



**LEADERSHIP STYLE, INTERPERSONAL AND  
INSTITUTIONAL TRUST, AND EMPLOYEE  
ENGAGEMENT: EXAMINING THE LINKAGES  
IN MALAYSIAN BANKING SECTOR**

**BY**

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## ABSTRACT

Over the recent years, substantial evidences of the impact of leaders' unprofessional behavior and ethical lapses have been documented. These types of failures include the destruction of some of the world's largest companies and the resultant loss in hundreds of billions of dollars in shareholder values. Creating a healthy and trustful work environment is crucial due to the plethora of overwhelming business scandals across the world. Leaders play a pivotal role in shaping such a conducive, trustworthy, and engaged work atmosphere. Little empirical evidence exists; however, about authentic leadership behavior and its subsequent impact on work behavior like trust and work engagement. To fill this gap, the present research examined these issues in the banking sector in Malaysia. Specifically, it investigated the relationships among leadership styles (authentic, transformational and transactional), interpersonal and institutional trust, and employee work engagement. Furthermore, the study examined the mediating effect of organizational trust in the role of perceived leadership styles of supervisors and employees' work engagement. Sample consisted of 395 employees recruited from four major banks (two Islamic and two conventional). Data were collected with the help of standardized tools. Structural Equation Modeling (SEM) and other relevant statistical methods were used to analyze the data. As predicted, structural path diagrams showed that authentic leaders were perceived to be more trustful that contributed to employees' work engagement. The empirical test indicated that organizational trust played a significant mediating role between leadership styles and employees' work engagement. Although the study did not find certain direct paths as significant, the indirect paths or mediating roles were significant in the linkages of authentic and transformational leaderships with interpersonal and institutional trust as well as between these two trusts and work engagement. The model comparison and independent sample t-test further indicated that leaders in Islamic banks were perceived to be more authentic and trustworthy; subsequently, the employees were also more engaged in their job than their conventional counterparts. Finally, many alternative models were examined, and recommendations were made. Overall, this study is important because it helps to explain the overwhelming impact of authentic leadership factors on employees' work engagement, particularly, in generating a trusting relationship with the employees, which intermediates the relationship between authentic leadership style and components of work engagement. The finding should add to the leadership literature.

## ملخص البحث

على مدى السنوات الأخيرة، تم توثيق أدلة جوهرية لتأثير السلوك غير المهني والهفوات الأخلاقية للقادة، هذا النوع من الفشل يشمل التدمير الحاصل لبعض أكبر الشركات في العالم، وخسارتها الناتجة تقدر بمئات المليارات من الدولارات في قيم المساهمين، إن خلق بيئة عمل صحية وموثوق بها أمر بالغ الأهمية نظرا لكثرة الفضائح المتعلقة بعالم الأعمال في جميع أنحاء العالم، إن القادة يلعبون دورا محوريا في تشكيل جو عمل جدير بالثقة، ويفضي إلى نتائج عملية مرضية، يوجد القليل من الأدلة التجريبية حول السلوك القيادي الأصيل و أثره اللاحق على سلوك العمل مثل الثقة والارتباط بالعمل. ملء هذه الفجوة، يدرس البحث الحالي هذه القضايا في القطاع المصرفي في ماليزيا. ويدرس على وجه التحديد التحقيق في العلاقات بين الأنماط القيادية (الأصلية، والمعاملاتية والتحويلية)، والثقة الشخصية والمؤسسية، وارتباط الموظف بالعمل. وعلاوة على ذلك، بحثت الدراسة التأثير الوسيط للثقة التنظيمية في دور الأنماط القيادية المنظورة في ارتباط كل من المشرفين على العمل والموظفين بالعمل وقد تألفت العينة من 395 موظفا من أربعة بنوك رئيسة (اثنين اسلاميين واثنين تقليديين)، تم جمع البيانات بمساعدة أدوات قياسية، استخدمت طريقة نمذجة المعادلة الهيكلية (SEM) وغيرها من الأساليب الإحصائية ذات الثقة في تحليل البيانات. وكما كان متوقعا، أظهرت مخططات المسارات الهيكلية أن القادة الأصيلين ينظر لهم بأهم أكثر مصداقية أو موثوقية، والذي بدوره ساهم بارتباط ومشاركة الموظفين بعملهم. وأشار الاختبار التجريبي أن الثقة التنظيمية لعبت دورا وسيطا هاما بين أساليب القيادة ومشاركة الموظفين بالعمل. على الرغم من أن الدراسة لم تجد مسارات مباشرة معينة بذات الأهمية وكانت المسارات غير المباشرة أو الأدوار الوسيطة ذات دور كبير في ارتباطات القيادات الأصيلة والتحويلية مع الثقة الفردية والمؤسسية، وكذلك بين كلتا الثقنتين والارتباط بالعمل. مقارنة النموذج و (اختبار- تي) ذو عينة مستقلة أشارا إلى أن القادة في المصارف الإسلامية كان ينظر لهم بأهم أكثر واقعية وجدارة بالثقة. وبعد ذلك، كان الموظفون أيضا أكثر انخراطا في وظائفهم من نظرائهم في البنوك التقليدية، وأخيرا، تم فحص نماذج بديلة عديدة، وقدمت توصيات. وعموما، فإن هذه الدراسة مهمة لأنها تساعد على شرح التأثير الكبير لعوامل القيادة الأصيلة على مشاركة الموظفين وانخراطهم في عملهم، لا سيما، في إيجاد علاقة ثقة مع الموظفين، والتي تلعب دورا وسيطا في العلاقة بين أسلوب القيادة الأصيلة ومكونات الانخراط في العمل. كما إن النتيجة ينبغي أن تضيف إلى أدبيات القيادة.

## APPROVAL PAGE

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Forbis Ahamed

Signature .....

Dated .....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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MALAYSIAN BANKING SECTOR**

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*My beloved father Haj. Nazir Ahamed,  
My beloved mother Rahima Khatun,  
My wonderful, talented, and beautiful wife, Tabassum &  
children, Farhanah, Fauzan and little Farhat: This dissertation  
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## LIST OF ABBREVIATION

AL	Authentic Leadership
ALQ	Authentic Leadership Questionnaire
ALT	Authentic Leadership Theory
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
BSN	Bank Simpanan Nasional
CFA	Confirmatory Factor Analysis
EWE	Employee Work Engagement
IPT	Interpersonal Trust
IST	Institutional Trust
LBDQ	Leader Behavior Description Questionnaire
LMX	Leader Member Exchange
MLQ	Multi-Level Questionnaire
OSU	Ohio State University
OTI	Organizational Trust Index
SEM	Structural Equation Modeling
SLT	Spiritual Leadership Theory
VDL	Vertical Dyad Linkage
UWES	Utrecht's Work Engagement Scale

# CHAPTER ONE

## INTRODUCTION

### 1.0 BACKGROUND OF THE STUDY

Leadership in organization enjoys a wide appeal and has remained a topic of great interest among researchers for a long time (Bass, 1960). As such, leadership has been investigated from several perspectives that include trait, behavior, contingencies, inspirational, transactional, and transformational theories. However, much less attention has been given to leadership from an ethical perspective (Robbins and Judge, 2007). With the growing number of corporate scandals and the unethical roles played by business leaders in several parts of the world the need to examine leadership from ethical perspective cannot be over emphasized.

The topic of ethical leadership has received significant attention in recent years due to the plethora of corporate scandals both in the US and other countries. The shocking financial irregularities that have been uncovered in the executive suites of former Wall Street darlings like Tyco International, WorldCom, Adelphia, HealthSouth, and Enron and more recently Transmile (Ponnu and Tennakoon, 2009) and Eurocopter scandal (DMN, 2008) in the case of Malaysia bring to fore the need for ethical leadership more than ever before.

Ethical perspective has been discussed in the authentic model of leadership (George, 2003). Authentic leaders display high degree of integrity, have deep sense of purpose, and committed to their core values. They build enduring organizations that meet the needs of all stakeholders. The five dimensions of authentic leaders are purpose, values, heart, relationships and self-discipline. As a result they promote a

more trusting relationship in their work groups that translates into several positive outcomes such as job satisfaction, organizational commitment, intention to stay, and work engagement.

Close to authentic leadership is the conceptualization of transformational leadership. In fact, it is more similar to transformational leadership than to any other leadership style (Avolio and Gardner, 2005). Transformational leaders motivate followers to perform beyond expectations by focusing attention on the higher order needs, promoting a climate of trust, and suggesting they transcend their own self-interests for that of the organization. The transformation process may be accomplished through the promotion of ethics, values, and long-term goals.

Unlike transformational leaders, the transactional leaders are known for their management by exception approach and using contingent reward to get the job done. They are not necessarily concerned with building relationship with followers (Jung and Avolio, 2000). Some leaders are labeled as laissez faire type as they are neither concerned with building good relationship with subordinates nor accomplishing the task.

Therefore, the present study, in the context of the banking sector in Malaysia attempts to investigate how these leadership styles contribute to subordinates' trust in leadership and organization and how trust, in turn, predicts subordinates' work behavior, namely work engagement. Furthermore, this study attempts to compare and contrast Islamic and conventional banks on the variables of the study, specifically, leadership styles, trust and employees' work engagement. To explore such associations, a sample of 400 employees (approximately 200 each from Islamic and conventional banks) was randomly selected from several local banks operating in Malaysia.

In measuring the study variables, standardized tools such as Authentic Leadership Questionnaire (ALQ), (Avolio et al., 2007); a modified version of Multifactor Leadership Questionnaire (MLQ), (Bass and Avolio, 1995); Interpersonal Trust Scales, (Mayer and Davis, 1999) and (McKnight et al., 2002); Institutional Trust Scale, (Ellonen, et al., 2008); and Utrecht's Work Engagement Scale (UWES), (Schaufeli and Bakker, 2004) were employed to collect necessary data.

The study is expected to provide empirical knowledge on the issue of leadership styles, authenticity, organizational trust, and employee engagement in the context of Malaysian banking sector. The findings may be useful to the managers and training consultants who work for improving leader-member relationships. It should also fulfill acute need of research-based knowledge on leadership and related issues in Malaysian context.

### **1.1 GROWING ETHICAL CONCERNS OF LEADERSHIP**

A check of recent corporate scandals on Wikipedia ([http://en.wikipedia.org/wiki/Accounting\\_scandals](http://en.wikipedia.org/wiki/Accounting_scandals)) gives a long list of cases involving big names and big companies. For instance, WorldCom faked nearly \$ 4 billion in operating cash flow. Enron executives manipulated their financial statements. Tyco International's CEO is charged with cheating on sales taxes. But one name from the most recent past tops them all. That name is Bernard Madoff. His investment scandal occurred after the discovery that former NASDAQ chairman Bernard Madoff's asset management business was actually a giant Ponzi scheme. The US federal authorities arrested Madoff on December 11, 2008. On March 12, 2009, Madoff pled guilty to 11 felonies and admitted to operating the largest investor fraud ever committed by an individual. According to a federal criminal complaint, client statements showing \$65 billion in

stock holdings were fictitious, and no stocks were ever purchased since the scheme began in the 1980s (Wikipedia).

In the Malaysian context, with the increasing inclination of commercial crimes being committed, the question of ethical leadership has been gaining more and more attention of academicians, managers, proprietors and even politicians (Zabid and Alsagoff, 1993). For instance, from 1977 to the year 1994, the total number of commercial crimes committed in the country has increased by 113 percent from 1,981 cases to 4,229 cases. This contrasts to the number of commercial crime cases over the same period, which has almost tripled (11,714 cases) in 2003 compare to 1994, with criminal breach of trust and misappropriation of funds forming the bulk of cases. The amount involved increased almost four-fold, from RM153.8 million in 1994 to RM570 million in 2003 (Royal Malaysian Police, 2004).

According to a report of the Malaysia Crime Watch (2007), there was a stunning increase in commercial crime cases in the year 2006 (198,622 cases) compared to year 2005 (171,604 cases). It is likely that the common thread underlying these corporate scandals/commercial crimes is the failure of corporate leadership to demonstrate ethical leadership or leadership authenticity and its consequent negative impact on employee outcomes.

Perhaps, there cannot be a better time as well as reason to study leadership from ethical and moral perspective than now. As one author rightly commented, “No one can deny that Adolf Hitler was an effective leader. He led Germany from depression to prosperity and from being a crippled military power to being the most powerful and efficient military machine in the world – all in a few short years! However, most would deny that he was a “good leader” (Drouillard and Kleiner, 1996: 30). Surprisingly, most authors have defined leadership *merely* as an influence

process that leads to the achievement of groups' goal. In fact, there is a need to define leadership that includes elements of morality, ethical conduct and goodness (Drouillard and Kleiner, 1996).

## **1.2 STATEMENT OF THE PROBLEM**

As mentioned in the introductory part, no one can oppose that there are crises of confidence in the leadership arena. Arguably, such crises can be curbed if leaders of all organizations are morally or ethically strong in performing their code of ethics and responsibilities. In the corporate world, the past decade or so has witnessed an increase in the number of allegations and convictions of wrong doing by those who hold power and make decisions within organization (Carson, 2003). Evidences have suggested that unethical poor leadership can create financial chaos that ultimately leads to bankruptcy or total loss to the organization and stakeholders.

Recent waves of corporate scandals have eroded the trust and goodwill of employees, investors and the public towards their leaders (Brymer, 2010). In order to restore the trust of key stakeholders and improve both performance and profitability, organizations should make ethical leadership part of their daily business conduct. Therefore, it is estimated that certain effective studies along with faith-based training programs that could foster ethical or authentic leadership at every level of the organization are among to anticipate immediate requirement.

Interpersonal trust between leaders and members of the work group is central to their effective functioning. Though leaders play the primary role in establishing and developing trust, little research has examined the specific leadership practices, which engender trust towards them. However, the literature reviewed suggests that some