps strong associations found between leadership styles and employee welfare and mental health.

## CONCLUSIONS

This research provides theoretical and practical contributions in defining the leadership styles and measuring the relationship of each defined style with psychological capital and employee performance in the airline industry. From a theoretical perspective, it bridges significant research gaps concerning patterns of leadership practices and their resulting outcomes in terms of employee performance and psychology. It further demonstrates the importance of psychological capital as a mediating variable in explaining employees' individual differences in performance and behaviour within a particular company (PIAC) operating in a particular industry (airline industry) and in a particular territory. In fact, an in-depth analysis of the current literature demonstrates that the concept of psychological capital has linked a variety of leadership and behavioural practices, all trying to explain the motives, behaviour and emotional status of employees in relation to individual performance.

The psychological capital concept has proven to be efficient in explaining how leadership practices and followers' behaviour and performance are interconnected in a dynamic way; this

opens new horizons for leaders and organisations to thrive and succeed. Additionally, this concept has shifted the unit of analysis of employee performance to include the emotional and psychological dimensions. Moreover, this research demonstrated that appropriate leadership practices considering employee welfare enable leaders and companies to achieve better financial results and increased competitive advantage. In addition, this study established a comprehensive framework based on qualitative and quantitative data that clarifies the relationship between leadership styles and employee performance as mediated by positive psychological capital factors.

## LIMITATIONS AND FUTURE SCOPE

Our research analysis is based on a small sample (only 98 observations) for one specific organisation (PIAC) and in one specific region (Pakistan). To arrive at more robust findings, this analysis should be repeated in other regions (for example Middle East, North Africa or Asian countries, etc.) and for other companies operating in different industries. This would also allow for better generalised results and findings. The analysis should also be repeated by considering other additional factors, such as behavioural, social, cultural and contextual factors, potentially revealing different relationships between the leadership styles and employee performance while mediated by psychological capital. At the level of analysis, cross-sectional data were used; however, better results might be achieved through longitudinal data that would help disentangle the causal order between leadership styles and employee performance outcomes. Likewise, the research data collection was gathered using a non-probability technique; however, for generalisation purposes, probability sampling methods would be more valid and might lead to new research perspectives. Future research could also include across border analysis by comparing between different leadership practices in different regions and assessing their contribution towards improving followers' emotional health and positively impacting their work behaviour and performance.

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