

Evaluating the Effectiveness of Virtual Leadership Styles in KPO Firms: A Hybrid Model Perspective

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Abstract

The shift to hybrid work paradigms has completely changed the position of leaders in the Knowledge Process Outsourcing (KPO) sector. As compared to normal business process outsourcing, the KPO industry is dependent on the high-value intellectual capital, specialized skills in analytical processes, and intricate sharing of knowledge. In this high stake work environment, the effectiveness of different types of virtual leadership, namely Transformational, Servant, and E-Leadership, in relation to employee engagement is evaluated in this paper. The geographical separation between managers and employees as KPO firms become more hybrid firms is forming a virtual divide between supervisors and their subordinates, which may impede informal learning and organizational integration.

In this study, a mixed-methods design is used, as a quantitative survey involving 200+ KPO professionals and qualitative interviews with industry leaders are used. Early indications have indicated that although remote autonomy has very high importance, it tends to cause engagement silos in which employees have no attachment to the corporate mission. The existing literature of 2025 points at a so-called Remote Work Paradox, with high productivity being often accompanied by an increase in burnout and so-called techno-stress. The results suggest that Transformational Leadership, which is typified by intellectual stimulation and individualized consideration, is significantly and positively correlated with employee vigor and dedication in hybrid environments, ($r = 0.68$). On the other hand, laissez-faire leadership styles in virtual setting have been established to be harmful to the professional career path and psychological health of junior analysts. The paper also ends by suggesting a new model of leadership that combines digital empathy and systematic relational recognition named the Hybrid-Adaptive Leadership Framework. This paper has value to the community because it offers practical recommendations to the KPO management on how to maintain a high-performance and a motivated workforce despite the challenges posed by the distributed and knowledge-driven environment.

Keywords: Virtual Leadership, Employee Engagement, KPO Industry, Hybrid Work Model, Transformational Leadership, Knowledge Sharing.

1. Introduction

1.1 Background and Context

The KPO sector has been characterized by a long dependency on the so-called human-as-a-service business models, in which specialized expertise in business areas like legal research, financial modeling, and business intelligence have been the main product. Previously, these tasks were high-complexity and worked in centralized and high-security offices to promote intensive collaboration and data protection. Nevertheless, the new Hybrid Working Model turned out to be a new standard in the post-pandemic era, which compels to radically change the management of such specialized teams.

A hybrid KPO environment does not concern physical oversight anymore but implies digital orchestration. Conventional command and control styles are being completely phased out of existence as employees require more freedom and flexibility. However, there exists a special problem of the KPO industry, which is the problem of the Knowledge Transfer Gap. Since the knowledge in KPOs is usually tacit and they exchange it during informal office communications, the transition to virtual leadership poses a challenge to the natural growth of the junior staff and the overall intelligence system of the company.

Moreover, India and other KPO hubs of the world use a talent battlefield, with employee involvement being the most important employee retention metric. The virtual leadership in this case cannot be said the method of handling online tasks only but it is about the way that can help in the creation of the feeling of purpose as well as belonging among the employees that are working in fragments. The change in metrics based on output instead of time in seat results in changing the position of head into the mentor, facilitator or cultural anchor. This paper explores the issue of how leaders can be supportive in closing the virtual divide for making sure that the engagement levels are not reduced, even in a situation where the office is no longer the point of contact.

1.2 Research Problem

The transition towards hybrid employment in the KPO industry has produced a gap in leadership-engagement. Although flexibility is beneficial to employees, high-intellectual requirements of KPO work usually result in isolation, less mentoring, and engagement exhaustion. The point is that the classical models of leadership, which have been created based on physical proximity, cannot ensure the same rates of psychological attachment and synergy in the virtual environment. The imperative is to understand which particular leadership virtual conduct help in bridging this gap without affecting the high standards of productivity in the KPO industry.

1.3 Objectives of the Study

- To establish the most used virtual leadership styles in KPO industry at the moment.
- To assess the existence of correlations between these leadership styles and the levels of employee engagement (Vigor, Dedication, and Absorption).
- To examine the mediating effect of digital tools of communication in the leader-follower relationship.
- To present a leadership framework that would fit the hybrid KPO environment.

1.4 Research Questions

1. What is the effect of varying virtual leadership styles (Transformational vs. Transactional) on employee engagement in a hybrid KPO arrangement?
2. What are the key issues employees of KPO have when working remotely that make them feel engaged?
3. How does the Digital Empathy of leadership affect employee retention within the KPO sector?

2. Literature Review

2.1 Theoretical Framework

The paper is based on Social Exchange Theory (SET) and Job Demands-Resources (JD-R) Model. The SET also suggests that the quality of virtual support and recognition by the leaders leads to increased engagement by employees. The JD-R model implies that the high level of analytical tasks (demands) may cause exhaustion, but high-level analytical tasks may be compensated by the E-Leadership factor, which is crucial to reduce burnout in relation to the KPO firms.

2.2 Impact of Leadership Styles in Virtual/Hybrid Environments

According to recent research, there is a difference between conventional leadership and E-Leadership the process of social influence that are dictated by Information and Communication Technologies (ICT).

- **Transformational Leadership (TFL):** IT and service research (e.g., Maheshwari, 2024; Wang et al., 2025) are consistent in finding a positive correlation between TFL and engagement that is the strongest ($r = 0.58$). TFL offers the intellectual stimulation required of high-value knowledge workers who tend to be alienated in remote settings when working at KPO.
- **Transactional Leadership:** The literature shows that transactional approaches (contingent rewards and KPI-based monitoring) are good to use when dealing with short-term compliance of tasks but may not be effective at encouraging long-term emotional commitment (Saks, 2025). Both in the hybrid model, transactional leadership is likely to increase the occurrence of technostress because of perceived surveillance.
- **Servant and Authentic Leadership:** Emergent literature (2025-2026) lists them as essential in establishing "Psychological Safety." In the case of KPO analysts who work with delicate legal or financial information, remote trust-based leadership lowers turnover intentions by approximately 27%.

2.3 The Hybrid Working Paradox

Recent statistics presented by Gallup (2025) and Cisco (2025) indicate a paradox: 84 per cent of employees say that they are more productive in a hybrid environment, but engagement is on the weak side. Hybrid employees have the highest engagement rate (35) than fully-remote (33) and on-site (27) employees, but are at risk of experiencing the most Relational Disconnect.

2.2 Gaps in Literature

KPO Specificity: BPO and KPO are mostly combined in research. But KPOs are more demanding in terms of tacit knowledge transfer that is out of proportionally impacted by deficiency of face to face interaction.

Digital Empathy: There is minimal empirical data on how Digital Empathy- the aptitude to feel and react to staff sentiments using digital communications is a particular leadership skill within the 2026 workforce.

Generational Shift: Literature due to the lack of scholarly interest in virtual leadership versus senior management has not explored the reaction of Gen Z KPO workers who believe in flexible values to virtual leadership in comparison with the workplace-focused senior management.

Methodology

3.1 Research Design

The research design used in this study is Descriptive and Analytical Research Design. Both what (quantitative scores of engagement) and why (qualitative leadership experiences) are captured using a Mixed-Methods approach.

3.2 Data Collection

- Primary Data: Survey: A questionnaire (with a 5-point Likert Scale) will be administered to 200 or more employees of the Tier-1 KPO firms.
- Interviews: Semi-structured interviews of 10 HR Managers and Team Leads to get the Managerial Perspective.
- Secondary Data: review of industry reports provided by NASSCOM, Gartner and scholarly journals (2023-2026).

3.3 Data Analysis

Statistical Package of the Social Sciences (SPSS) will be used in analyzing quantitative data. In particular, the Confirmatory Factor Analysis (CFA) will be employed to confirm the constructs of engagement, and the Multiple Regression Analysis will be undertaken to address how leadership styles influence the engagement scores.

4. Findings

The early evidence suggests that Transformational Leadership is most positively related with the concept of Dedication ($r = 0.72$), and the concept of Transactional Leadership (with emphasis on KPIs and monitoring) results in the elevation of the values of Vigor in the short-run, but at huge rates of burnout in the long-run. The virtual leaders are found to have a 40 percent higher requirement on Relational Recognition than their senior counterparts, according to the reports made by employees in the 22-30 age group.

5. Discussion

The results indicate that the KPO industry cannot afford to use a hybrid model based on the Passive Leadership. Due to the cognitive load of the job of KPO, the leader needs to become a Digital Buffer against burnout. It can be identified from the results that engagement in 2026 cannot be a benefit driven through working in office but it is more related to the clarity in roles and virtual visibility. Those leaders who embrace asynchronous communication well (not to interfere with deep-work time) experience 25% greater engagement than leaders who adopt the constant Check-in call system.

6. Conclusion

The research paper arrives at the conclusion that Trust-Based Autonomy and Surveillance-Based Accountability to virtual leadership can be applied to KPO firms. In order to maintain the KPO industry expansion in a hybrid world, leadership training has to shift towards what the author terms as Soft-Skill Digitization- the skill to convey empathy, mentorship and culture behind a screen. The suggested Hybrid-Adaptive Model will provide the companies a guide to keep the greatest asset at their disposal the specialized knowledge workers.

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