Linking Transformational and Despotic Leadership to Employee Engagement: Unfolding the Role of Psychological Distress as a Mediator

Xiangyu Song 1, Mishal Khosa 2,*, Zeeshan Ahmed 2, Abdulaziz Fahmi Omar Faqera 3, Nhat Tan Nguyen 4, Shafique Ur Rehman 5 and Yueyong He 6

1 College of Economics and Management, Guiyang University, Guiyang 550009, China; sxy1981825@sina.com
2 School of Business Management, Universiti Utara Malaysia, Sintok 06010, Kedah, Malaysia; dr.zeehanahmedkhosa@gmail.com
3 School of Government, Universiti Utara Malaysia, Sintok 06010, Kedah, Malaysia; azizfaqera@gmail.com
4 Faculty of Business Administration, Ho Chi Minh City University of Foreign Languages—Information Technology, Ho Chi Minh City 70000, Vietnam; tan.nn@huflit.edu.vn
5 ILMA University Business School, ILMA University, Main Ibrahim Hyderi Road, Korangi Creek, Karachi 75190, Pakistan; shafiqueurrehman2018@gmail.com
6 School of Management, Guizhou University, Guiyang 550025, China; tmrh715@163.com
* Correspondence: dr.mishalkhosa@gmail.com

Abstract: This research investigates the antecedents of employee engagement in Pakistan’s banks to conceptualize the idea of employee engagement. For this, the study examines the relationship between transformational leadership (TL), despotic leadership (DL), and the mediation of psychological distress (PD) with an outcome variable, employee engagement (EE). The study focused on first-line bank managers based in Punjab province using a cluster sampling technique. A questionnaire survey was used, and 341 respondents were selected for analysis using PLS-SEM. The study’s findings confirmed that all seven hypotheses tested were statistically significant. The results revealed that the transforming role of transformational leadership is more effective than despotic leadership in promoting employee engagement. The indirect link of psychological distress between transformational leadership, despotic leadership, and employee engagement also acts vice versa. The current study findings have implications for advancing our understanding of the effects of transformational leadership because of their positivity, which can reduce psychological distress and increase employee engagement in the service sector. In contrast, despotic leadership undermines employees’ abilities by increasing psychological distress and disengagement among employees. Our findings will help the banking industry understand how despotic and transformational leadership can negatively and positively affect employee outcomes.

Keywords: employee engagement; transformational leadership; despotic leadership; psychological distress; conservation of resources theory; banking; Pakistan

1. Introduction

The service sector is the world’s fastest and largest developing sector, accounting for the greatest overall employment and GDP in developing and developed economies. For example, the service sector accounts for 38.4 percent of total GDP in low-income countries, 54.3 percent in middle-income countries, and 56 percent in high-income countries [1]. As a developing country, Pakistan places a high value on the contribution of the service sector to annual GDP growth, which contributes 53.8 percent, with a 4.4 percent annual growth rate [1,2]. Compared to other service sectors, the banking sector is probably the most critical service sector in terms of economic development and growth [3]. As a result, the banking sector’s strength is highly contingent upon the efficiency of its employees. Indeed, human resources are considered the most important resource among an organisation’s resources, as...
they are vital to achieving an organisation’s goals and objectives when managed effectively. Employee engagement, which encompasses well-being and motivation, benefits employees, and organisational performance [4,5], as engaged employees are more dedicated to their tasks and serve as role models for others [6], and because of the ability of the service sector to bring organisations to the highest level by relying on EE due to its positive implications for organisations. Thus, increasing employee engagement has become a top priority for organisations worldwide, in the banking industry and beyond [7].

Despite significant research interest in the factors that contribute to employee engagement over the past decades, the issue of low engagement remains a primary concern for organisations worldwide [8]. According to the State of the Global Workplace report, 80 percent of employees worldwide are either disengaged or actively disengaged, while only 20 percent are engaged at work [9]. The report also highlighted that Pakistan has the lowest level of employee engagement (10 percent) in South Asia, compared to neighbouring countries such as India (25 percent), Sri Lanka (27 percent), Nepal (30 percent), and Bangladesh (37 percent). Jindal, Shaikh [10] stated that disengaged employees do not take their position seriously to complete tasks. According to the literature on employee behaviour, such poor performance and behavioural issues are primarily caused by a lack of employee work engagement [11,12]. Despite the factual assertions that employee engagement is an important factor in an organisation’s competitive advantage and performance, this is somewhat unexpected. Therefore, it is critical to obtain a deeper theoretical and practical understanding of the factors and mechanisms that contribute to and explain engagement in the organisation to increase the engagement level of their employees [3,13].

When discussing employee engagement, researchers bring up the topic of leadership styles. Literature shows that different leadership styles positively and negatively affect perceptions of employee engagement [14]. Nonetheless, leadership styles are determined by leaders’ personalities, reflected in their behaviours, ultimately affecting engagement and performance [15]. Thus, a leader who demonstrates positive traits such as persistence, integrity, vision, and competence can bring about effective leadership, improving employee work engagement [16]. A leader who exhibits negative traits, such as self-promotion, manipulation, and dominance, on the other hand, results in employee engagement and performance that are below expectations [17,18]. The current study investigates critical leadership styles that are precursors to the banking sector’s success. The first leadership style mentioned to broaden the scope of employee engagement is transformational leadership, which places a high value on employees’ collaboration and motivation to achieve performance beyond expectations. This shows the leader’s ability to motivate followers to complete the organisational task. The second leadership style is despotic leadership, characterized as arrogant, manipulative, bossy, and unforgiving [19]. Negative or destructive leadership styles undermine the ability of employees and organisations to achieve their goals. Numerous studies have also revealed that transformational leaders [20] and despotic leaders [21] can influence followers’ work attitudes (e.g., employee engagement) in which employees engage or disengage themselves psychologically, emotionally, and physically with their work. We responded to Bashir, Wright [22], and Khosa, Ishaq [20] on employee engagement, who argued that the banking sector lacks research, as well as a comprehensive understanding of the factors that most influence employee engagement in banks.

Furthermore, researchers have emphasized investigating underlying mechanisms to better understand the leader and followers’ relationships [3,23,24]. However, we provide a more holistic paradigm by examining the contrasting personalities of constructive (transformational) and destructive (despotic) leaders using theoretical work regarding transformational and despotic leadership styles via psychological distress on employee engagement. By using this contrast, our study presents comprehensive countermeasures for thriving and surviving employees in the presence of narcissistic bosses, including the option of transforming them before the employees become truly disengaged and stressed. These gaps necessitate the development of a comprehensive model that includes both posi-
tive and negative leadership styles to assess employee engagement at work—a significant theoretical contribution made by this study.

Given the preceding discussion, the current study significantly contributes to the body of knowledge regarding employee engagement in three ways. First, this study contributes to the existing literature by linking positive and negative (transformational and despotic) leadership styles and employee engagement. The empirical literature on the banking sector has focused mainly on positive leadership styles, with little consideration for whether leaders may cause their employees distress. However, there are few empirical studies on the impact of despotic leadership on employees’ work outcomes [18,25]. The importance of leadership styles and employee behavioural needs, such as engagement, is widely discussed in the Western world. Though there has been progress in the Asian context, the banking industry in Pakistan is still in its infancy in terms of transforming these roles. This is in line with the work of previous scholars [25,26], who asserted that empirical research on these leadership styles is in its infancy. However, previous studies also respond to the calls of Gentry, Eckert [27] and Karakitapoglu-Aygün and Gumusluoglu [28] to examine the bright and dark side of leadership styles in non-Western contexts. Given this, this study provides a novel perspective on how and when leadership styles (transformational and despotic leadership) may assist banks in influencing employee engagement.

Second, this research examines the underlying mechanism of psychological distress in the association between transformational leadership, despotic leadership, and employee engagement in Pakistan’s banking sector. With the addition of an intervening variable, namely psychological distress, we responded to the calls of Albashiti, Hamid [18] and Zee-shan, Ng [3], who argued for the inclusion of an underlying mechanism between various positive and negative leadership styles and employee work outcomes in the literature for comprehensive understanding. Additionally, it has been suggested that understanding psychological distress in service organisations is essential because stress has been shown to raise the service organisation’s cost and decrease overall productivity. Henceforth, our study is the first to look at transformational leadership, despotic leadership, and psychological distress as an underlying psychological mechanism toward employee engagement in the banking sector of Pakistan. Finally, this modified framework is based on the conservation of resources theory (COR), which explains how resources interact among individuals in the firm. Moreover, COR theory can be a useful theoretical lens in explaining that workplace resources (transformational and despotic leadership) impact employees’ work states (psychological distress); when employees believe their resources are adequate, they are less prone to psychological distress and more enthusiastically engaged at work, and vice versa.

Based on the above discussion and research gaps identified, we have outlined the research questions: “How do transformational and despotic leadership influence employee engagement?” and “How does psychological distress mediate transformational leadership, despotic leadership, and the employee engagement nexus?” To answer these research questions, we collected 341 usable responses from first-line managers in Pakistan’s banking sector. PLS-SEM was used to test the proposed hypotheses. To provide theoretical support for our empirical findings, we based our theoretical model on the conservation of resources theory (COR). The rest of the paper is structured as follows. Section 2 critically examines the literature review and presents our proposed hypotheses and theoretical model. Section 3 outlines in detail our research methodology. Our data analyses are presented in Section 4. Section 5 gives insight into our research findings, broadens our theoretical contributions, and discusses the implications for practitioners. In addition, we outline the limitations of our research and present future research directions that could help us extend our study.

2. Literature Review

2.1. Transformational Leadership and Employee Engagement

Transformational leadership is defined primarily by its outcomes, such as encouraging respect and pride, valuing loyalty and collectivity, understanding the employees’ needs
and transferring motivation from self-interest to collective interest [29]. A transformational leader can reshape individuals’ attitudes to align with corporate goals and motivate them to work for an organisational vision that necessitates extra-role behaviour and performance by serving as a role model [30,31]. This was further supported by a study conducted in Bangladesh’s banking sector, which found that transformational leadership is necessary to increase productivity and foster employee engagement [32]. This shows that transformational leadership is the main powerful resource in ensuring employee engagement and performance in a positive direction. Research has revealed that transformational leadership significantly impacts employee engagement [33,34]. Employees who believe their managers and supervisors use supportive and effective leadership styles are more enthusiastic about showing extra-role behaviour.

Moreover, a transformational leader helps employees develop their resource pool for work engagement. Thus, this study relies on COR theory to shed light on the association between transformational leadership and employee engagement. According to the conservation of resources theory, employees with scarce resources are more likely to use defensive strategies to safeguard their scant resources and act cautiously. On the other hand, an employee who receives sufficient resources from a company source is more likely to pursue proactive resource gain strategies to obtain additional resources and spend their current resources on behaviours that exceed the minimal prerequisite [35]. Consequently, having access to resources from a transformational leader, an employee is more likely to invest such resources proactively in behaviours that exceed minimum demands, such as exhibiting work engagement to enjoy a resource gain spiral and developing personal resources (via a resources caravan), thus being more enthusiastic about showing extra-role behaviour.

Based on the above discussion, we propose the following hypothesis:

Hypothesis 1 (H1). Transformational leadership has a significant and positive association with employee engagement.

2.2. Despotic Leadership and Employee Engagement

Despotic leadership refers to authoritative behaviour and personal dominance that serve a leader’s self-interests while being exploitative of others and self-aggrandizing [36]. Despotic leaders are hegemonic, vindictive, and controlling. Employees lose respect, faith, and pride in their organisation when they believe their leader manipulates them to achieve personal goals or when their interactions with the leader are unfair. As a result, they are less likely to be motivated to identify with the leader or the organisation [37], resulting in lower workplace engagement. Despotic leadership, which elicits a stress response and is perceived as creating a hazardous environment, diverts an individual’s focus from the job towards self-preservation [38], limiting employee engagement. Recent literature in the service industry indicates that individuals who are subjected to abusive behaviours are more likely to be dissatisfied with their jobs [39]. Moreover, individuals subjected to hostile treatment by their bosses frequently develop a high level of depression and a diminished sense of workplace belonging.

According to the COR theory, individuals want to protect, retain, obtain, and foster valuable resources. These resources are critical because they help individuals achieve their goals while avoiding further resource loss [40]. When employees are confronted with hostile conditions, such as the behaviour of despotic leaders, they devote considerable attention and energy to dealing with the situation, resulting in the depletion of energy resources. However, resource losses are more evident than resource gains, and any reduction in energy resources may result in additional resource losses [41]. As a result, employees whose primary energy resources are depleted at work, mainly because of self-serving and unethical leadership behavior, will not demonstrate higher performance and will show decreased work engagement [21]. To conclude, despotic leaders deplete resources and increase threats, resulting in immediate negative outcomes, such as decreased employee engagement. Thus, our study proposes the following hypothesis:
Hypothesis 2 (H2). Despotic leadership has a significant and negative association with employee engagement.

2.3. Transformational Leadership, Despotic Leadership, and Psychological Distress

Psychological distress is defined as negative feelings and thoughts related to fear, anxiety, and depression [42]. Leadership plays a vital role in influencing psychological stress [43]. For example, transformational leadership places a high value on how well employees work together and how motivated they are to do better than expected. These leaders are also concerned with employee development, which is one of the primary reasons followers prefer to be treated in this manner [44]. Transformational leadership can negatively impact employee psychological distress in the services sector [20]. On the other hand, despotic leadership, which elicits a stress response and is perceived as creating a hazardous environment, eventually leads to mental provocation. Therefore, when people are exposed to traumatic or shocking conditions while being exposed to a despotic mindset, they are more likely to develop depression, fear, and anxiety, symptoms of psychological distress [18]. A study conducted by Nauman, Zheng [26] suggests that employees who lose psychological resources due to their despotic leaders’ abusive behavior are more likely to be stressed at work. This is also evident from the literature that destructive leadership positively impacted psychological distress [45].

Consistent with COR, transformational leaders supply resources and support, as well as encourage employees to build resources such as autonomy, knowledge, and skills, which fuel their motivation and competence toward employee engagement. It is plausible to infer that workplace resources impact employees’ work states; when employees believe their resources are adequate, they are less prone to burnout and more enthusiastically engaged at work. On the other hand, individuals prioritize how they consume their energy when confronted with resource draining work situations, such as despotic behaviours, to protect their existing resource pool and avoid additional resource loss [40]. Individuals subjected to despotic leaders’ behaviours try to protect their vital resources by isolating themselves from the task using various strategies (e.g., silence). Prolonged isolation can erode employees’ sense of control over their tasks, reducing their motivation (work engagement) and other work-related positive attitudes (job satisfaction) [46]. Based on the arguments discussed above, our study proposed the following hypotheses:

Hypothesis 3 (H3). Transformational leadership has a significant and negative association with psychological distress.

Hypothesis 4 (H4). Despotic leadership has a significant and positive association with psychological distress.

2.4. Psychological Distress and Employee Engagement

Scholars in the modern era have constantly emphasized the critical role of employee engagement in an organisation. They are urged to increase employee engagement, which will ultimately benefit the success of their organisation. Kahn [47] defined engagement as “the harnessing of organisational members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performance”. However, Hon and Chan [48] argued that when people are exposed to constructive (challenging) stress, they feel more satisfied and engaged. On the other hand, hindrance (destructive) stress is harmful because it can result in undesirable outcomes, such as turnover intention and job dissatisfaction, and negatively impact employees’ engagement and performance [49]. A substantial amount of literature in the hospitality industry has established that hindrance stressors reduce employee engagement [50,51]. Moreover, when people are exposed to traumatic or shocking conditions while being exposed to a despotic mindset, they are more likely to develop depression, fear, and anxiety, all of which are symptoms of psychological distress [18], resulting in lower workplace engagement, and
increased absenteeism, sick leave, and presenteeism [52,53]. We argue in this study that psychological distress can result in decreased employee engagement.

By applying the COR theory to this situation, we contend that when individuals’ resources, such as time and energy, are increasingly expended in coping with psychological distress, this may lead the employees to engage in withdrawal or defensive coping strategies, such as decreased employee engagement, to protect themselves from further resource loss. Empirical evidence indicates that the banking industry, a subset of the primary services sector, suffers from negative psychological distress. We inferred that psychological distress experienced by employees in the banking sector would have a detrimental effect on their work engagement. Therefore, we propose the following hypothesis:

**Hypothesis 5 (H5).** Psychological distress has a significant and negative effect on employee engagement.

### 2.5. Transformational Leadership, Despotic Leadership, and Employee Engagement: Psychological Distress as a Mediator

Leadership behaviour encompasses both constructive and destructive behaviours. Leaders may exhibit these behaviours for corporate effectiveness or personal gain, which may or may not jeopardize the well-being and engagement of their followers. A transformational leader with a positive attitude inspires subordinates by increasing their optimism and satisfaction [16]. On the other hand, subordinates are prone to withdrawing from their professional roles in response to humiliation and disrespect from their despotic leaders [41]. Several academics have recently investigated how transformational and despotic leadership styles influence employee engagement through underlying mechanisms. Previous studies have used motivational language, psychological capital, organisational culture, self-efficacy, and leader-member exchange as intervening mechanisms [16,54–56]. Despite their significance, existing empirical studies have primarily ignored the possibility of additional psychological mechanisms connecting transformational leadership, despotic leadership, and employee engagement, providing an impetus for further research in this area. Thus, we inferred that psychological distress, a key mechanism, could better explain the relationships between transformational leadership, despotic leadership, and employee engagement.

Moreover, consistent with the conservation of resources theory, “resources can be transferred from one form to another within an individual” (resource caravan) [57]. The belief that employees have an innate need to foster, maintain, protect, and further obtain resources is the central tenet of COR theory [58]. Individuals who acquire resources are best placed to employ and acquire more resources (e.g., resources gain spirals) and are willing to use their current resources to acquire more resources. Nonetheless, when individuals lose their resources, it becomes more challenging to invest in additional resources because they are more susceptible to losing resources (e.g., resources loss spirals). Employees are more vulnerable to resource loss than resource gain [58]. Because employee engagement necessitates a full resource load, psychologically distressed employees, due to their exposure to despotic leadership, will be short on much-needed resources and retain the available scarce resources for different purposes, such as emotional balance maintenance. Thus, under COR theory, it is logical to hypothesize that workplace resources impact employees’ work states; when they perceive their resources to be adequate or inadequate, they may or may not engage in work with enthusiasm. Using Baron and Kenny’s [59] notion of mediation, we propose:

**Hypothesis 6 (H6).** Psychological distress mediates the association between transformational leadership and employee engagement.

**Hypothesis 7 (H7).** Psychological distress mediates the association between despotic leadership and employee engagement.
2.6. Control Variables

As we acknowledged that employees’ socio-demographic variables could have a confounding impact on the proposed relationships, we controlled the model for gender, age, and education. Earlier studies [60,61] have shown that demographic variables potentially impact work engagement. As such, they may potentially have a confounding effect on the results. However, controlling these variables could be particularly effective because demographic variables might impact employees’ cognitive processes and domain-relevant skills [62,63]. Schaufeli and Bakker [60] argued that gender has an essential effect on employee work engagement. Moreover, earlier studies that included age as a control variable revealed a small to moderate positive impact of age on employee work engagement [60,64,65]. Education is also related to work engagement. Earlier studies have shown that employees with a higher level of education are more engaged at work [60,66]. Following past studies and our selected theoretical framework, we used employees’ gender, age, and education as control variables to account for their possible confounding impact on our dependent variables (e.g., PD and EE). Figure 1 reveals the proposed research model.

Figure 1. Theoretical Framework. Notes: [+] plus sign indicates positive relationships, and [-] negative sign indicates negative relationships; [→] solid line indicates direct relationships, and [→→] dotted line indicates indirect relationships.

3. Methods

Participants in this study were first-line managers in Punjab, Pakistan’s banking sector. Punjab was chosen because it has the highest number of banks and employees working in both private and public banks. This sector was also selected because it has the lowest level of employee engagement when compared to other service sectors. Respondents with at least one year of experience working at their current bank and under the same supervision (supervisor/manager) were eligible to participate in the survey. One year was chosen because it is generally believed that one year is sufficient for an employee to ascertain their bank’s leader or manager’s behaviour [67]. The participants were contacted personally for data collection and were fully briefed on the purpose of the survey. The questionnaire was developed to analyze the conceptual framework and assess the relationships, with a cover letter outlining the study’s objectives and assuring the confidentiality of the participants’ responses and complete anonymity. The questionnaire was composed entirely in English. Between April and May 2021, the survey was conducted with the coordination of the HR departments of the selected banks. We sent the questionnaires to 540 first-line managers based in Punjab province using a cluster sampling technique and received 366 responses, with invalid questionnaires, such as those with missing data, discarded. Finally, we collected 341 valid questionnaires, with a response rate of 63.15 percent, for statistical analysis. Gender, age, academic record, job position, and work experience are some of the demographic characteristics examined in the current study, as shown in Table 1.
Table 1. Respondent’s Demographic Profile.

| Description | Frequency | Percentage |
|-------------|-----------|------------|
| **Gender**  |           |            |
| Male        | 191       | 56.0       |
| Female      | 150       | 44.0       |
| **Age**     |           |            |
| Below 25 years | 33   | 9.7        |
| 25–30 years | 147       | 43.1       |
| 31–35 years | 82        | 24.0       |
| Above 35 years | 79  | 23.2       |
| **Education** |        |            |
| Bachelor    | 32        | 9.4        |
| Master      | 262       | 76.8       |
| M.Phil.     | 35        | 10.3       |
| Others      | 12        | 3.5        |
| **Job position** |    |            |
| Relationship manager | 61  | 17.9       |
| Customer service officer | 24  | 7.0        |
| Operation manager      | 88    | 25.8       |
| Credit manager         | 93    | 27.3       |
| **Job experience** |      |            |
| Less than 2 years     | 08     | 2.3        |
| 2–5 years             | 137    | 40.2       |
| 6–8 years             | 126    | 37.0       |
| 9–12 years            | 32     | 9.4        |
| 13–15 years           | 34     | 10.0       |
| More than 15 years    | 04     | 1.2        |

Note: \( n = 341 \).

3.1. Measurement Scales

The multidimensional employee engagement scale (e.g., physical, cognitive, and emotional engagement) of Rich, Lepine [68] was adopted, with a total of 18 items and a single global item measure to test convergent validity [69]. Employee engagement was treated as a higher-order reflective-formative construct [70]. Moreover, Bass and Avolio’s [71] Multifactor Leadership Questionnaire (MLQ) scale (e.g., idealized influence, inspirational motivation, intellectual stimulation, and individual consideration) was used, with a total of twenty (20) items and a single global measure to determine the convergent validity [69]. Transformational leadership was treated as a higher-order reflective-formative construct [20]. The despotic leadership scale was adopted from Hanges and Dickson [72]. It consists of six items. The constructs items were scored on a five-point Likert scale, with 1 indicating “strongly disagree”, and 5 indicating “strongly agree”, whereas psychological distress was measured using the scale created by Kessler, Andrews [73]. It consists of six items. The constructs items were scored on a five-point Likert scale, with 1 indicating “none of the time”, and 5 indicating “all of the time”. In addition to the study variables, we collected data from participants regarding their age, gender, and education, which were used as control variables.

3.2. Statistical Analysis

SPSS software developed by Nie and his fellows at the University of Stanford, US and Smart PLS 3.0 developed by Christian Ringle and his team at the University of Hamburg, Germany was used to manage this research data. This study analyses the data and tests the hypotheses using PLS-SEM. The study used PLS-SEM for several reasons. First, the PLS-SEM is appropriate for exploratory research to identify a construct’s drivers. Second, PLS-SEM is better suited for evaluating models in the early stages of theory development [74]. Third, PLS-SEM is appropriate for evaluating reflective or formative latent variables.
3.3. Normality Test and Common Method Bias

The normality test is necessary because extremely kurtotic or skewed data may exaggerate the bootstrapping standard errors estimate, influencing the path coefficient significance [75,76]. The results show that skewness values ranged between $-1.097$ and $1.022$, and kurtosis values ranged between $0.697$ and $1.577$, both of which were less than $\pm 2$ [77], indicating that none of the variables deviated from the normality test requirement. Furthermore, all the latent constructs included in this research were evaluated solely through self-reported questionnaires, within the study’s parameters. To reduce the common method variance (CMV) issue, our study adhered to Podsakoff’s [78] recommendations, including randomly grouping the items, reverse coding the items, and obscuring the relationship between the constructs. In addition, to address the CMV issue, we used Harman’s single factor method. Because the first component accounted for $31.94$ percent of the variation, which is less than the $50$ percent threshold, CMV was not an issue in this research [79].

4. Results

4.1. Descriptive Analysis

Using SPSS, this study examined the mean scores, standard deviations, and inter-construct correlations for the study constructs. These findings indicate that all constructs had scores above the moderate level (see Table 2). Therefore, these findings serve as the foundation for subsequent SEM analysis.

Table 2. Mean, Standard Deviation, and Correlation Values.

| Construct | Mean (SD) | Gender | Age | Education | TL | DL | PD | EE |
|-----------|-----------|--------|-----|-----------|----|----|----|----|
| Gender    | 1.44 (0.497) | 1      |     |           |    |    |    |    |
| Age       | 2.60 (0.945)  | 0.036  | 1   |           |    |    |    |    |
| Education | 2.08 (0.576)  | -0.081 | 0.101 | 1         |    |    |    |    |
| TL        | 3.404 (0.599) | 0.029  | -0.075 | -0.088 | 1  |    |    |    |
| DL        | 3.507 (0.736) | -0.036 | 0.050  | 0.000    | -0.484 ** | 1  |    |    |
| PD        | 3.471 (0.646) | -0.50  | 0.018  | 0.040    | -0.468 ** | 0.682 | 1  |    |
| EE        | 3.462 (0.524) | 0.060  | -0.065 | -0.071   | -0.732 ** | -0.597 ** | -0.567 ** | 1  |

Notes: $n = 341$; ** correlation significant at 0.05 level (2-tailed); TL = transformational leadership; DL = despotic leadership; PD = psychological distress; EE = employee engagement.

4.2. Assessment of the Outer Path Model (Stage One, Reflective)

The assessment of a measurement model includes determining the indicator’s reliability, convergent validity, and discriminant validity. The item loadings of $0.711$–$0.881$ indicate that the model has successfully met the indicator’s reliability criteria, as they exceed the threshold of $0.708$ [74]. The PLS-SEM path model includes 4 latent constructs and 50 indicators. A total of 6 items were removed from the list of 50 to increase the AVE value. Among the items that have been removed are TLI1_3, TLI1_4, TLI1_5, EEP_1, EEE_2, and EEC_3 (see Table 3 and Figure 2). The remaining 44 items were kept for further examination. McCrae, Kurtz [80] recommended assessing internal consistency reliability using Cronbach’s alpha or composite reliability (CR) to assess internal consistency reliability. This current study chose a composite reliability evaluation for two main reasons. Firstly, the CR coefficients are less biased in reliability estimations than the Cronbach’s alpha coefficients. Secondly, it shows the actual loadings of the individual constructs [81]. The results indicate that the value of CR was greater than $0.708$ [69]. However, the average variance extracted (AVE) analysis was also used to evaluate convergent validity, and the requisite threshold of 0.50 was met [82]. Accordingly, Sarstedt, Hair [83] argued that researchers had overlooked the measurement of collinearity (variance inflation factor) between lower-order components (LOC) of reflective-formative constructs. However, the model produced VIF values for lower-order components ranging from 1.399 to 2.280, lower than the (conservative) threshold value of VIF less or equal to 3 [74]. The results of the measurement model stage one (reflective) are summarized in Table 3 and Figure 2.
Table 3. Constructs Validity and Reliability of Measurement Model, Stage One, Reflective.

| Constructs                        | Dimensions                        | Indicators | Loadings | CR   | AVE   | VIF   |
|-----------------------------------|-----------------------------------|------------|----------|------|-------|-------|
| Employee Engagement               |                                   |            |          |      |       |       |
| Physical Engagement               |                                   | PE 2       | 0.724    |      | 1.446 |       |
|                                   |                                   | PE 3       | 0.719    |      | 1.437 |       |
|                                   |                                   | PE 4       | 0.718    | 0.847 | 0.525 | 1.431 |
|                                   |                                   | PE 5       | 0.729    |      | 1.455 |       |
|                                   |                                   | PE 6       | 0.733    |      | 1.439 |       |
|                                   |                                   | EE 1       | 0.729    |      | 1.478 |       |
|                                   |                                   | EE 3       | 0.715    |      | 1.455 |       |
| Emotional Engagement              |                                   | EE 4       | 0.723    | 0.855 | 0.542 | 1.478 |
|                                   |                                   | EE 5       | 0.761    |      | 1.512 |       |
|                                   |                                   | EE 6       | 0.751    |      | 1.561 |       |
|                                   |                                   | CE 1       | 0.746    |      | 1.553 |       |
|                                   |                                   | CE 2       | 0.726    |      | 1.451 |       |
|                                   |                                   | CE 4       | 0.743    | 0.860 | 0.551 | 1.476 |
|                                   |                                   | CE 5       | 0.711    |      | 1.449 |       |
|                                   |                                   | CE 6       | 0.783    |      | 1.662 |       |
| Cognitive Engagement              |                                   |            |          |      |       |       |
| Transformational Leadership       | Idealized Influence               | II 1       | 0.728    |      | 1.485 |       |
|                                   |                                   | II 2       | 0.745    |      | 1.495 |       |
|                                   |                                   | II 6       | 0.734    | 0.852 | 0.536 | 1.463 |
|                                   |                                   | II 7       | 0.721    |      | 1.426 |       |
|                                   |                                   | II 8       | 0.732    |      | 1.432 |       |
|                                   |                                   | IM 1       | 0.791    |      | 1.736 |       |
|                                   | Inspirational Motivation          | IM 2       | 0.793    |      | 1.650 |       |
|                                   |                                   | IM 3       | 0.802    | 0.880 | 0.648 | 1.652 |
|                                   |                                   | IM 4       | 0.834    |      | 1.813 |       |
|                                   | Intellectual Stimulation          | IS 1       | 0.839    |      | 1.965 |       |
|                                   |                                   | IS 2       | 0.783    |      | 1.663 |       |
|                                   |                                   | IS 3       | 0.765    | 0.890 | 0.670 | 1.661 |
|                                   |                                   | IS 4       | 0.881    |      | 2.262 |       |
|                                   |                                   | IC 1       | 0.801    |      | 1.663 |       |
|                                   |                                   | IC 2       | 0.768    |      | 1.569 |       |
|                                   | Individual Consideration          | IC 3       | 0.735    | 0.866 | 0.618 | 1.411 |
|                                   |                                   | IC 4       | 0.838    |      | 1.804 |       |
| Despotic Leadership               |                                   | DL 1       | 0.841    |      | 2.378 |       |
|                                   |                                   | DL 2       | 0.813    |      | 2.123 |       |
|                                   |                                   | DL 3       | 0.754    | 0.901 | 0.602 | 1.715 |
|                                   |                                   | DL 4       | 0.760    |      | 1.737 |       |
|                                   |                                   | DL 5       | 0.760    |      | 1.730 |       |
|                                   |                                   | DL 6       | 0.722    |      | 1.594 |       |
| Psychological Distress            |                                   | PD 1       | 0.711    |      | 1.522 |       |
|                                   |                                   | PD 2       | 0.723    |      | 1.549 |       |
|                                   |                                   | PD 3       | 0.772    | 0.874 | 0.537 | 1.669 |
|                                   |                                   | PD 4       | 0.719    |      | 1.527 |       |
|                                   |                                   | PD 5       | 0.750    |      | 1.659 |       |
|                                   |                                   | PD 6       | 0.721    |      | 1.526 |       |

Notes: PE = physical engagement; EE = emotional engagement; CE = cognitive engagement; II = idealized influence; IM = inspirational motivation; IS = intellectual stimulation; IC = individual consideration; DL = despotic leadership; PD = psychological distress.
Furthermore, the current study employed the HTMT technique to determine the discriminant validity issues. To demonstrate apparent differences between two factors, the approximation of a factor correlation should be significantly smaller than 1 [84]. The results (see Table 4) indicate that the suggested values for HTMT were less than 0.85 [85], demonstrating that the variables were distinct from one another. Therefore, all the constructs satisfy the discriminant validity criterion.

Table 4. Discriminant Validity (HTMT Ratio).

| Reflective Constructs | CE   | DL   | EE   | IC   | II   | IM   | IS   | PD   | PE   |
|-----------------------|------|------|------|------|------|------|------|------|------|
| CE                    | 0.601| 0.667| 0.591| 0.577| 0.608| 0.609| 0.609| 0.609| 0.773|
| DL                    |      | 0.638| 0.532| 0.665| 0.744| 0.792| 0.816| 0.823| 0.647|
| EE                    |      |      | 0.485| 0.623| 0.623| 0.744| 0.792| 0.816| 0.647|
| IC                    |      |      |      | 0.477| 0.657| 0.792| 0.816| 0.823| 0.647|
| II                    |      |      |      |      | 0.471| 0.625| 0.673| 0.823| 0.647|
| IM                    |      |      |      |      |      | 0.768| 0.673| 0.464| 0.496|
| IS                    |      |      |      |      |      |      | 0.657| 0.464| 0.496|
| PD                    |      |      |      |      |      |      |      | 0.499| 0.499|
| PE                    |      |      |      |      |      |      |      |      | 0.647|

Notes: CE = cognitive engagement; DL = despotic leadership; EE = emotional engagement; IC = individual consideration; II = idealized influence; IM = inspirational motivation; IS = intellectual stimulation; PD = psychological distress; PE = physical engagement.

4.3. Assessment of the Outer Path Model (Stage Two, Formative)

According to Chin [86], the next step after establishing measures was to evaluate formative constructs or higher-order constructs (HOC), as described in the structural model. HOC is usually established in two or three dimensions. The current study evaluates employee engagement and transformational leadership in line with previous research [87,88], requiring a higher-order measurement approach. From an analysis viewpoint, the higher-order constructs (e.g., employee engagement and transformational leadership) have been measured using the scores of the LOC of employee engagement and transformational leadership. Cognitive, emotional, and physical engagement were the three LOCs of employee engagement. Likewise, individualized consideration, intellectual stimulation, inspirational
motivation, and idealized influence were the LOCs of transformational leadership (see Figure 3). However, before proceeding with the research model evaluation, it is critical to confirm that the LOCs are thought to be theoretically capable of being theoretically linked by the HOCs under consideration. However, Ramayah, Cheah [89] stated that assessing reflective-formative measures entails four steps: First, redundancy analysis through use of a global item, an examination of the t-statistics, weights, and finally, testing for collinearity (VIF). Thus, the HOC’s convergent validity was evaluated using redundancy analysis [69]. Employee engagement and transformational leadership were the HOCs associated with the global single-items. The path coefficients for the formative constructs of employee engagement and transformational leadership were 0.754 and 0.739. Therefore, all formative constructs in this study have a satisfactory level of convergent validity.

![Figure 3. Measurement Model (Stage Two, Formative).](image)

Furthermore, the variance inflation factor was used to assess collinearity between LOC components. The model analysis yielded VIF values ranging from 1.630 to 2.448. According to the results in Table 5, all the LOCs of HOCs have achieved the desired level of VIF values, which are consistently below the 3.3 cutoff values [74,90,91]. The current study found that cognitive, emotional, and physical engagement weights (0.321, 0.300, and 0.528) were significant ($p < 0.05$). Transformational leadership (idealized influence, inspirational motivation, intellectual stimulation, and individual consideration) weights (0.275, 0.226, 0.324, and 0.355, respectively) were significant ($p < 0.05$) (see Figure 3 and Table 5). The lower order constructs’ t-statistics are higher than the 1.96 cutoff value [74]. Hence, the results unequivocally confirm the validity of the reflective/formative latent variables.

### Table 5. Results of Measurement Model Stage Two, Formative.

| HOCs | LOCs | Redundancy Analysis | Weights | Loadings | t-Values | p-Values | VIF |
|------|------|---------------------|---------|----------|----------|----------|-----|
| EE   | PE   | 0.754               | 0.528   | 0.922    | 9.110    | 0.000    | 2.053 |
|      | EE   |                     | 0.300   | 0.837    | 5.320    | 0.000    | 1.963 |
|      | CE   |                     | 0.321   | 0.815    | 5.576    | 0.000    | 1.737 |
| TL   | II   | 0.739               | 0.275   | 0.811    | 4.269    | 0.000    | 1.936 |
|      | IM   |                     | 0.226   | 0.855    | 2.852    | 0.004    | 2.517 |
|      | IS   |                     | 0.324   | 0.852    | 3.734    | 0.000    | 2.130 |
|      | IC   |                     | 0.355   | 0.867    | 4.389    | 0.000    | 2.061 |

Notes: EE = employee engagement; TL = transformational leadership; PE = physical engagement; EE = emotional engagement; CE = cognitive engagement; II = idealized influence; IM = inspirational motivation; IS = intellectual stimulation; IC = individual consideration.
4.4. Assessment of the Inner Path Model

The goodness of fit of the inner model entails determining the coefficient of determination ($R^2$), cross-validated redundancy ($Q^2$), and the path coefficient, i.e., beta value, standard errors, t-statistics, and p-statistics, respectively, for the hypothesized relationships [74]. Chin [90] recommends the following ranges for assessing $R^2$ values: 0.67, 0.33, and 0.19 as large, moderate, and small effects. The findings indicate that the $R^2$ values for employee engagement and psychological distress are 0.603 and 0.496, respectively (see Table 6 and Figure 3). Thus, the values of $R^2$ were large and moderate, following the standards of Chin [90]. Furthermore, to determine the model’s predictive relevance, the Stone–Geisser ($Q^2$) analysis was performed [92]. In PLS-SEM, the predictive relevance is computed using the blindfolding method. Chin [90] proposed that a model’s $Q^2$ value is greater than zero and shows a high predictive relevance. Blindfolding results in PLS-SEM show a high degree of predictive relevance (see Table 6). In addition, we assessed the model fit using standardized root mean residual (SRMR). The SRMR value was 0.045, which was less than the 0.08 threshold value [93], indicating acceptable model fit.

Table 6. Direct Analysis.

| Hypothesis | Beta | Std. Dev | t-Values | CI (2.5%; 97.5%) | Decision |
|------------|------|----------|----------|------------------|----------|
| TL -> EE   | 0.564 | 0.049    | 11.462   | (0.466; 0.657)   | Supported|
| DL -> EE   | −0.222 | 0.072    | 3.075    | (−0.277; −0.027) | Supported|
| TL -> PD   | −0.193 | 0.057    | 3.403    | (−0.305; −0.082) | Supported|
| DL -> PD   | 0.589  | 0.058    | 10.182   | (0.465; 0.691)   | Supported|
| PD -> EE   | −0.153 | 0.064    | 2.370    | (−0.277; −0.027) | Supported|

| Variables | $R^2$ (Adjusted) | $Q^2$ | SRMR |
|-----------|-----------------|------|------|
| PD        | 49.6 (Moderate) | 0.247 (Medium) | 0.045 (Good) |
| EE        | 64.3 (Moderate) | 0.445 (Medium) | |

Notes: TL = transformational leadership; EE = employee engagement; DL = despotic leadership; PD = psychological distress; $R^2$ = coefficient of determination; $Q^2$ = cross-validated redundancy; SRMR = standardized root mean residual; CI = confidence interval.

To further assess the goodness of fit, we tested the hypothesized relationships to determine their significance. This research used a standard bootstrapping procedure with 5000 sub-samples at the 95 percent confidence level, and there were no sign changes. We initially controlled for employees’ gender, age, and education (demographic variables) for both endogenous constructs, namely psychological distress, and employee engagement. Statistical analysis results, however, revealed that gender, age, and education had no significant confounding effect on the endogenous constructs. In the case of psychological distress, the values were: gender ($\beta = −0.020$, $t = 0.533$, $p > 0.05$), age ($\beta = 0.023$, $t = 0.507$, $p > 0.05$), and education ($\beta = −0.026$, $t = 0.662$, $p > 0.05$), respectively. In the case of employee engagement, the values were: gender ($\beta = 0.028$, $t = 0.854$, $p > 0.05$), age ($\beta = 0.018$, $t = 0.533$, $p > 0.05$), and education ($\beta = 0.011$, $t = 0.283$, $p > 0.05$), respectively. We conducted two separate tests of the study model, with and without control variables. In accordance with previous studies [94–96], all control variables were eliminated from structural equation modeling, due to marginal changes of $R^2$. In the case of psychological distress, $R^2$ with control variables = 0.497 and without control variables = 0.496, with marginal changes in $R^2$ = 0.001. In the case of employee engagement, $R^2$ with control variables = 0.645 and without control variables = 0.643, with marginal changes in $R^2$ = 0.002.

Regarding direct effects (see Table 6 and Figure 4), the hypotheses H1–H5 were statistically significant. In terms of hypothesis 1, the findings show that transformational leadership is significantly and positively related to employee engagement ($\beta = 0.564$, $t = 11.462$, $p < 0.05$). Thus, H1 is supported. Moreover, the findings revealed that despotic leadership is significantly and negatively related to employee engagement ($\beta = −0.222$, $t = 3.075$, $p < 0.05$), indicating support for H2. In addition, the findings revealed that transformational leadership is both significantly and negatively associated with psychological
distress ($\beta = -0.193, t = 3.403, p < 0.05$). This shows support for H3. The results showed that despotic leadership is significantly and positively related to psychological distress ($\beta = 0.589, t = 10.182, p < 0.05$), indicating support for H4. Furthermore, the relationship between psychological distress and employee engagement is negative and significant ($\beta = -0.153, t = 2.370, p < 0.05$), indicating support for H5. Regarding mediating effects (see Table 7 and Figure 4), hypotheses H6 and H7 were statistically significant. Based on the findings, the association between transformational leadership and employee engagement was significantly mediated by the inclusion of psychological distress ($\beta = 0.029, t = 2.066, p < 0.05$). Hence, H6 is supported. Finally, the findings indicated that the association between despotic leadership and employee engagement was also significantly mediated by the inclusion of psychological distress ($\beta = -0.090, t = 2.163, p < 0.05$), indicating support for H7.

![Figure 4. Path Analysis of Structural Model.](image)

**Table 7. Mediation Analysis.**

| Model         | Total Effect | Direct Effect | Total Effect | Direct Effect |
|---------------|--------------|---------------|--------------|---------------|
|               | Beta | $t$-Value | Beta | $t$-Value | Beta | $t$-Value | Beta | $t$-Value |
| TL -> EE      | 0.594 | 12.462 | 0.564 | 11.462 |               |               |               |               |
| DL -> EE      | -0.312 | 5.735 | -0.222 | 3.075 |               |               |               |               |

| Model         | Indirect Effect | $t$-Value | CI (2.5%; 97.5%) |
|---------------|-----------------|-----------|-----------------|
| TL -> PD -> EE | 0.029 | 2.066 | (0.008; 0.066) |
| DL -> PD -> EE | -0.090 | 2.163 | (-0.177; -0.016) |

Notes: TL = transformational leadership; EE = employee engagement; DL = despotic leadership; PD = psychological distress; CI = confidence interval.

5. Discussion

The key purpose of this study, guided by the COR theory, was to shed light on various situations and mechanisms that illuminate the impact of transformational and despotic leadership on employee engagement. The findings of the survey data showed complete support for the proposed hypotheses. The current research findings support transformational leadership and employee engagement (H1). Our findings align with those of Caniëls, Semeijn [34] and Milhem, Muda [33], respectively. This implies that bosses who maintain strong relationships, friendly gestures, support, and admiration with their employees improve and influence their employees’ levels of engagement and well-being. The leaders and the characteristics they possess are fundamental. Bosses who support, build good friendly relationships with, and appreciate their employees are more likely to keep and engage them at work. Thus, by COR theory, it makes sense to think that employees’ work states are affected by the resources they have at work. When they believe that their resources are enough, they might be more excited about their work.

Moreover, the findings revealed that despotic leadership has a significant and negative relationship with employee engagement (H2). Our findings are also consistent with
Jabeen and Rahim [21] and Nauman, Fatima [41], who found that despotic leadership has a negative impact on work-related outcomes (e.g., employee engagement). This argument contends that when leaders are punitive, demand perfect obedience, and show a lack of compassion or tolerance, individuals become disengaged from their jobs in the organisation. When people are exposed to traumatic or shocking conditions while exposed to a despotic mindset, they are more likely to develop depression, fear, and anxiety, which are symptoms of psychological distress [18], along with lower workplace engagement. Such employees may believe that their leader is exploiting them or treating them or others unfairly, making their organisational environment more hostile and resulting in a less optimistic attitude toward their organization and an increased desire to leave the work environment that such leaders provide. Individuals develop withdrawn attitudes and cognitions in response to abusive behaviour, as a protective measure against further depletion of these resources, which have already been exhausted to compensate for the resulting psychological discrepancy.

Furthermore, this study’s findings revealed that transformational leadership has a significant and negative relationship with psychological distress (H3). Our findings appear consistent with those of previous studies [20]. This study finds evidence to support that individuals’ perceptions of transformational leadership behaviour can influence personal and organisational protective resources in ways associated with reduced individual distress. The findings supported the theoretical aspects of transformational leadership, which are to raise the maturity level of employees and empower individuals by protecting/providing psychosocial resources [97]. The importance of psychosocial resources in psychological distress is demonstrated in this study, which lends support to the conservation of resources theory.

Considering the fourth hypothesis (H4), the study’s findings positively correlate with despotic leadership and psychological distress. The findings corroborate prior research indicating that leaders’ destructive behaviours are significantly and positively correlated with psychological distress [45]. This indicates that individuals trying to deal with job stressors may exhaust their resources, resulting in burnout, psychological distress, and mental tiredness. The current research findings also support the hypothesis regarding psychological distress and employee engagement (H5). This finding is consistent with those in previous studies [50,51], which found that high level of workplace stress resulted in a decline in employee work engagement, and that they are negatively correlated. Psychological distress positively contributes to emotional exhaustion. This results in unfavorable work outcomes, such as decreased engagement.

However, based on findings, the association between transformational leadership and employee engagement was significantly mediated by the inclusion of psychological distress (H6). This implies that transformational leaders could reduce employee stress due to their vital and positive relationships. Because of the leaders’ ability to reduce stress, express positive gestures, and show admiration, their employees improve their levels of work engagement and well-being. Furthermore, the association between despotic leadership and employee engagement was also mediated by including psychological distress (H7). Findings revealed that employees are more prone to disengagement due to a lack of resources when they perceive a tyrannical leadership style. These leaders contribute to employees’ cognitive distress. Such leaders should be aware that if they cannot alter their behavior, it will further contribute to the disengagement of other followers. This, in turn, will cause employees to adopt negative attitudes to cope with additional resource loss.

5.1. Theoretical and Practical Implications

The current literature contributes to our study by emphasizing the intriguing and underutilized roles of transformational and despotic leadership regarding employee engagement. This is in line with the research of previous scholars [25,26], who asserted that empirical research on these leadership styles is in its infancy. This study’s findings have added empirical evidence to the existing literature by linking positive and negative
leadership styles (transformational and despotic leadership) and employee engagement with psychological distress, acting as a mediator. According to the findings of this study, when organisational leaders demonstrate positive behaviour, organisational performance improves because of employee engagement. Individuals (boss and employee) develop attitudes of obligation and gratitude because of the exchange mechanism, which leads to increased employee engagement. Furthermore, our study endorsed the COR theory, which validated and responded to the importance of transformational leadership in developing employee behaviors, including employee engagement.

Herein, despotic leadership has the opposite effect and increases the psychological distress of employees, resulting in lower levels of employee engagement. Thus, this improved employee engagement research has greater predictive power, applicability, and adoption potential by addressing significant flaws, particularly in Pakistan, a developing country. We also countered calls from Bashir, Wright [22] and Khosa, Ishaq [20], claiming that the banking industry lacks a thorough understanding of the components that contribute to employee disengagement. Employee disengagement is a serious problem in every industry, due to the increased costs of new hires, poor quality employees, and replacements. The purpose of our study is first to assess how constructive and destructive leadership styles impact employee engagement in a banking setting. This study sheds light on one of the most important topics, namely employee engagement, as the world’s third most significant economic issue. With the addition of an intervening variable, namely psychological distress, we responded to the call of Zeeshan, Ng [3], who argued for the inclusion of a mediating variable between various antecedents and employee engagement in the literature for comprehensive understanding. In this way, establishing a link between constructive and destructive leadership styles and psychological distress aids us in better understanding how leaders can cause or mitigate distress in their followers. The empirical literature on the banking sector has focused mainly on positive leadership styles, with little consideration for whether leaders may cause their employees distress.

Additionally, it has been suggested that understanding psychological distress in service organisations is essential because stress has been shown to raise the service organisation’s costs and decrease overall productivity. To this end, we have made the framework of this study more theoretically and empirically robust and scalable. Finally, this research adds to the body of knowledge in this field by looking at these relationships through a new theoretical lens, using COR theory. Moreover, COR theory can be a useful theoretical lens in explaining that workplace resources (transformational and despotic leadership) impact employees’ work states (psychological distress); when employees believe their resources are adequate, they are less prone to psychological distress and more enthusiastically engaged at work, and vice versa.

In practice, HR professionals and leaders must employ transformational leadership as a more effective mechanism for enhancing employee engagement. The research results inform professionals and leaders about the holistic nature of positive work psychology, such as transformational leadership, which aids in the development of a highly dedicated workforce. Bank leaders should understand that transformational leadership is effective in influencing employee work engagement. The transformational leadership style, which is well-known for its service-oriented emphasis [98,99], should be given more consideration and implemented more thoroughly. In contrast, despotic leaders’ actions may undermine employee engagement and exacerbate psychological distress. As a result, financial firms that do not pay attention to their leaders’ tyrannical tendencies and desire for power run the risk of draining their employees’ mental energy, leading to early disengagement, and leaving them with no choice but to leave. On this basis, we propose that, while bank managers should avoid hiring leaders with despotic tendencies, serious measures can also be taken to alleviate psychological distress among employees by providing access to management through which they can anonymously voice their concerns about despotic leaders. The management must encourage individuals to speak out against despotic inclinations, such as aggressive behaviour, bullying, and intimidation, and instruct them
to file confidential complaints. Following feedback, management needs to take serious action, either by directly firing such leaders or investigating and resolving grievances regarding them.

Furthermore, to prevent despotic tendencies among leaders, bank managers are called upon to activate, nurture, and enforce a code of conduct that outlines precisely which behaviours are acceptable and which are not. Even though this is challenging, bank leaders must identify the causes of despotic behaviours, which may include staffing policies and ineffective hiring. Moreover, bank leaders can establish specific protocols for advising and counselling despotic leaders, as well as appropriate disciplinary measures, such as salary cuts, decreased benefits, etc., particularly if these leaders are resistant to change.

To foster a positive and supportive work environment, banks should implement policies and practices that disincentivize and demotivate despotic behaviours that lead to the establishment of a hostile work environment. Thus, there is a strong need to educate leaders about how their despotic behaviour affects employees’ satisfaction, well-being, and engagement. Training programs for leaders who exhibit despotic behaviour should also be developed and implemented, which is expected to reduce employees’ psychological distress and increase engagement. Given the negative impact that despotic leaders have on psychological well-being, banks should consider providing stress-relieving assistance programs to their employees. Therefore, counselling services for victims of despotic leadership styles may be beneficial in minimizing psychological distress manifestations, such as depression and anxiety. Therefore, given the positive and negative influence of leaders’ actions on psychological well-being, the banking sector may consider offering programs for their employees to curb work stress.

5.2. Limitations and Future Research Directions

Even though this research adds to the theory and practice in the area, its findings must be viewed with the following limitations. Firstly, the current study’s findings are only applicable to the banking industry, and generalizing the findings is difficult because the data were gathered only from banks in Punjab, Pakistan. Therefore, future research in a variety of service settings, such as education, health, hospitality, and insurance, is encouraged to address the issue of generalizability. Secondly, the current study was based on a self-reporting survey. A self-reporting survey can inflate or deflate the relationship between the exogenous and endogenous variables. Therefore, future researchers are encouraged to employ alternative methodologies, such as focus groups or qualitative methods, in their research. Moreover, the study was a cross-sectional design, in which data were gathered over a specific, short time interval to generalize the hypotheses. Future researchers are encouraged to conduct longitudinal research to improve the current research findings.

Thirdly, our study focused exclusively on one positive (transformational leadership) and one negative (despotic leadership) aspect of leadership style and its effect on employee engagement. Future studies could expand on our findings by examining the impact of various positive and negative leadership styles (peacemaking and narcissistic leadership); this would outline another avenue for future scholars to pursue. Notably, future researchers may investigate other employee outcomes of leadership styles, such as individual ability, creativity, and perceived career growth. Upcoming studies may also examine the psychosocial safety climate as a moderating variable for better results.

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