

DOES TRANSACTIONAL LEADERSHIP STYLE INFLUENCES SUBORDINATES' TRUST? AN EMPIRICAL STUDY IN THE PERSPECTIVE OF LOCAL AUTHORITIES' EMPLOYEES

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Abstract: *The purpose of this study is to examine the influence of transactional leadership style on subordinates' trust using 300 questionnaires responded by the employees (support staff group) of local authorities located in the central region of peninsular Malaysia. The measurement scale employed in this study has met the acceptable levels of validity and reliability tests of the study. However, performing confirmatory factor analysis based on structural equation modeling (SEM) has remained two of three components of transactional leadership style. They are contingent reward and management by exception (active). The management by exception (passive) was omitted for further analyses. Regression result of SEM analysis indicated that trust was influenced by the transactional leadership style. Further, this study provided the discussions and implications from the findings.*

Keywords: Transactional leadership style, Trust, Local Authority, Structural Equation Modeling

Introduction

Leadership is actually an individual who has power and shape the direction of a nation and in the organization context, it reflects the management of organization (Bono & Judge, 2003, 2005; Yukl, 1989) as well as building the organizational competitiveness (Bass & Avolio, 1994; Bryman, 1992). Usually, to meet the organization objectives, leaders build the values and give motivations, provide the needs, and realize the aspiration and expectation of them and their followers according to how these both parties interact each other (Howell & Avolio, 1993; Hartog, Muijen & Koopman, 1997). Basically, interactions in the traditional leadership approach focus on the degree of job targets achievement by the subordinates as targeted by their leaders (Bass, 1985; Howell & Avolio, 1993). Differently, interactions in the present leadership approach look more on the association concreteness with followers, such as promoting their trust, open decision-making, democratic style, and personal touch (Avolio, Bass & Jung, 1999; Bycio, Hackett & Allen, 1995). It is noted that contemporary and traditional types of interaction styles have linked to different components which is categorized in two major types; transactional leadership and transformational leadership (Avolio et al., 1999; Hartog et al., 1997; Howell & Avolio, 1993).

Past researches of human resource management study had discussed the internal subset of the organizational leadership (Spreitzer, 1995; Bryman, 1992; Yukl, 2002). It is revealed that, past researches had focused more on transactional leadership and transformational leadership as a well known properties of the organizational leadership (Bass, 1999; Hartog et al., 1997). Transformational leadership relates to the leaders who build talented subordinates, respective value systems, moralities and motivation which lead the subordinates to unite, realize the goals and beliefs (Bass, 1994, 1999; Bycio et al., 1995), and ignore their personal-needs in fulfilling the organizational interests. Transformational leadership has five main dimensions; intellectual stimulation, individualized consideration, individualized influenced attributed, and individualized influence behavior and inspirational motivation (Bass & Avolio, 2004).

Meanwhile, transactional leadership is related to win-win negotiations in the perspective of demands and rewards that create mutual agreement between leaders and their subordinates (Felfe & Schyns, 2002). Leaders and subordinates being as partners who interact for a good work and good incomes. It is actually an exchange process which the subordinates who succeed the leaders' wishes will be rewarded (Bass, 1985; Burns, 1978; Jabnoun & AL-Rasasi, 2005). Transactional leaders are supposed to do job based on task roles and requirements as well as showing their responsibilities and expectations to achieve organizational and job goals. Different to transformational leadership, transactional leadership has three main components; contingent reward, management by exception (active) and management by exception (passive).

However, in succeeding today's organizational leadership, many organizations perceive the appropriateness of transactional leadership to be practiced in realizing their strategies and goals (Bass et al., 2003). There are some current leadership researches indicate the leaders who properly practice transactional leadership style in leading their followers would promote their followers' trust (Azman et al., 2010). Contingent reward relates to the linkage between goal achievement with rewards, expectation clarification and resources provision by the leader for successful performance (Bass & Avolio, 1995). Leaders' behaviors are based on setting a

specific and timely goals and ensuring the subordinates properly move for goals achievement (Howell & Avolio, 1993).

Management by exception (active) leader is a leader who monitors the work of subordinates, watch for deviations from rules and standards and take corrective action to prevent mistakes. This make the leaders disclose followers' potentials by performing coaching and mentoring activities, perform frequent feedback and match the followers' needs to the organizational strategy and goals (Bass & Avolio, 1994; Avolio, Zhu, Koh & Bhatia, 2004; Kark & Shamir, 2002). Management by exception (passive) shows the leader intervene the work progress and output when only the standards are not met or when the performance is not as per expectations (Howell & Avolio, 1993). This behavior encourages leaders to motivate followers to attain the targeted goals confidently (Bass & Avolio, 1994; Shamir, House & Arthur, 1993).

Trust has been conceptualized based on various interpersonal and organizational constructs (Duck, 1997; Kramer and Tyler, 1995). For example, fairness, confidence and risk taking are considered three main constructs of trust (Erturk, 2008), whether interpersonal or organizational-based. Rousseau, Sitkin, Burt and Camerer (1998) also mentioned that the variety of definitions of trust show three main constructs of trust. First is expectation or belief that relates to confidence; second is willingness to be vulnerable that relates to risk taking; and third is dependency on another that relates to fairness, benevolence, ability and other organizational characteristics. Within a transactional leadership framework, the leader who effectively implement transactional processes, such as contingent reward, management by exception (active) and management by exception (passive) in managing organization functions may lead to an increased trust among the employees to their organization (Casimir et al., 2006)

Surprisingly, an extension attention about such association indicates that the impact of the transactional leadership practices on employees' trust in LAs should be evidenced especially when the Malaysian government wants to promote high star rating of LAs and enhance good governance among their employees (Malaysian Government, 2010). The nature of this linkage is interesting, but negligible attention given on the effect of transactional leadership on employees' trust based on the perspective of Malaysian public sector organization like LA.

The purpose of this study is to examine the influence of transactional leadership on trust that existed among the employees in Malaysian local authorities (LAs). The paper is structured according to; discuss the context of this study, discuss and critical study the literature and form a research hypothesis, explain the methods of study, show the findings of data analysis, discussion of results and implications, limitations of this study, and lastly, a conclusion is highlighted.

Literature Review

The influence of transactional leadership style on trust has been recognized by many studies in various perspective. For example, some studies related to transactional leadership style were performed utilizing distinct samples and perspective, such as 241 employees in Australia and China (Casimir et al., 2006), 150 employees of the United State subsidiary firms in West Malaysia (Azman et al., 2010) and 40 executives of the US's company (Tatum et al., 2003) revealed that followers were led by transactional approach based on contingent reward,

management by exception (active) and management by exception (passive) had been a main predictor of trust. Hence, it is hypothesized that:

H1: There is a significant influence of transactional leadership on trust.

Burns (1978) and Bass (1985) developed the concept and understanding of leadership theories which are relevant for the research literature in the area of leadership style. Burns (1978) mentioned that followers' moralities may increase when there is mutual understanding between leaders and followers. While, according to Bass's (1985), the interaction between leaders and followers in implementing the jobs can foster followers' trust as well as motivate them to forget their self-interests and prioritizing the organization interests. The importance and congruence of those theories to the leadership research framework that followers' attitudes and their sacrifice toward organizational interests can be realized if leaders solve immediate problem, focus on task and reward performance (Pillai et al., 1999; Tatum et al., 2006). There will be the enhancement of followers' trust to their organization and they will do their job productively when transactional style is effectively implemented.

The above discussion is possible for structuring a research framework for this study as indicated in Figure 1.



Figure 1: Conceptual Framework

Materials And Methods

This study performed a cross-sectional research design to combine leadership and trust literature, the detail interview, the pilot study and the actual survey as important step to gain the data. Those methods may yield reliable and unbiased data (Cresswell, 1998; Sekaran, 2000). This study was conducted at Malaysian local authorities (LAs) located in the central region. Initially, this study performed interviews on four experienced supporting staff of ten selected LAs. From the interviews, the researchers would gain the knowledge of how transformational leadership facets practiced in the organization as well as how the employees responded based on trust. The information from the interviews was also referred to revamp the content of instrument for a pilot study. Therefore, part of the pilot study was conducted by discussing the survey instrument with four experienced supporting staff in LAs. Their feedbacks are important in validating the content and format of instrument for the actual survey. The items were translated from English to Malay to ensure the high level of validity and reliability of the questionnaire provided in this study (Johanim, 2010).

The survey questionnaire has 3 sections. Section one is about respondent profile. Section two is about transactional leadership with 12 items that were modified from the multi factor leadership questionnaires (Bass & Avolio, 1995). Third section is about trust that was measured using 12

items that were adopted from Cook and Wall (1980). All items used in the questionnaires were measured using a 5-item scale ranging from “strongly disagree” (1) to “strongly agree” (5).

Employee from the support staff group in LAs was selected as the targeted population of this study. A total of 528 questionnaires were distributed randomly to the employees. Of the total number, 375 responded, yielding a response rate of 71 percent. However, only 300 were usable. The survey questionnaires were answered by respondents according to their consent and on a voluntary basis. The numbers of respondent are above the minimum sample of 30 respondents as required by probability sampling technique. Thus, the data collected was possible for analysis by using inferential statistics (Leedy & Ormrod, 2005; Sekaran & Bougie, 2010).

The Results

The respondent profile of this study is demonstrated in Table 1. Most of the respondents were males (52 percent), their ages between 25 to 33 years old (51.3 percent), Malay (96.7 percent), SPM holders (54.3 percent), from municipal council employees (42.7 percent), and working experienced 6 - 10 years (33.7 percent).

Table 1: Participants’ Characteristics (N=300)

DEMOGRAPHIC	CHARACTERISTICS	FREQUENCY	PERCENTAGE
Gender	Male	156	52.0
	Female	144	48.0
Age	Less than 25 years	29	9.7
	Between 25 and 35 years	154	51.3
	Between 36 and 45 years	62	20.7
	46 years and above	55	18.3
Race	Malay	290	96.7
	Chinese	1	0.3
	Indian	7	2.3
	Others	2	0.7
Religion	Islam	293	97.7
	Buddhist	0	0.0
	Hindu	6	2.0
	Christian	1	0.3
Highest Academic Qualification	Primary School Certificate	4	1.3
	SRP/PMR	6	2.0
	SPM	163	54.3
	STPM	25	8.3
	Diploma	71	23.7
	Others	31	10.3
Employer	City Hall/ City Council	120	40.0
	Municipal Council	128	42.7
	District Council	43	14.3
	Putrajaya Corporation	9	3.0
Department Served	Management Services	125	41.7
	Finance	18	6.0
	Enforcement	114	38.0
	Technical	23	7.7
	Others	20	6.7

Length of Service	5 years and below	67	22.3
	6 - 10 years	101	33.7
	11 - 15 years	58	19.3
	16 - 20 years	28	9.3
	21 years and above	46	15.3

Note:

SPM/MCE/Senior Cambridge: Sijil Pelajaran

Malaysia/Malaysia Certificate Education

STPM/HSC: Sijil Tinggi Pelajaran Malaysia/High School Certificate

Table 2 shows the yields of validity and reliability tests for measurement scales. The exploratory factor analysis (EFA) based on varimax with Kaiser Normalization rotation was done for these two variables with 24 items, which related to: transactional leadership (12 items) and trust (12 items). The Kaiser-Mayer-Olkin Test (KMO) to measure the sampling adequacy of factor analysis was conducted for each variable and performed good result. Actually, the results of these statistical analyses indicated that all variables were above the value of 0.6 as a minimum standard of Kaiser-Meyer-Olkin's and significantly accepted ($p < 0.000$) in Bartlett's test of sphericity (BTS). Besides, the eigenvalues (EG) of each variable was more than 1 with variance explained (VE) values above 0.60. The factor loadings of each variable's items were exceeded 0.50 (Hair, Anderson, Tatham & Blacks, 2010), and all research variables reached more than the acceptable standard of reliability analysis (RA) of 0.70 (Nunnally & Bernstein, 1994). Thus, those statistical results depicted the acceptable validity and reliability of measurement scales selected for this study as presented in Table 2.

Table 2: Validity and Reliability Analyses for Measurement Scales

Measure	Items	FL	KMO	BTS	EG	VE	RA
Transac.L	12	0.75 to 0.90	0.83	2116.99	12.7	72.7	0.84
TRUST	12	0.68 to 0.84	0.91	1626.6	6.4	70.8	0.91

Confirmatory factor analysis (CFA) as usually done in measurement model (as depicted in Figure 2 and 3 - see appendices) is needed to confirm the selected items are really applicable and appropriate to meet the goodness of model fit and then able to measure the constructs (Hair et al., 2010). This is because this study employed Structural Equation Modelling (SEM) method, using AMOS 20 to test the relationship between the variable.

Figure 2 shows all the items of transactional leadership and trust were not able to achieve the requirements for goodness of model fit since the indicators mainly RMSEA value at 0.083 was exceeded the acceptable level although PNFI, CNI and TLI values (0.753, 0.915 and 0.900) were considered acceptable. According to Hair et al. (2010), the acceptable level of RMSEA must be less than 0.080. Hence, some items of transactional leadership construct and trust were omitted (due to high errors' values found in Modification Indices) to achieve a good fitness of model as depicted in re-specified measurement model (see Figure 3). The indicators of model fit show the acceptable changes of RMSEA, CNI and TLI values; 0.459, 0.975 and 0.967 respectively, while PNFI was 0.710.

A part of that, the results of disattenuated correlation analysis generated from the AMOS and descriptive statistics from Statistical Package in Social Science (SPSS) have been yielded as

demonstrated in Table 3. The means for the variables are 3.28 and 3.80 respectively which are ranging at high moderate level for transactional leadership practices and trust. The correlation coefficient for the relationship between the predictor (transactional leadership) and criterion variable (trust) is 0.511 that show good relationship and has discriminant validity.

Examining of direct effect model as presented in hypothesized structural model (see Figure 4 in appendix), result found the positive significant influence of transactional leadership on employees' trust ($\beta = 0.511$, $p < 0.001$), thus, supported the H1. This means that the performance of leaders to effectively implement transactional approaches via contingent reward and management by exception (active) have directly improved trust among the employees in LAs.

Table 3: Disattenuated Correlation and Descriptive Statistics

Variable	Mean	STD	Transactional Leadership	Trust
			1	1
Transactional Leadership (TL)	3.28	0.60	0.511***	1
Trust	3.80	0.94		

Note: Correlation Value is significant at *** $p < 0.001$
 Reliability estimation are shown diagonally (value 1)
 STD=Standard Deviation

Discussion and Implications

This study found and reveals that there is a significant impact of transactional leadership on employees' trust. The result give the meaning that in the LAs, leaders have progressively applied transactional behaviors such as contingent reward and management by exception (active) to succeed the organizational strategy and goals. Many employees perceive that such leadership practices had provided them the chances to put their efforts and being equipped with relevant resources to implement the organizational functions. They also perceived that the leaders were strictly to influence them to achieve the target of their tasks compared to transformational leadership style as encouraged to be practiced in the public sector organizations now. Moreover, the newly introduced of civil service transformation program as seriously emphasized in the agenda of GTP Roadmap are not fully practiced among the leaders in public sector organizations such as LAs. The old style of leadership that is bias to transactional style has been a strong culture that prefer to be practiced by the leaders especially those who have high level of seniority. Transactional leaders in LAs utilized strongly their authorities and powers by attracting followers' respects on their leaders for mutually achieve the targets. All this, led the employees to trust their organization.

The implications of this study can be elaborated into various parts: theoretical contribution, robustness of research methodology, and contribution to practitioners. For the theoretical contribution, this study proved the essential role of transactional leadership practices to influence employees' trust to their organization. This finding supported the study by Azman et al. (2010), and the famous model of trust as generated by Mayers et al. (1995). Overall, the results of this study have supported and added leadership research literature mostly found in the publications of the Western and Eastern organizational settings. Thus, the notion of transactional leadership style had been effectively applied within the leadership management models of the studied organization. Conducting the robustness of research methodology, the data collected using

leadership management literature, the in-depth interviews, pilot study and survey questionnaires have proven the high standard of validity and reliability analyses, thereby may give the accurate and reliable results and findings.

For the aspect of practical contributions, the results of this study can be learnt as a principle by the management to enhance the success of leadership style in their organizations. Hence, it is important for the management to learn some guidelines: firstly, leadership styles will be meaningful if they always learn with contemporary knowledge, suitable skills and high moral values. This training session can change leaders' treatments in properly managing the employees' rights and demands who are different socio-economy backgrounds. Secondly, directive leadership as synonym to transactional style is more meaningful if the programs introduced in LAs (i.e., Total Quality Management, Client Charter and Leadership by Example) are practiced together by both leaders and subordinates. This will motivate employees when they feel that leaders are always with them in implementing the programs for goals achievement. Subsequently, it may encourage them to display their strong efforts in doing job. This shows that the subordinates have intentions that lead them to behave for the organizational success. Their intentions represent their trust mainly to the leaders that apply the behaviors of transactional style.

Conclusion

This study reveals that transactional leadership significantly has a relationship with employees' trust in LAs. This result is consistent with and adds leadership research literature famously published in the Western and Eastern organizational settings. Thus, present research and practices involve public sector organizations in Malaysia have to consider that transactional leadership is still a critical element of the organizational leadership style, where promoting trust in successfully managing organizational functions may highly lead positive consequent attitudinal and behavioral results (e.g., competency, performance, satisfaction, commitment, and positive moral values). Therefore, these positive consequences could motivate the employees to perform LA competitiveness in a challenging environment.

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Appendix

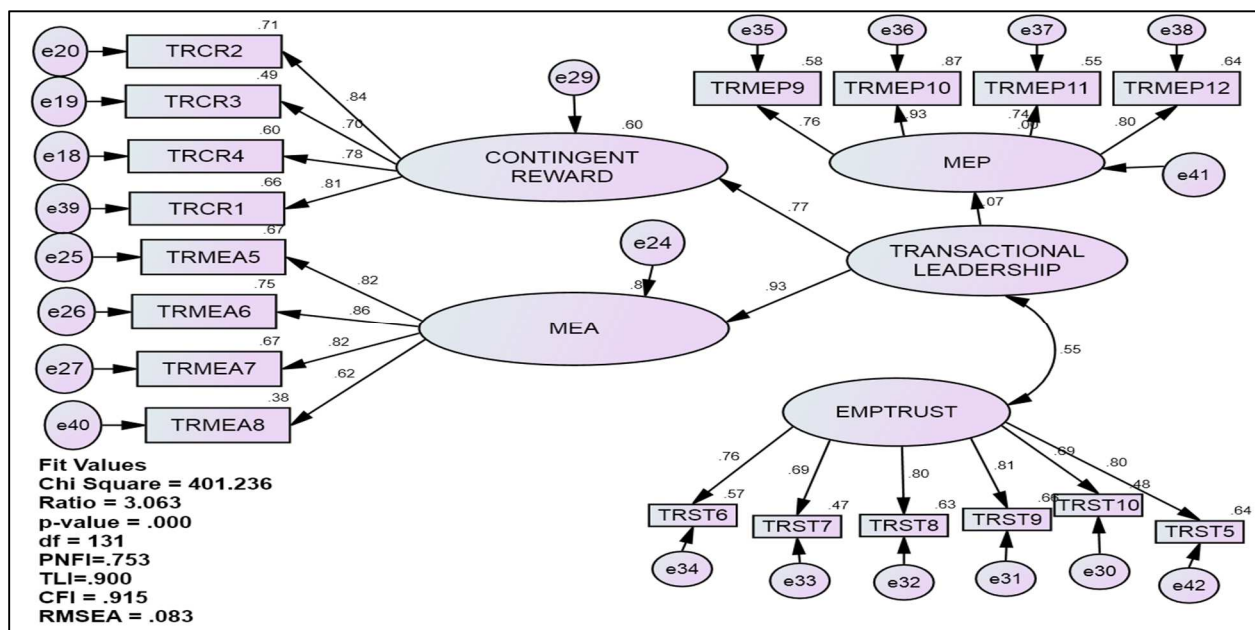


Figure 2 – Overall Measurement Model (Transactional Leadership and Trust)

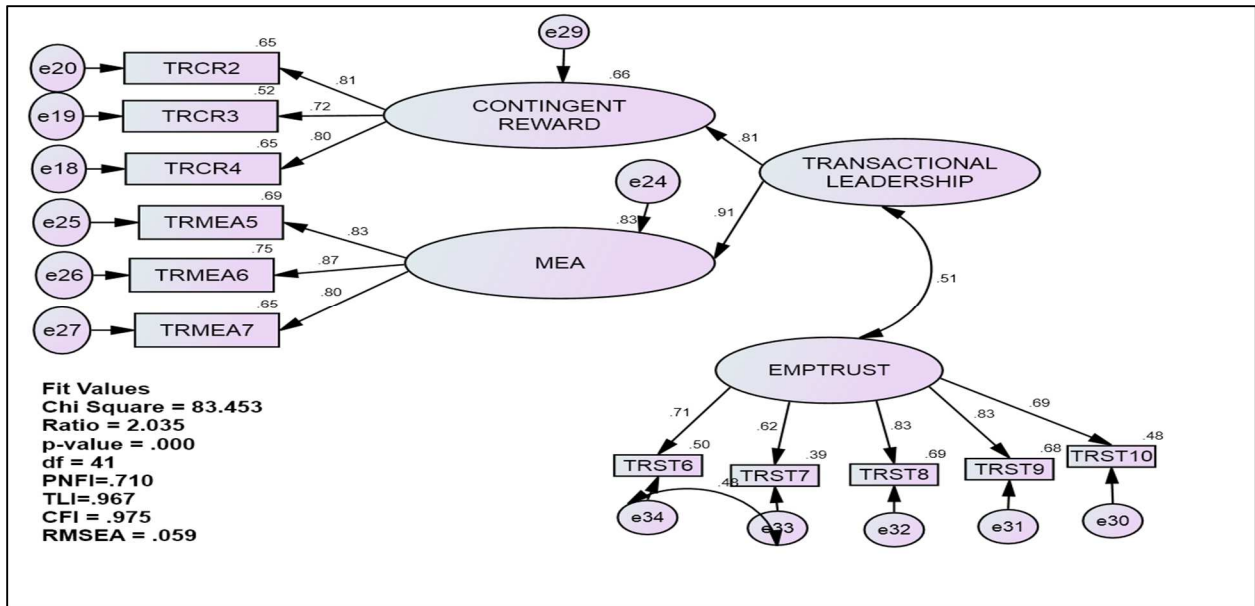


Figure 3 – Re- Specified Overall Measurement Model (Transactional Leadership and Trust)

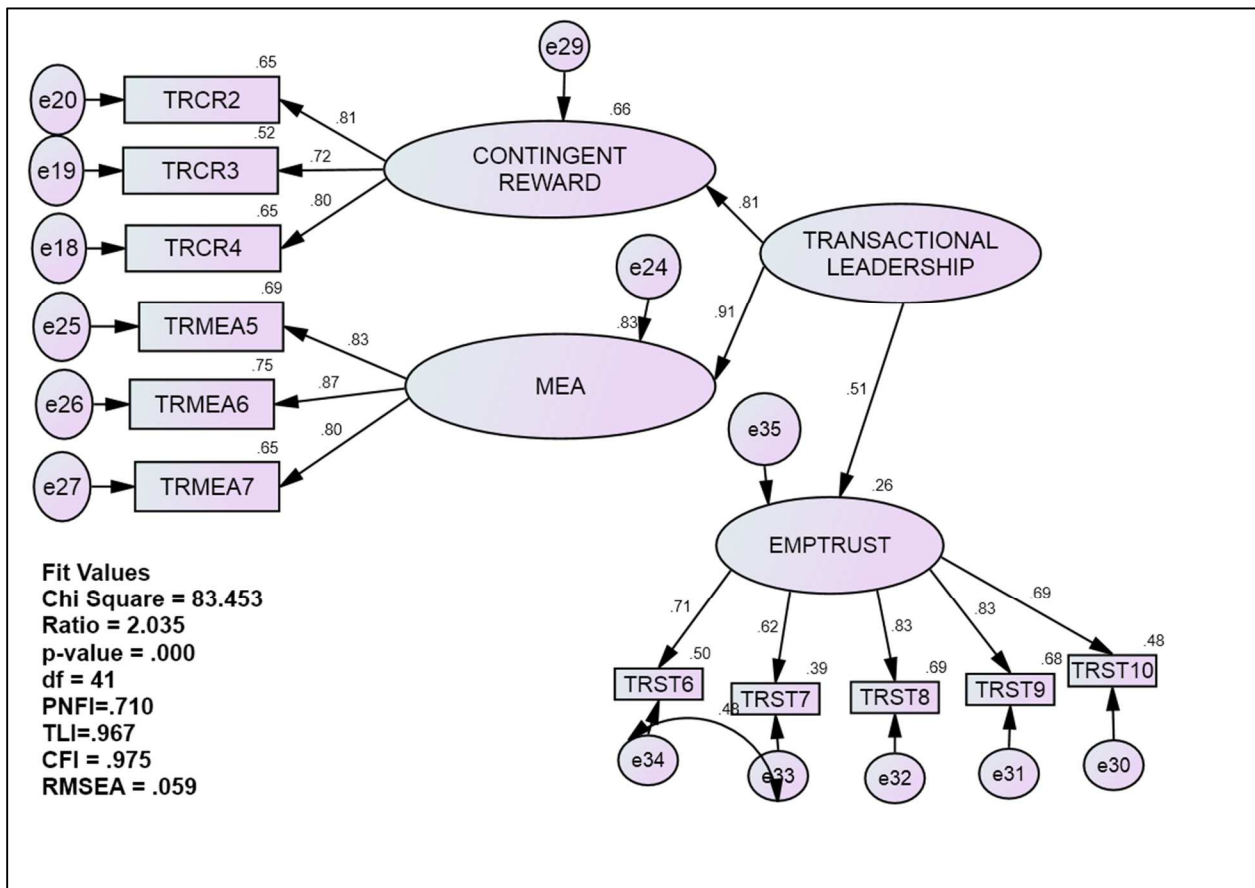


Figure 4 – Hypothesized Structural Model (Transactional Leadership and Trust)