

**THREE STEPS FORWARD AND ONE STEP BACK:
EXPLORING RELATIONSHIPS BETWEEN AUTHENTIC LEADERSHIP,
PSYCHOLOGICAL CAPITAL AND LEADERSHIP IMPACT**

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ABSTRACT

While the theoretical conceptualisation of authentic leadership is relatively well advanced, empirical inquiry into the phenomenon is at a comparatively early stage of development. This exploratory study contributes to this effort by investigating the nature of the relationship between authentic leadership and two related concepts: the psychological capital (PsyCap) of the followers that are being led and the impact that the leader is perceived to have on the organisation's fortunes and well-being (Leadership Impact). Drawing on data collected from a national authentic leadership survey conducted in New Zealand, the analysis found that the unmediated relationship between authentic leadership and PsyCap, was, as expected, positive and significant. However, when Leadership Impact was included as a mediator of Authentic Leadership's effect on PsyCap, a significant negative path was discovered to exist directly between Authentic Leadership and PsyCap. This suggests that the positive relationship between Authentic Leadership and PsyCap is actually the net result of two simultaneous opposing relationships, a positive one mediated by Leadership Impact and a direct negative one. These results suggest that the organisational implications of authentic leadership are more complex than generally assumed and, therefore, worthy of further investigation.

Keywords: Authentic Leadership, Psychological Capital, Leadership Impact

INTRODUCTION

In the aftermath of a number of widely publicised high profile corporate and political scandals, authenticity has emerged as a defining characteristic of contemporary leadership. Those in leadership positions cite authenticity as a characteristic they wish to be defined by while members of organizations, communities and societies increasingly demand authenticity from their leaders. For example, at the time of writing this paper, the media have just completed an extensive retrospective evaluation of the political fortunes of Tony Blair during his ten-year reign. Questions regarding Blair's authenticity (as well as his sincerity) were perennially raised throughout his premiership by media commentators and the electorate in a way that has made authenticity the new universal gold standard for all leaders—whether they lead within political, business, community, religious or celebrity circles. The time is, therefore, ripe for a sustained exploration of the relationship between authenticity and leadership

Spurred on by this widespread interest, Authentic Leadership Theory has rapidly assumed a position within the vanguard of leadership thinking. Bruce Avolio and his colleagues at the Gallup

Leadership Institute at the University of Nebraska-Lincoln have developed a theory of authentic leadership which has emerged from the examination of high-end transformational/full-range leadership, Positive Organisational Behaviour (POB), and moral and ethical scholarship (Luthans & Avolio, 2003). Positive forms of leadership, such as transformational/full-range leadership (Bass & Avolio, 1989), have been found to provide only a limited behavioural guide for leaders. The ethical and moral component of such leadership styles had been underemphasised (Luthans & Avolio, 2003; Michie & Gooty, 2005). With the incorporation of positive psychological capacities, authentic leadership moves beyond transformational/full-range leadership. Authentic leaders' concern for others over their own self-interest coupled with their ability to manage moral and ethical issues places them at the higher end of full-range leadership (Luthans & Avolio, 2003). Authentic leadership is, therefore, fundamentally concerned with the substance of leadership, independent of leadership style (George, 2003; Hughes, 2005; Luthans & Avolio, 2003).

The purpose of this exploratory study is investigate the nature of the relationship between authentic leadership and two related concepts: the psychological capital (PsyCap) of the followers that are being led and the impact that the leader is perceived to have on the organisation's fortunes and well-being (leadership Impact). The fields of Positive Psychology (Seligman & Csikszentmihalyi, 2000) and Positive Organisational Behaviour (POB) (Luthans, 2002), have both been major influences in the development of these concepts. The common assumption underpinning authentic leadership and psychological capital is that organisations successfully move forward by concentrating on, and building on individuals' strengths, rather than using individual and organisational interventions that highlight what is wrong with people and their weaknesses (Fry & Whittington, 2005; Luthans & Avolio, 2003). What we want to do in this study is to empirically investigate how authentic leadership and psychological impact inter-relate and how, in turn, these are inter-related with leadership impact within the organisation.

We begin the paper by first defining and describing the evolution of each of these three concepts and how they might best be explored empirically. We then describe an empirical study involving a stratified, random national survey of New Zealand organisations (Levy & Bentley, 2007). The results of structural equation modelling undertaken on data collected from this survey are then presented using maximum likelihood estimation. The paper concludes considering the study's contributions, its limitations and the implication the findings pose for leadership research and practice.

Authentic Leadership

The concept of authenticity can be traced back to Greek philosophy but has been most famously encapsulated in the Shakespearean epithet, "to thine own self be true" (Harter, 2005). The quest for authenticity has become a central preoccupation of positive psychologists who have conceptualised it as state in which one can genuinely own one's personal experiences, thoughts,

emotions, beliefs, and desires (Avolio & Gardner, 2005a; Harter, 2005; Luthans & Avolio, 2003). For example, Kernis (2003) characterises authenticity as “reflecting the unobstructed operation of one’s true, or core, self in one’s daily enterprise.” (2003: 13). He identifies four components of authenticity: awareness, unbiased processing, action, and relational which have been further refined into self-awareness, balanced information processing, moral and ethical perspective, and relational transparency (Gardner, Avolio, Luthans, May & Walumbwa, 2005a). These components form the basis for what constitutes a recently validated measure of authentic leadership which we have used in our empirical study (Walumbwa et al, 2006). These components are characterised as follows:

Self-awareness – developing an understanding and sense of self that provides a firm anchor for decisions and behaviour.

Balanced information processing - unbiased collection and interpretation of positive and negative self-related information.

Moral and ethical perspective – behaviour and decision-making are guided by core values, beliefs, thoughts, and feelings rather than outside pressures and personalities.

Relational transparency – high levels of openness, self-disclosure and trust in relationships.

Logically, achieving authenticity in accordance with the above definition is a precondition of authentic leadership. Self-awareness (i.e. owning one’s values, identity, emotions, motives and goals) and self-regulation are the two most fundamental components of the four discussed by Kernis (2003). While self-awareness focuses on knowledge of one’s core self-concept, self-regulation can be broken into four constructs: (1)internalised regulatory processes, (2)balanced processing, (3)relational transparency, and (4)authentic behaviour (Gardner et al., 2005a). In combination with these characteristics, authentic leaders are, it is argued, orientated toward courses of action that are underpinned by what is “right”, moral, and ethical rather than self-serving and self-promoting (Fry & Whittington, 2005; George, 2003).

While empirical research validating authentic leadership is fairly limited, in-depth theoretical propositions relating to the impact of authentic leaders have been presented in the literature (see Avolio & Gardner, 2005b, Gardner, Avolio & Walumbwa, 2005b). For example, it is proposed that authentic leaders develop authentic followers through the positive modelling of authentic leadership capacities (Gardner, et al., 2005a). Moreover, it is proposed that, among the most important positive follower outcomes resulting from authentic leadership are: increased eudaemonic well-being (Ilies, Morgan & Nahrgang, 2005), increased trust and engagement (i.e. involvement, satisfaction and enthusiasm) (Gardner et al., 2005), higher levels of self-development (Gardner & Schermerhorn, 2004; Luthans & Avolio, 2003), and ultimately, the true test of authentic leadership, authentic follower development (Avolio et al., 2004; Gardner et al., 2005a; Ilies et al; 2005; Luthans, Avery, Avolio, Norman & Combes, 2006).

Psychological Capital

Authentic leaders are generally said to possess high levels of Psychological Capital (PsyCap) (Gardner & Schermerhorn, 2004; Luthans, Youssef & Avolio, 2007). Psychological Capital (PsyCap) or positive psychological capacities, are state-like characteristics that one develops over one's lifetime. The emphasis on these characteristics sets authentic leadership apart from other positive forms of leadership (Gardner & Schermerhorn, 2004; Luthans & Avolio, 2003). Highlighting PsyCap characteristics as *states* is important as PsyCap is conceptualised as being open to development. This is in contrast to an 'all or nothing' framing of personality traits, such as the 'Big-Five' (Luthans et al., 2007).

PsyCap 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 (resiliency) to attain success" (Luthans et al., 2007: 3). Recent research (see Luthans Avery & Norman, in press; Luthans et al., 2007) has focused on empirically validating the four components of PsyCap (i.e. self-efficacy, optimism, hope and resilience). It has endeavoured to demonstrate that the components can be reliably and validly measured, and can be used to predict desired work performance outcomes. Furthermore, PsyCap has been identified as a previously overlooked, yet highly valuable source of competitive advantage for individuals and organisations to build in much the same way that financial capital, knowledge capital, reputational capital and social capital have been conceptualised (Avolio et al., 2004; Gardner et al., 2005a; Jensen & Luthans, 2006).

The Link Between Authentic Leadership and Followership

The authentic leader alone does not constitute Authentic Leadership since leadership, by definition, involves social influence processes between a leader and followers; a leader is said to be authentic only when followers deem him/her to be authentic (Shamir & Eilam, 2005). Authentic follower development follows much the same model as authentic leader development. As discussed above, authentic follower development results from authentic leaders modelling PsyCap as well as deploying authentic leadership capacities. Recently, Luthans *et al.* (2007) proposed that authentic leaders who are also transformational have an increased positive impact on their followers' PsyCap. Furthermore, Avolio and Luthans (2005) emphasise the performance impact of authentic leadership, stating that, without specific performance goals, authentic leaders will not be able to sustain investment in their own or others' authentic leader development.

The nature and level of authentic leadership development performance impact (leader impact) is defined at five different levels: 1) intra-personal, 2) inter-individual, 3) group/team, 4) organisation,

and 5) community. Each of these levels is measured according to a typical or extraordinary level of performance, and relate to some of the most important aspects of high performance environments, namely purpose, trust, excitement, significance, and sustainability. To generate extraordinary performance, it is argued, leaders must maintain high levels of PsyCap, which is part of their authentic leadership development (Avolio & Luthans, 2005). A recent survey of authentic leadership, follower PsyCap, and leader impact in New Zealand organisations supported a positive relationship between leader impact and follower PsyCap and between leader impact and authentic leadership. Furthermore, a positive relationship between authentic leadership and follower PsyCap was found (Levy & Bently, 2007).

The results of the New Zealand national study support the proposition put forward by Luthans *et al.* (2007) of a positive relationship between authentic leadership and PsyCap; that as authentic leadership increases so does follower PsyCap. Therefore, we proposed positive relationships between authentic leadership and leader impact, and PsyCap and leader impact. However, the relationships among authentic leadership, PsyCap, and leader impact have not been investigated. Thus the purpose of this study was to further investigate the relationships among these three concepts. It was proposed that the relationship between authentic leadership and PsyCap is mediated by leader impact. To test this proposition the same database as the national authentic leadership survey in New Zealand was used. Structural equation modelling using maximum likelihood estimation was used to develop a model of the relationship among authentic leadership, PsyCap, and leader impact.

Hypothesis 1: The relationship between Authentic Leadership and PsyCap is positive, as Authentic Leadership levels increase, levels of follower PsyCap increase.

Hypothesis 2: The relationship between Authentic Leadership and PsyCap is mediated by Leader Impact, such that:

*Hypothesis 2a: Authentic Leadership is positively related to Leader Impact,
and;*

Hypothesis 2b: Leader Impact is positively related to PsyCap.

METHOD

Participants

Three thousand surveys were posted to a stratified random sample of New Zealand employees in primarily mid-sized organisations (i.e. up to 500 employees). Included with the survey was an anonymous return envelope to the New Zealand Leadership Institute. Eight hundred and sixty-three

usable surveys were returned, for a response rate of 28%. The sample was 54% female, with a median age of 35-39 years, a median of 15-20 total years work experience, and a median of 3-7 years tenure with their current employer. All participants were 18 years or older.

Measures

Authentic Leadership. A subset of 12 of the 16-point Authentic Leadership scale (Avolio & Gardner, 2005; Walumbwa et al, 2006) was used to measure the participant's perceptions of the levels of leader authenticity within their organisation. Three items were used for each of the four authentic leadership components (i.e. transparency, balanced processing, moral and ethical perspective and self awareness). Participants reported how frequently each statement described the leaders in their organisation, on a 4-point Likert scale (ranging from 0=Not at all to 4=frequently, if not always).

Psychological Capital. A subset of 11 items from the PsyCap scale (Luthans, et al., 2006) was used in this study: three items for hope, resiliency, and self-efficacy; two items for optimism. Participants were asked to rate each item based on their own experience on a 6-point Likert scale (ranging from 1=strongly disagree to 6=strongly agree).

Leadership Impact. The five item scale developed by Avolio and Luthans (2005) was used. Participants were asked to rate each item based on their own experience with the leadership within their current organisation on a 5-point Likert scale (1=strongly disagree, 5=strongly agree).

The following sample items from each of these scales illustrate the type of statement that the participants were asked to comment upon:

- Authentic Leadership: “[Leaders in my organisation] say exactly what they mean”
- PsyCap: “Right now I see myself as being pretty successful at work”
- Leadership Impact: “I feel my work makes an important contribution to my organisation”

RESULTS

Table 1 presents the descriptive statistics for all variables. These are discussed extensively in Levy and Bentley (2007). Maximum likelihood structural equation models were used to assess the relationships between PsyCap, Authentic Leadership, and Leadership Impact. The initial model used Authentic Leadership to predict PsyCap and Leadership Impact. This model had an acceptable fit ($X^2_{334}=1121.08$, $X^2/df=3.36$, SRMR = 0.06, CFI = 0.93, RMSEA = 0.05), based on Hu and Bentler's (1999) combinatorial criteria. However, a model with Leadership Impact mediating the relationship between Authentic Leadership and PsyCap had a superior fit ($X^2_{333}=918.97$, $X^2/df=2.76$, SRMR = .04, CFI = 0.95, RMSEA = 0.05), and was adopted as the primary model.

Table 1. Descriptive Statistics and Zero-Order Correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1. Leadership Impact	19.96	3.22	(0.79)										
2. Authentic Leadership	44.69	8.87	0.63	(0.93)									
3. Transparency	11.38	2.54	0.58	0.89	(0.77)								
4. Self-Awareness	10.59	2.53	0.57	0.91	0.74	(0.78)							
5. Balanced Processing	10.81	2.42	0.54	0.91	0.72	0.79	(0.71)						
6. Moral/Ethical Perspective	11.91	2.38	0.56	0.89	0.74	0.73	0.75	(0.81)					
7. Psychological Capital	52.45	6.96	0.61	0.41	0.39	0.38	0.36	0.35	(0.87)				
8. Hope	14.24	2.11	0.43	0.27	0.25	0.27	0.24	0.22	0.82	(0.7)			
9. Self-Efficacy	14.28	2.63	0.53	0.37	0.36	0.33	0.32	0.32	0.82	0.49	(0.8)		
10. Optimism	9.21	1.72	0.64	0.46	0.42	0.43	0.41	0.38	0.8	0.56	0.61	(0.61)	
11. Resilience	14.72	2.09	0.4	0.26	0.26	0.24	0.22	0.23	0.8	0.66	0.47	0.52	(0.61)

N= 834, All correlations $p < 0.01$

Cronbach's Alpha score in diagonal

The final model included eight adjustments to improve the fit to the data. These included six correlated error terms among first-order factors of Authentic Leadership or PsyCap. For instance, a correlated error adjustment was made between an indicator of PsyCap hope, and an indicator of PsyCap optimism. There was also a correlated error between the PsyCap and Leadership Impact items that both addressed future expectations for the organisation. Finally, a direct path was added from one indicator of Leadership Impact (“I am confident in my organisation’s financial future”) to one indicator of PsyCap’s optimism component (“I’m optimistic about what will happen to me in the future as it pertains to work”). Note that all results discussed below were substantively unchanged when these adjustments were excluded.

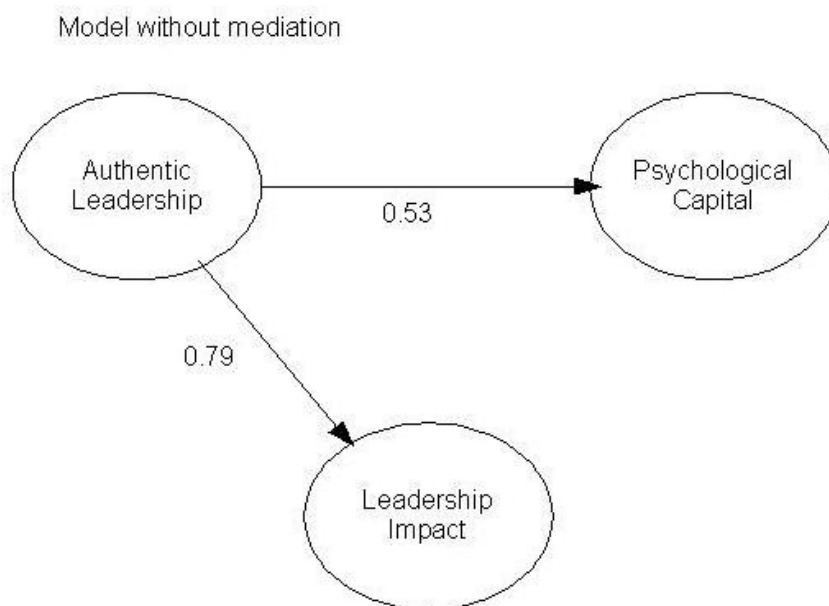
Both Authentic Leadership and PsyCap were modelled as second-order factors, each based on the four hypothesized first-order factors (i.e. transparency, self-awareness, balanced processing, and moral-ethical perspective or hope, self-efficacy, optimism, and resilience, respectively). These second-order factors’ convergent validity was suggested by the model fit and the fact that all beta coefficients were significant and greater than 0.80 (Chin, 1998). Moreover, alternative models without the second-order factor were tested, and all had significantly worse fit (refer to Table 2).

Figure 1 reports the unmediated relationship between Authentic Leadership and PsyCap, which was positive and significant, as expected ($\beta=0.51, p<0.01$). However, including Leadership Impact as a mediator of Authentic Leadership’s effect on PsyCap revealed a more complex relationship (see Figure 2). Authentic Leadership had a positive relationship with Leadership Impact ($\beta=0.76, p<0.01$) which, in turn, had a positive link to PsyCap ($\beta=0.98, p<0.01$). But there was also a significant negative path directly from Authentic Leadership to PsyCap ($\beta=-0.25, p<0.01$). This suggests that the positive relationship between Authentic Leadership and PsyCap is actually the net result of two simultaneous opposing relationships, a positive one mediated by Leadership Impact and a direct negative one.

Table 2. Comparison of Alternative Models

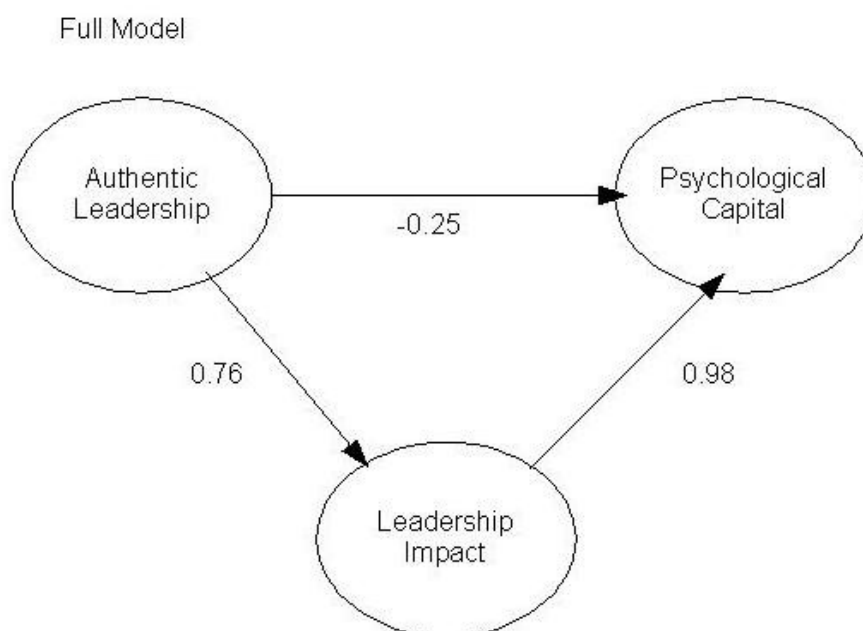
Model	χ^2 (df)	$\Delta\chi^2$ (df)	χ^2/df	SRMR	CFI	RMSEA
Full model	918.97 (333)	--	2.76	0.04	0.95	0.05
Model without mediation	1121.08 (334)	202.11 (1)	3.36	0.06	0.93	0.05
Full model , without second-order Authentic Leadership	3263.52 (330)	2344.55 (3)	9.89	0.23	0.74	0.1
Full model , without second-order Psychological Capital	959.45 (331)	40.48 (2)	2.9	0.04	0.94	0.05
Full model , without either second-order factor	3288.75 (319)	2369.78 (14)	10.31	0.23	0.73	0.11

N=834, All $\Delta\chi^2$ significant, $p < .01$



All standardized coefficients, $p < 0.01$

Figure 1. Full model of relationships among variables



All standardized coefficients, $p < 0.01$

Figure 2. Mediated model of relationships among variables.

DISCUSSION AND CONCLUSION

The results of this study show that there is a highly positive and significant correlation between authentic leadership and PsyCap, as suggested by Luthans *et al.* (2007). Partial support was found for hypothesis 2; the mediated relationship among the three variables revealed positive relationships between authentic leadership and leader impact, and between leader impact and PsyCap. However, the relationship between authentic leadership and PsyCap when mediated by leader impact was negative and significant; this is surprising as we predicted full mediation. These results are particularly interesting as they reveal that the positive relationship between authentic leadership and PsyCap is an overall net result of two simultaneous opposing relationships, a large positive one mediated by Leadership Impact and a smaller direct negative one.

Overall, these results reveal that the impact of authentic leadership on organisations is complex, and has both positive and negative effects. This effect is suggested in the title of the paper “Three Steps Forward and One Step Back”. A plausible explanation of these results is that while Authentic leadership is broadly beneficial to the organization’s desire to progress, it might create difficulties for individual followers as they cope with the consistent pressure to perform and be conscious of their failings in light of their leader’s expectations and high ethical and moral standards. Alternatively, these results might indicate a cultural anomaly specific to the New Zealand context. Further research using a New Zealand sample in comparison with other national samples is needed to clarify our understanding of the relationships among these concepts.

From a theoretical perspective, this study confirms the second-order factor structure of authentic leadership and PsyCap in a diverse, non-American sample. New Zealand was only the second country outside of the United States in which this instrument has been applied. The scale items worked consistently in the New Zealand sample to measure the underlying constructs that they were developed to measure in an American sample. Moreover, our results confirmed that the second-order factors were a good fit to the data, over the first-order factor model.

The results of this study have also clarified the mechanism by which authentic leaders have impact on organisations. Specifically, authentic leaders directly influence follower’s PsyCap, which subsequently impacts upon an organisation’s competitive advantage, as proposed by other researchers (see Avolio & Luthans, 2005; Luthans *et al.*, 2007). Additionally, we believe that authentic leadership can provide a source of increasing the levels of creating PsyCap within followers. Both these conclusions further emphasise the complex impact authentic leaders have on organisations, and the importance of uncovering the negative effects of authentic leadership found in this study.

The present study has two primary limitations. First, the data were collected on a cross-sectional basis across New Zealand organisations. This means that conclusions about causality cannot be drawn. Secondly, both the predictor and criterion measures were from the same source, which

introduces the threat of common methods bias. Nonetheless, our findings still lend initial support for our proposition but we recognise that it needs to be probed further in a range of empirical contexts.

In the next phase of the project we plan to confirm and refine these findings using a smaller panel working adults to complete a refined survey at two time points approximately one month apart. The longitudinal data that we collect from this survey will allow us to assess causality in a way that the initial survey was unable to render. The refinements will also include measures to confirm our hypothesised explanations for explaining the relationship between authentic leadership, psychological capital and leadership outcomes.

We plan to supplement this quantitative analysis by conducting a discursively oriented qualitative study of the attitudes and perceptions that leaders who participate in our leadership development programmes have of the relationship between leadership and authenticity. We believe that authenticity provides a singularly powerful as well as a topical construct for understanding the perceptions and expectations that the workforce has of their leadership. In common with leadership development programmes the world over, our leadership development efforts are increasingly orientated towards producing reflective leaders with enhanced self-awareness and mastery who are well placed to grapple with the opportunities as well as some of the perils of developing authentic leadership in contemporary organisations. Armed with further theoretical refinement informed by empirical research, we can expect these leaders to make progress--one step at a time.

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