

# The Effects of Authentic Leadership on Employees' Interpersonal Trust; Case of Employees of Private Commercial Banks in Peshawar City

Gulwish Kamal<sup>1</sup>, Muhammad Tahir<sup>2</sup>, Engr. Amad Ullah Khan<sup>3</sup>

<sup>1</sup>Business Administration Department, Iqra National University, Peshawar

<sup>2</sup>Business Administration Department, Iqra National University, Peshawar

<sup>3</sup>University of Engineering and Technology, Peshawar

(Note: The following article is based on the MS Thesis of Ms. Gulwish Kamal, Business Administration Department, Iqra National University, Peshawar)

## Abstract

Authentic leadership is an important concept gaining attention in the Western literature. The extent of presence of authentic leadership in Pakistani banking sector context and its outcomes are not studied much. In current study, the objective was to test the effects of authentic leadership on employee's attitude (interpersonal trust). The context of the study was commercial banks in the city of Peshawar. Survey method is used to collect data from staff from five commercial banks branches (n=129). Descriptive statistics indicate that in the sample, the perception of authentic leadership including self-awareness, relational transparency, balanced processing, and internalized moral perspective was high. The level of interpersonal trust was also high. Regression analysis indicated that authentic leadership dimensions of self-awareness, balanced processing, and internalized moral perspective had positive and significant influence on staff interpersonal trust. It is recommended that commercial banks should use authentic leadership style as a criteria during the recruitment, selection, training, performance management, and rewarding of managerial staff.

**Keywords:** *Authentic Leadership, Interpersonal Trust, Commercial Banks, Peshawar, Pakistan*

## 1. INTRODUCTION

Ethical leadership is an emerging concept having its foundation on transformational and ethical leadership style. The concept of ethical leadership is gaining

attention among the academic and practitioner circle [1]. In this regard, greater attention are given to the role of ethical leadership at the workplace. Ethical leadership if present is found to be producing favorable outcomes [1, 2]. In current study, we look in to how work engagement can be influenced by applying the ethical leadership. The context of the current study is the commercial banking sector in the city of Peshawar.

### A. Background

A new type of leadership style is emerging in literature named as authentic leadership which is based on the transformational and ethical leadership style [3, 4]. Past studies shows that authentic leadership has significant influence on follower's ethical behavior [5]; positive attitude [2]; and performance [6]. In this study, the influence of authentic leadership on employee behavior is tested utilizing the interpersonal trust

### B. Research Question

Q1: What are the effects of authentic leadership on employee's interpersonal trust?

### C. Research Objective

The objective of the study is to measure the effects of authentic leadership on employee's interpersonal trust

### D. Significance of the Study

The significance of this study is that it will fill the literature gap by exploring the link between the authentic leadership and employee outcomes including employee interpersonal trust. It is one of the first study related to the authentic leadership and its influence on employee attitude and behavior in the banking sector in the city of Peshawar. The findings can be used by the management of the commercial

banking sector especially the human resource function.

## 2. LITERATURE REVIEW

### A. Introduction to Authentic Leadership

Authentic leadership is characterized by self-concept, self-resolution, goals, and self-expressive. Accordingly, the self-concept means the authentic leader consider leadership role as center of their self-concept [7]. The four components of authentic leadership as suggested are authentic relational orientation, authentic behavior, self-awareness, and unbiased processing [8]. Their details are as under.

#### *Self-Awareness*

Self-awareness refers to knowing one's strengths and weaknesses and to understanding how one makes meaning of the world [9]. Leader who possesses high level of understanding about his own values, cognitions, feelings, and motives can be considered having high self-awareness [10].

#### *Relational Transparency*

Relational transparency is about showing one's authentic self to others and this behavior promotes building trust between a leader and follower [9]. The relational transparency is a type of leader behavior which aims at creating openness and showing leader's inner self to the followers through sharing information [2]. Authentic leader also open to inspection and feedback which improves their authenticity [11].

#### *Balanced Processing*

Balanced processing is about relational decision making process that is done based on objective analysis and relevant data [12]. In other words, if a leader possess balanced processing, that means such leader will try to get the reality rather than influence by exaggerated or distorted communication. Authentic leader mostly involve in reflective process through which they gain self-awareness, and give equal weightage to all the information reducing the distortion or exaggeration effects [9]. Balanced processing is important for leader to correctly assess the situations and followers and take corrective action.

#### *Internalized Moral Perspective*

Internalized moral perspective is about internalized form of self-regulation [13]. This process of internalized moral perspective enable authentic leader to align his/her values with intentions as well as behavior/actions. For internalized moral perspective, the requirement is that a leader develops transparency in his/her actions and makes that transparency visible

to the followers [14]. Furthermore, the internalized moral perspective requires that an individual maintain congruence between his/her internal standards and his/her outcomes [3].

### B. Interpersonal Trust

Trust is described as psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another [15]. The concept of trust is also important at workplace since there are employees in organization who are interacting on regular basis. Such interaction requires interdependence and interpersonal trust makes employees to perform the interdependent tasks more effectively [16]. Past studies shows that interpersonal trust at workplace between the coworkers and the leader-worker relationship produce favorable outcomes including cooperation and work performance improvement [17]. Other favorable outcomes of trust at workplace include higher engagement in communication and willingness to help others [18]. Similar to this, lack of trust by an employee towards coworkers or leader result in psychological distress and subsequently low performance and engagement [19].

### C. Relationship between Authentic Leadership and Interpersonal Trust

The relationship between authentic leadership and interpersonal trust is such that when employees perceive positive authentic leadership from their leader, then it leads to fostering favorable attitude such as self-confidence and interpersonal trust. Past studies show favorable outcomes of authentic leadership on employees behavior including interpersonal trust [20, 3].

## 2.4 Theoretical Model

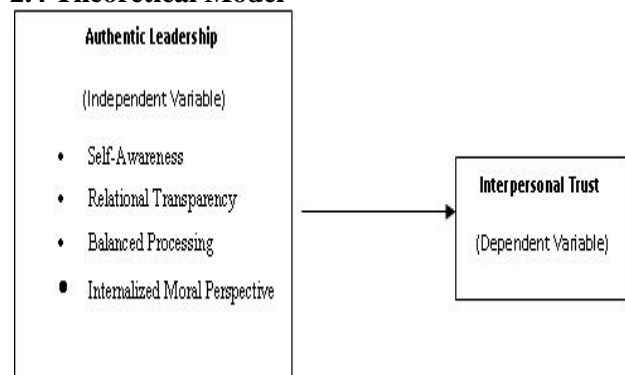


Figure 1: Theoretical Model of the Study

## 3. RESEARCH METHODOLOGY

### A. Research Design

The design of the current study is cross-sectional and non-experimental. Further, it is also a descriptive and explanatory study.

#### B. Research Approach

The primary approach in this study is quantitative because it is suitable for the topic under investigation.

#### C. Survey Measure

Authentic leadership is measured by 14 items adapted [21]. In this measure there are 3 items for self-awareness, 3 items for relational transparency, 4 items for balanced processing, and 4 items for internalized moral perspective. Interpersonal trust is measured by 6 items and adapted [22]

#### D. Population and Sampling

The population of the study consists of commercial private banking sector employee working in the city of Peshawar which is estimated to be around 5000. The sampling frame consists of selected branches consisting almost 1000 employees. Based on the sample size calculation suggested the required sample size is 119 for 95% confidence interval and 3% margin of error.

#### E. Data Collection

For data collection, the survey is physically distributed by the researcher in the selected bank branches using the random sampling approach. The data collection is random sampling since in each branch; the researcher met with the branch manager and distributed the survey among the participants on random basis. A total of 182 survey were distributed in the selected branches out of which 129 usable survey were returned making a response rate of 70.8%.

#### F. Reliability and Validity Issues

For reliability, the acceptable value of Cronbach alpha of 0.60 or above is set as minimum level of acceptable reliability. In our study, all measures had acceptable level of Cronbach alpha of above 0.60 indicating good reliability for the measures taken. We established the validity using the face validity method and through pilot study. Details of the pilot study are given in next section.

### 4. RESULTS AND DISCUSSION

#### A. Demographic Information

Demographic information of the survey participants is as under.

**Table 1: Demographic Information of the Survey Participants**

	N	%
<i>Gender</i>		
Male	107	82.9
Female	22	17.1
<i>Age</i>		
18 to 30 years	10	7.8
30 to 45 Years	112	86.8

45 to 60 Years	7	5.4
<i>Work Experience</i>		
Less than 1 Years	13	10.1
1 to 5 Years	96	74.4
5 to 15 Years	17	13.2
Above 15 Years	3	2.3

There were total of 129 survey participants. From total, there were 107 male and 22 female. 10 survey participants belonged to the 18 to 30 years of age. 112 participants belonged to the 30 to 45 years of age. 7 participants belonged to the 45 to 60 years of age. 13 participants had less than 1 years of work experience; 96 had 1 to 5 years of work experience; 17 had 5 to 15 years of work experience; and 3 had above 15 years of work experience.

#### B. Descriptive Statistics

Descriptive statistics for the variables is given below.

**Table 2: Descriptive Statistics**

	No. of Items	Cronbach Alpha	Mean	S.D.
Self-Awareness	03	.871	4.09	.906
Relational Transparency	03	.845	4.24	.742
Balanced Processing	04	.898	4.11	.879
Internalized Moral Perspective	04	.905	4.15	.906
Interpersonal Trust	06	.922	4.10	.930

The Cronbach alpha for each variable is given in the table above. Results indicate that all variables had Cronbach alpha of above 0.70 which shows that our measures had good reliability. The descriptive statistics indicate that in sample banks, the participant's leader had higher self-awareness (M=4.09, SD=.90); relational transparency was high (M=4.24, SD=.74); balanced processing was high (M=4.11, SD=.87); and internalized moral perspective was also high (M=4.15, SD=.90). Similarly, in sample, interpersonal trust was also high (M=4.10, SD=.93).

#### C. Regression Analysis

Regression analysis is utilized for testing the effects of authentic leadership on interpersonal trust. Details are as under.

**Table 3: Regression Coefficients for the Effects of Authentic Leadership on Interpersonal Trust**

Model	Coefficients		t	Sig.	Collinearity Statistics	
	B	S.E.			Tolerance	VIF
(Constant)	.319	.224	1.424	.157		
Self-Awareness	.180	.092	1.953	.053	.204	4.907
Relational Transparency	-.152	.099	1.532	.128	.262	3.822
Balanced Processing	.311	.099	3.149	.002	.188	5.311
Internalized Moral Perspective	.580	.093	6.229	.000	.200	5.008

The coefficient shows that on the dependent variable of interpersonal trust, self-awareness is having positive and significant effects ( $\beta=.180$ ,  $P<.05$ ); relational transparency has negative and insignificant effects ( $\beta=-.152$ ,  $P>.05$ ); balanced processing has positive and significant effects ( $\beta=.311$ ,  $P<.05$ ); and internalized moral perspective have positive and significant effects ( $\beta=.580$ ,  $P<.05$ ). The Rsquare value shows that the four dimensions of authentic leadership explains 79.6% change in the dependent variable of interpersonal trust. Further, the model is fit and significant as clear from its F value (Fstat=120.922,  $P<.05$ ).

#### D. Discussion

The objective of the study was to test the effects of authentic leadership on employee's interpersonal trust level. Our results indicate that self-awareness, balanced processing, and internalized moral perspective is have positive and significant effects on employee's interpersonal trust. The dimensions of the authentic leader explains 79.6% change in the dependent variable of employee interpersonal trust. Our results are consistent with the findings of previous studies which also established that authentic leadership produces favorable outcomes including interpersonal trust [e.g. 12,20]. Thus, results are consistent with the literature and shows that authentic leadership is important as it produce favorable attitude among the staff.

#### 5. CONCLUSION

It can be concluded that authentic leadership produces favorable attitudinal outcomes among staff. The favorable attitudinal outcome found in this study is interpersonal trust. This means that if organization needs to foster trust among its members, then, leadership need to show authenticity. From the findings of this study, it can be concluded that authentic leadership is important in banking sector and should not be ignored.

#### REFERENCES

1. Avolio, B. J., Gardner, W. L., Walumbwa, F. O., Luthans, F., & May, D. R. (2004a). Unlocking the mask: A look at the process by which authentic leaders' impact follower attitudes and behaviors. *The Leadership Quarterly*, 15(6), 801–823. doi: 10.1016/j.leaqua.2004.09.03
2. Walumbwa, F. O., Wang, P., Wang, H., Schaubroeck, J., & Avolio, B. J. (2010). Psychological Processes Linking Authentic Leadership to Follower Behaviors. *Leadership Quarterly*, 21(5), 901–914.
3. Gardner, W. L., Avolio, B. J., Luthans, F., May, D. R., & Walumbwa, F.O. (2005). Can you see the real me? A self-based model of authentic

#### A. Recommendations

The following recommendations are made.

- Banking sector need to emphasize on authentic leadership among its managerial staff. For this purpose, authentic leadership aspects should be tested among the managerial staff during the recruitment and selection process.
- Further, while, promoting staff to managerial level positions, their authentic behavior should be evaluated first.
- The authentic leadership aspects should be included in the training function of management trainees so that they learn and incorporate authentic behavior.
- Regular survey should be conducted among staff and their perception regarding the authentic behavior of their line manager should also be obtained. Such feedback should also be used for performance management of the managers.
- The authentic behavior of the leaders should also be linked with reward and those managers who display higher aspects of authentic leadership should be rewarded accordingly.

#### B. Limitations of the Study

The study' limitations are its methodology which is based on the quantitative approach and survey method. Small sample size and focus on single banking sector in one city is also limitation of the study.

leader and follower development. *Leadership Quarterly*, 16(3), 434–372.

4. Harter, S. (2002). Authenticity. In C. R. Snyder, & S. Lopez (Eds.), *Handbook of positive psychology* (pp. 382–394). Oxford, UK7 Oxford University Press.
5. Hannah, S. T., Avolio, B. J., & Walumbwa, F. O. (2011). Relationship between authentic leadership, moral courage, and ethical and pro-social behaviors. *Business Ethics Quarterly*, 24(4), 555–578
6. Hmieleski, K. M., Cole, M. S., & Baron, R. A. (2011). Shared authentic leadership and new venture performance. *Journal of Management*,

- 38(5), 1476–1499, doi: 10.1177/0149206311415419
7. Shamir, B., & Eilam, G. (2005). "What's your story?" A life-stories approach to authentic leadership development. *The Leadership Quarterly*, 16(3), 395–417.
8. Goldman, B. M. & Kernis, M. H. (2002). The role of authenticity in healthy psychological functioning and subjective well-being. *Annals of the American Psychotherapy Association*, 5(6), 18–20
9. Kernis, M. H. (2003). Toward a conceptualization of optimal self-esteem, *Psychological Inquiry*, 14(1), 1–26.
10. Ilies, R., Morgeson, F.P., & Narhrgang, I.D. (2005). Authentic leadership and eudaemonic wellbeing: Understanding leader-follower outcomes. *The Leadership Quarterly*, 16, 373–394.
11. Mazutis, D., & Slawinski, N. (2008). Leading organisational learning through authentic dialogue. *Management Learning*, 39(4), 437–456.
12. Gardner, W.L., Avolio, B.J., Luthans, F., May, D.R., & Walumba, F.O. (2005). "Can you see the real me?" A self-based model of authentic leader and follower development. *Leadership Quarterly*, 16, 343–372
13. Ryan, R. M., & Deci, E. L. (2003). On assimilating identities to the self: A self-determination theory perspective on internalization and integrity within cultures. In M. R. Leary & J. P. Tangney (Eds.), *Handbook of self and identity* (pp. 255–273). New York: Guilford Press.
14. Avolio, B. J., & Gardner, W. L. (2005). Authentic leadership development: Getting to the root of positive forms of leadership. *The Leadership Quarterly*, 16(3), 315–338.
15. Rousseau, D. M., Sitkin, S. B., Burt, R. S., & Camerer, C. (1998). Not so different after all: A cross-discipline view of trust. *Academy of Management Review*, 23(3), 393–404.
16. Mayer, R. C., Davis, J. H., & Schoorman, F. D. (1995). An integrative model of organizational trust. *Academy of Management Review*, 20(3), 709–734.
17. McAllister, D. J. (1995). Affect-and cognition-based trust as foundations for interpersonal cooperation in organizations. *Academy of management journal*, 38(1), 24–59.
18. Ferres, N., Connell, J., & Travaglione, A. (2004). Co-worker trust as a social catalyst for constructive employee attitudes. *Journal of Managerial Psychology*, 19(6), 608–622.
19. Dirks, K. T., & Ferrin, D. L. (2002). Trust in leadership: Meta-analytic findings and implications for research and practice. *Journal of Applied Psychology*, 87, 611–628.
20. Hassan, A., & Ahmed, F. (2011). Authentic leadership, trust and work engagement. *International Journal of Human and Social Science*, 6(3), 164–170.
21. Neider, L. L., & Schriesheim, C. A. (2011). The authentic leadership inventory (ALI): Development and empirical tests. *The Leadership Quarterly*, 22, 1146–1164. doi: 10.1016/j.leaqua.2011.09.008
22. Cook, J., & Wall, T. (1980). New work attitude measures of trust, organizational commitment and personal need non-fulfillment. *Journal of Occupational Psychology*, 53, 39–52.