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Improving Engagement: The Moderating Effect of Leadership Style on the Relationship Between Psychological Capital and Employee Engagement

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Between Psychological Capital and Employee Engagement

by

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ABSTRACT

The purpose of this study is to investigate the moderating effect that different leadership styles (Transformational, Transactional, and Passive-Avoidant) can have on the relationship between Psychological Capital and Employee Engagement. Additionally, it explores the direct positive relationship that Psychological Capital and Transformational Leadership have on Employee Engagement. This study examines 238 adults that work at least 20 hours a week. The results show that Psychological Capital and Transformational Leadership have strong, positive effects on Employee Engagement and Transformational Leadership positively moderates the direct relationship between Psychological Capital and Employee Engagement. The importance of Psychological Capital in its relationship to Employee Engagement depends on the level of Transformational Leadership present in the relationship. Discussion and future study recommendations are included.

CHAPTER ONE:

INTRODUCTION

The American workplace is in a quandary. Many workers are showing up to work to "collect a paycheck" and do nothing more. Personal goals are not aligned with corporate goals. Leadership is lacking, as managers are inept at motivating their employees and providing them with an experience that is more than simply a "job." Survey results show nearly half of all American workers arrive at their jobs disengaged and unwilling to do anything more than the minimum requirements – 51%, according to the 2017 Gallup State of the American Workplace survey and 49% according to 2017 Society for Human Resource Management Employee Satisfaction survey (Gallup, 2017; Lee, Esen, & DiNicola, 2017).

Reward Gateway, an employee engagement company with over 1,800 clients worldwide (www.rewardgateway.com) recently conducted two surveys that measured engagement within the workplace. One survey of over 5,000 employees in the U.S., U.K., and Australia points out the following statistics regarding American workers ("The top three demotivators of the workplace: lack of recognition, feeling invisible or undervalued, and bad managers," 2018):

- 54% feel their job "just pays the bills"
- 13% have an inspiring boss
- 69% feel recognition is lacking
- 43% believe they are invisible or undervalued
- 42% have a bad manager

The second survey of 1,500 employees and 1,500 decision makers found 54% of employees felt their boss could recognize them more, and 70% of workers believed more well-timed recognition by managers would increase drive and enthusiasm within the workplace (RewardGateway.com, 2017). Additionally, the Gallup Survey confirmed only 3 out of 10 workers in the United States can strongly concur that their work has been praised or recognized in the past week (Gallup, 2017). A logical extension could be made that the lack of recognition, value and leadership that employees are feeling in the workplace is leading to an erosion of job enjoyment, effort, and dedication to work, known as employee disengagement.

Employee disengagement manifests in various ways. Disengaged employees do not participate in problem solving and separate themselves from the mission, values and goals of the corporation (Allam, 2017). Extensive scenes of interruption, pessimism, slow movement, poor basic leadership, a large number of days off from work, and absence of enthusiasm for work are side effects shown by people who do not take part in the organization, and their beneficial yield is negligible (Pech & Slade, 2006).

Disengagement is also detracting greatly from corporate bottom lines. Gallup estimates that actively disengaged employees cost the U.S. $483 billion to $605 billion each year in lost productivity (Gallup, 2017). Additionally, disengaged employees are costing corporations additional money with increased recruitment and retention expenses, as employees who are actively disengaged are nearly two times as likely to seek new employment (Gallup, 2017).

Despite both the staggering numbers in lost productivity and the employee disengagement problems, employers, managers and supervisors might be able to turn the tides. In their article titled *Employee engagement and manager self-efficacy*, Luthans and Peterson found that managers must help to establish an atmosphere where employees grow to be both

emotionally engaged, (i.e. strong work ties and solid relationships with managers and coworkers) and engaged intellectually (i.e. express sentiments of duty and purpose, and are given constructive criticism and information) (Luthans & Peterson, 2002). When emotional engagement happens, employees could have more of a tendency to believe their opinions have merit and have confidence that their superiors have enthusiasm in their growth and progress (i.e. emotional engagement). Therefore, they are more apt to respond confidently to their managers and generate more positive results that help both managers and employees be more successful (Luthans & Peterson, 2002).

Employee engagement is defined as the physical, intellectual and emotive attachment one has to their position at work (Kahn, 1990), and trust in top management plays a critical role in the level of employee engagement by completely mediating the relationship between management communication and employee commitment to the corporation (Mahajan, Bishop, & Scott, 2012). In his article, The Neuroscience of Trust, Paul Zak found that "building a culture of trust is what makes a meaningful difference. Employees in high-trust organizations are more productive, have more energy at work, collaborate better with their colleagues, and stay with their employers longer than people working at low-trust companies. They also suffer less chronic stress and are happier with their lives, and these factors fuel stronger performance" (Zak, 2017).

Hough, Green and Plumlee concluded that both trust and mistrust are definitively linked to the degree of engagement or disengagement felt by employees and managers within their organizations (Hough, Green, & Plumlee, 2015). Also, the greater the feelings of trust and loyalty an individual has for an organization, the more complete the employee's levels of commitment and engagement will be (Biswas & Bhatnagar, 2013). Literature suggests that

management recognizes the importance of building this trust, as PWC reported in its 2016 global CEO survey that 55% of CEOs think that an absence of trust is a major threat to corporate growth; however, most do not know how to start improving trust and have done little in the way of action (Zak, 2017). One could posit that as employees and managers deepen the bond of trust, employees feel more a part of something greater, become more productive and are more willing to share in the achievement of corporate goals.

When corporations develop cultures that focus on increased employee engagement and job satisfaction, positive things may happen to both employees and bottom lines. Harter, Schmidt and Hayes found a significant, positive, and meaningful relationship between employee engagement and business results that is generalizable across different organizations (Harter, Schmidt, & Hayes, 2002). Business unit analysis and cross-company analysis showed that business units in the top 25% of the employee engagement scale averaged $80,000 to $120,000 more in monthly revenue and produced 1% to 4% more profits (Harter et al., 2002).

So, where do we start? How do we bridge the gap from a greatly disengaged workforce to engaged and trustworthy employees willing to go the extra mile and exceed expectations for the accomplishment of corporate goals?

In recent years, studies have demonstrated different relationships between psychological capital (PsyCap), leadership styles, and employee engagement. Psychological Capital is 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, when necessary, redirecting paths to goals (hope) in order to succeed; and (4) when beset by problems and adversity, sustaining and bouncing back

and even beyond (resilience) to attain success" (Luthans, Youssef, & Avolio, 2007). A multiple company case study by Thompson, Lemmon and Walter found that PsyCap improves engagement by instilling employees with the toughness and vigor to plunge into a task (Thompson, Lemmon, & Walter, 2015). Psychological capital at the leadership level has been found to have a multiplicative impact on the organization, as it impacts psychological capital amongst employees, which then has an impact on employee engagement (Xu, Liu, & Chung, 2017).

Joo, Lim and Kim "did not find a substantial moderating effect for authentic leadership on the PsyCap and employee engagement relationship" (Joo, Lim, & Kim, 2016), while a 2019 study by Tak, Seo, and Roh found that through authentic followership, authentic leadership had a positive impact on both psychological capital of workers and their work performance (Tak, Seo, & Roh, 2019). Engagement was also shown to partially mediate the job performance and leadership relationship (Buil, Martínez, & Matute, 2019).

This dissertation will add to the body of work on these topics by measuring how three different leadership styles moderate the relationship between psychological capital and employee engagement, specifically passive-avoidant leadership, transactional leadership and transformational leadership. The remainder of this dissertation is structured as follows: 1) a comprehensive literature review of psychological capital, employee engagement and the three leadership styles, 2) a description of the study method, 3) a statistical analysis and results of the study, 4) the discussion of the results, and 5) the conclusions.

Literature Review

Psychological Capital

The concept of Psychological Capital is rooted in Positive Psychology, which focuses on

finding and developing the affirmative mental traits that allow and inspire people to upgrade

their life situations and not allow the negative events in life to take control (Seligman &

Csikszentmihalyi, 2000). This brand of psychology investigates "the average person" to discover

what succeeds, what is correct and how can it get better (Sheldon & King, 2001). In order to live

"the good life, what it is to be healthy and sane, and what humans choose to pursue when they

are not suffering or oppressed," a person must experience the five elements of well-being:

positive emotion, engagement, relationships, meaning, and accomplishment (Seligman, 2019).

In the middle of the 20th century, Abraham Maslow proposed his hierarchy of needs that

included the above elements. These elements fell within what Maslow called "higher needs",

and he stated that satisfying these "higher needs" leads to a higher sense of individualism, a

greater love and respect for others and an improved sense of personal peace and satisfaction

(Maslow, 1948).

While Maslow lacked scientific study to back his Hierarchy of Needs theory, positive

psychology, on the other hand, has been backed by many studies that have shown its effects to

positively influence peoples' lives. Positive, happy people have been shown to:

- Feel more connected and supported socially, be more optimistic, and include more
  healthy behaviors into their lifestyles (Diener & Chan, 2011)

- Be less prone to getting a common cold (Lyubomirsky, King, & Diener, 2005)

- Have an amplified capability to settle conflicts (Lyubomirsky et al., 2005)

- Live longer and healthier lives (Diener et al., 2017)

- Have more fulfilling marriages (Diener et al., 2017)

The power of positivity also has broad effects on how individuals perform within the

workplace. Due to the health benefits of positivity, positive workers are in the office more and

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take fewer personal days due to illness (Lyubomirsky et al., 2005). Employees with higher levels of positivity, also known as subjective well-being (SWB), are less depressed and anxious, perform better, earn more money and could increase their potential of gaining recognition from clients, coworkers and management (Tenney, Poole, & Diener, 2016). Additionally, the high SWB worker will be less likely to leave their job, which decreases the devastating effects that turnover has on corporate morale and increases the company bottom-line because better retention means less money spent on training new employees (Diener et al., 2017).

In the workplace, managers that understand the power of positive psychology might develop relationships with their employees with a focus on identifying and recognizing where employees envision themselves going within the corporation, what drives them to achieve and what prevents them from achieving. Good managers will use this information to help level-out the rollercoaster-like path employee careers can take and instill in their employees the emotions of "hope, joy, gratitude, interest, inspiration, and pride" (Froman, 2010). A logical extension could state that employee-focused managers create an environment where employees want to be at work, develop better work relationships, and achieve personal and organizational goals faster.

When an employee is hired into a corporation, they bring with themselves a combination of work-ethic, capabilities, aspirations, sensitivities, and determination. Within a positive workplace, employers will want to maximize each employee's strengths, improve weaknesses, and allow them to develop into happy, driven, and productive workers that support each other, achieve personal goals, and overcome obstacles to achieve corporate objectives. The study, application, measurement, development, and management of positive psychological and human strengths within the workplace is known as Positive Organizational Behavior (POB) (Luthans & Church, 2002). According to Luthans and Church (2002), POB is operationalized in the

workplace through the following dimensions: confidence, hope, optimism, subjective well-being, and emotional intelligence (CHOSE). This operationalization would become later known as Psychological Capital.

Business professionals and educators are very familiar with many different types of capital – monetary, human, structural, inventory, to name a few. While these forms of capital focus on assets and knowledge, Psychological Capital (PsyCap), focuses on who you are (Luthans, Luthans, & Luthans, 2004). Psychological Capital consists of four competences – hope, self-efficacy, resilience, and optimism (HERO) that "are measurable, open to development, and can be managed for more effective work performance" (Luthans et al., 2004).

Hope. Alfred Lord Tennyson once wrote, ""Hope smiles from the threshold of the year to come, whispering 'it will be happier'" (Tennyson, 2020). A follower of positive psychology might interpret this to mean people with a positive hope for the future are motivated for all that lies ahead and are willing to navigate over, around, and through obstacles in order to reach what they want to achieve.

According to Snyder et al., hope is "a positive motivational state that is based on an interactively derived sense of successful (a) agency (goal-oriented energy) and (b) pathways (planning to meet goals)" (Snyder, Irving, & Anderson, 1991). Agency epitomizes a person's capabilities and motivation to initiate work on a particular objective and follow down the road of completion of the objective, with motivation playing a crucial role in helping to create alternative pathways to persevere around goal obstacles that block the way to accomplishment (Luthans, Avey, Avolio, & Peterson, 2010). Hope has been shown to have a definite influence on work performance, contentment in the workplace and retaining employees (Peterson & Luthans, 2003). The mental state of positive hope could be viewed as a focus-keeper in that it could

provide workers with the proverbial "light at the end of the tunnel" where they may look forward to rewards for a job-well-done.

Self-Efficacy. Self-efficacy is defined as "an individual's convictions (or confidence) about his or her abilities to mobilize the motivation, cognitive resources, and courses of action needed to successfully execute a specific task within a given context" (Stadjkovic, Luthans, & Slocum Jr., 1998). An individual's self-efficacy beliefs can be developed and reinforced within the workplace in the four following ways (Wood & Bandura, 1989):

1. Mastery experiences in success, perseverance, surmounting obstacles to teach the value of sustaining effort

2. Modeling behaviors and approaches successfully used by others in the organization

3. Social persuasion and truthful, realistic reassurance that employees have the skills to achieve their objectives

4. Physiological state enhancement to reduce stress and other bodily dysfunctions

As employee self-efficacy is strengthened within an organization, theoretically, there should be an increase in production as employees will be more adept at both goal setting and achievement and more confident in their abilities to succeed. Effective management of productive activities requires greater amounts of motivation and useful, operative strategies for coordinating and managing employees (Wood & Bandura, 1989). A logical extension could state that a productive workplace, that features employees with high self-efficacy, requires managers with high levels of self-efficacy to maintain the higher performance level.

Resilience. Resilience denotes a category of phenomena typified by positive results despite considerable risks to adaptation or progress (Masten, 2001). Luthans refers to the phenomena of resilience as one's ability to "bounce back" from adversity and recover (Luthans

et al., 2004). After studying many resilience theories, Coutu has found that most coincide on three specific characteristics that resilient people share: "a staunch acceptance of reality, a deep belief (often buttressed by strongly held values) that life is meaningful, and an uncanny ability to improvise" (Coutu, 2002).   While this may seem like an exceptionally remarkable trait, Masten explains that resilience is the result of "everyday magic" from average and commonplace human resources within all of us, and they have deep and powerful effects in the promotion of proficiency and societal/individual human capital (Masten, 2001). A reasonable extension to the workplace could suggest that workers with high levels of resilience may be able to overcome work disappointments more positively than employees with low levels of resilience.

At Harvard Medical School, George Vaillant observed that in multiple studies over a 60-year time frame, individuals became noticeably more resilient as their lives went on (Coutu, 2002). Also, as individuals are coached to overcome obstacles, both self-confidence and resilience were increased (Grant, Curtayne, & Burton, 2009). A logical extension could be made that resilience may be a learned trait that could be honed and improved, which may be important in the ever-changing business environment.

Optimism. In the book *Les Miserables* Victor Hugo writes, "Even the darkest night will end, and the sun will rise" (Hugo, 2020). While this quote is scientifically quite correct, metaphorically, it goes a lot deeper. This quote may be a pure optimist's viewpoint of the world, but what exactly is optimism? Peterson describes optimism as a construct based on positive, motivational evaluations of future events about which people feel passionate (Peterson, 2000). Simply put, "…optimists think, but also feel positively about the future" (Forgeard & Seligman, 2012).

Pessimists and optimists are defined by their worldviews. Pessimists deem negative happenings as stable with universal outcomes ("My boss only finds wrong in everything I do, and I am never going to succeed in this company"), and they fault themselves for the negative event (Forgeard & Seligman, 2012). Optimists believe negative events to only be temporary, and they see them in a beneficial, non-permanent way ("Although my boss is finding wrong in what I am doing, she is helping me improve my quality of work and guiding me towards success") (Forgeard & Seligman, 2012). "…Optimistic individuals trust in their abilities to deal with stressful problems" (Forgeard & Seligman, 2012).

As the workplace blends many different people with various upbringings, goals, and expectations, there is often a blend of optimists and pessimists. When these two worldviews are observed, the optimist seems to adjust better than the pessimist, and the positivity flows into current performance, as well. Youssef and Luthans showed that optimism had a positive effect on job performance, job satisfaction, and work happiness (Youssef & Luthans, 2007). Additionally, if optimism encourages workers' competence and effectiveness and shows them objectives that are realistic sought-after, those workers will be strong and determined in their quests to attain their goals (Bortolotti, 2018). Multiple studies have shown that optimism has also had a positive effect on subjective well-being, health and success (Forgeard & Seligman, 2012).

Overall Construct. The combination of the four states, hope, self-efficacy, resiliency, and optimism comes together in all of us to form our unique Psychological Capital that we all bring to our workplaces every day. As each state makes its own exclusive conjectural and quantifiable contribution to the overall construct, Psychological Capital becomes the higher order (Luthans, Avolio, Avey, & Norman, 2007a). While a change in any of the lower order states can

have an impact on employee engagement, job satisfaction and, ultimately, performance, a change in overall Psychological Capital will have a greater effect. In a 2007 study, PsyCap was found to be a superior forecaster of outcomes than its individual parts (Luthans et al., 2007a). Another important aspect of Psychological Capital is its malleability; it can be changed, managed, acquired and improved in order to increase work accomplishment (Luthans & Church, 2002).

As PsyCap is part of our make-up, it has an effect in almost everything we do within our jobs, from our attitudes and relationships with co-workers, to our problem-solving skills, to how we goal-set and plan for our future promotions. Many studies have also shown correlations between Psychological Capital and organizational performance. Tuzun et al. showed that "…PsyCap has a positive effect on job performance…", and they point out, "…it would seem to be in the organization's best interest to design systems and structures that enhance overall employee PsyCap" (Ipek Kalemci, Fatih, & Basim, 2018). PsyCap was also found to have a direct positive influence in the study of three different performance variables: innovative behavior, sales performance and job engagement (Slåtten, Lien, Horn, & Pedersen, 2019).

Employee Engagement

"Some leaders and managers believe the ultimate goal of employee engagement is higher levels of worker happiness and satisfaction. Happier workers certainly benefit an organization, but the real goal of employee engagement is improved business outcomes. Engaged employees contribute to the economic health of their company and the nation in ways that other employees do not" (Gallup, 2017).

The most challenging elements of employee engagement for managers are figuring out what stimulates engagement within subordinates, enacting policies and procedures that enable workers to reach an elevated engagement level and keeping them highly engaged for extended

periods of time. Before this can be accomplished, however, managers should have a basic understanding of what is meant by employee engagement.

At the crossroads of relationships, perceptions and actual work is the construct known as employee engagement. In William Kahn's seminal work, *Psychological Conditions of Personal Engagement and Disengagement at Work*, the theory of employee engagement was developed around three mental states (Kahn, 1990):

- Meaningfulness – feeling as though one's work makes a difference

- Safety – ability to be one's self without fear of consequences

- Availability – having the personal resources to engage at that moment

Meaningfulness. Anyone who has ever worked long and hard on a project in the workplace knows the importance of the meaningfulness of work.   The difference between an idea being recognized and implemented versus it being tabled or ignored is the difference between, as one ABC television sports show once put it, "the thrill of victory or the agony of defeat." Scanlan and Hazleton found that increased job meaningfulness correlates with increased work satisfaction, less work exhaustion and a "…stronger sense of professional identity" (Scanlan & Hazelton, 2019). Additionally, workers who experience meaningfulness within the workplace identify better with their corporations, feel more positive mentally, and, in turn, are more innovative (Cohen-Meitar, Carmeli, & Waldman, 2009).

When employees feel their work is meaningful, there is a positive impact on many aspects of employees, lives at work. Humphrey, Nahrgang, and Morgeson showed that by having a mediating effect on an employee's task identity, skill variety and task significance, "… experienced meaningfulness is the best mediator of the relationships between motivational

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characteristics and work outcomes" and the most crucial of the psychological conditions measured (Humphrey, Nahrgang, & Morgeson, 2007).

Meaningful work can also have a positive impact on an entire organization. When workers see their work as being meaningful, they will execute their work tasks better and achieve more (Allan, Duffy, & Collisson, 2018). As employees continue to achieve and feel their work is meaningful, commitment to their careers increases, and as a result, workers experience increased job satisfaction and higher levels of commitment to their organizations (Duffy, Dik, & Steger, 2011). Additionally, increased career commitment helps to stifle employee turnover by decreasing employees' intentions to leave their current jobs (Duffy et al., 2011). When employees intend to stay in their positions, it can be assumed that the organizations will have higher retention rates. As a result, the expensive costs of hiring and training decrease, showing the effect of meaningfulness on the overall bottom line of the corporation.

Safety. Psychological safety enables employees to express themselves when interacting in the workplace without apprehension of negative repercussions for doing so (Kahn, 1990). The safest conditions exist within an organization when situations are clear, stable and reassuring, and feelings of safety are most probable when both supervisors and co-workers practice behaviors that are rooted in trust and understanding (May, Gilson, & Harter, 2004). Trust and understanding can lead to increased feelings of purpose within an organization. Employees within high-trust companies (companies focused on purposeful work and building teams that trust) reported the following (Zak, 2017):

- 74% less stress
- 106% more energy at work
- 50% higher productivity

- 76% more engagement

- 40% less burnout

- 29% more satisfaction with their lives

Along with these positive results, neuroscience shows that trust and purpose both increase the production of oxytocin within the brain, which creates feelings of happiness (Zak, 2017). Trust, understanding and purpose lead to higher levels of psychological safety within a corporation which increases productivity and employee happiness at all levels within the workplace.

Availability. Kahn defines availability as the "sense of possessing the physical, emotional, and psychological resources necessary for investing self in role performances" (Kahn, 1990). When workers perceive that organizations support them, they will feel more self-confidence, suffer less ambiguity and have more willingness to do their work. According to Rich, Lepine, and Crawford, when availability increases, employees feel a sense of preparedness and are more willing to apply mental, physical and emotive resources into job execution, thus increasing engagement in their jobs (Rich, Lepine, & Crawford, 2010). It could be posited that the concept of availability is how one's attitude towards company resources available to that employee affect that worker's attitude and eagerness to work.

It is important for managers to communicate with employees and learn about the resources that the employees need in order to maximize psychological availability. Managers should be cautious to not design positions that necessitate excessive levels of intellectual, manual or emotional labor, as "excessive amounts of stress, emotional exhaustion and injuries may prevent individuals from being available for their roles" (May et al., 2004). To increase perceived availability amongst employees, managers can promote an environment where

workers are inspired to generate their own resources by nurturing and perfecting new proficiencies (May et al., 2004). This environmental focus on creativity could help to increase productivity and decrease burnout within the organization.

Complete Concept. The complete concept of engagement is later defined by Kahn as "…the simultaneous employment and expression of a person's 'preferred self' in task behaviors that promote connections to work and to others, personal presence (physical, cognitive, and emotional), and active, full role performances" (Kahn, 1990). Later, Kahn's model was operationalized by Schaufeli, et al. to measure engagement in the workplace. From this operationalization, the working definition of engagement becomes an optimistic, satisfying, business related perspective which consists of the following characteristics: vigor (liveliness and mental toughness), dedication (worthiness, impact, challenge, excitement, inspiration, and motivation), and absorption (total immersion, involvement and captivation) (Schaufeli, Salanova, Gonzalez-roma, & Bakker, 2002).

If leadership within an organization can strategize around engaging its unique group of individuals to go above and beyond expectations, a competitive advantage could be achieved over opponents (Taneja, Sewell, & Odom, 2015) leading to higher profits and increases in customer recognition and market share. Macey and Schneider conclude that organizations that are able to create the best atmosphere for employee engagement "will have accomplished something that competitors will find very difficult to imitate" (Macey & Schneider, 2008). A reasonable extension could be made to state that if managers create an atmosphere that makes it easy for employees to be enthusiastic, devoted, willing to learn, and performance focused, the organization can accomplish far more than its competition.

According to the Society for Human Resource Management (SHRM), engagement serves, "… as a reciprocal relationship between the employee and the employer, engagement has the aptitude to elevate performance and strengthen the link among these relationships" (Lee et al., 2017). Engaged employees do not suffer from burnout, but have a robust and real connection with their undertakings and can handle the stresses of work quite well (Schaufeli, Bakker, & Salanova, 2006). Workers that are engaged will likely be more energetic and maintain their focus throughout the workday simply because of the facts that they enjoy what they do and the organization with which they are employed. Their connection with the workplace becomes part of their identity allowing them to connect with the organization and create authentic work, where the employee is completely present mentally, thus opening the door for individual growth and increased production (Macey & Schneider, 2008).

Ray Baumruk, of Hewitt Associates, says that engaged employees improve organizational results by continuously exhibiting three customary behaviors that are not seen in less engaged employees (Baumruk & Gorman Jr., 2006):

1. Say-the employee advocates for the organization to co-workers, and refers potential employees and customers
2. Stay-the employee has an intense desire to be a member of the organization despite opportunities to work elsewhere
3. Strive-the employee exerts extra time, effort and initiative to contribute to the success of the business

As engaged employees continually display these three behaviors, they will be perceived by management as being more committed and overall better workers than average employees, and most of the time this perception is not only perception, but it is reality. This could play a

critical role in both the short-term and long-term career paths of employees, as engaged workers surpass less engaged workers when it comes to job execution (Kašpárková, Vaculík, Procházka, & Schaufeli, 2018).

When employees feel that their organization is both responding to their needs and concerned for their happiness, it is probable that those employees will try harder to meet objectives and be more interested in the direction of the company (Ariani, 2014). As managers focus on improving employee engagement, they can improve the strength and financial health of their company, which can lead to further expansion that can help move the overall economy forward (Gallup, 2017). Literature suggest that even though it may be important for employees to be more engaged, it could also be just as important for managers to be engaged, as well.

The relationship between managers and employees can be explained effectively through the lens of Leader-Member Exchange (LMX) theory, which looks at the unique, dyadic relationships between managers and their subordinates (Northouse, 2013). LMX explains "… how effective leadership relationships develop between dyadic 'partners' in and between organizations" (Graen & Uhl-Bien, 1995). In the manager/subordinate partnership, the manager recognizes the differences of each subordinate, seeks development of relationships with the employees, builds a partnership with each individual, and brings together the individual dyads into a successful work group (Graen & Uhl-Bien, 1995).

If managers are unsuccessful at inspiring and leading all of their employees, "in-groups" (workers that are faithful and favored) and "out-groups" (workers that are doubted and rejected) may create division within the corporation (Chaurasia & Shukla, 2014). However, when all dyadic relationships are strong, employees are more committed to working harder for the organization, and they demonstrate 1) higher levels of self-efficacy, 2) greater trust in resources,

and 3) more positive relationships with managers (Walumbwa, Cropanzano, & Goldman, 2011).

The combination of these three factors can result in an increase in job performance (Walumbwa

et al., 2011), leading to increases in corporate goal achievement.

One of the critical elements for success of the leader/subordinate relationship is the

leadership style that the leader chooses to use to guide followers. We will now discuss the

moderating variable of this study – leadership styles.

Leadership Styles

Ronald Reagan once said, "The greatest leader is not necessarily the one who does the

greatest things. He is the one that gets the people to do the greatest things" (Reagan, 2020). This

can also be the greatest challenge for most leaders within the workplace – inspiring our workers

to do those great things.

There are many different leadership styles for managers to use in order to turn employees

into motivated and dedicated workers. This study will look at three leadership styles –

Transformational Leadership, Transactional Leadership, and Passive-Avoidant (Laissez Faire)

Leadership. These three leadership styles were selected because they are a fair representation of

undesirable (passive-avoidant), middle-of-the-road (transactional) and desirable

(transformational) leadership styles within the workplace. There are also reliable and validated

instruments making it easy to measure these three leadership styles.

Transformational Leadership. Transformational leadership features four critical

components, "idealized influence, inspirational motivation, intellectual stimulation, and

individualized consideration" (Bass & Avolio, 1993) that coordinate inventive knowledge,

perseverance, vitality, instinct, and compassion to the necessities of others to "forge the strategy

culture alloy" for their organizations (Bass & Avolio, 1993). Each individual component

contributes in its own unique way (Horwitz et al., 2008):

- Idealized influence – leadership sets the vision and the mission and builds the trust of workers through consistent honesty and honorable conduct

- Inspirational motivation – managers communicate clearly with a magnetic personality and are revered by employees

- Intellectual stimulation – leaders inspire innovation, thought and the ability to find rational answers to business questions

- Individualized consideration – management connects with employees on an individual level, guides them and empowers them to make decisions

Transformational leadership features leaders who assume that people are honest and

determined and that all have something distinct and special to add to the organization (Bass &

Avolio, 1993). Transformational leaders focus on meeting employees where they are in the

workplace and continuously try to elevate the entire organization to the next level of

commitment. Leaders take notice of the concerns and evolving needs of employees, and by

acknowledging followers' mindfulness of issues and helping them find creative ways to solve

problems, leaders are able to stimulate, motivate and embolden followers to go the extra mile

and achieve personal and corporate success (Odumeru & Ogbonna, 2013). "Leaders who build

such cultures and articulate them to followers typically exhibit a sense of vision and purpose, and

they align others around the vision and empower others to take greater responsibility for

achieving the vision" (Bass & Avolio, 1993).

While the characteristics of transformational leadership would appear to only have

positive effects in the workplace, there are a few studies that have brought some negatives to

light. Basu and Green found a "…strong negative relationship between transformational leadership and innovative behavior" (Basu & Green, 1997). Howell and Avolio found that instead of being developed into leaders, followers could be made to feel they have to confirm, obey and be fully dependent on the leader (Jane & Bruce, 1992). Transformational leadership can create an off-balance culture through task absorption and a "single-minded pursuit of noble goals," which makes workers feel compelled to always have to go the extra mile, often to the point of damaging their well-being and negatively affecting their personal lives (Harrison, 1987).

Despite these shortcomings, Transformational leadership is mostly viewed as the most positive of leadership styles. Transformational leadership increases the motivation, confidence and work level of employees by enhancing worker/organization connectivity, providing an inspirational role-model, encouraging followers to increase the ownership of their jobs and matching workers to tasks that bolster performance (Odumeru & Ogbonna, 2013). Buil, Martinez and Matute found that "transformational leadership directly predicts job performance" and has a significant positive effect on organizational identification and employee engagement (Buil et al., 2019).

Transactional Leadership. While transformational leadership focuses on inspiration and motivation, transactional leadership is based on rewards and punishments. The components of transactional leadership are contingent rewards (exchanges of incentives for good performance and penalties for bad performance), and Management By Exception Active, also known as MBEA, (Continuously monitoring employees to correct any problems that may arise before they get out of control) (Horwitz et al., 2008). Choices and activities are centered on the "operative norms and procedures characterizing their respective organizations" (Bass & Avolio, 1993).

Transactional leadership could be looked at as a bank account of successful work exploits. At this bank, all corporate relationships are focused on both obvious and implied contracts, with all job obligations clearly stated, along with employment requirements, corporate rules and regulations, and benefit arrangements (Bass & Avolio, 1993). Each "job well done" or "way to go" is a positive transaction into the employee's account, and every "you're late" or "mistakes were made" is a negative transaction out of the account. These transactions create and grow relationships of trades and arrangements between managers and employees that show what the followers obtain based on whether a task is done correctly or incorrectly (Bass & Avolio, 1993). Employees with the most positive transactions with their managers build the strong manager/employee relationships and would be looked at the most positively when it comes time for wage increases and promotions.

This style of leadership is designed to encourage employees to establish, design and follow their self-interest, while at the same time working towards achieving corporate goals (Jensen et al., 2019). As employees continue to make positive transactions, their confidence in performance can grow, and this can lead to more job enjoyment and increased willingness to achieve objectives. If employees are correctly incentivized, and the transactions clearly correlate with effort or job execution, "…the self-interest of individual employees may align with the interest of the organization" (Jensen et al., 2019).

However, transactional leaders can also encourage obedience and dependency on the leaders' decisions (Kark, Van Dijk, & Vashdi, 2018). This could stifle employee development and willingness to work, because if there are rules divergences or errors made, the leader will take control away from employees and fix the problem, rather than letting the employees use their own problem-solving skills to address the issue (Kark et al., 2018). The transactional focus

on procedures does not encourage employees to look into the future and make changes now that will positively affect that future, but rather, the focus becomes to maintain the status quo (Odumeru & Ogbonna, 2013). This could set a dangerous precedent for an organization, because in trying to keep things the same, managers could prevent their employees from learning valuable lessons that could be crucial to the success of both the employees and the organization later down the road.

Although transactional leadership is looked upon in much of the literature today as a less-desirable form of leadership than transformational leadership, it is still practiced and can be utilized in successful ways. By overseeing every piece of a project individually, transactional leaders are successful in efficiently and effectively completing the project (Odumeru & Ogbonna, 2013). Additionally, Odumeru and Ogbana determined that transformational leaders are valuable in difficult and urgent circumstances (Odumeru & Ogbonna, 2013). Quantitatively, transactional leaders are more effective in getting their teams to produce ideas within meetings and brainstorming sessions (Herrmann & Felfe, 2014). Deichmann and Stam also found that "transformational and transactional leadership are equally important in encouraging employees to generate ideas that move the organization forward" (Deichmann & Stam, 2015).

Passive-Avoidant Leadership. Passive-avoidant leadership features the two characteristics of management by exception passive, also known as MBEP, (Problem corrections are made only after the problem is considerable and recognizable) and laissez-faire (Manager avoids making decisions and defers to subordinates) (Horwitz et al., 2008). At best, passive-avoidant leaders react to problems that have already occurred and work to correct them, and at worst, the leader will have no reaction to the problem (Grill, Nielsen, Grytnes, Pousette, & Törner, 2019). Bass et al. stated that passive-avoidant leaders evade informal employee

contracts and provide workers with neither well-defined goals nor a clear picture of work involved to meet the goals (Bass, Avolio, Jung, & Berson, 2003). A logical extension could be made that passive-avoidant leaders 1) choose to let their subordinates manage themselves and 2) only help their subordinates handle the most extreme problems.

The inability of passive-avoidant leaders to connect with their employees has also been linked to increased stress on followers, as it multiplies job demands while reducing the job relationship resources (Berger, Philipp, Leuteritz, & Leiva, 2019). Frooman, Mendelson and Murphy found that workers under passive-avoidant leaders have a higher tendency to act on their self-interests by being more likely to be dishonestly absent from work (Frooman, Mendelson, & Murphy, 2012). The literature appears to suggest that this type of leadership is undesirable in the workplace and that passive-avoidant leaders may be lazy, uninterested and afraid to take responsibility.

Although they are difficult to find in literature, there are positive aspects of passive-avoidant leadership. One of them is that the manager allows subordinates to learn from their errors and take action to fix them (Horwitz et al., 2008). Ryan and Tipu also found that passive-avoidant leadership did not have a detrimental influence on innovation propensity, but in fact, there was a significant positive relationship (Ryan & Tipu, 2013).

Current Study

While research has determined there is a direct effect between leadership style and employee engagement (Nikolova, Schaufeli, & Notelaers, 2019; du Plessis & Boshoff, 2018; Ariani, 2014; Bass, Avolio, Jung, & Berson, 2003), this study will look to add to that body of work, as well as demonstrate how the three leadership styles, transformational, transactional and passive-avoidant, moderate the relationship between an individual's psychological capital and

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their engagement at work. This quantitative study will measure how the behavior of one individual (the leader) can affect the behavior of another (the follower). The research question of this dissertation is:

RQ1 – How does leadership style moderate the relationship between Psychological Capital (PsyCap) and Employee Engagement?

The following Hypotheses are posited:

- H1 – Psychological Capital will have a strong, direct, positive relationship to Employee Engagement

- H2 – Transformational Leadership will have a strong, direct, positive relationship to Employee Engagement

- H3 – Transformational Leadership will have the most positive moderating effect on the relationship between Psychological Capital and Employee Engagement

- H4 -Transactional Leadership will have a less positive moderating effect than Transformational Leadership on the relationship between Psychological Capital and Employee Engagement

- H5 – Passive-Avoidant Leadership will have a negative moderating effect on the relationship between Psychological Capital and Employee Engagement
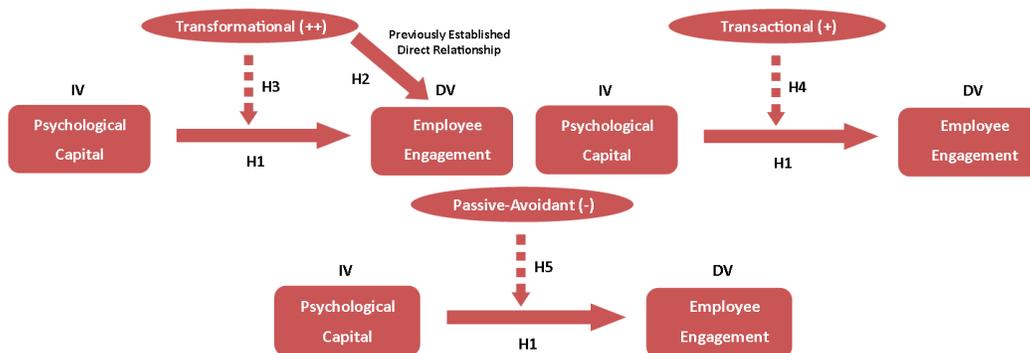
Figure 1. Hypotheses.

Method

Participants

The sample for this study included a total of 238 total participants, including local employees, members of multiple Doctorate of Business Administration (DBA) cohorts from a large public southeastern U.S. university, 1st Degree LinkedIn contacts, and paid respondents from Qualtrics Analytics. Each participant was over 18 years of age and worked at least 20 hours per week. Below are some notable demographics collected from the participants:

- 46.2% of the participants were male (n = 110), and 53.4% were female (N = 237), with one participant declining to answer

- 32.8% of the participants were between 35 and 44 years of age

- 34% of the participants had a salary of more than $85,000

- 56.7% of the participants worked in companies with more than 250 employees

- 23.9% of the participants had a current work group of 6 to 10 employees

Measures

Psychological Capital. Psychological Capital (PsyCap) was assessed using the Psychological Capital Questionnaire known as PCQ-24 (Luthans, Avolio, & Avey, 2007). PsyCap can be thought of as both a unidimensional and multidimensional construct. The 24-question survey measures overall PsyCap, as well as the individual factors of PsyCap: Hope, Self-Efficacy, Resiliency, and Optimism. The PCQ-24 was created by utilizing previously validated instruments for the constructs. To measure Hope, items from the State Hope scale were used (Snyder et al., 1996). Self-Efficacy was calculated via the Role Breadth Self Efficacy Scale (Parker, 1998). Elements from the Resilience Scale (Wagnild & Young, 1993) were utilized to measure Resilience. Optimism was gauged by leveraging pieces from the Life

Orientation Test (Scheier & Carver, 1985). The constructs are 1) equally weighted, 2) are measured by the six best items for each part, and 3) make state-like framing possible by asking how participants currently think about themselves (Luthans, Avolio, Avey, & Norman, 2007b).

The PCQ-24 uses a 6-point Likert-type scale (1 - strongly disagree, 2 - disagree, 3 - somewhat disagree, 4 - somewhat agree, 5 - agree, 6 - strongly agree). The combined scores from all four states measure an individual's overall PsyCap, with higher scores representing higher levels of psychological capital. The Cronbach's alpha for overall PsyCap in this study was .86, demonstrating a strong internal consistency reliability. The four individual facets of PsyCap also showed relatively strong Cronbach's alpha results – Hope .81, Efficacy .86, Resiliency .68, and Optimism .62.

Leadership Style. Leadership style was evaluated by means of the Multifactor Leadership Questionnaire (MLQ) Form 6S (Avolio, Bass, & Jung, 1999). The MLQ-6S is a 21-question assessment of one's leadership style that measures seven factors: 1) idealized influence, 2) inspirational motivation, 3) intellectual stimulation, 4) individualized consideration, 5) contingent reward, 6) management-by-exception, 7) laissez-faire. Factors 1-4 are indicators of transformational leadership. Factor 5 denotes transactional leadership, while factors 6 and 7 indicate passive-avoidant leadership.

The MLQ-6S employs a 5-point Likert-type scale (1 - not at all, 2 - once in a while, 3 - sometimes, 4 - fairly often, 5 - frequently, if not always). Higher scores signify higher levels of the respective factors. The MLQ-6S was also modified for this study to ask participants to evaluate a third party and not the respondents themselves. For example, the question "*I make others feel good to be around me*" was modified to read "*My boss makes* others feel good to be around me."

The Overall Multifactor Leadership Questionnaire Cronbach's alpha results showed high internal consistency reliability with a .94. Two of the three leadership styles measured also had fairly strong reliability – Transformational Leadership .95, Transactional Leadership .78. Passive-Avoidant Leadership had a satisfactory reliability of .62.

Employee Engagement. Employee engagement was measured utilizing the Utrecht Work Engagement Scale (UWES) 9 (Schaufeli & Bakker, 2003). The UWES-9 is a nine-question survey of the participant's work engagement level through the factors of vigor, dedication and absorption. The assessment employs a 7-point Likert-type frequency scale (0 - never, 1 - almost never, 2 - rarely, 3 - sometimes, 4 - often, 5 - very often, 6 - always). Higher scores indicate a higher overall employee engagement level for the survey participant.

The UWES overall Cronbach's alpha measured a strong .94. The scale's three facets demonstrated very strong reliability scores – Vigor .89, Dedication .91, and Absorption .81.

All surveys used are the short-form versions of their respective surveys. The shorter forms were chosen out of consideration for the businesses, as employees completed the surveys on work time.

Procedure

Contacts were established and relationships were developed at the three businesses that participated in the study. Informed consent and surveys were sent via email to the business contacts, as well as the DBA cohort members, LinkedIn contacts and Qualtrics participants. In addition to the questions for the three survey instruments, participants were also asked to complete five demographic questions: age, gender, annual salary, size of company and size of current work group.

The participants were asked to complete the PCQ-24, MLQ-6S, UWES-9 and demographic questions in an online survey via Qualtrics. Anonymity was preserved, as none of the questions contained specific identifying information, and the business location of each survey was not recorded. 265 responses were received, from which 238 usable responses were obtained. Participant responses were eliminated if they left three or more questions unanswered, or if the survey was completed in less than 100 seconds. Approval to use the PCQ-24 was attained from the publisher. No permission was necessary to use the UWES-9 or the MLQ-6S, as both are featured in online published studies.

Results

Examination of the relationships between the three variables - PsyCap, Leadership Style, and Employee Engagement, was accomplished through a multi-step statistical analysis. First, descriptive statistics were used to measure and summarize the variation of the data for both overall measures of the variables and the individual facets that make up each variable (see tables 1-4). The next step in the analysis was to run multivariate correlations to measure the strength and direction of the relationships between PsyCap, Leadership Style, and Employee Engagement (see Table 5). Results for this correlation table are explained in the Hypothesis section of the study.

Table 1. Descriptive Statistics by Variable.

						Skewness	
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**	**Statistic**	**Std. Error**
Engagement	238	9.00	63.00	47.5630	11.05463	-1.064	.158
MLQ Total	238	28.00	105.00	72.9412	16.02598	-.572	.158
PsyCap Total	238	67.00	144.00	111.7286	12.63443	-.590	.158

Table 2. Psychological Capital Facet Descriptive Statistics.

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
						Statistic	Std. Error
Efficacy	238	15.00	36.00	30.4681	4.62456	-.966	.158
Hope	238	14.00	36.00	29.1849	4.50404	-.731	.158
Resiliency	238	14.00	36.00	27.8487	3.19054	-.576	.158
Optimism	238	14.00	36.00	24.2269	3.95211	.456	.158

Table 3. Multifactor Leadership Questionnaire Facet Descriptive Statistics. *

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
						Statistic	Std. Error
Transformational	238	12.00	60.00	42.4412	11.26487	-.656	.158
Contingent Reward	238	3.00	15.00	9.9622	2.98142	-.501	.158
Passive Avoidant	238	9.00	30.00	20.5378	3.85888	-.243	.158
Idealized Influence	238	3.00	15.00	11.3277	2.96281	-.651	.158
Inspirational Motivation	238	3.00	15.00	10.4706	3.04488	-.650	.158
Intellectual Stimulation	238	3.00	15.00	10.1975	3.14470	-.567	.158
Individual Consideration	238	3.00	15.00	10.4454	3.02367	-.571	.158
MBE	238	4.00	15.00	11.3739	2.29999	-.652	.158
Laissez Faire	238	3.00	15.00	9.1639	2.50283	-.093	.158

Transformational Leadership = Idealized Influence + Inspirational Motivation + Intellectual Stimulation + Individual Consideration
Transactional Leadership = Contingent Reward
Passive-Avoidant Leadership = MBE + Laissez Faire

Table 4. Utrecht Worker Engagement Scale Facet Descriptive Statistics.

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
						Statistic	Std. Error
Vigor	238	3.00	21.00	15.3067	3.95684	-.926	.158
Dedication	238	3.00	21.00	16.1429	4.21928	-1.074	.158
Absorption	238	3.00	21.00	16.1134	3.76411	-1.081	.158

Table 5. Multivariate Correlation of Overall PsyCap, Overall Leadership and Engagement. *

		MLQ	PsyCap	Engagement
MLQ	Pearson Correlation	1	.325**	.545**
PsyCap	Pearson Correlation	.325**	1	.528**
Engagement	Pearson Correlation	.545**	.528**	1

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

Hypotheses

Hypotheses 1 and 2 posited that Psychological Capital and Transformational Leadership would have strong, positive, and direct relationships with Employee Engagement. Hypotheses 3 through 5 posited the moderating effects the different leadership styles would have on the relationship between PsyCap and Employee Engagement – Transformational (++), Transactional (+), and Passive-Avoidant (-).

Overall PsyCap Direct Relationship with Employee Engagement

In the literature review, Psychological Capital was discussed as a construct that demonstrates a strong, positive correlation with Employee Engagement, and this study agrees with those findings. The Pearson Correlation in table 5 demonstrates the PsyCap correlation to Employee Engagement is significant and strong ($r=.53$, $p<.001$). Increases in PsyCap were correlated with increases in Engagement. As a stand-alone variable, Psychological Capital had a strong effect on Engagement, explaining 27.9% of the variance. Thus, hypothesis one was supported. Table 6 outlines this effect.

Table 6. Psychological Capital Direct Effect on Employee Engagement. *

Model	R	R Square	Adjusted R Adjuster R Square	Std. Error of the Estimate
1	.528ᵃ	.279	.276	9.40630

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-4.077	5.438		-.750	.454		
	PsyCap Total	.462	.048	.528	9.557	.000	1.000	1.000

DV – Engagement. IV – PsyCap. a. Dependent Variable: Engagement

Overall Transformational Leadership Direct Relationship with Employee Engagement

Transformational Leadership was also shown in the literature review to have a strong, positive correlation with Employee Engagement, and this study agrees with those findings, as

well. The Pearson Correlation in table 5 also shows the strong and significant correlation Overall Leadership has with Engagement (r=.55, p<.001). Increases in Overall Leadership were correlated with increases in Employee Engagement. As a stand-alone variable, Transformational Leadership had a strong effect on Engagement, explaining 32.7% of the variance. Thus, hypothesis 2 is supported. Regression analysis in table 7 shows the effect.

Table 7. Transformational Leadership Direct Effect on Employee Engagement. *

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.572[a]	.327	.324	9.08830

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	23.748	2.301		10.321	.000
	Transformational	.561	.052	.572	10.707	.000

a. Predictors: (Constant), Transformational a. Dependent Variable: Engagement

Moderating effect of Transformational Leadership on the PsyCap Employee Engagement Relationship

While Transformational Leadership and Psychological Capital have strong and significant correlations with Employee Engagement, their correlation with each other is not as strong (r=.33, p<.001). In combination, Transformational Leadership and Psychological Capital explain 45.9% of the variance in Engagement. When examining both Transformational Leadership and PsyCap in a multiple regression, the standardized beta weight for Transformational Leadership is slightly higher than PsyCap: 0.45 to 0.38. The interaction term consisting of PsyCap and Transformational Leadership shows a statistically significant difference, though the addition of the interaction term is not increasing the variance accounted for by much: adjusted R-square from 45.5% to 46.3%. When PsyCap and Transformational Leadership interact, there is a statistically significant increase in the explanation of variance to 47%. An analysis of variance (ANOVA) confirms the significance of the direct effects and the

interaction effects of the variables. Thus, the regression model with the interaction variable is accounting for a significant amount of variance. Of note, the Transfomational Leadership * Psychological Capital interaction term has coefficients, both unstandardized and standardized that are negative. What this supports, is when low levels of Transformational Leadership are present, Psychological Capital is more important for Employee Engagement, and when there are high levels of Transformational Leadership, Psychological Capital is less important for Employee Engagement. Since the moderation was expected to be positive, hypothesis 3 was not supported. Though, the results are still interesting because there was a moderating effect and it supports the notion that Psychological Capital is more important for Employee Engagement for those who have low levels of Transformational Leadership. See Table 8.

Table 8. PsyCap and Transformational Leadership combined effect on Employee Engagement. *

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.678[a]	.459	.455	8.16322
2	.686[b]	.470	.463	8.09813

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-8.666	4.747		-1.825	.069
	Transformational	.440	.050	.448	8.851	.000
	PsyCap Total	.336	.044	.384	7.584	.000
2	(Constant)	-5.687	4.902		-1.160	.247
	Transformational	.456	.050	.465	9.146	.000
	PsyCap Total	.307	.046	.351	6.675	.000
	MsinInteraction	-.008	.004	-.109	-2.189	.030

Model		ANOVA				
		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13302.575	2	6651.288	99.812	.000[d]
	Residual	15659.980	235	66.638		
	Total	28962.555	237			
2	Regression	13616.893	3	4538.964	69.213	.000[f]
	Residual	15345.662	234	65.580		
	Total	28962.555	237			

a. Predictors: (Constant), PsyCap Total, Transformational
b. Predictors: (Constant), PsyCap Total, Transformational, Main Interaction
c. Dependent Variable: Engagement
d. Dependent Variable: Engagement
e. Predictors: (Constant), PsyCap Total, Transformational
f. Predictors: (Constant), PsyCap Total, Transformational, Main Interaction

Moderating Effect of Transactional Leadership on the PsyCap Employee Engagement Relationship

Transactional Leadership is highly correlated with Transformational Leadership (r=.75, p<.001), and when measured as a stand-alone variable with PsyCap, it explains 35.7% of the variance in Employee Engagement. When the interaction effect is placed in the model, there is actually a *decrease* in the adjusted R square, and the interaction term is statistically non-significant, which demonstrates that the interaction does not improve the relationship between PsyCap and Employee Engagement. Therefore, hypothesis 4 is not supported. Table 9 shows these results.

Table 9. Interaction of Transactional Leadership on the PsyCap Employee Engagement Relationship. *

		Transformational	Transactional
Transformational	Pearson Correlation	1	.746**
Transactional	Pearson Correlation	.746**	1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.597a	.357	.351	8.90430
2	.598b	.357	.349	8.91832

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-16.233	16.472		-.985	.325
	PsyCap Total	.476	.147	.544	3.236	.001
	ContingentReward	1.925	1.699	.519	1.133	.258
	CRInteraction	-.008	.015	-.265	-.512	.609

***. Correlation is significant at the 0.01 level (2-tailed).*
a. Predictors: (Constant), Transactional, PsyCap Total
b. Predictors: (Constant), Transactional, PsyCap Total, Transactional Interaction
c. Dependent Variable: Engagement

Moderating effect of Passive-Avoidant Leadership on the PsyCap Employee Engagement Relationship

Passive-Avoidant Leadership is not as strongly correlated with Transformational Leadership (r=.55, p<.001), and when measured as a stand-alone variable with PsyCap, explains 30.9% of the variance in employee engagement. When the interaction effect is measured, there

is a decrease in the adjusted R square and a non-significant interaction term, which demonstrates

that the interaction does not improve the relationship between PsyCap and Employee

Engagement. Therefore, hypothesis 5 is not supported. Table 10 shows these results.

Table 10. Interaction of Passive-Avoidant Leadership on the PsyCap Employee Engagement
Relationship. *

		Transformational	Passive Avoidant
Transformational	Pearson Correlation	1	.500**
Passive Avoidant	Pearson Correlation	.500**	1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.556a	.309	.303	9.22891
2	.556b	.310	.301	9.24373

Coefficients						
Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-22.669	25.269		-.897	.371
	PsyCap Total	.534	.223	.610	2.393	.017
	PassiveAvoidant	1.138	1.275	.397	.893	.373
	PAInteraction	-.006	.011	-.277	-.497	.620

**. Correlation is significant at the 0.01 level (2-tailed).
a. Predictors: (Constant), Passive-Avoidant, PsyCap Total
b. Predictors: (Constant), Passive-Avoidant, PsyCap Total, Passive-Avoidant Interaction
c: Dependent Variable: Engagement

Multiple Regression Modeling

To further test the interactive effect, two multiple regression models were run with all

three leadership styles simultaneously entered into the model (i.e. transformational, transactional,

and passive avoidant). These models examine the effects of all three leadership styles happening

simultaneously on the PsyCap and Employee Engagement relationship along with direct effects

of each of the leadership styles on Employee Engagement. The first model measured the direct

predictive significance of Psychological Capital, Transformational Leadership, Transactional

Leadership and Passive-Avoidant Leadership on Employee Engagement, and the second model

measured the interactive effects of each leadership style on the Psychological Capital ->

Employee Engagement relationship.

Table 11. Model 1 - Direct Predictive Significance. *

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.679[a]	.462	.452	8.18119

		ANOVA				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13367.446	4	3341.861	49.929	.000[d]
	Residual	15595.109	233	66.932		
	Total	28962.555	237			

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
Model		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-7.772	5.060		-1.536	.126		
	PsyCap Total	.337	.045	.385	7.537	.000	.887	1.127
	Transformational	.493	.074	.503	6.702	.000	.411	2.433
	Transactional	-.233	.281	-.063	-.828	.409	.402	2.488
	Passive-Avoidant	-.043	.168	-.015	-.256	.798	.675	1.481

*a. Predictors: (Constant), Passive-Avoidant, PsyCap Total, Transformational, Transactional
b. Dependent Variable: Engagement
c. Dependent Variable: Engagement
d. Predictors: (Constant), Passive-Avoidant, PsyCap Total, Transformational, Transactional
e. Dependent Variable: Engagement*

Model 1 demonstrates that 45.2% (adjusted R-square) of the variance in Employee

Engagement is explained by the four predictors, but only Psychological Capital and

Transformational Leadership are significant (p = 0.000) predictors in the regression model when

all leadership styles are entered into the multiple regression model.

Table 12. Model 2 - Interactive Predictive Significance. *

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.689[a]	.474	.458	8.13584

		ANOVA				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13738.411	7	1962.630	29.651	.000[d]
	Residual	15224.144	230	66.192		
	Total	28962.555	237			

Table 12 (Continued)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	47.983	.558		86.046	.000		
	PsyCap Centered	.304	.047	.348	6.522	.000	.803	1.245
	Transformational Centered	.498	.073	.507	6.773	.000	.408	2.453
	Transformational Interaction	-.014	.007	-.185	-1.975	.049	.261	3.826
	Passive-Avoidant Centered	-.035	.168	-.012	-.210	.834	.668	1.498
	Passive-Avoidant Interaction Centered	-.001	.013	-.005	-.083	.934	.555	1.801
	Transactional Centered	-.188	.282	-.051	-.666	.506	.396	2.527
	Transactional Interaction Centered	.027	.026	.095	1.016	.311	.260	3.840

* a. Predictors: (Constant), Transactional Interaction Centered, Transactional Centered, PsyCap Centered, Passive-Avoidant Centered, Passive-Avoidant Interaction Centered, Transformational Centered, Transformational Interaction
b. Dependent Variable: Engagement
c. Dependent Variable: Engagement
d. Predictors: (Constant), Transactional Interaction Centered, Transactional Centered, PsyCap Centered, Passive-Avoidant Centered, Passive-Avoidant Interaction Centered, Transformational Centered, Transformational Interaction
e. Dependent Variable: Engagement

Model 2, with the independent variables entered in the regression model with all the interaction terms, shows that 45.8% (adjusted r-square) of the variance in Employee Engagement is explained by the four predictors plus the three interaction terms (7 IVs total); but now only Psychological Capital, Transformational Leadership, and the Transformational Leadership * Psychological Capital interaction term are significant (p<.05) predictors of Employee Engagement. Again, the Transfomational Leadership * Psychological Capital interaction term has regression coefficients that are negative. What this supports, is when low levels of Transformational Leadership are present, Psychological Capital is more important for Employee Engagement, and when there are high levels of Transformational Leadership, Psychological Capital is less important for Employee Engagement. See figure 2 below to see a plot of the

change in the relationship between Psychological Capital and Employee Engagement depending on levels of Transformational Leadership.
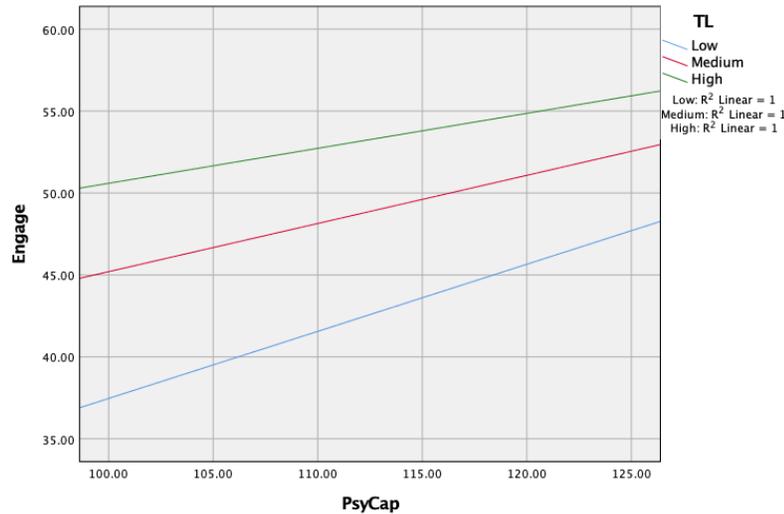

Figure 2. Plot of the moderating effect of Transformational Leadership on the relationship between Psychological Capital and Employee Engagement.

In summary, Model 1 and Model 2 clearly depict Transformational Leadership accounting for the vast majority of the variance of leadership style on Employee Engagement as measured by the MLQ when all the variables are entered into the regression model simultaneously. Additionally, both PsyCap and Transformational Leadership both have really strong direct effects with Employee Engagement, and depending on the level of Transformational Leadership, the importance of Psychological Capital changes.

Discussion and Conclusion

The results of this study regarding hypothesis 1 support previous findings that Psychological Capital has a statistically significant, strong, and positive relationship with Employee Engagement. The large effect size is consistent with prior research studies (r=.53). While there are many variables within a workplace that could contribute to Employee Engagement, PsyCap has been consistently shown to play a significant role – for results, see Larson, Norman, Hughes, and Avey (2013), Joo, Lim, and Kim (2016), and du Plessis and

Boshoff (2018). Additionally, Psychological Capital has been shown to be a malleable and learnable construct (Fred Luthans & Youssef-Morgan, 2017; Dello Russo & Stoykova, 2015). The malleability and learnability traits allow for the possibility of interventions to improve Psychological Capital as a whole or improve one of the lower-level constructs of hope, self-efficacy, resilience, and optimism.

Consistent with previous findings that show Transformational Leadership to have a statistically significant, strong, and positive relationship with Employee Engagement, this study's findings support this as well. The large effect size (r=.57) is consistent with prior research studies. While there are many other variables in the workplace that can contribute to Employee Engagement, Transformational leadership also consistently plays a significant role – see Horwitz et al. (2008), Bass and Avolio (1993), and Yongzhan Li, Gloria Castaño, and Yongxin Li (2018). This finding is important because Transformational Leadership correlates the highest with Engagement and explains the greatest amount of variance (almost 33%) within Engagement in this study. This finding suggests that if employers want their workforces to be more engaged in the workplace, employees with transformational components (idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration) could be ideal candidates to be promoted to management.

Hypothesis 3's findings demonstrate that when Transformational Leadership and Psychological Capital interact, there is a statistically significant increase in the explanation of variance in the regression model and a statistically significant interaction term, which shows that in this study, Transformational Leadership had a moderating effect on the relationship between Psychological Capital and Employee Engagement.

A very interesting finding in this study is that the moderating effect of Transformational Leadership moderated the PsyCap and Employee Engagement relationship in an unexpected manner. When Transformational Leadership is not present, Psychological Capital is more important and has a greater impact on Employee Engagement, and when there are high levels of Transformational Leadership, PsyCap is less important and has a lesser impact on Employee Engagement. As this study measured the Psychological Capital of the individual and the Leadership Style of the individual's direct superior, the findings support the idea that the personal relationship between one's beliefs and capabilities (PsyCap) and production and job engrossment (Engagement) hinges on the capabilities of a leader to demonstrate the capabilities to personally inspire and motivate employees towards greater achievement (Transformational Leadership).

Additionally, the level of Transformational Leadership is crucial to the relationship. If the leader is highly Transformational, the individuals do not have to depend on themselves to create their work Engagement. The leader can create an environment that stimulates employees to become more engaged. In contrast, at lower levels of Transformational Leadership, leaders are less stimulating, and individuals have to be more self-reliant at increasing their own workplace Engagement.

This finding is important because there is a very limited number of studies that look at the moderating factor of leadership on the Psychological Capital and Employee Engagement relationship, and this study could be used as a springboard for researchers and academics to develop interventions that can be used to increase Psychological Capital as a way to increase Employee Engagement, particularly on those organizations reporting low levels of Transformational Leadership.

Additionally, it adds to the literature by supporting the Tak et al. (2019) study where they were able to demonstrate a moderating effect of Authentic Leadership on the PsyCap and Employee Engagement relationship. These studies differ in that the Tak et al. study looked at Authentic Leadership, and this study looked at Transformational, Transactional, and Passive-Avoidant Leadership. To date, the author of this study could not find another study that looked at the moderating factor of these leadership styles.

The results of the study regarding Hypothesis 4 show that Transactional Leadership does not produce the same moderating effect on the Psychological Capital and Employee Engagement relationship. While the hypothesis is not supported, this finding is important because it shows the importance of managers being able to develop a transformational relationship with subordinates and other employees in the workplace, rather than the less effective transactional relationship. This result is an argument for leadership style testing within the workplace to determine which employees would be more effective as leaders within corporations.

Hypothesis 5's findings show no moderating effect of Passive-Avoidant Leadership on the relationship between Psychological Capital and Employee Engagement. While the hypothesis is not supported, this finding is also important because it also shows the importance of managers being able to develop a transformational relationship with subordinates and other employees in the workplace, rather than the ineffective Passive-Avoidant relationship. This result is also an argument for leadership style testing within the workplace to determine which employees would be more effective as leaders within corporations.

The goal of this study was to have implications in both the academic and practitioner realms of learning, and I believe this research has accomplished that objective. Academically, this study added to the vast literature base demonstrating the positive direct relationships

between Psychological Capital and Employee Engagement and Transformational Leadership and Engagement. Also, this is one of the few studies that demonstrate the significant interaction of Transformational Leadership and Psycap on Employee Engagement. This opens the door to more research on possible interaction effects of Psychological Capital and Leadership style, and their effect on the three facets of Employee Engagement. As more studies are done with these interactions, academics could create interventions and test their impact on the moderating relationship and the facets of the variables.

In the practitioner realm, organizations could use the results of this study to design management development programs that focus on improving both Psychological Capital and Transformational Leadership qualities in their management prospects. Practitioners could work with academics to develop interventions that improve the Psychological Capital and Transformational Leadership qualities of their employees. These steps could lead to improved Employee Engagement and an improved overall atmosphere within the organizations, and, as was demonstrated in the literature review, when the atmosphere of Employee Engagement improves, improvement in the corporate bottom lines often follow.

Human Resources departments could also develop selection procedures for incoming employees testing the PsyCap and Transformational Leadership qualities of incoming applicants. This type of test could be used to help with organizational fit of incoming new hires. These tests could also be used to match new employees to managers with similar Psychological Capital and leadership qualities. This could contribute towards higher retention rates, as employees could have the opportunity to more quickly blend into the corporate culture and develop strong relationships with their leaders. Literature previously showed that this relationship is a primary

component of trust development between workers and organizations that leads to higher levels of Employee Engagement.

Limitations and Future Research

Time constraints limited this study to only quantitative results of a single survey with a relatively small sample size. Causality cannot be determined in a cross-sectional design. The use of an intervention and a second survey to measure increases or decreases of Employee Engagement would be a logical next step. While this study focused on the overall effects of the variables on the overall populations, demographic data was also collected that could be used in a future study to measure how the variables affect the sub-populations within the sample.

A longitudinal study or a full field experiment at a business that might be used to measure the effects that interventions and training programs have on Employee Engagement over a longer period of time could prove valuable. Surveys and qualitative interviews could be used to gather data and paint a more complete picture of the overall interactions. Interventions may be instituted within all levels of organizations, from the C-Suite all the way to prospects. Control groups within the participating organizations could be used to compare employees that receive interventions and employees that do not. The collected data could be used by multiple companies within the industries studied to implement programs that could improve their environments, employee relationships and production.

This study also showed that Transformational Leadership has a large effect on Employee Engagement, both directly impacting Employee Engagement and acting as a moderator on the relationship between PsyCap and Engagment. These findings demonstrate the importance that future research focuses not only on selecting and promoting individuals to leadership roles that have Transformational Leadership characteristics, but also training employees *how* to be more

Transformational. Interventions could be designed and tested to improve the levels of

Transformational Leadership amongst those in management and with management aspirations.

Additionally, as each of these constructs (i.e. PsyCap, Transformational Leadership, and

Employee Engagement) are made up of multiple facets, the opportunity exists to study the

impact of the individual facets on other facets, as well as on the overall relationships of the

constructs. As more research is developed in this arena, greater knowledge may be obtained

regarding not only the facet interactions, but also the possible effects that interventions could

have on each individual facet that could affect the overall relationships between the variables.

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