Leadership, empowerment and trust: a case study within the context of a major retail department store

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Abstract

The relationships between leadership, empowerment and trust are examined in this paper. The study examines also the relationships of these variables with outcomes. The context for the study is the staff of a large retail department store undergoing strategic change. The results highlight the substantial role that intangible tools can play in influencing organizational and employee outcomes. Implications for policy development are drawn, with particular relevance for the services sector.

Key words: leadership. empowerment, trust, effectiveness, effort.

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1 Introduction

The tangible tools of new technologies, innovations in production and services and interactive communications have been embraced by many organisations. Proving more challenging for many senior managers is grasping effectively the intangible tools that exist within their organisation. Important among these are leadership, trust and empowerment. These intangible

tools are an important potential source of competitive advantage. They focus on the human assets of the organisation, and have been recognized as being inimitable and most valuable (Casico 1995, Coleman 1996).

Leadership has evolved into a new paradigm; one that can cope with organisational structures that are less hierarchical and may consist of team-based work groups. The new leadership paradigm embraces cultural diversity and communicates and facilitates the strategic direction of the organisation to its stakeholders. Leadership is an important tool within the organisation as it gives direction, is a motivational force and ensures goals and objectives are reached (Kouzas *et al.* 2001, Buzzotta 2001, and Rogers 1995).

Trust can be perceived and defined in a number of ways. It can include reliability, faith and loyalty. Basic trust in the leader-follower relationship and within the organisation can influence strategy implementation, customer relations, productivity, performance, teamwork and collaboration (Buzzotta 2001, Rogers 1995). Furthermore, trust encourages belief in, and acceptance of, organisational vision, goals and objectives. Trust is an intangible tool that needs to be nurtured and developed over time.

The relevance of empowerment in an organisational context has recently gained more prominence, however the benefits of empowerment have also been seriously underrated and utilized by organisations (Bradford *et al.* 1999). Characteristics of empowerment include employee accountability, an individual taking action to meet customer needs without direct supervision, sharing of information, open communication between the leader and subordinate, and leaders taking the role of coach or mentor. The employees of an empowered organisation are more likely to take calculated risks for the benefit of the company. Empowerment does not simply exist within an organisation, like trust it needs nurturing and acceptance by management and employees.

The constructs of leadership, trust and empowerment have each been examined in detail through numerous studies and research projects. The relationships between leadership and trust (Podsakoff *et al.* 1990; Podsakoff *et al.* 1996; MacKenzie *et al.* 2001), leadership and empowerment (Burke 1986), and trust and empowerment (Gomez and Benson 2001) have been examined extensively. The mediating effects of trust on leadership have also been the subject of exploration (Mishra 1996; Whitener 1998; Jung & Avolio 2000, Pillai *et al.* 1999).

The basic aim of the current study is to examine these intangible tools and their relationships within the context of a major retail department store involved in strategic change. The store's external environment is highly competitive and the strategic focus is on improving customer service standards and regaining market share.

2 Background

Five dimensions of leadership behaviour that influence the development of trust between managers and employees are outlined by Whitener *et al.* (1998) - behavioural consistency, behavioural integrity, sharing and delegation of control, communication (accuracy of information and openness) and demonstration of concern. Mishra (1997) examines the notion of trust in customer/supplier relationships, and determines that trust comprises four components: (1) reliability, (2) openness, (3) concern and (4) competence. These four components can also be applied to the leader/subordinate relationship - subordinates being the customer and leaders being the supplier. There are clear similarities between Whitener *et al.'s* (1998) five dimensions of trust and Mishra's (1997) four categories of trust. Buzzotta (2001) advocates that "every leader and manager needs to understand and utilize the actions and behaviors that build trust", (p.1).

The element of trust plays a pivotal role in most models of leadership. Pillai *et al.* (1999) locates trust centrally in their theoretical model on leadership fairness perceptions. Jung and Avolio (2000) position trust as an essential mediation variable along with value congruence when describing the direct and indirect effects of leadership on performance. Trust in the manager is described by Mackenzie *et al.* (2001) as a mediator between transformational and transactional leadership and performance dimensions. Organisational citizenship behaviors are more evident in role performance and extra-role performance when trust is present as a mediator variable.

Trust is conceptualized as 'faith in and loyalty to the leader' by Podsakoff *et al.* (1990). This work builds on Cook and Wall (1980). There is an interesting link between Podsakoff (1990), Whitener *et al.* (1998) and Mishra (1997). Whiteners' (1998) and Mishras' (1997) concept of trust can be combined to examine Podsakoffs' (1990) notion of trust as being composed of 'faith in and loyalty to the leader'. A subordinate would have to perceive his/her leader as being reliable and competent (Mishra 1997) and as having displayed integrity, behavioral consistency and communication skills (Whitener 1998), to engender faith in the leader. Trust for the purpose of this study will be examined in the context of the leader-subordinate relationships between business leaders and team leaders and staff. Podsakoff's (1990) conceptualization of trust as 'faith in and loyalty to the leader' will be used in the current study.

Pillai *et al.* (1999) explore the relationship of transactional and transformational leadership to procedural and distributive justice. Employee perceptions of how fairly they are treated can influence outcomes such as performance and organisational citizenship behaviours. Such issues underpin the dynamic models of reward and effort developed in Hunter, McCormack and Rimmer (2002). Transformational leadership encourages and inspires followers to act 'above and beyond' the call of duty. The leader-follower relationship is described as being outside the economic contract (Bass 1985). The transformational leader is able to achieve his/her vision and develop a relationship with subordinates through procedural justice and trust. A subordinate, for example, may be encouraged to participate actively in the decision-making process. This results in followers feeling that they are in a fair, valued and equal relationship with their leader, and develop a heightened sense of procedural justice and trust in the leader. Distributive justice can be described as a measure for judging the fairness of transactional contracts and economic exchanges (Pillai *et al.* 1999). Transactional and transformational leadership are recognized as contributing to trust between the leader and his/her subordinates in different ways. While there seems to be more evidence in the literature to support the direct relationship between transformational leadership and trust (Bennis and Nanus 1985, Bass 1985, Podsakoff *et al*. 1990) than transactional leadership and trust, the four leadership characteristics of integrity, consistency, reliability and interdependence have also been linked to the development of trust between the leader and subordinate (Buzzotta 2001).

Gomez and Rosen (2001) describe leader-member exchange as a link between managerial trust and employee empowerment. Leader-member exchange theory (LMX) suggests that leadership style is altered to suit different groups of people. 'According to LMX theory, employees who are considered part of the in-group have high quality exchange, whereas members of the out-group have low quality exchange' (Gomez and Rosen p. 2).

This high quality exchange is a result of trust between the leader and the subordinate (Dansereau *et al*., 1975). Once trust is

established, employees are then empowered to act beyond specified roles and display (develop) organisational citizenship behaviours. Buzzotta (2001) emphasizes that "trust has the power to achieve organisational objectives, increase productivity, make a difference, and enable change" (p.2).

3 Hypothesis development

The theoretical and empirical research literature on leadership, trust and empowerment is extensive. Numerous studies have been conducted on the relationship between leadership (transactional and transformational) and trust (Jung and Avolio 2000), transformational leadership and trust (Podsakoff *et al.* 1990), and trust as a mediator for transactional and transformational leadership (Pillai *et al.* 1999). In addition, other empirical studies have examined the relationships between leadership and empowerment (Spreizter 1996; Lashley 1999), and trust and empowerment (Gomez and Benson 2001). The relationship between transactional and transformational leadership, trust, empowerment and leadership outcomes (satisfaction, effectiveness and extra-effort) within the context of an Australian retail service industry has not been examined previously. It would seem appropriate, therefore, to examine whether this industry conforms with the results of previous research or provides unique results that point to fundamental differences between this industry and the wider aggregated results of previous research.

The following hypotheses, arising from previous research, are therefore proposed:

Hypothesis 1a *Transactional and transformational leadership are correlated positively and directly with trust.*

Hypothesis 1b *Transactional and transformational leadership are correlated positively with empowerment.*

Hypothesis 1c *Trust and empowerment are correlated positively.*

Important also are the outcomes of leadership. Three major outcomes identified in the literature are satisfaction, effectiveness and extra effort. It seems appropriate to examine the relationships between these variables and the two main leadership styles. The following hypotheses are therefore also proposed:

Hypothesis 2a *Leadership outcomes of satisfaction, effectiveness and extra effort are correlated positively with transformational leadership.*

Hypotheses 2b *Leadership outcomes of satisfaction, effectiv*eness *and extra effort are correlated positively with transactional leadership.*

The early leadership research literature (Burns 1978; Bass 1985; Burke 1986; and Dansereau 1986), suggests that non-leadership elements, such as laissez-faire and passive management by exception, have a negative and/or insignificant impact on performance and leadership outcomes. The following hypotheses are also proposed:

Hypothesis 3a *Non-leadership is correlated negatively with trust and empowerment.*

Hypothesis 3b *Non-leadership is correlated negatively with leadership outcomes of satisfaction, effectiveness and extra effort.*

4 Research Method

4.1 Procedure

The department store's management team was contacted formally by letter for permission to distribute and collect surveys within the store. Once management granted permission, staff from sales, security and logistics within the store were approached by the researcher to complete the leadership, empowerment and trust questionnaires (surveys). The study and its aims were described, both verbally and in written form, to the participants as an evaluation of leadership style in relation to trust and empowerment. A cover sheet explained the nature and purpose of the research and emphasized the confidentiality of responses. Participation in the survey was voluntary.

4.2 Measures

The Multi-factor Leadership Questionnaire (MLQ) (Bass 1995) was used to measure leader behaviours because of its proven reliability and ability to assess a broad range of leadership behaviors and outcomes. The MLQ has been used in a variety of production, service and military organisations with consistent results. Subordinates rated their team or business leaders' (whichever level they had the most direct supervision from) leadership style/behavior on each of the 45 items included in the MLQ (Form 5X- Short). A five-point Likert scale was used to measure frequency.

Items for transactional and transformational leadership behaviours were used to measure employee perceptions. These items included contingent reward, active management by exception, passive management by exception, laissez-faire, idealized attributes, idealized behaviour, intellectual stimulation and inspirational motivation. Leadership Outcomes were also evaluated using the MLQ (Form 5X). Seven items in the MLQ pertain to leadership outcomes. A five point Likert scale was again used to measure frequency.

The Trust measure used in this study was based upon Podsakoff *et al.*'s (1990) notion of trust as faith in, and loyalty to, the leader. Subordinates were asked to describe their perceptions of trust in the leader by using a Likert scale. This study used nine questions to determine the subordinates' perception of trust in his/her leader. The Empowerment measure used in this study is based upon Spreitzer's (1995) validated measure of psychological empowerment in the work-place context. Spreitzer (1995) identified and defined four aspects of psychological empowerment. These include meaning; competence; self-determination and impact. These four constructs had three questions each, giving a total of twelve questions on empowerment.

4.3 Response

One hundred and fifty surveys were distributed to employees, resulting in 108 complete responses: 53 full-time, 35 part-time and 20 casual employees. The response rate was therefore 72 per cent. Descriptive data were also collected from 28 of the respondents. Examination of this descriptive data permits some interesting observations - the mean age of employees is 33 years, the majority (79%) are female, a large proportion (68%) intend to stay in the organization and, finally, a majority (57%) intend staying in their current position. All of these points need to be considered when decisions about leadership style or behavior are being made.

If the leadership style is not appropriate for the specific demographics or culture of the employees effectiveness is likely to be compromised, motivation and productivity may decrease and conflict could arise.

5 Results

5.1 Descriptive

Employees reported a mixture of leadership styles existing within this organisation. The five point Likert scale ranged from 1 - Not at all, 2 - Once in a while, 3 - Sometimes, 4 – fairly often, to 5 - Frequently if not always. Overall, total transformational leadership was rated marginally higher (mean score of 3) by employees than transactional leadership (mean score of 2.6). Closer inspection of the individual transactional leadership elements shows a higher employee rating of contingent reward (mean score of 2.97) and active management by exception (mean score of 3.03), in comparison to the elements of laissez-faire (mean score of 2.13) and passive management by exception (mean score of 2.26). Laissez faire and passive management-by-exception can be combined to form a non-leadership category (Burke 1986). Even though the mean scores of these elements are less than other transactional leadership elements of contingent reward and active- management-by-exception, their ratings indicate the presence of non-leadership elements within this sample. The employee ratings of transformational leadership elements are more evenly distributed than those of the transactional leadership elements, with individual consideration, idealized attributes, idealized behavior, intellectual stimulation and inspirational motivation all being rated similarly.

Employees rated the leadership outcomes of extra effort and effectiveness within this organisation to be equal at 33 per cent. The leadership outcome of satisfaction was rated 4 per cent higher than extra effort and effectiveness. Employee ratings of their perceptions of trust and empowerment revealed that, of the 108 employee responses, trust was rated at 49 per cent in comparison to empowerment at 51 per cent.

5.2 Internal consistencies of the measures (reliability analysis)

The internal consistency of a measured construct can be determined by Cronbach's Alpha. Den Hartog *et al*. (1997), however, argue that sole dependence on Cronbach's Alpha has two major limitations. Firstly, the alpha of a scale with many items may have a tendency to be high with a low average inter-item correlation. Secondly, the alpha is affected by dimensionality within a scale. Considering these two points, the mean and range of inter-item correlation were also calculated.
Alpha coefficients were calculated to estimate the internal consistency of the MLQ (Form 5 X- short) scales and of the empowerment scales. Analysis of the scales found significant internal consistency for each of the items, using as a benchmark a coefficient of 0.70 and above (Nunnaly 1967, Farnell and Larcker 1981).

A reliability analysis of internal consistencies amongst leadership and leadership outcome items provided some interesting results. Firstly, there is a strong and positive association between transformational leadership items (intellectual stimulation, idealized behaviors, idealized attributes, individual consideration and inspirational motivation) and leadership outcomes (effectiveness, satisfaction and extra-effort). The second notable internal consistency is a negative association between transactional leadership items (passive management-by-exception, active management-by-exception and laissez-faire) and transformational leadership items and leadership outcomes. The third notable result is the positive internal consistency between the transactional leadership item, contingent reward, the transformational items and leadership outcomes.

Analysis of the reliability and inter-correlation of the empowerment constructs indicates a positive association between the items. The alpha coefficients for each of the constructs exceed the recommended cut-off point of 0.70. There is, therefore,

consistent and significant internal consistency between the empowerment constructs.

5.3 Factor analysis

Factor analysis was conducted on the multi-factor leadership questionnaire (MLQ - Form 5X) (Bass 1995) and on the empowerment questionnaire (Spreitzer 1995). The leadership outcome constructs have a high factor loading for all except two of the questions – one within the effectiveness construct and one within the extra effort construct. These items are relatively low (0.54) in comparison to the other questions measuring the same constructs The lowest average variance rated by each construct was recorded for effectiveness at 0.48 - however there are at least two items that rate higher than the suggested cut-off point of 0.50. Each question within the empowerment construct has a high factor loading and exceeds the recommended cut-off point of 0.50 for the average variance extracted by each construct.

5.4 Correlation analysis

Correlation analysis was used to measure the degree to which transactional and transformational leadership, trust, empowerment and leadership outcome variables are related. This study employs simple bivariate correlation analysis to measure the linear relationship of variables. This provides an indication of the strength and significance of the relationship, while the sign (- or +) indicates the direction - whether it is related positively or negatively (Coakes *et al.* 2001, p.61).

Correlation analysis between the transactional leadership constructs illustrates an unexpected finding. There is an insignificant (and negative) correlation between contingent reward and active management-by-exception within this sample, whereas these might have been expected to be correlated positively due to the 'pro-active nature' of these elements of transactional leadership. Contingent reward might also be expected to be negatively correlated with passive management-by-exception and laissez-faire elements of transactional leadership. Passive management-by-exception and laissez-faire elements of transactional leadership are significantly and positively correlated. This result was expected, as both of these elements are reactive and passive in nature. Passive management-by-exception and laissez-faire are combined to form a Non-leadership dimension.

The transformational leadership constructs are all positively and highly correlated. This indicates that there is a significant relationship between the constructs. These individual elements can be combined to form a single transformational construct that can be evaluated within this organisation. The leadership outcome constructs of satisfaction, effectiveness and extra-effort are all highly and positively correlated. The leadership outcome constructs will not be combined to form an overall leadership outcome variable as each is a separate entity. Non-leadership has a high negative correlation between the leadership outcomes, trust and empowerment within this organisation. A significant and positive linear relationship between transactional leadership, leadership outcomes and trust also exists. Although there seems to be a positive linear association between transactional leadership and empowerment, the results indicate that this relationship is less significant within this sample.

Analysis of the data reveals a very high positive correlation between transformational leadership, leadership outcomes, trust and empowerment within the organisation. A linear relationship of this kind was expected. It is also worth noting that there

is a significant and high positive correlation between the empowerment and trust constructs.

5.4 Hypothesis testing – correlation analysis

Correlation analyses were conducted on the data to test Hypotheses 1a-3b. The results are displayed in Figures 1-6 to aid exposition.

A summary of the results of a correlation analysis of the relationship between leadership and trust is provided in Figure 1. Hypothesis 1a - that transactional and transformational leadership are correlated positively with trust – is supported. Transformational leadership is highly correlated (0.81) with trust. This result supports assertions on correlations between these constructs by Bennis et al (1985), bass (1985), Podsakoff (1990) and Buzzotta (2001). Transactional leadership, in comparison, has a significant but lower (0.24) correlation with trust.

Figure 1 The relationship between leadership and trust

-.54

Transformational Leadership **.37** Transactional Leadership **-.11** Non Leadership

.81 **.24** **-.57**

TRUST

The results outlined in Figure 2 support Hypothesis 1b - that transactional leadership and transformational leadership are correlated positively with empowerment. Although transactional leadership is related positively to empowerment, the significance is only marginal.

Figure 2 The relationship between leadership and empowerment

-.54

Transformational **.37** Transactional **-.11** Non

Leadership Leadership Leadership

.71 **.13** **-.26**

Empowerment

A positive relationship between transactional leadership, transformational leadership and the leadership outcome of satisfaction is illustrated in Figure 3. The results of the correlation analysis support Hypotheses 2a and 2b. The negative correlation between non-leadership and satisfaction (-0.62) suggests that employees within this organisation equate their satisfaction with leadership style to proactive (transformational) and active (transactional) leadership rather than reactive or passive forms of non-leadership. The results of Figure 3 also support Hypothesis 3b that non-leadership is correlated negatively with the leadership outcome of satisfaction.

Figure 3 The relationship between leadership and satisfaction

-.54

Transformational Leadership **.37** Transactional Leadership **-.11** Non Leadership

.88 **.26** **-.62**

Satisfaction

The relationships outlined in Figure 4 support Hypotheses 2a and 2b - that transactional and transformational leadership are related positively to the leadership outcome of effectiveness. There is a higher positive correlation between transactional leadership and effectiveness (0.32) than between transactional leadership and satisfaction (0.26) (see Figure 3). The more positive relationship between transactional leadership and the leadership outcome of effectiveness could be due to the nature of transactional leadership being more ‘results driven’. Both contingent reward and active management-by-exception focus on the leader setting targets for subordinates to achieve. Hypothesis 3b - that non-leadership and the leadership outcome of effectiveness are not related - is also supported by the results in Figure 4.

Figure 4 The relationship between leadership and effectiveness.

-.54

Transformational Leadership **.37** Transactional Leadership **-.11** Non-Leadership

.79 **.32** **-.29**

Effectiveness

Transactional and transformational leadership and the leadership outcome of extra-effort are found to be positively related. This supports Hypotheses 2a and 2b. Looking closely at Figure 5, it is evident that there is a significant (0.85) and direct relationship between transformational leadership and the leadership outcome of extra-effort. This finding within this research sample is similar to the wider research literature, which suggests transformational leaders inspire subordinates to 'go beyond the call of duty' (Bass 1985). The significant negative relationship between non-leadership and the leadership outcome of extra-effort provides support for Hypothesis 3b.

Figure 5 The relationship between leadership and extra effort

-.54

Transformational Leadership **.37** Transactional Leadership **-.11** Non-Leadership

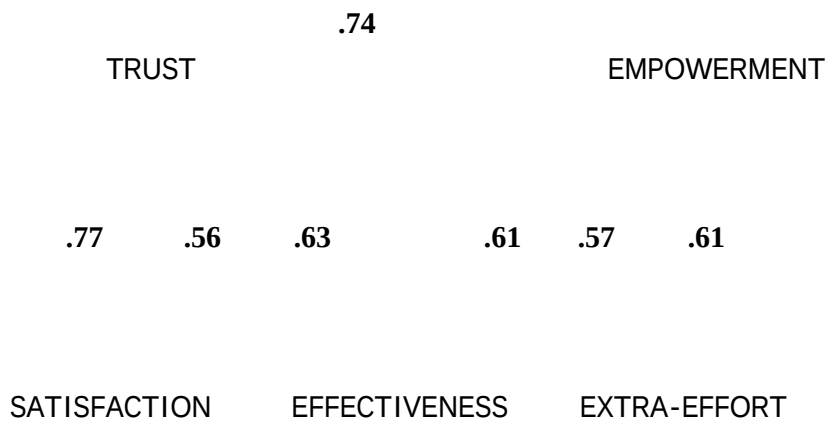
.85 **.25** **-.42**

Extra-Effort

Finally, the results in Figure 6 support Hypothesis 1c – that trust and empowerment are correlated positively. If employees within an organisation feel trusted by their leader they are free to use their initiative and are empowered to 'take action' when and if required, without the direct consent or supervision of their leader. Trust is related positively to the leadership outcomes

of satisfaction, effectiveness and extra-effort. Also evident is a positive and significant relationship between empowerment and the leadership outcomes of satisfaction, effectiveness and extra-effort.

Figure 6 The relationship between trust, empowerment and the leadership outcomes of satisfaction, effectiveness and extra-effort.



The results provided in Figures 1 to 6 concerning Hypothesis 1a to 3b are concerned with the direct relationships between leadership, trust, empowerment and the leadership outcome (satisfaction, effectiveness and extra-effort) variables. Further analysis is required to test the indirect relationships between these variables and their mediating effects.

6 Discussion

Analysis of the employee ratings of leadership within this organisation indicate a broad spectrum of leader behaviors. All three leadership styles – transactional, transformational and non-leadership – were reported within this organisation. Transactional and transformational leadership were rated higher than non-leadership elements of laissez-faire and passive management–by-exception. The results indicate that leadership is significantly correlated with trust, empowerment, and leadership outcomes of satisfaction, effectiveness and extra-effort. This study highlights the potential for transformational leadership to influence positively and directly employee trust and empowerment and leadership outcomes.

The demographics suggests that there is an opportunity to build a greater sense of trust between employees and leaders with the average length of tenure of employees being 6.5 years. The average age of employees (at 33 years) within this organisation also suggests that employees are mature and, with appropriate training, would be capable of taking responsibility and action when required without direct supervision.

Employee ratings of transformational leader behaviours with a high mean score (for example between 4 and 5) would provide evidence of positive transformational leader behaviours. Furthermore, non-leader behaviour should be expected to be at the lower end of the rating scale (for example 0 or 1). The employee ratings of their sense of empowerment and trust as a result of leadership within this organization indicated that just over half (51 per cent) of the sample (n=108) felt empowered and just under half (49 per cent) of the sample trusted their leader. This appears consistent with the finding that transformational and transactional leader behaviours were rated at just on or below the mid-point of 3 on a scale of 1-5.

The less tangible tools of leadership, trust and empowerment have the capacity to assist in achieving and contributing to the organisational strategy by effectively using its human capital - the employees. The findings demonstrate that the organisation's human capital is both directly and indirectly influenced by these intangible tools. There are significant implications relating to training and performance management of managers.

A focus on formal leadership training and development for business and team leaders should help improve leader behaviour and encourage the development of more transformational leader behaviours that improve communication and information sharing and have a direct impact on employee trust, empowerment and leadership outcomes. Furthermore, transformational and pro-active transactional leader behaviours could assist in improving low staff morale and motivation and improve customer service standards. Instead of business leaders, for example, simply communicating the organisation's current marketing strategy to employees, they can ask for employee input and suggestions for improvement. Employees will 'feel' that their opinions are valued and appreciated and may take more interest and feel empowered to use these marketing strategies. More importantly, if these marketing strategies are not valued by the customer the management and leadership team will have an instant monitoring 'tool' through their employees/staff.

While the current study is industry and organisation-specific, it provides an insight to how leader behaviour is critical to outcomes in the service industry. While it is not suggested that the results should be extrapolated to all similar organisations, the relationships revealed in this investigation point the way to formulating staff development programs that can be of benefit to organizations in this sector. Extending the analysis to include a dynamic model will provide further illumination on the relationships between the relevant variables and facilitate the formulation of further policy recommendations.

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