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## Article

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## PSYCHOLOGICAL CAPITAL AND LEADERSHIP ROLE UNDER THE TURBULENT CONDITIONS IN BANKING SECTOR

Volodymyr Momot<sup>1</sup>, Olena Lytvynenko<sup>2</sup>

### Abstract

The article discusses the problems of commercial banks related to the coping with abrupt changes in activities organization due to quarantine and moving to partially remote work. The theoretical considerations concerning psychological capital role at organization operating under the unstable conditions are given and hypothesis regarding psychological capital, its individual components, leadership, leadership styles (types) and the overall effectiveness of the organization are formulated. Empirical evidence which proves formulated hypothesis is presented. Concepts of psychological health and psychological competences are presented. The research conducted shows that the psychological capital of financial institutions employees being monitored during COVID-19 quarantine at Spring 2020 is positively correlated with the impact of transformational leadership on the organization effectiveness.

**JEL classification:** G01, G21, M21, M14, M59

**Keywords:** psychological capital, leadership, leadership style, job satisfaction, value system, involvement, effectiveness of the organization, financial organization

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## INTRODUCTION

The ongoing corona-crisis in the Ukraine and the whole world has highlighted the psychological aspects importance of employment in the financial sector for several reasons. First of all, the number of banking sector employees seeking help from psychological services (and even psychiatrists) has dramatically increased due to the emerging stress, depression, and mental discomfort caused by the crisis. Secondly, when the very first powerful impacts of the crisis had been analyzed on the fly it became apparent that almost exceptionally only the companies which were psychologically prepared for uncertainty were performing well. In majority of cases such companies have discovered that hand in hand with material resources and intellectual property (and other types of intangible property connected with employees) the assets that can be regarded as corporate psychological capital (CPC) are of special importance.

That is, the study of corporate psychological capital concept, as well as approaches to its management is a very important scientific task, the resolution of which will significantly increase the resistance of financial institutions to the negative effects of the crisis. In addition, the formation of a strategy for the psychological capital management will allow the financial institutions to accumulate a sufficient level of CPC, which provides long-term competitive advantages at conditions of the business environment significant instability. All this determines the relevance of the topic of this study.

Based on the above, the following specific tasks will be solved in this study:

- 1) define the concept of corporate psychological capital and its differences from material, human, social and intellectual capital,
- 2) develop methodological bases for psychological capital utilization for providing the financial organization with efficiency at highly uncertain conditions,
- 3) analyze the psychological capital at financial institutions during the quarantine and draw conclusions concerning further adaptation to the conditions of the environmental instability.

It should be noted that corporate psychological capital (CPC) has indisputable differences from the widespread concept of human capital, which belongs to the American researcher G.S. Becker (Becker, 2008). Unlike the human capital which commonly is treated as intellectual resource that brings added value (income, profit), the CPC can be defined as a set of psychological attributes, which in a situation of the external

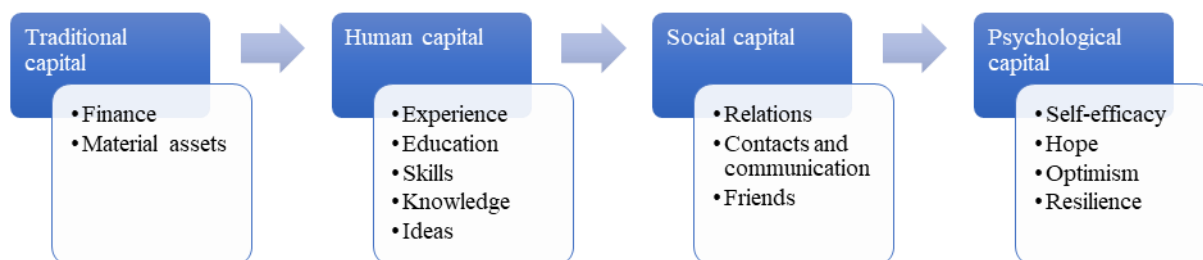
to preserve its development.

Naturally, the concept of psychological capital can be interpreted in much broader sense, but for the purposes of this research the selected definition can be considered as being sufficient. Obviously, the world corona-crisis and the situation that is developing now will deepen the understanding of this concept. To our mind in crisis times a corporate psychological capital of financial institutions is a reliable tool for the compensation of uncertainty negative impact on the employees. Indeed, substantial change of functioning mode touching the very nature of work and life balance led to extremely stressful situation which in turn is driving employees to seek a psychological and even psychiatric assistance as was already mentioned. At the same time the leading institutions in the financial sphere had already accumulated certain potential in form of the corporate psychological capital which could help in stress retention and our task is to prove that fact basing on empirical research. It should also be noted that at stable conditions the CPC is also contributing to the organization efficiency increase.

Typically, researchers of complex processes occurring in the organization during the implementation of managerial concepts in conditions of significant environmental uncertainty emphasize both human and social capital, see for example: Oxman, (2002), Adler and Kwon (2002) and Pratt (2013) as viable sources of competitive advantage for organization's success. It should be noted that the authors also share the point of positive social capital importance to cope with the uncertainty. However, current advances in organizational research on positive psychology and positive organizational behavior have revealed "positively oriented human resource strengths and psychological capacities that can be measured, developed and managed for performance improvement in today's workplace" (Luthans & Youssef, 2004). Four psychological capacities – hope, optimism, resilience and self-efficacy – are called "psychological capital" (PsyCap), see (Luthans et al., 2007). Adherents of the concept of a positive PsyCap developing insist that its implementation at all the organizational levels of has a high potential and can play a key role in shaping human resource management strategy at conditions of environmental uncertainty, helping companies use their existing potential to instill confidence and stability. This will be illustrated by processing of empirical data on local branches of two Ukrainian leading banks.

The transformation of the concept of capital from traditional (material one) to psychological could be presented in the following diagram, which helps to

**Figure 1: Transformation of the concept of the capital**



Source: Author concept

This transformation can be summarized as a transition from the priority of accumulating material resources of the company to such resources as knowledge, experience, skills, contacts, connections accumulation, with priority now shifted to optimism, trust, and hope collection as powerful tools of counteracting economic instability in the future. If in the 1970s the corporation's competitive position was assessed by its tangible assets, i.e., looking for an answer to the question: "What does a corporation have", in the 80's and 90's this question had been altered significantly, and began to be formulated as: "What corporations' employees know? With whom they communicate?" (Nahapiet, 2000). In the 21st century, the question was changed once again. "What kind of people the corporation's employees are" – that is what today determines the prospects of the competitive position of the corporation.

The concept of the corporate psychological capital does include three mandatory aspects. First, aspect is exclusivity. Every corporation is individual as any humanis. This is indicated in the very way it is conducting activities, and in the staff selection etc. Obviously, every financial institution has such specifics. Secondly, it is the fact that CPC has very specific indicators which should be closely monitored especially when a financial institution is living through unstable conditions. Third, as for any capital, it is important for the CPC to quantify it, i.e., its indicators must have a certain material value. Whoever creates and manages this intangible asset is simply obliged to assess its material value in providing the sustainability of the organization's development. Otherwise, it is impossible to avoid depreciation of the CPC concept (Luthans, Luthans, & Luthans, 2004).

Based on the considerations above, one can formulate the following working hypotheses of the study:

**Hypothesis 1:** There is a positive significant relationship between psychological capital and the overall effectiveness of the organization – this is the basic

**Hypothesis 2:** There is a positive significant relationship between the individual components of psychological capital and the overall effectiveness of the organization, i.e., it is possible to identify the components of psychological capital that are most useful in terms of efficiency and develop targeted approaches for controlled impact on these components.

**Hypothesis 3:** There is a positive significant relationship between different leadership styles (types), psychological capital and the overall effectiveness of the organization. The intensity of this relationship depends on the specific leadership style (type), i.e., one can identify and cultivate the leadership style in the financial institution that is most useful related to the effective performance providing and the accumulation of bigger psychological capital of the organization employees.

**Hypothesis 4:** There is a positive significant relationship between the various channels of influence of a particular leadership style on the organization's effectiveness on the one hand and on the employees' psychological capital on the other. This allows to identify the most powerful channels of leaders' influence on the psychological capital of employees and the effectiveness of the organization in order to achieve competitive advantage.

The concept of corporate psychological capital can be viewed from two angles. From one hand, it is mental health, i.e., readiness to cope with stress, depression, emotional burnout in difficult uncertain situations. Each person correspondingly to psychological features has individual amount of this capital, while any organization should find its own way to manage joint amount of it. During a crisis, it is important to anticipate possible in- and outflows of this asset and ensure its conservation based on the following principle: it is better to provide an employee with psychological support then he will come to psychiatrist sooner or later.

In general, the most important indication of the



(MPC) of the company which facilitate an employee loyalty being of biggest importance for the financial institution. Loyalty and devotion of employees to the financial institution they work for could be considered as prerequisite of getting edge over the competitors.

To maintain the favorable MPC both top-managers and employees of financial institutions need to have specific psychological competence.

The psychological competence of the financial institution's "elite" and the employees who interact directly with clients is also one of the most important components of the financial institution's CPC. The employees' psychological competence will define the client loyalty, which in turn facilitates company performance and efficiency especially during turbulent times.

The psychological competence of the company's elite at uncertain situations undoubtedly is shaping the psychological climate of the organization, thus affecting the loyalty of employees. Extremely important role of the company's elite psychological competence is to stimulate the creative abilities of employees providing the organization with vector of development in the turbulent environment.

All these theoretical generalizations and hypotheses will be proved by empirical analysis.

## METHODOLOGY OF EMPIRICAL RESEARCH

To resolve the practical tasks being formulated above an assessment of Psychological Capital and a classification of leadership type should be carried out.

We utilize the classical questionnaire proposed by (Luthans et al., 2007) to assess the Psychological Capital of the organization. Being used in the whole number of practical researches this questionnaire is now an industry standard in the field. Respondents were asked to indicate the agreement with the statements contained in the questionnaire based on a classical Likert scale from 1 ("completely disagree") to 5 ("completely agree"). To measure the different types of leadership in the organization a multifactor leadership questionnaire by Bass and Avolio (1995) was used. Respondents' response again was also measured by Likert scale from 1 ("never") to 5 ("very often, almost always"). To measure the satisfaction with work a WAMI survey by (Steger, 2019) on the 5-point scale was used. To measure managerial efficiency a MSAI survey by (Cameron & Quinn, 2011) on the 5-point scale was used.

The research which had involved the staff of 4 local branches of 2 big Ukrainian banks was done during quarantine period (March-May 2020) in the Dnipropetrovsk region. The number of employees

the organizations however their reaction processing was not completely separated into different groups. The financial institutions during quarantine were functioning in hybrid format including distant and in-office activities approximately in 30/70 proportion.

## RESULTS OF THE EMPIRICAL STUDY

The survey on leadership issues was conducted exclusively among senior and middle management. Such a decision was dictated by the fact that the representatives of these levels of financial institutions' management are expected to act as "true leaders" to their organizations who must develop a sense of organizational changes, adhere to strong beliefs and common values, demonstrate self-discipline. Prior to the dissemination of the e-survey links, brief Zoom sessions were conducted with the selected employees to explain the nature and the objectives of the study, as well as to obtain their full consent to participate in the study. Following the briefing sessions, links to relevant surveys were distributed to these leaders. To increase the speed of responses to the survey, further electronic communications were carried out when needed. The dynamics of respondents' response to e-surveys is of independent interest and could be considered as a direction of the future research, when analyzing the relationship between leadership and corporate culture of the financial institution. As a result of rather persistent focus group preparation and explanatory work, it was possible to achieve 74.6% involvement of the managerial staff of the selected branches of financial institutions to participate in the e-survey.

Given the hypotheses above, when processing the results of empirical research, the values of Alpha Cronbach ( $\alpha$ ) were calculated for the psychological capital (PsyCap) as a whole, for its individual components, for the different leadership styles separately, for the leadership impact on the effectiveness of the organization, for the job satisfaction and for the additional efforts staff is taking to achieve organizational goals. The calculations are shown diagonally in Tables 1, 2 and 3, respectively. Satisfactory results in relation to internal reliability gives psychological capital as a whole (24 statements,  $\alpha = 0.88$ ), as well as individual components of PsyCap— self-efficacy (4 statements,  $\alpha = 0.85$ ), hope (4 statements,  $\alpha = 0.73$ ), stability (4 statements,  $\alpha = 0.56$ ), optimism (4 statements,  $\alpha = 0.51$ ). In addition, different leadership styles give good results in terms of internal reliability: transformational leadership (20 statements,  $\alpha = 0.91$ ), transactional leadership (12 statements,  $\alpha = 0.78$ ) and some individual leadership-related parameters such as the impact of leadership on efficiency (4 statements,  $\alpha = 0.61$ ), additional efforts that staff is taking to achieve the

nization (3 statements,  $\alpha = 0.74$ ), job satisfaction (2 statements,  $\alpha = 0.56$ ). In accordance with the requirements adopted in mathematical statistics, this in turn allows for correlation analysis of responses, which is shown in Tables 1 and 2.

We will analyze the relationship between leadership styles, psychological capital, and the effectiveness of the organization. The corresponding results in Table 1 show that psychological capital is significantly and positively correlated with transformational leadership (0.45\*), as well as with the impact of leadership on the effectiveness of the organization (0.49\*\*) – stars indicate the significant correlations as is explained below the tables 1, 2, 3. The correlations of PsyCap with transactional leadership (0.29)

and the extra effort that staff is taking to achieve the organization's goals (0.24) are positive, although not significant ( $k < 0.3$ ). Transformational leadership positively and significantly correlates with all three components of the leadership impact on the organization's effectiveness. Given the fact that transactional leadership is significantly correlated with the efficiency and extra effort that staff is taking to achieve the goals of the organization it has a positive but insignificant correlation with job satisfaction. Indifferent or liberal leadership (a style in the managerial literature commonly referred to by French term *Laissez-faire*) is negatively related to PsyCap (-0.38), transformational leadership (-0.25), transactional leadership (-0.01), efficiency (-0.41\*), additional efforts (-0.14) and job satisfaction (-0.22).

**Table 1: Mean, standard deviations ( $\sigma$ ), reliability and correlations for psychological capital, leadership**

Variable	Mean	$\sigma$	1	2	3	4	5	6	7
Psychological capital (1)	3.90	0.39	0.88^						
Transformational leadership (2)	2.95	0.52	0.45*	0.91^					
Transactional leadership (3)	1.92	0.54	0.29	0.38	0.78^				
Indifferent leadership (4)	0.47	0.42	-0.38	-0.25	-0.01	0.53^			
Efficiency (5)	3.02	0.41	0.49**	0.65**	0.51**	-0.43*	0.65^		
Extra effort (7)	2.81	0.60	0.24	0.64**	0.55**	-0.14	0.58**	0.73^	
Satisfaction (7)	3.05	0.51	0.04	0.53**	0.31	-0.22	0.64**	0.55**	0.55^

\*\* Correlation is significant at the level of 0.01 (bilateral),

\* Correlation is significant at the level of 0.05 (bilateral),

^ Cronbach's alpha for internal reliability.

Source: Author's calculations

Let's move on to the analysis of the relationship between the individual components of psychological capital and the effectiveness of the organization. The results in Table 2 show that for respondents from all the local branches of financial institutions that were studied, the first three components of psychological capital are positively and significantly correlated with the effectiveness of the organization (to preserve the visual clarity of the table only one word from variables names was preserved to denote each variable):

- 1) the correlation between efficiency and the first component of psychological capital, being self-efficacy is 0.54 (with two-sided significance being more than 99%),
- 2) correlation between efficiency and the second component of psychological capital, being stability

is = 0.40 (two-sided significance at the level of 95%),

- 3) the correlation between efficiency and the third component of psychological capital, being optimism is = 0.40 (two-sided significance at the level of 95%).

The latter, fourth component of psychological capital, being hope, is also positively correlated with the organization's effectiveness ( $k = 0.34$ ), but this correlation is not significant. Table 2 also illustrates that psychological capital as a whole, as well as all its individual components, do not have a significant correlation with the extra effort that employees tend to take to achieve organizational goals and the level of satisfaction of leaders (again to maintain the visual convenience of the table, these variables are

components of psychological capital (being stability and hope) even have negative correlation with the satisfaction. It should be noted that such a result is quite unexpected and contradicts to the intuitive hypotheses formulated by the authors at the initial stages of the study, as the effectiveness of the organization is significantly and

positively correlated with both “extra effort” and “satisfaction”, as shown in Table 2. Another interesting finding of the study, which is also visualized by the Table 2, is that all the components of psychological capital are positively, strongly and significantly correlated with each other and with the overall value of PsyCap.

**Table 2: Mean, standard deviations ( $\sigma$ ), reliability and correlations for individual components of psychological capital, leadership and the results of the leadership impact**

Variable	Mean	$\sigma$	1	2	3	4	5	6	7	8
PsyCap(1)	3.90	0.39	0.88 <sup>^</sup>							
Self-efficacy (2)	4.18	0.52	0.90**	0.85 <sup>^</sup>						
Hope (3)	3.99	0.43	0.91**	0.72**	0.73 <sup>^</sup>					
Resilience (4)	3.77	0.37	0.88**	0.80**	0.77**	0.56 <sup>^</sup>				
Optimism (5)	3.63	0.43	0.83**	0.62**	0.77**	0.59**	0.51 <sup>^</sup>			
Efficiency (6)	3.02	0.41	0.49**	0.54**	0.34	0.40*	0.40*	0.61 <sup>^</sup>		
Effort (7)	2.80	0.60	0.24	0.35	0.14	0.06	0.26	0.59**	0.74 <sup>^</sup>	
Satisfaction(8)	3.05	0.51	0.04	0.16	-0.12	-0.10	0.17	0.68**	0.56**	0.56 <sup>^</sup>

\*\* Correlation is significant at the level of 0.01 (bilateral),

\* Correlation is significant at the level of 0.05 (bilateral),

<sup>^</sup> Cronbach's alpha for internal reliability.

Source: Author's calculations

Finally, we present the analysis' results of the mutual influence of psychological capital, the chosen leadership style (transformational leadership was selected as the one that has the strongest influence on the effectiveness of the organization at a stage of environmental uncertainty), and individual components of the chosen leadership style impact on the effectiveness of the organization, see Table 3. The most important conclusions that can be drawn from Table 3 are that psychological capital positively and significantly correlates with most of the components of the transformational leadership impact on the organization's effectiveness: idealized influence ( $k = 0.41$ , two-sided significance at the level of 95%), inspiring motivation ( $k = 0.46$  with two-sided significance being more than 99%) and intellectual stimulation ( $k = 0.49$  with two-sided significance being more than 99%). It should be noted that this correlation is not too powerful, but unequivocally testifies the presence of a natural influence of most of the characteristics of transformational leaders on the organization effectiveness.

The first component of psychological capital, self-efficacy, also has positive and significant correlations

0.58 with two-sided significance being more than 99%), and intellectual stimulation ( $k = 0.59$  with two-sided significance being more than 99%). The second component of psychological capital, being hope does not have a significant correlation with the components of the transformational leadership. At the same time, the third component of PsyCap, being resilience correlates with intellectual stimulation positively and significantly ( $k = 0.45$ , two-sided significance at the level of 95%), while the fourth component – optimism positively and significantly correlates with inspirational motivation ( $k = 0.38$ , two-sided significance at the level of 95%) and intellectual stimulation ( $k = 0.37$ , two-sided significance at the level of 95%). However, these correlations cannot be considered as being strong, especially in comparison with the correlations with the first component of psychological capital. Table 3 also shows that transformational leadership is positively correlated with all the components of psychological capital, although the correlations with hope (0.26) and resilience (0.31) are not significant. Interesting enough is that the individual approach is not significantly related to psychological capital or any of its components – it is a certain dissonance with the common belief that individual

motivation and staff development. But obviously, such a result needs further clarification, which was not part of this study objectives.

**Table 3: Mean, standard deviations ( $\sigma$ ), reliability and correlations for individual components of psychological capital, leadership and the results of the leadership impact**

Variable	Mean	$\sigma$	1	2	3	4	5	6	7	8	9	10
PsyCap(1)	3.90	0.39	0.88 <sup>^</sup>									
Self-efficacy (2)	4.18	0.52	0.90**	0.85 <sup>^</sup>								
Hope (3)	3.99	0.43	0.91**	0.72**	0.73 <sup>^</sup>							
Resilience (4)	3.77	0.37	0.88**	0.80**	0.77**	0.56 <sup>^</sup>						
Optimism (5)	3.63	0.43	0.83**	0.62**	0.77**	0.59**	0.51 <sup>^</sup>					
Transformational leadership (6)	2.95	0.52	0.45*	0.58**	0.26	0.31	0.37*	0.91 <sup>^</sup>				
Idealized effect (7)	2.93	0.54	0.41*	0.56**	0.27	0.30	0.29	0.91**	0.79 <sup>^</sup>			
Inspirational motivation (8)	2.93	0.67	0.46**	0.58**	0.34	0.27	0.38*	0.87**	0.75**	0.83 <sup>^</sup>		
Intellectual stimulation (9)	3.01	0.56	0.49**	0.59**	0.28	0.45*	0.37*	0.83**	0.66**	0.66**	0.74 <sup>^</sup>	
Individual approach (10)	2.95	0.65	0.18	0.29	0.00	0.05	0.26	0.82**	0.63**	0.62**	0.67**	0.64 <sup>^</sup>

\*\* Correlation is significant at the level of 0.01 (bilateral),

\* Correlation is significant at the level of 0.05 (bilateral),

<sup>^</sup> Cronbach's alpha for internal reliability.

Source: Author's calculations

Tables 1, 2 and 3 also indicate that PsyCap and transformational leadership are not only positively correlated, but also have positive correlations with the impact of leadership on organizational development – organizational effectiveness, additional effort that staff tend to take for organizational goals achievement and job satisfaction of the employees. Given the fact that transformational leadership in the contemporary literature on leadership in management is almost the dominant topic and given the empirical evidence that this style is most positively correlated with psychological capital, presented in this study, there are very sound reasons to believe that transformational leaders have a relatively higher level of psychological capital, and this in turn leads to positive impact of leadership within financial. Empirical data also show that the “born leaders” in their organizations, who were interviewed

more patterns of behavior that relate them to the transformational leadership style, rather than transactional or indifferent.

Thus, one can draw a preliminary conclusion that all four initial hypotheses of this study were justified and get unambiguous confirmation based on the empirical data statistical processing.

## DISCUSSION

The activities of financial institutions, especially in the context of quarantine when these institutions were moved to the hybrid activity format, are very complex and prone to high risks, as the environment is turbulent and the sphere of activity itself is completely subject to strict state regulation. Accordingly, many jobs in the financial institutions are completely dependent on



nent changes, which leads to increased pressure on the institutions' staff, lack of stability, significant turnover, and, consequently, lack of involvement. These factors cause additional difficulties in the human resource development and significantly reduce the efficiency. At the same time, according to the study results the leadership in the financial institutions can lead to some mitigation of this problem especially if such a leadership is provided by the top management of the institution based on the transformational style.

Nowadays human resources are an indispensable asset that an organization can use efficiently only if its development is properly managed (Luthans and Youssef, (2004). To make the most of their human resources, financial institutions need now to take strategic steps to retain their existing staff and attract new qualified employees at conditions of substantial environmental uncertainty. As this research is indicating one of the possible ways to accomplish this is to get involved into development of employees' psychological capital and providing the effective leadership for the organization.

Based on the research results it can be concluded that the financial institutions with better "psychological health" are likely to provide the best conditions for their employees, both leaders and followers to be developed and contribute to the goals of organizations implementation. Moreover, it is highly likely that employees in such an organizations will experience stronger psychological links with their employers. That in turn will lead to higher motivation, job satisfaction, loyalty to the organization and reduced staff turnover, see (Dainty et al., 2018). Such organizations can also be expected to have a high level of employee responsibility and continuous improvement of employees through organizational training (Raiden & Dainty, 2006), which is especially important for financial sector, where qualifications ultimately determine the effectiveness. However, measuring the impact of psychological relationships between leaders and employees of the financial institutions on the effectiveness, was not included in this study objectives and is considered as a

Numerous studies show that employees with a high level of psychological capital usually have better opportunities to adapt to the wide range of new conditions and work in wide collaboration with their colleagues. All these specifics are of huge importance right now when corresponding habits will facilitate the adaptation to the conditions of combined in-office and remote activity. It is highly probable right now that some restrictions connected with pandemic situation will be continued and therefore the financial institutions will face challenges which may question their effectiveness, confidence, and resilience. If these organizations will develop a high level of psychological capital and maintain an adequate leadership, they will be able to effectively counteract the consequences of failures that are inevitable along the way, because they will perceive such failures as a learning rather than a deterrent. Medical institutions with higher psychological capital will also develop real leaders of adaptation to the new reality. Financial institutions with higher psychological capital will also develop true leaders and followers who will create a strong positive organizational culture together (Hoorn, 2015). This atmosphere is ideal for efficiency improvement.

The research conducted shows that the psychological capital of employees is positively correlated with the impact of transformational leadership on the organization effectiveness. With the growing complexity of the world economy, the uncertainty of the external environment considerably investments are needed to develop the psychological capital and leadership in the financial institutions to effectively counteract the negative effects of these factors.

At the same time, it should be noted that right now just basic aspects were revealed of the leaders' psychological capital role at crisis conditions in the banking sphere using quite limited empirical base. To understand that phenomenon more completely the comprehensive research based on much broader sample with consideration of geographical (regional) differences is needed, though such a research is very complicated regarding the fact that financial institutions are extremely strict in allowing outsiders to work with employees.

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