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**PSYCHOLOGICAL CAPITAL: KEY TO ORGANIZATIONAL EFFECTIVENESS**

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**ABSTRACT**

In last few years positive organizational behaviours has attracted researchers from management as well as psychology (Luthans & Youssef, 2007; Luthans, Youssef, & Avolio, 2007). As an important aspect of human behaviours, psychological capital (PsyCap) is understood to be an intangible asset to the business organizations. The researches have proved that organizations with high psychological capital also score high when it comes to organizational effectiveness and performance. For example positive affect, experiencing positive feelings states as enthusiasm, alertness, and joviality has been proved to be positively related to task performance and OCB (Kaplan, Bradley, Luchman, and Hayens, 2009). Similarly other emotional also have been tested to be affecting the performance of the employees in organizations (Kersting K, 2003). This study discusses the concept of psychological capital and organizational effectiveness and further tries to establish a link between the two. The paper discusses different variables of PsyCap and their link to organizational performance and effectiveness. The findings indicate that psychological capital of any organisation has a significant impact on organizational effectiveness, through affecting various dimensions of organizational effectiveness.

**KEYWORDS:** Positive Organizational Behaviour, Psychological Capital, Organizational Effectiveness and Sustainability

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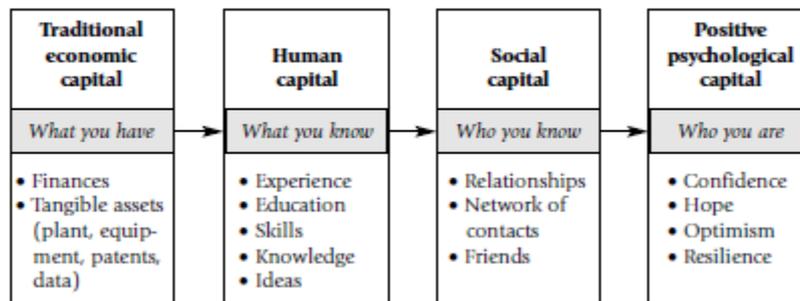
**INTRODUCTION**

Positive Organizational behaviour remained a subject of ignorance for many years. But last few years, field of organizational behaviour has observed a change and positive psychology has gained attention from researchers and academicians (Luthans & Youssef, 2007; Luthans, Youssef, & Avolio, 2007). Positive organizational behaviours in words of Luthans can be understood as when positively oriented resource assets and psychological capabilities are studied for a purpose of to be measured, developed, and efficiently managed for performance improvement (Luthans, 2002). Positive Psychology has been understood in different aspects by different researchers. But most agree on this point that from the beginning researchers and practitioners have opined that positive behaviours at job lead to greater productivity and effectiveness.

Motivations, Work Engagement, Job Embeddedness and Organizational Citizenship Behaviours are such examples.

In positive organisational behaviours psychological capital is included as a core concept. Positive psychological constructs include hope, resilience, optimism, and self-efficacy, and when combined, represent what has been termed *psychological capital* or *PsyCap* (Luthans & Youssef, 2004; Luthans et al. 2007).

**Figure 1**  
**Expanding capital for competitive advantage**



Source: Luthans, Fred, Kyle W. Luthans, and Brett C. Luthans. "Positive psychological capital: Beyond human and social capital." *Business horizons* 47.1 (2004): 45-50.

A person's positive psychological state is understood to be psychological capital. Luthans has explained the four constructs of PsyCap as (1) having confidence (self-efficacy) to take on a challenging task and then to put in the necessary effort to succeed in it.; (2) making a positive attribution (optimism) about succeeding now and in the future; (3) determined toward goals and, when essential, readdressing paths to goals (hope) in order to succeed; and (4) when beset by problems and harsh conditions, sustaining and bouncing back and even beyond (resilience) to attain success" (Luthans et al., 2007). The different constructs included in PsyCap are also described individually.

#### **PSYCAP EFFICACY**

In simple terms efficacy can be understood as self-confidence of an employee. According to Bandura (1982, 1997) it can also be taken as one's conviction (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 (Stajkovic & Luthans, 1998).

So in order to make employees score high on efficacy, it is important to develop their confidence. Bandura and Locke recognize five significant features of self-efficacious people: 1. Selection of high goals for self and self-select into difficult tasks. 2. Welcoming and thriving on challenge. 3. High on self-motivation. 4. Investing efforts for accomplishment of goals. 5. Facing the obstacles with perseverance. (Bandura, A., & Locke, E. A. 2003).

So it is very clear that employees with high efficacy or confidence will take challenging tasks, they will endure the difficult challenges and they tend to set challenging goals for themselves and teams.

These characteristics also will lead to greater capacity to face the challenges of external environments and in highly volatile firms, people with high efficacy will be able to adapt and face the challenges more efficiently.

#### **PSYCAP HOPE**

Hope itself being a positive connotation, is a basis to positive psychological behaviours and PsyCap. Hope defined in words of C. Rick Snyder can be understood as a positive motivational state founded on an interactively resultant logic of effective (1) agency (goal-directed energy) and (2) pathways (planning to meet goals) (Snyder, Irving, & Anderson, 1991).

Hope as suggested by Snyder; is a mental state where realistic and challenging goals are set by an individual and self-directed, willpower, vigour, and observation of adopted control are the pathways to realize those goals. So hope can also be used as a synonym for willpower coupled with the alternative pathways. Snyder also suggests that in direction to attain goals an individual is driven by willpower and determination and explore for new trails, and in this process creativity, innovation, and resourcefulness lead to vigour and logic of control and end up in an upward spiral of hope (Snyder, 1991, 1995, 2000, 2002, 2007).

**PSYCAP RESILIENCY**

In the field of psychology, Masten and Reed (2002, p.75) resiliency is defined as how in an adverse condition or risky environment, a person tends to show patterns of positive adaptation. In PsyCap approach, as specified in the description of resiliency in the preliminary explanations, it has also been defined as capability to rebound back from adversity along with ability to endure positive and spirit of an individual to take up challenging actions and to go beyond the ordinary or the equilibrium point (Avolio & Luthans, 2006; Luthans, 2002).

So there can be training to develop resilience in employees and improve their related dimensions.

**PSYCAP OPTIMISM**

Former president of the American Psychological Association Martin Seligman also renowned predecessor of the positive psychology crusade elucidates that a pessimistic explanatory style would understand positive events with external, temporary, and situation-specific attributes and explain negative events in terms of personal, permanent, and pervasive causes. Whereas according to him optimism interprets negative events in terms of external, temporary and situation-specific factors and serves as an explanatory style that attributes positive events to personal, permanent, and pervasive causes. (Seligman, 1998)

The traditional stories which focus on the role of positive psychology actually focus on this optimism which ensures an employee's positive outlook towards incidents and with some positive feedback and motivation they can be inspired well toward their performance and goal achievement.

**ORGANIZATIONAL EFFECTIVENESS**

Organizational effectiveness ensures survival and sustainability of any organization. Organizational effectiveness in the literature has been explained through different approaches. The Goal approach to organizational effectiveness states that the extent to which an organization meets its stated goals and objectives and meets its performance standards can be understood as organizational effectiveness as defined by Yankey & McClellan (2003). Whereas Scott et al (2008) state that organizational effectiveness focusses on directly results of an organizations' outcomes.

So goal approach maintains that if an organization is achieving its stated and predetermined goals and it can be termed as effective.

The process approach to organizational effectiveness maintains that organisational effectiveness is related to the inputs and process of an organization. The Lewin Group elaborated concept of organization effectiveness as characteristics, processes, and input. Organizational practices and formal documents are the main focus for this approach. According to this; mission statement, form to measure client satisfaction, planning document, calendar of board development activities, recruiting and training staff and form used in CEO and other employee performance appraisals along with document like board manual can serve as measures for organizational effectiveness. In this background, OE is measured as a result of an organization's capability to grow strong leadership, employ energetic members, trust on inside resources, and largely survive and grow. (Lewin Group, 2000)

Other approaches include System Resource Approach, Multiple Constituency Approach and Social Constructionism Approach.

Different approaches interpret Organizational effective from different points of view but from all the common factors that will be affecting the effectiveness of the organization can be summarised as performance, motivation, organizational setting, management proficiency, inventive synergy, multi-ethnic and racial background. (Malik et al, 2011).

In the following lines will be discussed the impact of PsyCap on different organizational variable which affect organizational effectiveness.

**PSYCAP AND LEADERSHIP**

Psychological capital affects culture of organization through affecting leadership styles. Toor, S. and Ofori, G. have proved that PsyCap affect leadership outcomes but it is mediated by transformational leadership in the organization. Leadership development and effectiveness is also affected by psychological capital of the employees of an organization. (Toor, S. and Ofori, G., 2010).

The researches have also proved that for leadership development and influence, psychological capital is an important input. The four comprising factors of PsyCap that is self-efficacy, hope, optimism, and resiliency are crucial when it comes leader's effectiveness and transformational leadership. (Offori, G., 2008).

#### **PSYCAP AND JOB SATISFACTION**

This is an obvious fact that if employees are positive about their jobs than their satisfaction and morale level will be high and they will show a lower tendency to quit study conducted by Luthan et al, 2007, indicated that performance and satisfaction of the employees insignificantly affected by PsyCap. They suggested that not only Job satisfaction but other work attitudes like organizational commitment are also affected by PsyCap and it impacts human and social capital of the organization(Luthan et al, 2007).

Workplace stress and anxiety are matters of concern for modern organizations. Human resource managers suggest that PsyCap development can be a key for combating occupational stress. They also maintain that for a human resource managers it is crucial to understand PsyCap as it will significantly affect and indicate an employee's intention to quit resulting into turnover. They also suggest that if organizational employ practical strategies to leverage and develop psychological capital of employees and this can help them to cope with workplace stress.

#### **PSYCAP AND WELLBEING**

The role of PsyCap is not just limited to work attitudes but it also ensues wellbeing of the employees. Wellbeing of employees is also gaining attention for most of the employers. Due to increasing work pressures and burn outs wellbeing of the employees is at risk, endangering organizational productivity as a whole. But employees 'wellbeing along with organizational factors, is also affected by personal factors which included social and psychological factors. The study conducted by Tripathi proved that two components of PsyCap Self-efficacy and resilience emerged as significant predictors of employee well-being (Tripathi, P., 2011). So to improve wellbeing of the employees also it is necessary to improve on self-efficacy and resilience.

#### **PSYCAP AND JOB EMBEDDEDNESS**

When it comes to the work attitudes which may result into better organizational commitment leading to improved organizational effectiveness, Job Embeddedness emerges as one the main factors. According to Simons, J. et al that the components of PsyCap are significantly related to the JE and OC. All the four components self-efficacy, optimism, hope and resilience show a significant correlation Job Embeddedness and Organizational Commitment.

So organization are required to focus on organizational practices to improve on dimensions of PsyCap as a key source for organizations to enhance the competitive advantage which is of prime significance for JE and OC (Simons, J. C., & Buitendach, J. H. 2013).

#### **PSYCAP AND WORK ENGAGEMENT**

The last but not least work engagement which is a predictor of organizational efficiency is also effected by PsyCap. PsyCap as a composite of four components, impact the level of Job Embeddedness and in turn enhances organizational commitment level of the employees. So this becomes mandatory for the organization to pay more attention to improve psychological capital of the employees in turn to improve organizational effectiveness OC (Simons, J. C., & Buitendach, J. H. 2013).

From the above literature we can suggest that PsyCap an important variable constituting of various component of HERO is crucial for an organization and have a multiplier effect on organizational efficiency through affecting various variables mentioned above.

#### **DISCUSSION**

The success of an organization is largely dependent on the PsyCap of its employees. There are also strategies to improve on PsyCap indicators of an organization. But however the determinants of PsyCap are still not much researched and proved. (Avey, 2014).

So the organizations must take initiatives to improve their people's PsyCap score, if they want to achieve greater satisfaction, commitment, job embeddedness and effective leadership. Psychological capital ensures confidence and a problem solving approach in the individual of an organization.

Though not much has been research about development of PsyCap variables a but there is a micro intervention derived by Luthans et al for PsyCap development of the employees organizations may take help of that ( Luthans, F., Avey, J. B., Avolio, B. J., Norman, S. M., & Combs, G. M. 2006).

#### LIMITATIONS AND FUTURE RESEARCH

However the lack of research on the determinants of PsyCap also extends an opportunity for future researches. The paper also has a limitation that it investigates impact of PsyCap on a limited number of organizational variables, however more variables can also be included to have a detailed look on how PsyCap affects organizational effectiveness and efficiency in totality.

#### CONCLUSION

In the modern volatile environment, where every organization is striving for efficiency, effectiveness, greater productivity and capability to quickly responding to change with innovation and creative solutions; PsyCap is a promising dimension. By increasing Psychological capital organizations can multiply efficiency of employees and achieve significant results.

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