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The moderating effect of Psychological Capital on the relationship between Leadership Approaches and Employee Creativity

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Abstract

Leadership styles and their inspiration for employee creativity play a fundamental role in organisational success by motivating innovation in the apparel industry. However, the nuanced role of psychological capital in moderating this relationship remains under-explored. This research undertaking to reveal the impact of three leadership styles democratic, autocratic, and liberal on employee creativity and to interpret the moderating role of psychological capital within these dynamics concerning the apparel industry in Sri Lanka. Adopting a deductive approach, data was obtained from a sample of 335 employees in the apparel sector using a structured questionnaire. Regression analysis was the basis of the data analysis process. Findings revealed that while all three leadership styles had a direct influence on employee creativity, psychological capital specifically moderated the effects of democratic and autocratic leadership on creativity. This research highlights the importance of recognizing the intertwined relationships between leadership, employee creativity, and psychological capital, especially for decision-makers in the apparel sector. The insights provide a foundation for nurturing an environment encouraging innovation, suggesting tailored leadership approaches considering the psychological capital of the workforce.

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Introduction

Leadership, often regarded as the cornerstone of organizational success, has received extensive attention in business research. In dynamic sectors such as the Sri Lankan apparel industry, where rapid innovation, cost-efficiency, and market responsiveness are crucial, leadership styles play a pivotal role in either enabling or inhibiting employee creativity. However, a deeper and more contextualized understanding of how leadership approaches interact with employee psychology to foster creativity remains underexplored.

The literature identifies three dominant leadership styles—**democratic, autocratic, and liberal**—each with distinct implications for employee creativity (Smith & Anderson, 2018). Democratic leadership, characterized by participative decision-making and inclusivity, is widely associated with a positive impact on creativity, as it promotes psychological safety and collective ideation (Goncalo et al., 2010). On the other hand, autocratic leadership, which emphasizes control and centralized decision-making, has often been criticized for stifling creativity due to its restrictive nature. However, some studies argue that in highly structured environments, autocratic leadership can foster creativity by removing ambiguity and enhancing execution (Zhang & Bartol, 2010). The liberal (laissez-faire) style, while providing maximum autonomy, has shown mixed results—supporting spontaneous creativity but sometimes lacking strategic direction or goal clarity (Amabile & Khaire, 2008).

While numerous studies have independently explored the impact of leadership on creativity, limited research critically examines the boundary conditions that influence this relationship, particularly Psychological Capital (PsyCap). PsyCap—encompassing hope, efficacy, resilience, and optimism (Luthans et al., 2007)—has emerged as a critical personal resource influencing employee behavior. Studies have shown that individuals with high PsyCap are more likely to persist in the face of challenges and engage in creative tasks. Yet, empirical work examining PsyCap as a moderating variable between leadership style and creativity is scarce and fragmented. For instance, while some researchers suggest that PsyCap may buffer the negative effects of autocratic leadership (Avey et al., 2011), others imply it could amplify the benefits of liberal leadership by fostering self-regulation and resilience. These findings are often contextually bound, and very few have been tested in developing economies or labor-intensive sectors like apparel.

Specifically in Sri Lanka, the interplay between leadership styles, PsyCap, and creativity remains largely unexamined. Despite the sector's significant role in the national economy and its dependence on innovation to maintain global competitiveness, little scholarly attention has been directed at understanding the psychological mechanisms that influence creative outcomes within the industry. Most existing studies either focus on leadership without considering employee-level psychological resources or assess PsyCap and creativity without leadership context. Moreover, research conducted in Western or high-tech organizational settings may not directly apply to the socio-cultural and operational realities of Sri Lanka's apparel sector, where hierarchical norms and collective values may moderate these relationships differently.

The primary objective of this study is to examine the impact of different leadership styles—namely democratic, autocratic, and liberal—on employee creativity within the Sri Lankan apparel industry. It further aims to assess the level of Psychological Capital (PsyCap) among employees, focusing on its four core dimensions: hope, efficacy, resilience, and optimism. A key objective is to investigate the moderating role of PsyCap in the relationship between leadership styles and employee creativity, exploring how variations in PsyCap influence the strength or direction of this association. Ultimately, the study seeks to offer practical recommendations for enhancing leadership practices and developing PsyCap-based interventions to promote employee creativity in the context of an innovation-driven, competitive industry.

This study holds significant value by offering theoretical, contextual, and practical contributions. Theoretically, it enriches the leadership-creativity literature by introducing Psychological Capital (PsyCap) as a moderating variable, addressing a critical gap and contributing to both contingency-based leadership theory and the domain of positive organizational behavior. Contextually, it situates the analysis within Sri Lanka's apparel industry—a sector vital to the national economy yet underexplored in academic research—thereby enhancing the external validity of existing frameworks by applying them to a non-Western, labor-intensive setting. Practically, the study provides actionable insights for industry leaders and HR practitioners by highlighting how leadership approaches can be optimized and PsyCap development strategies implemented to foster employee creativity, which is essential for sustaining competitiveness in an innovation-driven global market.

Methodology

Within the research framework, a positivist paradigm was adopted, emphasizing that knowledge can be obtained through observable, measurable phenomena and objective evidence. This philosophical stance is well-suited for studies seeking generalizable outcomes based on quantifiable data, reinforcing the empirical nature of this investigation (Bryman, 2012). Aligned with this paradigm, a deductive research approach was employed, whereby theoretical constructs and hypotheses derived from prior literature were tested through empirical data collection and analysis (Saunders et al., 2009).

The study targeted employees working in the apparel industry in the Western Province of Sri Lanka, which represents a key region in the country's garment manufacturing sector. The target population consisted of apparel sector employees at various organizational levels, including operational, supervisory, and managerial staff. A sample of 335 respondents was selected using a stratified random sampling technique, ensuring representation across different organizational roles and company sizes. Data were gathered using a structured self-administered questionnaire, enabling standardized responses and facilitating statistical analysis.

To ensure validity and replicability, the constructs used in the questionnaire were based on previously validated and widely used scales. Leadership styles (autocratic, democratic, and liberal) were measured using adapted items from the Leadership Styles Questionnaire (LSQ) developed by Lewin, Lippitt, and White (1939), and refined in more recent studies (e.g., Northouse, 2018). Each leadership style was measured using five items rated on a 5-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree").

Psychological Capital (PsyCap) was operationalized based on the Psychological Capital Questionnaire (PCQ) developed by Luthans et al. (2007), which measures hope, efficacy, resilience, and optimism. Each dimension was represented by six items, also on a 5-point Likert scale. Employee Creativity was assessed using the scale developed by Zhou and George (2001), which includes eight items that reflect individual creativity in the workplace.

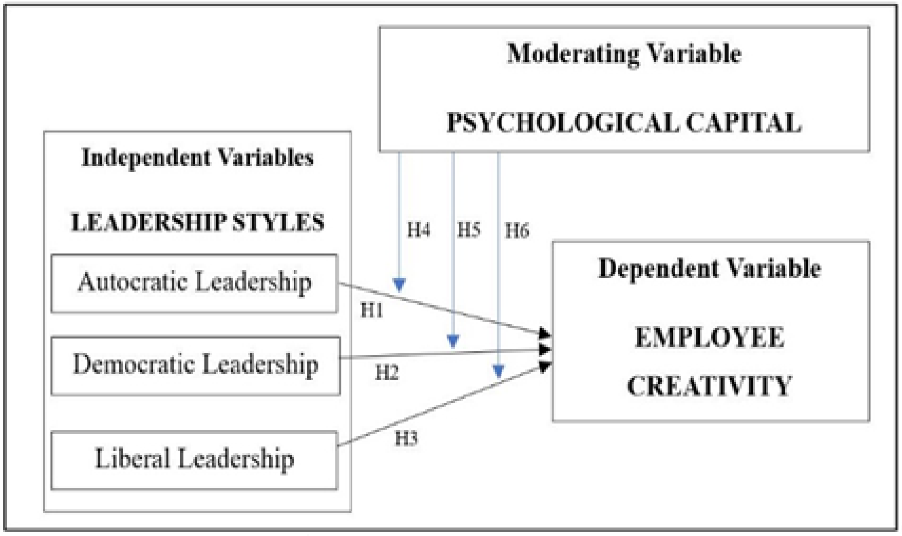
The reliability of all scales was confirmed through Cronbach's alpha, with each construct exceeding the recommended threshold of 0.70, indicating acceptable internal consistency. Additionally, construct validity was assessed through factor analysis, ensuring that each set of items loaded appropriately on their respective latent variables.

To mitigate common method bias, which can arise from collecting all data from a single source at one point in time, the study employed several procedural remedies. These included ensuring respondent anonymity, varying the order of questions in the survey, and using both positive and negatively worded items to reduce response pattern bias. Furthermore, a Harman's single-factor test was conducted post-hoc, which indicated that no single factor accounted for the majority of variance, suggesting that common method variance was not a serious concern.

To test the hypothesized relationships, particularly the moderating role of Psychological Capital, moderated multiple regression analysis was employed. This statistical technique enables the identification of interaction effects between independent variables (leadership styles) and the moderator (PsyCap) on the dependent variable (employee creativity). The data were analyzed using SPSS. This approach allowed for a nuanced understanding of how different leadership styles interact with employee psychological resources to influence creativity.

Conceptualization

This section introduces the theoretical model developed to guide the empirical analysis and address the research questions. The **conceptual framework** (Figure 1) was constructed based on an extensive review of prior literature and integrates leadership styles as independent variables, employee creativity as the dependent variable, and psychological capital as the moderator.



Source: Author Constructed

Figure 1: Conceptual Model

The model reflects the central hypothesis of the study: that the influence of leadership styles on employee creativity is contingent upon the psychological capital possessed by employees. Specifically, the model posits that autocratic, democratic, and liberal leadership styles influence employee creativity differently, and these effects are moderated by the level of psychological capital present in employees.

Hypotheses Development

Drawing on the conceptual framework and prior empirical findings, the following hypotheses were formulated:

- **H1**: Autocratic leadership has a substantial and negative impact on the creativity of apparel sector employees.
- **H2**: Democratic leadership has a substantial and positive impact on the creativity of apparel sector employees.
- **H3**: Liberal leadership has a substantial and positive impact on the creativity of apparel sector employees.
- **H4**: Psychological Capital significantly moderates the association between autocratic leadership and the creativity of apparel sector employees.
- **H5**: Psychological Capital significantly moderates the association between democratic leadership and the creativity of apparel sector employees.
- **H6**: Psychological Capital significantly moderates the association between democratic leadership and the creativity of apparel sector employees.

Results

The study was conducted among employees in apparel sector organizations in Western Province and several significant relationships were uncovered regarding leadership styles and employee creativity.

This section was arranged to summarise the outcomes of each statistical technique that revealed the agreement or rejection of the hypothetical statements built based on the preceding literature to support the discussion of the statistical findings. If the probability score (P-value) was less than or equal to the threshold of significance of 5%, the researcher agreed with the alternate hypotheses; otherwise, all alternate hypotheses with a probability greater than the threshold of significance of 5% were rejected. The evidence associated with the acceptance or rejection of each hypothesis is indicated in Table 1.1 as follows.

Table 1.1. Testing hypothesis

Hypothesis	Regression Analysis		Moderator Regression Analysis		Result (alternative Hypothesis)
	Coefficient	Likelihood score	Coefficient	Likelihood score	
H1	-.3790	0.000	-0.6532	0.0000	Accepted
H2	.5470	0.000	0.6370	0.0000	Accepted
H3	-.0960	0.000	-0.1627	0.0025	Accepted
H4	-	-	0.0976	0.0020	Accepted
H5	-	-	-0.1097	-0.0003	Accepted
H6	-	-	-0.0092	-0.7897	Rejected

Source: Survey data (2023)

The results of the regression and moderator regression analyses are summarized in Table 1.1. The findings reveal several important dynamics between leadership styles, psychological capital, and employee creativity within Sri Lanka's apparel sector.

Firstly, a positive and significant relationship was found between democratic leadership and employee creativity (H2), with a coefficient of 0.5470 ($p < 0.001$), indicating that participative, inclusive leadership is conducive to fostering creativity. The effect remained significant even when moderated by psychological capital ($\beta = 0.6370$, $p < 0.001$), confirming the robustness of this leadership style in enhancing creative outcomes.

In contrast, autocratic leadership exhibited a strong negative relationship with employee creativity (H1), as shown by the coefficient of -0.3790 ($p < 0.001$), which further deepened under moderation ($\beta = -0.6532$, $p < 0.001$). This aligns with existing literature suggesting that rigid, top-down control tends to suppress idea generation and innovation. However, psychological capital had a significant positive moderating effect on this relationship (H4: $\beta = 0.0976$, $p = 0.0020$), indicating that employees with higher levels of hope, resilience, efficacy, and optimism are more capable of maintaining creative engagement, even under restrictive leadership.

Interestingly, liberal (laissez-faire) leadership also demonstrated a negative relationship with employee creativity (H3), with a regression coefficient of -0.0960 ($p < 0.001$), which intensified slightly when moderated ($\beta = -0.1627$, $p = 0.0025$). This counters the conventional assumption that autonomy fosters creativity and suggests that, in this industry, excessive freedom without direction may lead to confusion or lack of goal alignment. Furthermore, psychological capital was found not to significantly moderate the relationship between liberal leadership and creativity (H6: $\beta = -0.0092$, $p = 0.7897$), indicating that internal psychological resources alone are insufficient to compensate for a lack of leadership structure or guidance.

Of particular note, psychological capital unexpectedly showed a significant negative moderating effect on the positive relationship between democratic leadership and creativity (H5: $\beta = -0.1097$, $p < 0.001$). This suggests a possible "ceiling effect"—when both leadership support and internal PsyCap are high, the additional benefit of democratic leadership may be diminished, or it may lead to overconfidence or reduced urgency for innovation. This nuanced interaction warrants further qualitative investigation. Overall, the findings reinforce the critical role of leadership in shaping creative outcomes, while also emphasizing that psychological capital can both buffer and reshape these effects, depending on the leadership context. The negative impact of liberal leadership and the counterintuitive moderation in democratic settings open new avenues for research, especially in hierarchical, process-driven industries like apparel manufacturing.

Discussion

Initially, this empirical exploration discovered that there is a substantial and constructive effect of democratic leadership on employee creativity. Drawing from XML theory, democratic leadership is characterised by inclusive decision-making and active collaboration. This style fosters an environment where employees feel their opinions are valued, leading to enhanced motivation and empowerment. Empirical findings have consistently supported this theoretical stance. For instance, Nawaz and Khan (2016), Derecskei (2016), and Iqbal (2015) stated that democratic leadership has a substantial and favourable impact on the creativity of the employees who work in organizations. Moreover, another study conducted by Smith and Anderson (2018) found that democratic leadership encourages open communication and the free exchange of ideas, which are essential components of creativity. By promoting participation and valuing diverse viewpoints, democratic leaders tap into the collective creative potential of their teams, further validating the analytical findings on the positive association between democratic leadership and employee creativity. Autocratic leadership, as highlighted in the XML theory, is defined by central decision-making and a top-down approach to management. Such a leadership style may stifle individual expression and hinder creative thinking, as employees might feel their ideas are not welcomed or would be overshadowed by the leader's directives. Previous empirical research echoes this sentiment; for example, a study by Johnson (2017) indicated that autocratic leadership often suppresses innovative thought as it limits the scope for individual contribution and experimentation. Moreover, recent studies carried out by Nawaz and Khan (2016), Pourmohommad and Rezai (2016), Guo et al. (2018), and Chukwusa (2018) also revealed that there is a substantial and unfavourable association between the autocratic leadership style and the employee creativity of organisations operating in different segments of the economy. The analytical results, showing a negative association between autocratic leadership and employee creativity, align with this theoretical and empirical backdrop, underscoring the restrictive nature of autocratic leadership on creativity.

On the other hand, according to the XML theory, liberal leadership, often termed laissez-faire leadership, is characterised by a hands-off approach, granting employees high levels of autonomy without providing much guidance or feedback. While this might seem like a conducive environment for creativity, it can often lead to a lack of direction and motivation among employees. Previous empirical studies, such as the one conducted by Thompson & Harris (2019), found that without proper guidance and feedback, employees might feel directionless, leading to reduced creative endeavours. This lack of structure and clarity, coupled with the absence of motivational cues, can inadvertently hamper creativity. The statistical findings, showing a negative relationship between liberal leadership and employee creativity, reflect this theoretical perspective and past empirical observations.

Theoretical frameworks suggest that psychological capital (PsyCap), encompassing optimism, resilience, hope, and self-efficacy, can act as a buffer against potential negative workplace dynamics. In the context of autocratic leadership, which typically stifles individual expression and innovative thinking, employees with high PsyCap might still find avenues for creativity due to their inherent resilience and self-efficacy. Empirically, studies such as those by Newman et al. (2014) have highlighted that individuals with strong psychological capital can maintain higher levels of creativity even under restrictive leadership styles. The statistical results of this study, showcasing the positive moderating effect of PsyCap on the association between autocratic leadership and employee creativity, support these theoretical and empirical insights. This suggests that even in stringent autocratic environments, psychological capital can empower individuals to navigate and express their creative potential.

Theoretically, democratic leadership, which promotes open communication and collaboration, should synergize well with psychological capital to further boost employee creativity. However, the statistical findings reveal a negative moderating effect. This might be explained by overreliance. That is, employees with high PsyCap, when placed under democratic leadership, might become overly confident or complacent, hindering their creative potential. Past empirical studies like the one by Harris and

Harmon (2018) suggest that too much of a positive environment, when combined with high individual optimism and self-assurance, might diminish the urgency or drive to innovate. Our results reflect this nuanced interplay between individual psychological strengths and leadership styles, suggesting that an optimal balance is crucial for fostering creativity.

Liberal (or laissez-faire) leadership, characterised by a hands-off approach, theoretically allows individuals' intrinsic qualities, such as psychological capital, to play a predominant role in determining outcomes like creativity. One would expect that employees with high PsyCap would naturally thrive in such an environment. However, our findings reveal no significant moderating effect. This might be in line with empirical findings like those by Williams, M. (2016), which suggest that while high PsyCap can drive individual initiatives, the absence of any leadership guidance (as seen in laissez-faire styles) might neutralise its impact. Essentially, even individuals with high psychological capital need some form of direction or structure to channel their creativity effectively. This result emphasizes the critical balance between individual attributes and organisational direction in influencing creativity.

The interplay between leadership styles and psychological capital (PsyCap) offers nuanced insights into employee creativity. While autocratic environments can be navigated by employees with high PsyCap to maintain creativity, democratic settings, paradoxically, might see diminished innovation if employees become complacent. In laissez-faire leadership scenarios, the absence of any discernible guidance neutralizes the potential positive impacts of PsyCap. Therefore, organizations should not only consider the predominant leadership style but also focus on nurturing and channeling employees' psychological capital effectively. It underscores the need for balanced leadership that provides direction without stifling individual resilience and self-efficacy, ensuring optimal creativity and innovation.

Conclusions

This study explored the interplay between leadership styles, employee creativity, and psychological capital within Sri Lanka's apparel industry, offering valuable contributions both theoretically and practically. It addressed a notable gap in the existing literature by examining how psychological capital moderates the effects of autocratic, democratic, and liberal leadership on employee creativity—an area previously underexplored, particularly in developing country contexts like Sri Lanka.

The findings revealed that democratic leadership positively influences creativity, while autocratic and liberal leadership styles are negatively associated with creative outcomes. Importantly, psychological capital significantly moderates these relationships: it buffers the negative effects of autocratic leadership and unexpectedly reduces the positive impact of democratic leadership, suggesting that the optimal influence of leadership style may vary depending on employees' psychological strengths.

Practical Implications and Recommendations

Managers in the apparel sector should adopt leadership styles that align with the psychological profiles of their employees. For employees with low psychological capital, a democratic leadership style is most effective, providing support, collaboration, and motivation to enhance creativity. For employees with high psychological capital, even more structured or autocratic approaches may be acceptable, as their internal resilience and optimism can help sustain creativity under tighter control.

To operationalize these insights, the following recommendations are proposed:

- Leadership development programs should include training on adaptive leadership styles, enabling leaders to tailor their approach based on the psychological needs of their teams.
- Psychological capital enhancement workshops should be integrated into HR practices, focusing on building hope, efficacy, resilience, and optimism through coaching, mentoring, and experiential learning.
- Organizations should develop employee profiling tools to assess psychological capital levels, guiding leaders to choose leadership approaches accordingly.
- Policymakers and industry associations should issue guidelines and encourage best practices for promoting employee creativity through integrated leadership and psychological development strategies.

By strategically aligning leadership practices with psychological resources, apparel firms can not only foster creativity but also drive innovation, performance, and competitive advantage in a rapidly evolving global market.

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