

Understanding Transformational Leadership – Employee Performance Links: The Role of Trust and Commitment

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Abstract:

This study analyzes the influences of transformational leadership on employee performance through the mediating role of trust and commitment. Although these indirect interrelations are very important for enhancing employee performance, prior research has not usually explored them. The study confirms these influences empirically, basing the analysis on a sample of 25 Vietnamese firms with 326 employees. The results reveal that (1) transformational leadership influences employee performance positively through employee trust and organizational commitment; (2) employee trust influences employee performance, both directly and indirectly through organizational commitment; (3) organizational commitment influences employee trust positively.

Keywords: Transformational leadership, employee trust, organizational commitment, employee performance

1. Introduction

Transformational leadership was developed by Bass in 1985. Transformational leaders motivate their followers to perform beyond expectations by activating employees' higher order needs, fostering a climate of trust, and inducing employees to transcend self-interest for the target of the organization (Pillai, Schriesheim, & Williams, 1999). Gordon (1993) described transformational leader as a person who starts organizational change by explaining vision to organization's members. The transformational leadership are defined by Bass & Avolio (1993) have charisma or idealized influence (followers trust in and emotionally identify with the leader), provide inspiration (followers are provided with symbols and emotional appeals directed at goal achievement), promote intellectual stimulation (followers are encouraged to question their own way of doing things or to break with the past), and individualize consideration (assignments are delegated to followers to provide learning opportunities).

According to Bass (1985), transformational leaders encourage employee to achieve performance beyond expectations because they trust and respect their leader. Prior study assert positive association between transformational leadership and trust (Bennis & Goldsmith, 2010; Podsakoff, MacKenzie, Moorman, & Fetter, 1990). On the other hand, researchers also found the positive relationship between trust and commitment (Cook & Wall, 1980; Dirks & Ferrin, 2001, 2002).

Most research has only examined the direct relationship between transformational leadership and employee performance. On the other hand, various studies also analyze this relationship through intermediate constructs such as culture (Ogbonna & Harris, 2000), innovation (García - Morales, Llorens - Montes, & Verdú - Jover, 2006), knowledge management (Gowen, Henagan, & McFadden, 2009). However, understanding for the processes that through which the leader put into practice this influence is still limited and largely speculative. On the other hand, little empirical research has been studying about association between these variables, particularly in the Vietnamese context. This study seeks to analyze empirically potent mediating variables whether transformational leadership effect on performance through the intermediate influence of trust and commitment.

To summarize, this study analyzes the influence of transformational leadership on employee trust and organizational commitment and emphasizes the importance of empirical research to affirm these relationship. The model also proves a positive and significant link between trust and organizational commitment and between these variables and organizational performance.

To achieve these objectives, the paper develops as follows. The section on hypotheses, based on prior researches, the paper showed the influence of transformational leadership on trust and commitment, the influence of trust on commitment and the influence of both trust and commitment on organizational performance. The method section presents data and method used to analyze the hypotheses. The paper is researched in Vietnamese context. The result section presents the findings. The last, the conclusion and future research section presents results and some limitations of this study.

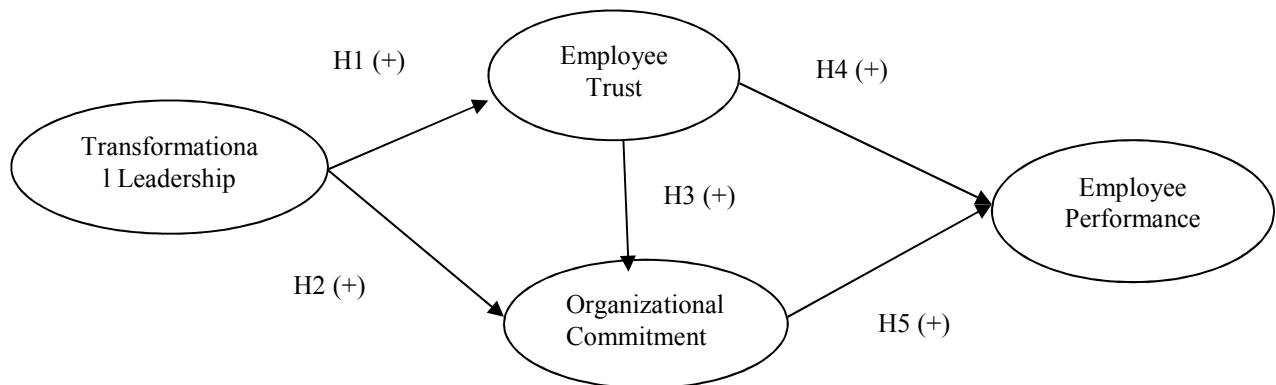


Figure 1. Research model

2. Hypotheses

2.1. The influence of transformational leadership on employee trust and organizational commitment

The relationship between transformational leadership and employee trust may mediate through procedural justice, but could also be unmediated effects (Krafft, Engelbrecht, & Theron, 2004). It means that transformational leadership may have directly relationship with trust (Pillai et al., 1999). Because, they found that transformational leadership and trust have strong and positive correlations (Sample 1: $r = 0.75$, Sample 2: $r = 0.58$, $p < 0.01$). Moreover, they also showed that transformational leadership is related to trust because structural parameter estimates of the relationship between transformational leadership and trust to be 0.66 ($p < 0.01$).

Moreover, Bennis & Nanus (1985) stated that transformational leadership and trust have a direct relationship because effective transformational leaders earn the trust of their followers. Trust plays an important role to transformational leader because of the need to mobilize employee commitment towards the leader's vision (Bass, 1985).

According to Pillai et al. (1999), transformational leaders try to install trust for employees to commit to the strategic vision that they propose. On the other hand, transformational leaders also try to motivate employees to take risks by intellectually stimulating them. To be able to do that, transformational leaders need to set a personal example in order to gain the trust of their employees (Pillai et al., 1999).

Hence, it can be postulated that:

H1: a positive association exists between transformational leadership and employee trust

Commitment is an aware behavior of partially. Individuals have attitudes as identifying with a person, a organization, and an action. It is almost able to change in these attitudes in the case of consequences (Becker, 1992).

Bass & Avolio (1997) and Podsakoff, MacKenzie, & Bommer (1996) found that transformational leadership has a strong influence on employees' organizational commitment. The study that has been conducted by Koh, Steers, & Terborg (1995) showed that transformational leadership factors have an influence on organizational commitment. Transformational leadership is probably showing a strong positive relationship with affective because it gives a strong feeling and adequate support to motivate subordinates staying in the organization, while contingent reward is probably positively related to continuance commitment because there is an anxiety of losing benefits when leaving the organization (Bycio, Hackett, & Allen, 1995).

H2: A positive association exists between transformational leadership and organizational commitment

2.2. The influence of employee trust on organizational commitment

According to Mayer, Davis, & Schoorman (1995), the confidence in others ability and trust in benevolence, integrity may lead to a willingness to risk that shown by a series of behaviors. Researchers used that basic ideal to consider the influence of trust on a series of behaviors and outcome such as sharing information, organizational behavior, endeavor, conflict, employee performance and organizational commitment. Cook & Wall (1980) stated that statistically significant relationships were found between dimensions of trust and dimensions of organizational commitment. In addition, Brockner, Siegel, Daly, Tyler, & Martin (1997) proved in a logical fashion that employee's trust in managers impact on a series of employee's attitudes and behaviors in organization. Employee may support and devote enthusiastically when their trust in managers is at high level. Moreover, according to Dirks (1999), trust may be best understood as a construct that influences group performance indirectly by channeling group numbers' energy toward reaching alternative goals. It means that the higher levels of trust level are, the better processes of teamwork are. Liou (1995) found that trust in the managers and the organization was predictive of commitment to the organization.

Conclusion, all the empirical findings, and evidences show that:

H3. A positive association exists between employee trust and organizational commitment

2.3. The influence of employee trust and organizational commitment on employee performance

Performance is defined as the result from a person's effort which achieved by the presence of effort, ability and task perception (Bryman, 1992). Apart from leadership style, employee trust, and organizational commitment is emphasized as other important factors that affect employee's performance. Both trust in managers and the organization and commitment are necessary for successful attainment of organization.

Employee behavior may influence firm level performance given that many employees have some degree of discretion with respect to how hard they work. Brown, Gray, McHardy, & Taylor (2015) explored the relationship between worker commitment and workplace performance. In this study, we focus on employee trust, specifically employee trust in management, which has attracted limited interest in the economics literature. Trust can be defined as 'firm belief in the reliability, truth, or ability of someone or something' (Oxford English Dictionary, 2013).

H4. A positive association exists between employee trust and employee performance

Employees' commitment on organization gives a higher level of possibility for employee to participate in achieving company's objectives process. Clearly, organizational commitment of employee play an important role for organization's survival and effective performance because negative results usually deal with missing commitment, synonymous with being absent from work and changing place of work frequently (Bennett & Durkin, 2000). Organizational commitment usually has positive effect on employee's performance such as employee job satisfaction, motivate to work and available to serve (Akanbi & Itiola, 2013; Bateman & Strasser, 1984; Mathieu & Zajac, 1990; Mowday, Porter, & Steers, 1982; Mowday, Steers, & Porter, 1979). All of these help to carry out organizational success not only depend on the way to exploit human resource deal with asset and human capacity but also how to encourage organizational commitment (Wim J. Nijhof, Margriet J. de Jong, & Gijs Beukhof, 1998). Thus, Raju & Srivastava (1994) defined organizational commitment is a factor that fostering employee has a strong attachment to their organization, reflecting employee want to undertake to work in long time. Therefore, leader's main object is interesting and maintaining capacity workforce to keep employee continuance in organization (Allen & Meyer, 1990)

H5. A positive association exists between organizational commitment and employee performance

3. Method

3.1. Sample and procedures

Vietnamese market is emergency market and relatively developed in ASEAN area. Vietnam has a better rate of growth in recent years. Becoming a membership of TPP (Trans-Pacific Partnership) in February 2016 is a great opportunity and challenge for Vietnam to join global market. However, Vietnam is a country that has received relatively little attention from organizational researchers. Thus, this study focuses on Vietnam as a new context for research. On the other hand, the manufacturing firms is representing a bigger percentage, billing volume and employment volume of the Vietnamese economy, therefore, the study focuses on the manufacturing firms.

The questionnaire includes four parts: Transformational leadership, employee trust, organizational commitment, and employee performance. The questionnaire utilizes a five-point Likert scale. The purpose of this paper is to study these links by using data drawn from employees who work in manufacturing firms in Vietnam. Managers of the human resources (HR) departments in 40 manufacturing firms were contacted by the authors to ascertain their willingness to join this study. The HR managers of 25 firms agreed to provide list of their direct full – time employees. We then distributed the questionnaires during regular work hours in the firms. We distributed the survey questionnaires to 576 employees, of which 345 complete questionnaires were returned, yielding a response rate of 60%. We were able to use responses from 326 complete and valid questionnaires for analyses. Employee average age is 33 and 54% is female. They report an average work experience of 9 years and an average organizational tenure of 3.2 years. Most (58%) have a Bachelor's degree.

3.2. Measures

The survey instrument was developed based on a comprehensive review of the existing literature. The questionnaire was translated from English to Vietnamese then back – translated to English by two independent bilingual scholars to ensure translation quality and guarantee equivalence of meaning.

In management research, the use of scales plays an important role in designing a survey instrument. Since no single metric unit can precisely measure, two or more measures are used combinative by researchers in order to gauge a construct or scale. Developing a new construct or scale is a complex task, therefore, wherever possible this research uses pre-tested constructs from past empirical studies to ensure their validity and reliability. To test the proposed research hypotheses, multi-item scales were adopted from previous studies for the measurement of the research constructs. They are operationalized as follows:

3.2.1. Transformational leadership

We adopted four items used in McColl-Kennedy & Anderson (2002) to measure transformational leadership. These items are suitable for this present research. We used a five-point Likert scale (1 “totally disagree”, 5 “totally agree”) in the questionnaire what required subordinates indicate their perceptions about behavior of transformational leadership in the organization. The authors used a confirmatory factor analysis to validate this scale, which required deletion of Item 1 (My leader gives personal attention to each sales representative). The result stated that Chi-square/df = 2.507, Normed Fit Index [NFI] = .99, Goodness of Fit Index [GFI] = .99, Comparative Fit Index [CFI] = .99, Incremental Fit Index [IFI] = .99. The scale is unidimensional. This procedure allowed selection of three items. The cronbach’s alpha for transformational leadership (after deleting item 1) was .772 indicating good reliability (alpha > .70).

3.2.2. Employee trust

To assess employee trust, we used four items developed by Brown et al. (2015). We used a five-point Likert scale (1 “totally disagree”, 5 “totally agree”) for these items. These items are duly adapted to this present research. The authors develop a confirmatory factor analysis to validate the employee trust (Chi-square/df = 10.520, Normed Fit Index [NFI] = .952, Goodness of Fit Index [GFI] = .948, Comparative Fit Index [CFI] = .956, Incremental Fit Index [IFI] = .956) and show that the scale is unidimensional and has high validity and reliability (cronbach’s alpha = .911).

3.2.3. Organizational commitment

For organizational commitment, only affective commitment to an organization was measured; measures of other types of commitment and commitment to other targets were excluded.

This research used a scale of 5 items to measure organizational commitment developed by Vandenberghe, Bentein, & Stinglhamber (2004) which uses a Likert-type 5 –scale (1 “totally disagree”, 5 “totally agree”). These items are duly adapted to this present research. The authors develop a confirmatory factor analysis to validate the organizational commitment (Chi-square/df = 5.068, Normed Fit Index [NFI] = .959, Goodness of Fit Index [GFI] = .97, Comparative Fit Index [CFI] = .967, Incremental Fit Index [IFI] = .967) and show that the scale is unidimensional and has high reliability (cronbach’s alpha = .827).

3.2.4. Employee performance

We adopted (Chiniara & Bentein, 2016; Pirzada, Wickramasinghe, Moens, Abdul Hamid, & Hatane, 2015) five–item Employee Performance Scale which uses a Likert-type 5 – scale (1 “totally disagree”, 5 “totally agree”). These items are duly adapted to this present research. The authors develop a confirmatory factor analysis to validate the organizational performance (Chi-square/df = 12.716, Normed Fit Index [NFI] = .92, Goodness of Fit Index [GFI] = .927, Comparative Fit Index [CFI] = .925, Incremental Fit Index [IFI] = .926) and show that the scale is unidimensional and has high reliability (cronbach’s alpha = .865).

3.3. Model and analysis

Given the existence of an exogenous latent variable (transformational leadership, a first –grade endogenous latent variable (employee trust) and second - grade endogenous latent variable (organizational commitment and employee performance). The study analyzes the data using structural equations modeling (AMOS 22 program) to establish causal relationships between these variables.

Figure 1 presented the theoretical model. The findings give the hypotheses concrete form. The study uses a recursive non - saturated model. Account errors in measurement, variables with multiple indicators and multiple - group comparisons were checked through structural equation modeling.

4. Results

This section presents the main study results.

The first, as shown in Table 1, Transformational leadership was positively related to employee trust ($r = .410$, $p < .01$), organizational commitment ($r = .197$, $p < .01$), and employee performance ($r = .536$, $p < .01$). Employee trust was positively related to organizational commitment ($r = .202$, $p < .01$), and employee performance ($r = .472$, $p < .01$), and organizational commitment was positively related to employee performance ($r = .265$, $p < .01$).

The second, discriminant validity refers to the degree to which items differentiate between constructs, and it is assessed by applying the following criteria: (1) The square root of the average variance extracted of each latent variable from its indicators should exceed that construct’s correlation with other constructs; (2) the items should load more highly on constructs they are intended to measure than on other constructs (Chin, Marcolin, & Newsted, 2003). As shown table 1, the square root of the average variance extracted (AVE) of each latent construct is greater than that construct’s correlation with other constructs.

Table 1. Means, standard deviations, reliabilities and Correlations of variables

Variable	Mean	S.D	Transformational leadership	Employee trust	Organizational Commitment	Employee performance
Transformational leadership	3.84	.671	.730			
Employee trust	3.56	.947	.410**	.808		
Organizational Commitment	3.62	.758	.197**	.202**	.705	
Employee performance	3.70	.782	.536**	.472**	.265**	.741

Note: (1)** Correlation is significant at the .01 level (2-tailed). N =326

(2) The square root of AVE for discriminant validity are in parentheses along the diagonal

In addition, as shown table 2, the items load higher on constructs they are intended to measure than other constructs. The results suggest good discriminant validity.

Table 2. Item loading of the latent constructs

Items	Employee trust	Employee performance	Organizational commitment	Transformational leadership	Cronbachs` alpha
ET4	.870				.911
ET5	.865				
ET1	.849				
ET3	.799				
ET2	.674				
EP4		.909			.865
EP2		.806			
EP3		.722			
EP5		.619			
EP1		.618			
OC2			.827		.827
OC3			.818		
OC5			.706		
OC4			.597		
OC1			.565		
TL4				.848	.772
TL3				.623	
TL2				.615	

Note: (1) Extraction Method: Principal Axis Factoring.

(2) Rotation Method: Promax with Kaiser Normalization.

Moreover, significant and positive correlations exist among transformational leadership, employee trust, organizational commitment, and employee performance. Initially, a series of regressions (table 3) shows the direct effects analyzed in the research and uses a series of tests (e.g., tolerance, variance inflation factor) to confirm the non-presence of multi-collinearity (hair, Black, Babin, & Anderson, 2009).

Table 3. Regressions

Dependent variables	Employee trust		Organizational commitment		Employee performance	
	Coefficients (t statistic)	TOL (VIF)	Coefficients (t statistic)	TOL (VIF)	Coefficients (t statistic)	TOL (VIF)
Constant	1.333*** (4.782)		2.607*** (11.513)		1.766***	
Transformational leadership	.579*** (8.091)	1.00 (1.00)	.155* (2.319)	.832 (1.202)		
Employee trust			.117* (2.463)	.832 (1.202)	.360*** (8.883)	.959 (1.043)
Organizational commitment					.182*** (3.591)	.959 (1.043)
R ²	.168		.057		.253	
Adjusted R ²	.166		.051		.248	
F	65.466		13.113		54.582	
Standard Error	.865		.739		.678	

Note: * p <.05; **p<.01; *** p<.001 (two -tailed), TOL = Tolerance; VIF = variance inflation Factor

On the other hand, the authors used structural equations modeling to estimate direct and indirect effects using AMOS 22 program. This type of analysis has advantage of correcting for unreliability of measures

and also provides information on the direct and indirect paths between multiple constructs after controlling for potentially confounding variables. Figure 2 shows the standardized structural coefficients. The magnitude of coefficients reflects the relative importance of variables.

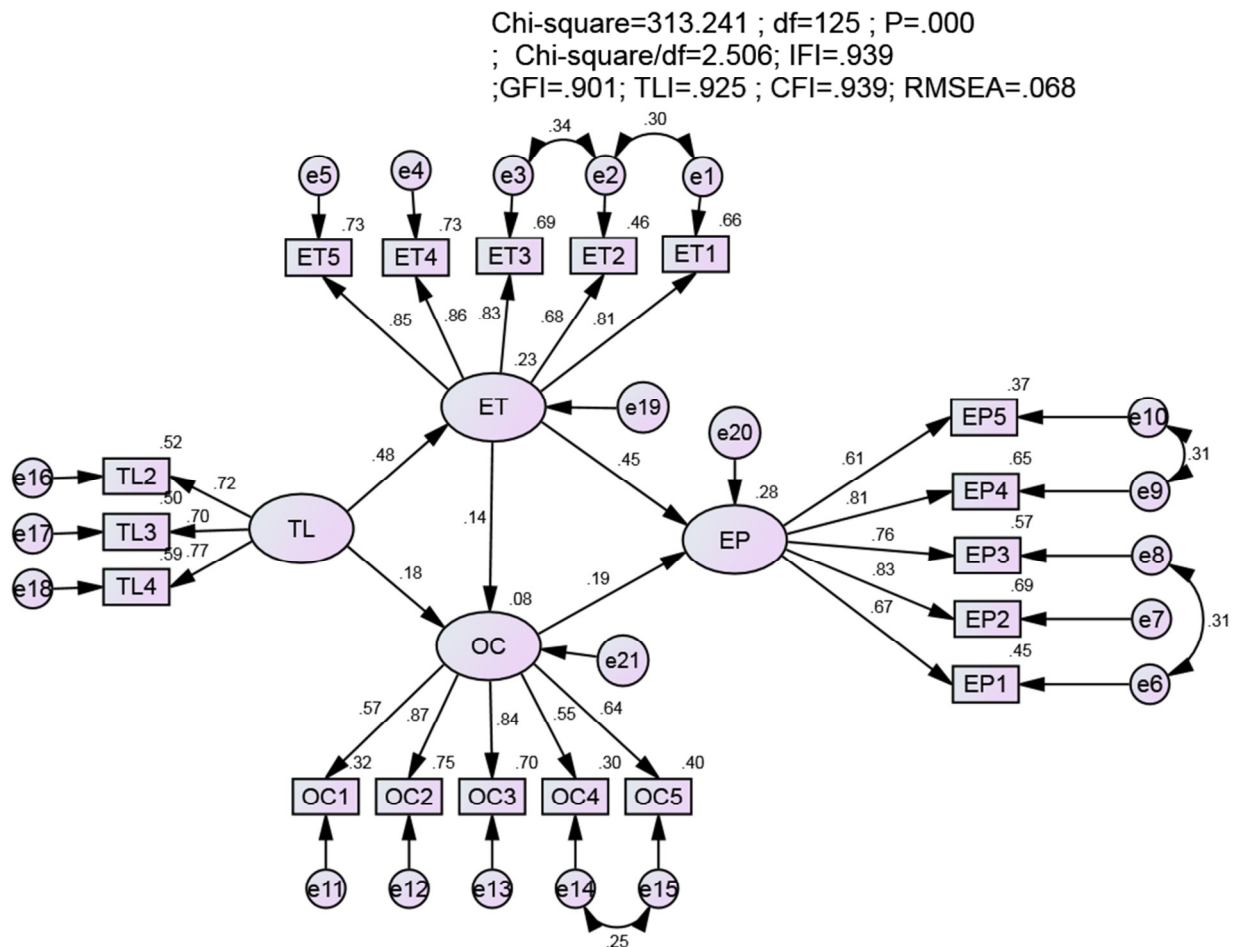


Figure 2. Results of structural equation model

For the quality of measurement model for the sample, the scales display satisfactory levels of reliability, because the composite reliabilities range from 0.774 to 0.903 and the Average Variance Extracted from 0.533 to 0.653 (table 4). The authors examine both the significance of the factor loadings and the Average Variance Extracted. The Average Variance Extracted should be greater than the amount of measurement error (AVE>0.5).

All of multi-item scales meet this criterion; each loading (λ) is significantly related to its underlying factor (t-values>7.93) in support of convergent validity. The overall fit measures, multiple squared correlation coefficients of the variables, and signs and significance levels of the path coefficients indicate that the model fits the data well (Chi-square = 313.241 (p=0.00) Chi-square/df=2.506 IFI=.939 GFI=.901 TLI=.925 CFI=.939 RMSEA=.068).

Table 4. Validity, reliability and internal consistency

Construct	No. of items	Cronbach's α	Variable	Standardized factor loadings	C.R.	R ²	AVE	Composite reliability
Transformational leadership	3	.772	TL2	.72	f.p.	.52	.533	.774
			TL3	.70***	10.3	.50		
			TL4	.77***	10.61	.59		
Employee trust	5	.911	ET1	.81	f.p.	.66	.653	.903
			ET2	.68***	14.92	.46		
			ET3	.83***	16.96	.69		
			ET4	.86***	17.61	.73		
			ET5	.86***	17.48	.73		
Organizational commitment	5	.827	OC1	.57	f.p.	.32	.533	.826
			OC2	.87***	10.38	.75		
			OC3	.84***	10.28	.70		
			OC4	.55***	7.93	.30		
			OC5	.64***	8.78	.40		
Employee performance	5	.865	EP1	.67	f.p.	.45	.549	.858
			EP2	.83***	12.02	.69		
			EP3	.76***	13.91	.57		
			EP4	.81***	11.8	.65		
			EP5	.61***	9.34	.37		

Note: * $p < .05$, ** $p < .01$, *** $p < .001$ (two-tailed); $N=326$; R_2 = reliability; α = Alpha Cronbach; C.R. = Compound Reliability; AVE = Average Variance Extracted; f.p. = fixed parameter.

Table 5 shown that transformational leadership is closely related to and effects employee trust ($\gamma_{11}=.48$, $p < .001$) and organizational commitment ($\gamma_{21}=.18$, $p < .05$), as predicted in hypotheses 1 and 2, respectively. Moreover, the results show an indirect effect of transformational leadership on organizational commitment (.07, $p < .05$) by employee trust (.48x.14). The influence of transformational leadership on organizational commitment is thus .25 ($p < .05$). Comparing the magnitudes of these effects indicates that the effect of transformational leadership on organizational commitment is larger than the total effect of employee trust on organizational commitment. Globally, the model explains organizational commitment well.

Employee trust influences directly organizational commitment ($\beta_{21}=.14$, $p < .05$), supporting H3. Finally, the study finds a significant relationship between employee performance and both employee trust ($\beta_{31}=.45$, $p < .001$) and organizational commitment ($\beta_{32}=.19$, $p < .001$) supporting H4 and H5, respectively.

Table 5 also shows an indirect effect (.03, $p < .001$) employee trust on employee performance by organizational commitment (.14 x.45). The influence of employee trust on employee performance is thus .48 ($p < .001$). Comparing the magnitudes of these effects indicate that the effect of employee trust on employee performance is larger than the total effect of organizational commitment on employee performance. Therefore, the model explains organizational commitment well. In addition to these effects, the study shows indirect effects of transformational leadership on employee performance.

Table 5. Structural model result (direct, indirect and total effects).

Effect from	To	Direct effects ^a	Indirect effects ^a	Total effects ^a
Transformational leadership	Employee trust	.48***		.48***
Transformational leadership	Organizational commitment	.18*	.07*	.25*
Transformational leadership	Employee performance		.27***	.27***
Employee trust	Organizational commitment	.14*		.14*
Employee trust	Employee performance	.45***	.03***	.48***
Organizational commitment	Employee performance	.19**		.19**
Goodness of fit statistics		Chi-square = 313.241 (p=0.00) chi-square/df=2.506 IFI=.939 GFI=.901 TLI=.925 CFI=.939 RMSEA=.068		

Note: ^a Standardized Structural Coefficients: * $p < .05$, ** $p < .01$, *** $p < .001$.

5. Conclusions and future research

This study makes three contributions to the literature.

First of all, we developed and examined a model that integrates the theories of transformational leadership and performance. Although a number of past studies have reviewed the relationship between transformational leadership and performance (García-Morales, Jiménez-Barrionuevo, & Gutiérrez-Gutiérrez, 2012; García-Morales et al., 2012; Ogbonna & Harris, 2000), this is the first to investigate the direct and indirect effects of transformational leadership on employee performance in manufacturing firm context. Since organizations in the field of manufacturing have clearly outcome, the main contribution of this work is thus this model, which has a strong theoretical foundation and can be used to assess the influences of transformational leadership on employee performance based on manufacturing firms' data in Vietnam. Moreover, the results of this empirical study support the conclusion of prior behavior scholars that transformational leadership has significant effects with regard to fostering the performance of individual employees.

Second, our results show that increases in employee trust on manager and organizational commitment are both related to increases in their performance. As predicted, our findings reveal that strengthening employee trust on their manager can enhance both their commitment with organization and their performance. Our findings also show that if employees can be made to feel that they are able to trust on their managers, then both their commitment with organization and individual performance can be enhanced due to this causal chain mechanism, especially in the field of manufacturing research.

Third, we examine employee trust as a mediator of the impact of transformational leadership on organizational commitment and also investigate employee trust and organizational commitment as mediators between transformational leadership and employee performance. More specifically, this is the first work that examines the mediating roles of both employee trust and organizational commitment in the relationship between transformational leadership and employee performance in the manufacturing firm. Most important of all, the results of our study contribute to the literature by treating employee trust and organizational commitment as variable that connect transformational leadership, trust theory and performance theories in the manufacturing context.

This investigation has several limitations. First, the study measures the variables based on the employees' perceptions (single respondents), which involve a certain degree of subjectivity. A second limitation of this study concerns the measures of transformational leadership. Although other investigations survey CEOs or managers (Egri & Herman, 2000; García-Morales et al., 2012; García - Morales et al., 2006), this study interview questionnaires to employees. Because, according to García-Morales et al. (2012) "interviewing and administering questionnaires to all other organizational members would have been preferable to verify leaders' self-report of their behavior". On the other hand, we could also use different scales to measure transformational leadership. Third, the model only analyzes the relation between transformational leadership and employee performance through employee trust and organizational commitment. Although selected variable explain an acceptable amount of variance in employee performance, research could analyze other intermediate constructs, such as individual culture, teamwork. Future studies might also examine other mediating constructs in the relationship between transformational leadership and performance. Moreover, we might investigate in other context.

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