

## PSYCHOLOGICAL CAPITAL FOR COMPETITIVE ADVANTAGE: A REVIEW

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### **Abstract**

*Increased competition among businesses demands adequate attention towards steps which would ensure business survival in long run. Businesses must build on their strengths which in turn depend upon their employee's strengths. One of such strengths is employee's positive Psychological Capital which comprises of self-efficacy, optimism, hope and resilience. Employee's Psychological Capital has been linked to key driver of sustainable competitive advantage in today's business scenario that is innovation. This review focuses upon studies determining the relationship between Psychological Capital and innovation. The review suggests that Psychological capital is a significant predictor of innovation among employees working in various sectors. Positive leadership styles such as Authentic, transformational leadership etc. and favourable organizational climate are found to foster Psychological Capital among employees. Although at individual level there are studies linking Psychological Capital with innovative behaviour, but less number of studies have examined the role of team or collective Psychological Capital in predicting overall innovation within the organizations.*

**Keywords:** *Psychological Capital, Innovation, competition, sustainable competitive advantage*

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## I. Introduction

Innovative ability has been widely stated as one of the important drivers of competitive advantage. (Zhou and Shalley, 2003; Zhang and Bartol, 2010; Qiu et al.2015). Employees depicting high innovative behaviour help organizations to out-perform in the constantly changing business environment (Mutonyi et al., 2021). Studies have found that creative and innovative employee behaviour is linked to better quality of services, higher customer satisfaction as well as better performance (Sanders et al., 2010). The present review aimed at identifying the relationship between PsyCap and employee innovation which has been recognized as crucial factor determining an organization's success in dynamic business environment.

**Innovation:** Creativity and innovation have been defined in different ways across studies. For the purpose of this article, definition by Anderson et al. (2014) is used. Creativity refers to generation of new ideas and innovation is implementation of those ideas to lead to improved results (products, processes, etc.). Likewise innovative behaviour refers to implementation of fresh and useful ideas within a job role (Battistelli et al., 2013)

**Psychological Capital:** Psychological capital comprises of four states, self-efficacy (confidence), optimism, resilience and hope (Luthans et al., 2007). Numerous studies have highlighted the role of personality as well as emotional states in determining creativity , however, the significant role of employee's psychological resources (PsyCap) in nurturing innovative behaviour has received attention in last decade only (Sweetman et al., 2011). Among other skills, creativity & innovation have been described as crucial skills for employees in present century (Nakano & Wechsler, 2018). The current study aims at reviewing studies examining the relationship between PsyCap and Innovation/innovative behaviour among employees.

## 2. Methodology

The current study includes literature related to the aim of the study. Research Articles published in between 2014-2021 were included in the

study. Keywords such as “Psychological Capital”, “Positive Psychological Capital”, and “Innovation” etc. were used to search the articles. Scopus data base, PubMed, JSTOR, and Google scholar was used to identify the relevant works. Only journal articles were included in the review. Books and grey literature (theses, dissertations) was excluded. Only articles in English language were included.

### 3. Findings and Discussion

#### Psychological Capital and Innovative behaviour

##### Individual level Analysis:

Major empirical studies on the role of well-developed PsyCap in enhancing innovative behaviours among employees have been summarized in table below.

**Table 3.1: Major studies included in the review**

Author/ Year	Themes	Study	Theoretical Framework	Major Findings
Wojtczuk-Turek & Turek, 2014	PsyCap; HR flexibility; Individual flexibility; Innovative behaviour	Diverse sectors; Online survey: 166 employees Offline: 70 student employees; Cross sectional; Poland	Psychological Capital theory (Luthans et al., 2007); Resource gain is crucial for idea generation & further implementation	PsyCap is a stronger predictor of innovative work behaviour. HR and individual flexibility do not directly lead to innovative behaviour.
Abbas & Raja, 2015	PsyCap; Innovative performance (supervisor rated)	237 employees; different sectors (Private bank employees: nearly 50%); Offline Cross-section survey; Pakistan	POB Theory/ Psychological Capital theory (Luthans et al., 2007)	Employees higher in PsyCap reserves have tendency to show innovative behaviours such as suggesting unique ideas,

				taking initiatives etc.
Ziyae et al., 2015	PsyCap; Innovation	100 Agriculture Bank managers & employees; Cross-sectional; Random sampling; Tehran	POB /Psychological Capital theory (Luthans et al., 2007)	Overall PsyCap predicts innovation. Among individual components, resilience has strongest impact.
Yu & Liu, 2016	PsyCap; Organizational support; Innovation	350 employees; 4 enterprises; Cross-sectional offline survey; China	POB /Psychological Capital theory (Luthans et al., 2007)	Technical employees show innovative behaviour when they have high PsyCap and they receive adequate organizational support which helps them to utilize their abilities.
Hsu & Chen, 2017	Psychological Capital; Organization Innovation Climate; Employee Innovative behaviour	922 participants; Various industries; Online & offline survey; Cross-sectional; Taiwan	Conservation of Resource Theory (Hobfoll, 1989)	Personal characteristics play (PsCap) more significant role than environment related factors in enhancing employee innovation.
Sameer, 2018	PsyCap; Innovative behaviour	250 Professionals; Survey various jobs; Cross sectional: Online; Egypt	POB Theory/ Psychological Capital theory (Luthans et al., 2007)	Hope has the strongest link with innovative behaviour.

Nwanzu & Babalola, 2019	PsyCap; Innovative Work behaviour (IWB)	125 Public hospital employees ; offline cross-sectional survey; Nigeria	Social cognitive theory (1986); Vroom's expectancy theory (1964)	Optimism is the strongest and resilience is the weakest predictor of IWB
Sun & Huang, 2019	PsyCap; Psychological Safety; Innovative behaviour	136 teachers; Cross-sectional; offline survey; China	POB /Psychological Capital theory (Luthans et al., 2007)	PsyCap promotes innovative behaviour. PsyCap among employees also leads to creation of climate that promotes new & valuable suggestions for improvement.
Brunetto et al., 2020	LMX; PsyCap; Innovative behaviour	Australia; 220 US ; 325 Healthcare employees; Survey	Positive Organization Behaviour (POB) Theory	Direct effect of LMX on innovative behaviour is non-existent. PsyCap plays major role in determining innovative behaviour.
Mutonyi et al., 2021	Innovative Behaviour; Culture (internal market oriented); PsyCap	1008 Hospital employees; Online cross-sectional survey; Convenience; Norway	POB /Psychological Capital theory (Luthans et al., 2007)	Success of innovative ideas depends upon culture build by the employees within the organizations. PsyCap has direct effect on innovative behaviours of the individual and it also strengthens the positive impact of organizational

				culture on innovative behaviours at work.
Slåtten et al,2020	PsyCap; Individual Creativity ; Leadership Autonomy Support	1008 employees; Offline survey; Cross-sectional; Health sector; Norway	POB /Psychological Capital theory (Luthans et al., 2007)	Leader's support for autonomy and PsyCap lead to creativity at work which further results in innovative behaviour.
Yan et al., 2020	Job Control;  Organizational Innovative Climate; PsyCap; Innovation behaviour	4677 nurses; Cross-sectional; Tertiary hospitals; China	POB /Psychological Capital theory (Luthans et al., 2007)	Nurses with higher PsyCap view problems at hand in positive light and engage in more innovative behaviours. Higher PsyCap is linked to greater job control which helps in promoting innovation. Organizational Climate which is supportive of new ideas mediates the relationship between PsyCap and innovative behaviour among nurses.
Asbari et al., 2021	Individual Creativity; Innovative behaviour; Psychological Capital	277 female employees; Manufacturing ; Simple random sampling; Cross-sectional survey;	POB /Psychological Capital theory (Luthans et al., 2007)	PsyCap is linked to creativity which further results in exhibition of innovative behaviour by employees.

		Indonesia		
Tho & Anh Duc; 2021	Team PsyCap; Team learning; Team innovation	272 team leaders; Retail; In-depth Interview; Offline survey; cross-sectional ; Vietnam	Social Contagion Theory (DeGoe, 2000) / Psychological Capital theory (Luthans et al., 2007)	Team PsyCap predicts knowledge creation & dissemination among team members. Team PsyCap leads to exploratory learning which further promotes innovation in teams.
Uen et al., 2021	PsyCap; Job Crafting (Team level) ; Innovative Work behaviour (Individual level)	163 employees; 45 teams; Survey; One-week interval 2 waves Taiwan	Job demands-Resources Theory (Demerouti et al., 2001) ; Conservation of Resource Theory (Hobfoll, 1989)	Teams which engage in job crafting techniques to increase resources and reduce hindrance demands at work accumulate PsyCap resources at team level. Employees in such teams are more likely to suggest new ideas and innovate.
Wang et al., 2021	Leader PsyCap; Psychological Safety; Growth need Strength (GNS); Innovative behaviour	81 leaders; 342 subordinates; Offline survey; Multi-wave; China	Conservation of Resource Theory (Hobfoll, 1989)	Leaders with high PsyCap support innovative behaviour among the subordinates. They promote such

	(employee)			behaviour by creation of safety climate (which encourages risk taking) at work and employees with high GNS are more active in innovating while working under such leaders.
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Review of literature revealed that most of the studies have relied on self-reported PsyCap levels of employees. Studies have been done on employees among diverse sectors and majority have adopted cross-sectional design. Most of the studies have drawn concepts from Positive organization behaviour or Conservation of resources theory(Hobfoll, 1989) to explain the relationship between PsyCap and innovation. However, few studies have employed theories such as Bandura’s theory, Vroom’s theory, and job demands –resources theory to suggest how PsyCap is linked to innovative behaviours at work.

Individual Level Analysis: As pointed out by the authors, the employee will direct efforts towards building new ideas only when he possesses sufficient levels of optimism, self-efficacy and hope that his ideas will yield productive results. Few Studies have indicated that employee’s psychological states had greater role in explaining innovative behaviour when compared to other job resources (Hsu and Chen, 2017; Nwanzu and Babalola, 2019). Not only individual employee’s PsyCap, studies have examined the role of team level PsyCap too. Based on social Contagion theory, Tho and Duc (2021) proposed that team with higher level of psychological strength is more likely to innovate better. Through in-depth interviews followed by survey among team leaders, they concluded that team PsyCap had positive association with overall team innovation.



Multi-level Analysis: Few identified studies which have reported PsyCap at multi-level are discussed in this section. These studies have not relied on single source but have used multiple sources of data collection to investigate the relationship between PsyCap and innovation.

Employing multilevel design, it was determined that employees, who are a part of teams with higher Psychological resources, reflect higher innovative behaviour (Uen et al., 2021). Such teams look for ways to increase resources at hand and minimize demands. Not only PsyCap of employees, studies have found support for role of leader's PsyCap in creating safe climate which encourages employees to take risks without fear. This in turn promotes innovative behaviour among employees (Wang et al., 2021).

### **Mediators in PsyCap and Innovation relationship**

It has been highlighted in the literature that it is important to identify the mediators in PsyCap and its outcomes relationship (Yan et al., 2020). But the review of available work suggests that very few studies have examined the mechanism that links PsyCap and outcome variables. This section includes findings of few studies which have examined such mediators.

Luthans et al. (2011) suggested that complex problems faced by organizations can be resolved by applying both positive organizational behaviour models as well as organizational behaviour modification model. Their results based on quasi-experimental design found that positive PsyCap had direct effect on innovation and it also had indirect effect on innovation through mastery-orientation. Having mastery-orientation is associated with seeking challenges and was found to be a mediator linking PsyCap and innovation in their study. Another study in China, among nurses reported that higher PsyCap promotes innovative behaviour by creating innovative climate in the organization (Yan et al., 2020). The study further examined the role of job control in enhancing such innovative behaviours at work. The results found that higher PsyCap was related to

higher job control which further promotes innovative behaviour among the nurses. Among hospital employees in Norway, it was concluded that higher PsyCap motivates them to generate novel ideas through creative thinking and is positively associated with Innovative behaviour among employee (Slåtten et al., 2020). In an attempt to investigate the mechanism linking female employee's PsyCap and creativity, a study among in a manufacturing firm concluded that PsyCap had significant effect on innovative behaviour and individual creativity mediated this relationship (Asbari et al., 2021).

Other studies: Studies were also found investigating the role of different leadership styles on PsyCap which further leads to innovation or better innovative capabilities of the employees. Leadership styles such as Transformational leadership (Le, 2020; Lei et al., 2020), Authentic leadership(Novitasari et al., 2020; Rashid et al., 2019), Inclusive leadership(Fang et al., 2019) have been found to increase PsyCap among employees and leads to improved employee's innovative behaviours.

#### **4. Conclusions**

In developing countries, utilizing employee's strengths is a less costly alternative of promoting innovation in organizations (Le, 2020). Employee's PsyCap is one such personal resource of employees which is crucial for the present organizations. All of the dimensions which comprise PsyCap have been described as "state like" employee resources which are open to development. Therefore, this literature review was aimed at drawing attention to the role of PsyCap in promoting creative and innovative behaviour in modern organizations. The review was not limited to any particular work sector and aimed at drawing conclusion which would help organizations in building & managing competitiveness through employees. The available literature suggests that the number of studies examining the effect of PsyCap on innovation and creativity are still sparse. From present studies, it can be concluded that employees with higher PsyCap exhibit

behaviours such as suggesting new ideas, thinking unique ways of accomplishing their work goals etc. Same is true for teams as well as leader's PsyCap. It is still inconclusive that which particular dimension of PsyCap is more strongly associated with innovative behaviour but it is quite clear that the higher order construct of PsyCap predicts such behaviour at work. This study revealed that the positive relationship between PsyCap and innovative behaviour is present across various occupation groups and sectors.

Rapidly changing business scenario needs employees who are ready with new ideas, and are comfortable in constantly finding unique ways to contribute to the organizations. Based on this review, it is suggested that Organizations can perform screening tests to hire candidates with high PsyCap during recruitment. Added to this is that organizations must develop or use various interventions which have been highlighted in the literature at regular intervals to help existing employees in managing & fostering their PsyCap.

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