

The Effect of Transformational Leadership in Creating Employee Trust on Leaders in Organizations

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Abstract— The significance of creating trust on the leaders by the employees has shown increased importance in the contemporary organizational set up. The study discusses the effect, transformational leadership is having in creation of trust on leaders by the employees in the present-day organizations.

Purpose: The study is to determine the relationship Transformational leadership is having in creating Employee trust on leaders by the employees in organizations

Design/Methodology/Approach: The research is conducted perusing the recent and major Journals and articles that are published in reliable, high quality Journals on the captioned subject. A quantitative research Conducted on a deductive approach through a survey questionnaire in the banking industry of Sri Lanka

Findings: Transformational leadership is showing a positive significant relationship to trust in employees regarding the leadership. The relationship between the transformational leadership and Trust in employees regarding the leadership is so strong and provides guidance for organizations on the particular leadership style that is most suitable to be implemented.

Keywords: Leadership, Transformational Leadership, Trust

I. INTRODUCTION

For over two decades now, leadership theory and research have dwelt so much on transformational leadership. The expectation has been that this leadership paradigm would offer the much-needed competitive advantage in the present-day complex organizational environment (Ngodo, 2008). As per Bernie Bass (1990, 1999), the doyen of leadership research, was one of the first to argue for a new transformational style of leadership to replace transactional forms. Put simply, transactional leadership encompasses fairly traditional managerial styles where managers or leaders gain compliance and performance by either offering rewards or punishing deviations from standards. These styles are useful for stable state situations but are less useful for organizations undergoing environmental turbulence or rapid change. Here transformational styles are required. Berbie Bass (1990; 1999) said that superior leadership performance or transformational leadership occurs at the time leaders broaden and elevate the interest of their employees on their mission. The purpose and mission of the group is made well aware by the leader and ensure their acceptance of them of which in turn enables the employees to see the common interest beyond their personal interest. Transformational leaders are capable of achieving the results in one or more ways and may be charismatic to the followers inspiring them. Bass (1990), who pioneered the transformational leadership came out with a model named as “Full range leadership model” which clearly differentiates leadership at transactional level. It identifies four types of transformational leadership styles that leaders behave namely individualized

consideration, intellectual stimulation, inspirational motivation and idealized influence (Kirkbridge, 2006)

Within business the issue of internal mutual reliance occurs at three separate levels: within the company leadership; within the groups that interact with, or are governed by, that leadership; and in relation to individuals who form stakeholder groups (Dovey, 2009). Trust is important in organizations to create Effective Corporation among team members in an environment of present complexities. Today people working in widely dispersed workstations, working from home, working in to varying time schedules are some specific reasons why Trust is of utmost importance in contemporary workplace (Tyler, 2003). As per Ellonen et al (2008), Trust could be classified in to two as Interpersonal organizational trust and Impersonal organizational trust.

II. LITERATURE REVIEW

A. Transformational Leadership

Burns (1978) distinguished the difference between Transactional leadership from Transformational leadership. Transactional leadership relating to social exchange where rewards are given to achievements and punishment given to non-achievements. Transformational leadership is focused on stimulating and inspiring followers to achieve extraordinary results whilst developing themselves in addition to the organizational goals. Bass and Avolio (1991) came out with the Full range leadership model which quantifies all types of leadership styles into three main categories. They are Transformational, transactional and avoiding types of leadership styles. The importance of Transformational leadership in organizational performance was established in similar researches there onwards (Howell and Frost (1989); Kirkpatrick and Locke (1996); Yammarino et al., (1993); Sosik, (1997)). The followers are not only inspired by the leader, but they also start believing themselves in their own potential finally creating a better future for the organization (Samson and Daft, 2015) in Transformational Leadership. The Bass and Avolio (1992) Model describes four major components in Transformational leadership as Idealized Influence (II), Individualized consideration (IC), Intellectual stimulation (IS) and Inspirational motivation (IM).

Idealized Influence (II): Leader demonstrates moral behaviours and charisma where they are regarded as Role models (Bass and Avolio, 1992; Kirkbridge, 2006)

Individualized Consideration (IC): Leaders individual attention is made on followers and identifies strengths and weaknesses. They also encourage two-way exchange of views and focuses on individual employee’s self-development (Bass and Avolio, 1992; Kirkbridge, 2006).

Intellectual Stimulation (IS): Leader stimulates the followers to develop their own capabilities by thinking through issues and problems for themselves (Bass and Avolio, 1992). Leaders allow followers to bring in new ideas

and ensures the environment for innovation is created (Bass and Riggio, 2008; Kirkbridge 2006).

Inspirational Motivation (IM): Leader communicates a vision with followers where confidence is instilled ensuring an elevated organizational performance (Bass and Avolio, 1992).

B. Trust

Over the past two decades the importance of trust in an organizational setting was seen with much importance (Kramer, 2006). Within organizational settings these had been discussed at three levels. The generalized trust reduces the transaction cost of operations within an organization. Secondly trust plays a role in fostering spontaneous sociability and corporation. Thirdly the high level of trust between leader and the follower, compliance and commitment becomes less problematic.

C. Trust in leader

The willingness of subordinates to be vulnerable to the actions of the leaders are considered as Trust in leader (Sharkie,2009). The perception of trust is related to the character of the leader where attributes like dependability and integrity determines the level of trust placed on the leader by the follower. Employee trust of leaders in organizations has become important than ever before, as the contemporary organizations giving lesser guarantee on job security and promotions. As per Sharkie (2009), The discretionary effort of employees takes place in a context where higher level of trust is needed to encourage corporative behavior.

D. The Effects of Transformational leadership in Building employee trust on leaders

Transformational leadership has a significant positive relationship with team members trust in leader (Gillespy and Mann, 2004). The study of Arnold et al. (2001), confirms that Transformational leadership increases trust and the organizations who deploy teams should be trained on how to be effective transformational leaders. It was evident from the work of Ngodo (2008), that Transformational leadership impacts Trust directly and also indirectly through procedural justice. Therefore, trust plays a central role in transformational leadership.

The linkage of transformational leadership in trust was described by Shwepker Jr and Good (2013), as a way the leaders could foster a strong transformational behaviour which further strengthens the trust among followers.

III. METHODOLOGY

A. Design

A stratified random sample of the Leaders of Sri Lankan Banking industry (Executive grade and above) and the employees (Below executive grades) which resulted a response of 380 Leaders and followers on a survey to measure the transformational leadership and the Trust. The respondents were requested to provide their responses on a 5-scale survey questionnaire. The model was designed accordingly and the refined model is given as per the Figure 1.

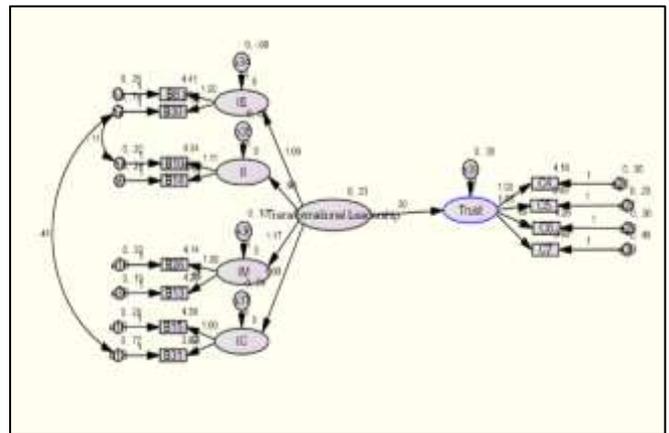


Fig. 1: The structural Model

Source: Researcher Developed,2019

B. Hypothesis development

The linkage between Transformational leadership and Trust in leader by the employees of banking industry in Sri Lanka. As per (Gillespy and Mann, 2004), Transformational leadership has a positive relationship with Trust in leader by the employees. The transformational leadership increases the trust in leader by employees and organizations that deploy teams should make arrangements to improve the practice of Transformational leadership according to the research done by Arnold et al. (2001). The research work of Ngodo (2008) proved that Transformational Leadership does impact Employee Trust directly and also effects indirectly through procedural justice in organizations. The Linkage between Transformational Leadership and Trust was described by Shwepker Jr and Good (2013) as something that could foster the Trust in leader by Employees. Therefore, the relationship could be stated as follows,

H: The Transformational Leadership has a positive relationship with the Trust in leader by the employees in Sri-Lankan Banking Institutions

IV. DISCUSSION

The reliability of the individual items checked to measure the stability and the consistency of the study (Sekaran and Bougie, 2016). The average variance extracted (AVE) and Cronbach’s Alpha values were measured and the indicators given in Table 1.

Construct	No. of Items	AVE	Composite Reliability	Cronbach’s Alpha
Transformational Leadership	8	0.96525	0.9838	0.816
Trust	4	0.5052	0.9634	0.800

Table 1: Summary of Individual Items Reliability of the constructs

Structural equation modelling performed in this study using analysis of moment structures (AMOS) statistical tool where it explains the relationship among multiple variables formulated by combining a measurement model called as Confirmatory Factor Analysis (CFA). The study indicates an almost 0.9652 AVE in the construct of Transformational Leadership whilst the constructs of Trust

indicating 0.5052 AVE values which are considered as acceptable. Cronbach alpha for Transformational leadership indicates as 0.816 which is good whilst Trust indicating 0.800 which are good reliability measures. As per Hair et al. (2010), The reliability alpha would be low when there are less items in a latent variable. Therefore, the given indicators can be accepted as valid.

A. Model Fit

The Model fit of the entire model was tested using AMOS software and the indicators are given in the Table:2

GOF TEST	Requirement	GOF Test indicators
df	>0	47
X ² /df	<5	3.011
TLI	>0.9	0.899
IFI	>0.9	0.940
CFI	>0.9	0.939
PCFI	>0.8	0.566
RMSEA	<0.08	0.069
PCLOSE	>0.05	0.008

Table 2: Model Fit of the comprehensive Model

Out of the eight goodness of fit indicators tested, seven indicators are within the requirement level that shows an acceptable level of the entire model.

Path Hypothesis	Standardized path coefficient	S.E	CR	P Value	Hypothesis Testing Results
TFL-Trust (H ₂)	0.238	0.075	3.616	0.000	Supported

Table 3: Structural Model indicators

H: The Transformational Leadership has a positive relationship with the Trust in leader by the employees in Sri-Lankan Banking Institutions

As per table 3, the Transformational leadership is showing a positive relationship to trust in the banking industry of Sri-Lanka. However, the P value is 0.00 which is significantly lower than the threshold value of 0.05 to establish a significant relationship. Therefore, the hypothesis is treated as strongly supported and the alternative hypothesis is accepted.

V. CONCLUSION AND MANAGERIAL IMPLICATIONS

The relationship of Transformational leadership towards Trust is considered as positive and significant (Gillespy and Mann, 2004; Arnold et al., 2001; Ngodo, 2008; Shwepker and good, 2013). This study outcomes too confirm the outcomes of the literature where the positive relationship Transformational leadership is having towards improving trust on the leader within the employees of the banking industry in Sri Lanka. The possible reason towards same is that the banking industry employees tend to build trust if the leadership is demonstrating transformational leadership. However, the specific style of transformational leadership that are tested in this study behaves differently of which is discussed in this study. The learning through the study is that implementation of general transformational leadership helps to instill trust in the employees on their leadership.

The management implications of the study would be that the implementation of Transformational leadership style could be useful in creating trust within the employees regarding their leadership. In order to achieve the anticipated results management should create an organizational culture where the leadership adopts Transformational leadership attributes. Organizations need to therefore strategize to implement Transformational leadership style right across the organization and need to monitor implement and sustain adequately to reap the best benefits.

VI. LIMITATIONS OF THE STUDY

The study was focusing the banking industry in Sri Lanka. However, the results could be generalized to any institution or industry as the results of the study are in compatibility with the past research findings. The Four styles of transformational leadership Idealized influence (II), Intellectual Stimulation (IS), Inspirational Motivation (IM) and Individualized Consideration(IC) were not tested directly on the effect they have on trust in employees regarding the leadership. Future studies could focus this aspect and provide a much suitable style for implementation in the specific context under study.

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