Impact of Authentic Leadership on Employee Creativity: Assessing the Mediating Role of Psychological Capital in the Islamic Banks of Pakistan

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Abstract

The study empirically assessed the impact of Authentic Leadership on psychological capital and employee creativity. The study, quantitative in nature, collected data from employees of Islamic banks in Pakistan by using survey questionnaire. The findings of study provide that authentic leadership positively and significantly affect the psychological capital and employee creativity. Moreover, psychological capital has partial mediation in authentic leadership and employee creativity relationship.

Keywords: Leadership & Activities, In Played Creativity, Psychological Capital

1. Introduction:

Financial sector has important role in the development of country. Financial sector of Pakistan has witnessed intense competition due to deregulation, globalization and technological changes. Banks need to be creative and innovative in order to outperform the competitors by Hassan et al\textsuperscript{1}.

This organizational creativity can be instituted with the participation of employees. Employees contribute the innovation process of organization by providing creative solutions of the problems as mentioned by Gumusluoglu & Ilsev\textsuperscript{2}. Many studies provide that organizational innovation is systematic process which is initiated by the creative behaviour of the employees. Bharadwaj & Menon\textsuperscript{3} provides that employee creativity upturns the level of innovation in the organization. Similarly, Hon & Lui\textsuperscript{4} put forwarded that creative behaviour of employees improves the performance and competitive position of the organizations.

Therefore, it is important to study the process of employee creativity due to the strategic importance of creative behaviour of the employees. The literature highlights various factors which influence the attitude and behaviours of the employees? Literatures on leadership provide that leadership style influence the attitude and behavior of the employees. Maxwell\textsuperscript{5}, in his book on irrefutable laws of leadership, stated that all the things rise and fall on leadership. To line with this, various studies provided the relationship between leadership and creative behavior of the employees as described by Khan et al\textsuperscript{6}; Liu et al\textsuperscript{7}.

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Despite the plethora of researches on leadership and employee creativity, the process through which leaders affect the creativity remained understudied. Therefore, the process of relationship between leadership and employee creativity needs to be elaborated.

Various leadership studies followed systematic impact of leadership on employees i.e. leaders affect the attitude of the employees which ultimately influence the behaviour of the employees as described by Javed et al; Rego et al. To line with this stream, this study argue that authentic leaders upturn the level of psychotically capital of the employees and this psychological capital leads to creative behaviour of the employees. Authentic leadership focus on promoting psychological capacities and ethical climate among employees of the organizations. This study will assess the influence of authentic leadership on employees of Islamic banks of Pakistan.

The specific research objectives of this study are to:

a. Find the effect of authentic leadership on creative behaviour of the employees in Islamic Banks of Pakistan.

b. Find the impact of authentic leadership on psychological capital of employees in Islamic banks of Pakistan.

c. Study the mediation of psychological capital in the relationship between authentic leadership and creative behaviour of the employees in the banking sector of Pakistan.

2. Literature Review:
2.1 Authentic Leadership:

Over the past few years, a variety of definitions of Authentic Leadership or leader authenticity have been emerged. The earliest conceptions about authentic leadership arose in the 1960s and pondered an insight that authenticity of organization is evident through its leadership as mentioned by Novicevic et al. Similarly, Halpinand illustrated that organizational authenticity is stated to be a function of organizational climate openness and it is manifested by the extent to which members resist personal change while they enact their professional and leadership roles. Moreover, Seeman projected that authentic leadership is a function of their ability of reducing ambivalence about their leadership roles.

Henderson and Hoy made their firstly defined the authenticity and inauthenticity of leadership. According to these authors, authentic leadership encompasses three basic components. Firstly, it accepts responsibility for actions, results and mistakes. Secondly, non-manipulation of followers and thirdly, it accepts salience of self over role requirements. In contrary to this, low levels of accountability, subordinates’ manipulation and salience of self over role are involved in leadership inauthenticity. The components of authentic leadership appear to be confounded with some other constructs i.e. abusive supervision as illustrated by Tepper, organizational politics as discussed by Ferris & Kacmar and accountability by Hall et al. Moreover, the components of authentic leadership are overlapped with the dimensions of authenticity proposed by Kernis and Goldman. Salience of self over role refers to the propensity to behave in a genuine manner, not
inclined by requirements of traditional role hence, is proposed to be a philosophy-based conception.

In addition to this, Bhindi and Duignan\textsuperscript{17} proposed AL to be a composition of sensibility, spirituality, intentionality and authenticity. Begley\textsuperscript{18} equates Authentic Leadership with ethical and effective leadership and provides a broader perspective in a narrow context as it is limited to the perspective of administration of education. Similarly, Bhindi and Duignan defines AL as a basis of authenticity which implies to the discovery of authentic self, \textit{intentionality}, which entails the visionary leadership taken from the organizational members who put their energy, intellect, heart and soul to shape a vision for the future, and \textit{spirituality} which is about discovering one’s spirit within each organizational member, and a \textit{sensibility} which refers to feelings and ambition in a particular context of multicultural settings where leaders operate under umbrella of growing globalization trends in work and life.

In addition to this, George\textsuperscript{19} states that authentic leaders lead with a purpose and meaning and moreover, identify their deficiencies and strive hard toward overcoming them. They are self-disciplined and do not compromise on their principles. Similarly, Luthans and Avolio\textsuperscript{20} views authentic leadership as a process derived from both positive psychological ability and highly formulated organizational context which ultimately results in positive self-development of leaders and associates. Similarly, Avolio, Luthans \textit{et al} as cited in Avolio, Gardner \textit{et al}\textsuperscript{21} demonstrates that authentic leaders are those with high morality and possess more confidence, hope and resilience. They know who they are and how they behave and moreover, are aware of the circumstances in which they operate. Shamir and Eilam\textsuperscript{22} indicate that authentic leaders can be differentiated from inauthentic leaders in terms of salience of leadership role in their self-concept, the clarity of self-concept, self-concordant goals and finally the consistency of behavior with their self-concept.

Finally, various other researches view authentic leaders as genuine, truthful and more concerned about others with strong belief systems. They promote positive psychological capacity and ethical climate which foster positive self-development.

2.2 Psychological capital:
Organizational researchers define Psychological Capital as development of positive psychological state of an individual and is characterized by
1. (Self efficacy) to put in and take out the obligatory endeavor to thrive at challenging jobs.
2. Creating a positive provenance (optimism) to be successful in present as well as in the future.
3. Persisting towards goals and when necessary, redirecting paths to goals to achieve success (hope).
4. When encountering adverse situations, bouncing back and getting over it beyond (resiliency) to attain success.

As mentioned above, Psychological capital construct is consisted of four aspects including optimism, resilience, hope and self-efficacy. Peterson and
Seligman's\textsuperscript{23} reveal that character strengths and virtues are more trait-like and hence are stable and not open to change. In contrary, PsyCap is “state-like” and relatively flexible, hence, is open to development. Past researches provide theoretical and empirical evidence about personal strengths such as, hope, resilience, optimism and efficacy to be amenable to development as illustrated by Luthans \textit{et al}\textsuperscript{24}.

Several recent studies demonstrate the significance of PsyCap. For example, Avey, Luthans, and Youssef\textsuperscript{25} investigated that PsyCap predicts employee attitudes and behavior from a range of organizations and jobs. The results of the previous studies show positive association of PsyCap with organizational citizenship behavior and negative association with counterproductive work behaviors and intentions to quit. Similarly, various researches provide evidence of the importance of PsyCap, indicating significant impact of PsyCap on entrepreneurs, employees’ attitudes and behavior, jo satisfaction and mental health (e.g., Jensen & Luthans\textsuperscript{26}, Krasikova, Lester & Harms\textsuperscript{27}; Bergheim \textit{et al}\textsuperscript{28}; Avey \textit{et al}\textsuperscript{29}; Luthans \textit{et al}\textsuperscript{30}).

\textbf{2.3 Linkage among AL, PsyCap and Employee creativity:}

Innovation and creativity represents the implementation of new and unique ideas in a particular social context with the aim of providing commercial benefits as mentioned by Crossan & Apaydin\textsuperscript{31}. Many research scholars put forward that authentic leadership which is the foundation of positive forms of leadership, stimulates innovation and creativity through transparent relations with the team members. Some individuals are more concerned about taking risks and try to implement new ideas and hence, exhibit more self-confidence\textsuperscript{32}. Authentic leaders with higher levels of self-awareness would appreciate, motivate and enable the transformation of creative ideas\textsuperscript{33}. Moreover, they encourage trust and respect which foster people to feel easy and free while putting forward any unconventional ideas without fear.\textsuperscript{34} In response to the creative ideas, authentic leaders provide feedback in a positive, fair, informational and developmental and unbiased manner. Hence, authentic leadership promotes employees’ intrinsic motivation which triggers their creativity\textsuperscript{35}.

Gardner \textit{et al}\textsuperscript{36} predicts that authentic leadership is derived from positive psychological states including optimal self esteem, confidence, optimism, resilience and hope and such positive states are promoted to others Gardner \textit{et al}. A plethora of studies exhibit positive association between PsyCap and authentic leadership in respect to four dimensions of PsyCap i.e. optimism, resilience, hope and self-efficacy. Employees become more confident when authentic leaders provide positive and constructive feedback. Authentic leaders unleash the potential of employees and consistently encourage their growth hence developing self efficacy\textsuperscript{37}.

Moreover, authentic leadership enhance follower’s hope as they have the ability to remain trustworthy and hopeful even in the adverse times. This ultimately not only builds willpower but also establish a sense of self efficacy among employees as described by Avolio \textit{et al}. Authentic leaders enable their followers to accelerate energies in the direction of goal-related endeavors while solving the problems optimistically and benefitting from opportunities.
Similarly, Hoogh & Hartog\textsuperscript{38} posit that authentic leadership effects employees’ optimism by encouraging positive emotions and being truthful, fair and caring. Researchers view authentic leaders as promoters of transparent relations, open communication and ethical conduct and therefore make employees more optimistic about their work and organization as described by Avolio et al.\textsuperscript{38}

Additionally, Gardner & Schermerhorn\textsuperscript{39} argue that authentic leaders strengthen the resilience among followers. They ensure the support which followers need, anticipate the adversity and are eager to make contingency plans along with promoting positive personal relationships, enhancing psychological safety while facing problems and uplifting positive emotions that help to develop resilience.

From the above discussion it is proposed that:

H1: Authentic leadership positively affects the employee creativity.
H2: Authentic leadership positively affects psychological capital.
H3: Psychological capital mediates the relationship between authentic leadership and employee creativity.

3. Methodology:

This study targeted the employees of Islamic Banks in Pakistan. A survey questionnaire was used to assess the relationship between authentic leadership, psychological capital and employee creativity. The study is quantitative in nature. A total of 500 questionnaires were distributed to the employees of Islamic banks located in the five big cities of Pakistan. Three hundred and seventy five filled questionnaires were received back. Twenty five questionnaires were rejected due to incomplete information. And therefore, three hundred and fifty questionnaires were used for data analysis.

The data was analysed using SPSS. The validity and reliability were confirmed of the measures before finding the relationship between the authentic leadership, psychological capital and employee creativity.

Measures of the variables were followed from the previous studies. By following, Twelve items of Luthan et al measured Psychological capital. Similarly, sixteen questions of Walumbwa et al\textsuperscript{40} were followed to measure the authentic leadership. Finally, four items of Zhou and George\textsuperscript{35} assessed the employee creativity.

4. Data Analysis:
4.1 Factor analysis:

It is ensured that the measures of the variables are valid before assessing the relationships. The validity means the items of variable exactly measure the variables. The feasibility of data for factor analysis is assessed through KMO. And thereafter, rotated component matrix was generated to assess the validity of measures.

The Value of KMO is 0.839 which ensured the feasibility of collected data for further factor analysis. Additionally, the three factors solution is generated from the rotated component matrix which confirmed the validity of authentic leadership, psychological capital and creativity.
### Table 1: Factor Analysis

<table>
<thead>
<tr>
<th></th>
<th>Creativity</th>
<th>Auth. LDR</th>
<th>PSY. CAP.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRT 3</td>
<td>0.865</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRT 1</td>
<td>0.813</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRT 4</td>
<td>0.781</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRT 2</td>
<td>0.651</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AT LD 9</td>
<td></td>
<td>0.852</td>
<td></td>
</tr>
<tr>
<td>AT LD 13</td>
<td></td>
<td>0.843</td>
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</tr>
<tr>
<td>AT LD 15</td>
<td></td>
<td>0.827</td>
<td></td>
</tr>
<tr>
<td>AT LD 2</td>
<td></td>
<td>0.809</td>
<td></td>
</tr>
<tr>
<td>AT LD 16</td>
<td></td>
<td>0.792</td>
<td></td>
</tr>
<tr>
<td>AT LD 10</td>
<td></td>
<td>0.770</td>
<td></td>
</tr>
<tr>
<td>AT LD 6</td>
<td></td>
<td>0.761</td>
<td></td>
</tr>
<tr>
<td>AT LD 1</td>
<td></td>
<td>0.738</td>
<td></td>
</tr>
<tr>
<td>AT LD 5</td>
<td></td>
<td>0.723</td>
<td></td>
</tr>
<tr>
<td>AT LD 12</td>
<td></td>
<td>0.714</td>
<td></td>
</tr>
<tr>
<td>AT LD 4</td>
<td></td>
<td>0.691</td>
<td></td>
</tr>
<tr>
<td>AT LD 7</td>
<td></td>
<td>0.677</td>
<td></td>
</tr>
<tr>
<td>AT LD 14</td>
<td></td>
<td>0.659</td>
<td></td>
</tr>
<tr>
<td>AT LD 3</td>
<td></td>
<td>0.619</td>
<td></td>
</tr>
<tr>
<td>AT LD 11</td>
<td></td>
<td>0.588</td>
<td></td>
</tr>
<tr>
<td>AT LD 8</td>
<td></td>
<td>0.538</td>
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<tr>
<td>PSY CP. 4</td>
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<td></td>
<td>0.813</td>
</tr>
<tr>
<td>PSY CP. 10</td>
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<td>PSY CP. 8</td>
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<td>PSY CP. 6</td>
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<td>PSY CP. 1</td>
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<td>PSY CP. 2</td>
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<td>PSY CP. 11</td>
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<tr>
<td>PSY CP. 7</td>
<td></td>
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<td>0.603</td>
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<tr>
<td>PSY CP. 9</td>
<td></td>
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<td>0.564</td>
</tr>
<tr>
<td>PSY CP. 5</td>
<td></td>
<td></td>
<td>0.558</td>
</tr>
</tbody>
</table>

KMO = 0.839

#### 4.2 Reliability and Correlation:

After considering the validity of the measures, the reliability is found with the help of Cronbach’s Alpha. Additionally, the relationship amongst authentic
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leadership, Psychological capital and employee creativity was measured with the help of correlation analysis. The following table provides that all the measures are reliable and variables are positively and significantly correlated. Moreover, the mean and standard deviation of the measures prove that all the variables are highly loaded.

<table>
<thead>
<tr>
<th></th>
<th>Alpha</th>
<th>Mean</th>
<th>S.D</th>
<th>Creativity</th>
<th>Psy. Capital</th>
<th>Authentic Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creativity</td>
<td>0.912</td>
<td>3.89</td>
<td>0.61</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Psy. Capital</td>
<td>0.789</td>
<td>3.94</td>
<td>0.64</td>
<td>0.412**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Authentic Leadership</td>
<td>0.863</td>
<td>3.82</td>
<td>0.69</td>
<td>0.398**</td>
<td>0.427**</td>
<td>1</td>
</tr>
</tbody>
</table>

### 4.3 Regression Analysis:

The impact of authentic leadership on psychological capital and employee creativity is observed with the help of regression analysis, which provides that authentic leadership significantly regress psychological capital and creativity.

<table>
<thead>
<tr>
<th></th>
<th>Ind. Var.</th>
<th>Beta</th>
<th>t</th>
<th>P</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Psy. Capital</td>
<td>Authentic Leader.</td>
<td>0.29</td>
<td>6.59</td>
<td>0.000</td>
<td>0.43</td>
</tr>
<tr>
<td>Employee Creativity</td>
<td>Authentic Leader.</td>
<td>0.21</td>
<td>4.61</td>
<td>0.000</td>
<td>0.38</td>
</tr>
</tbody>
</table>

Similarly, by following the Baron and Kenny\(^{41}\), the presence of Psychological capital makes the relationship between authentic leader and creativity weaker but the relationship remains significant. Therefore, psychological capital mediates the relationship partially.

<table>
<thead>
<tr>
<th></th>
<th>Ind. Var.</th>
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</tr>
<tr>
<td>Employee Creativity</td>
<td>Authentic Leader.</td>
<td>0.15</td>
<td>3.23</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Employee Creativity</td>
<td>Psy. Capital</td>
<td>0.17</td>
<td>3.98</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

### 5. Discussion and Conclusion:

This study found the relationship between authentic leadership, psychological capital and employee creativity. More specifically, firstly, the paper investigates the impact of authentic leadership on employee creativity. Secondly, the paper study the mediating role of psychological capital in authentic leadership and employee creativity of Islamic bank’s employees in Pakistan.
The results indicate that authentic leadership improves the psychological capital of employees. Authentic leaders focus on the psychological capacities and ethical climate in the organization. And therefore, psychological capital of employees is upturned. Psychological capital plays pivotal role in improving the performance of the employees because psychological capital is related to satisfaction, commitment and extra role services.

Similarly, authentic leadership upturns the level of employee creativity. Employees contribute to the creativity and innovation process of the organization. Luthans provided that the first step in innovation is creativity. Employees provide creative and novel ideas to the organization which results into innovation process. The results of study suggest that leaders in the organization have ability to improve the level of creativity of employees and therefore innovation process in the organization. The authentic leadership style, which is characterized by moral perspective and self awareness, improves the creativity among employees.

Finally, the study elaborates the process by which leadership affect the employee creativity. The study provides that authentic leaders affect the level of psychological capital. And psychological capital increases the level of employee creativity. The leaders should focus in building psychological capital, such as hope, self efficacy and optimism etc., in order to improve the employee creativity.

The study provides the empirical evidence from the Islamic banks. Islamic Banks are struggling to compete with conventional banks. And this study provides that authentic leaders can improve the creativity and innovation in the organization. Islamic banks can compete by providing creative solutions to the customers.

**References:**
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De Hoogh, Annebel HB, and Deanne N. Den Hartog. "Ethical and despotic leadership, relationships with leader's social responsibility, top management team
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