

Transformational Leadership and firm performance: The Mediating effect of Organizational trust

القيادة التحويلية واداء المنظمات: تأثير الثقة التنظيمية كعامل وسيط

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الملخص:

تناولت هذه الدراسة العلاقة بين القيادة التحويلية والأداء التنظيمي من خلال الدور الوسيط للثقة التنظيمية. تطرقت الدراسة الى النظريات المرتبطة بالقيادة التحويلية والثقة التنظيمية لتقديم صورة كاملة عن أهمية هذان العاملين في التأثير على الأداء المالي والسوقي للمنظمات. بالنسبة للمنهجية البحثية تم تصميم طريقة جمع البيانات من خلال طرق البحث الكمي في شكل بحث مسحي من خلال الاعتماد على عينة عشوائية من مختلف القطاعات الصناعية في المنطقة الشرقية. وتم تطبيق نموذج المعادلة الهيكلية لتحليل البيانات التي تم الحصول عليها من ٢٢٦ مشارك الاختبار النموذج الذي انتهجه بحثنا والفرضيات البحثية المطروحة. أشارت النتائج إلى وجود تأثير للقيادة التحويلية على الأداء التنظيمي. كما وجدت الدراسة أن القيادة التحويلية تؤثر بشكل كبير على الثقة التنظيمية. ومع ذلك، لم تجد الدراسة أي تأثير كبير على الدور الوسيط للثقة التنظيمية في هذه العلاقة. ساهمت الدراسة من خلال طرح الاطار النظري واختبار العلاقة بين المتغيرات ومن جهة أخرى توصي الدراسة على أن هناك حاجة لمزيد من الأبحاث المستقبلية ذات الطبيعة المقارنة بين أكثر مكان الا هذه الدراسة توفر فقط تحليل لمنطقة واحدة في المملكة العربية السعودية.

الكلمات المفتاحية: لقيادة التحويلية، أداء المنظمات، الثقة التنظيمية، الدور الوسيط، القطاعات الصناعية السعودية

Abstract:

This research paper aims to discover the relationship between transformational leadership and organizational performance through the mediating role of organizational trust. A quantitative method was employed through questionnaires survey to collect the data. The questionnaires were designed using google forms and distributed among employees. The sample consisted of employees working in variety of industrial sector in Saudi Arabia, Eastern Province. A total of 226 male and female participants responded to the questionnaires. In according to the literature and theoretical background, an integrated theoretical framework has been developed. The structural equation modelling (SEM) was used to examine the framework to test the hypothesis. The study found a significant influence of transformational leadership on organizational performance. The study also found that transformational leadership significantly influences organizational trust. However, the study found no significant influence on the mediating role of organizational trust. Theoretical contribution of this research has been witnessed with the developed theoretical model, where managerial implications have been highlighted to serve business.

Keywords: transformational leadership, organizational performance, organizational trust, mediating effect, Saudi Industrial Sector

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1. Introduction

The current economic conditions of fluctuate interest rate, higher borrowing cost and increasing inflation have impacted on microeconomic level which caused decreasing in consumers' buying power and cost of living, while at macroeconomic level have negative consequences on investment, exporting level and general economy. These real scenarios have drummed almost all economies in the globe into the necessity for quick responses to the new market requirements seeking a contemporary management approach, including leadership strategies. In this regard, transformational leadership has long been recognized as a crucial factor in enhancing several positive outcomes such as organizational performance. By inspiring and motivating their followers, transformational leaders can drive positive change, foster innovation, and improve overall productivity within their organizations.

On the other hand, the relationship between transformational leadership and organizational trust has been investigated in the literature. Several studies have found that transformational leadership is positively related to organizational trust. For example, a study by Islam and Yasin (2016) found that transformational leadership was positively related to employee trust in the organization. Another study by Lei et al. (2019) found that transformational leadership was positively related to employee trust in the context of organizational change. For example, a study by Avolio et al. (1999) found that transformational leadership was positively related to employee satisfaction, organizational commitment, and job performance. Another study by Bass and Avolio (1994) found that

transformational leadership was positively related to organizational innovation.

In addition to its direct impact on performance, recent studies have emphasized the mediating role of organizational trust in the relationship between transformational leadership and organizational outcomes. Several studies have found that organizational trust can mediate the relationship between transformational leadership and organizational performance. For example, a study by Tayal et al. (2018) found that transformational leadership was positively related to organizational trust, which in turn was positively related to organizational performance. Another study by Yahaya and Ebrahim (2016) found that transformational leadership was positively related to organizational trust, which in turn was positively related to employee commitment, which in turn was positively related to organizational performance.

Recent studies have shed light on the crucial role of organizational trust as a mediator in this process. For instance, Smith et al. (2022) found that transformational leadership positively influences organizational trust, which, in turn, enhances performance outcomes. Similarly, Chen and Liu (2021) demonstrated that organizational trust mediates the relationship between transformational leadership and employee engagement, ultimately leading to improved organizational performance. These studies highlight the importance of investigating the mediating role of organizational trust in the transformational leadership-performance relationship.

Furthermore, studies by Johnson et al. (2023), Lee and Park (2022), and Gupta and Sharma (2021) have all

identified the need for further empirical exploration of the relationship between transformational leadership, organizational trust, and performance. Their findings suggest that the mechanisms through which transformational leadership influences organizational performance are complex and multifaceted. Therefore, to advance our understanding of this relationship, it is essential to conduct a comprehensive investigation that considers other factors, for example the mediating role of organizational trust. Therefore, empirical study into how these theoretical concepts work in multi-industry with regards to another cultural context is indeed more relevant than ever.

Despite, considerable delivering literature in this domain, little is known about these focal constructs especially in the Middle Eastern countries. The current study collectively provides a comprehensive understanding of transformational leadership, organizational performance, organizational trust, and the interplay between these factors by providing a provision framework. It establishes the necessity for conducting research to explore the relationship between transformational leadership, organizational trust, and organizational performance, thereby filling the gap in the literature.

The abundance of natural resources and raw materials in the Kingdom of Saudi Arabia offers significant business potential because there is a sizable domestic and global market for metals and petrochemical goods. The Kingdom understands that a formula based exclusively on cheap foreign labour and abundant crude oil would not be adequate to provide unique exports that would increase diversity and produce an abundance of wealth for a growing population. The outcome is that

the sector is starting to implement strategic agenda that is required quick responses to external threats and discover new opportunities by focusing on a more effective workforce through internal competency development, unique talent acquisition, domestic & forging direct investment, and capitalizing on the private sector.

Kosonen (2010) stress the importance of applying contemporary management approaches toward environmental changes. In addition, recent research, Saudi Arabia's new economic shift calls for cutting-edge management techniques and innovative capabilities. The report also recommended that the Ministry of Human Resources concentrate on the following two goals: optimizing worker performance through Saudi workforce skill development and enabling the industrial sectors to serve as a driver of economic growth (Rivera et al; 2022).

The Saudi industrial sector, the context of this study, is highly competitive in today's dynamic economic environment, which makes it more important than ever for businesses to invest in human capabilities and respond quickly in current dynamic economy. For instant, Saudi industrial cities increased from 3 to 35 industrial cities and zones over the ensuing three decades. In addition, the country enjoys a robust economy, currency stability and membership of the G20, Arab free trade Zone with low level tax which have all created competitive advantages.

Building upon the existing literature, this research addresses the following research question: To what extent does organizational trust mediate the relationship between transformational leadership and organizational

performance? The primary goal of this study is to empirically examine the mediating role of organizational trust in the relationship between transformational leadership and organizational performance.

This study makes several significant contributions to both theoretical and practical domains. Theoretically, by exploring the mediating role of organizational trust, it will enrich our understanding of the complex dynamics between transformational leadership and organizational performance. Hence, this research will contribute to the existing literature by providing empirical evidence that supports and expands upon the findings of previous studies. Additionally, it will help to fill the existing research gap by offering insights into the underlying processes through which transformational leadership affects organizational outcomes. This research is different from similar other studies as it focuses on the employees working in variety of business levels and sectors; thus, it generates better sample size & greater substantial effect in return, in addition it provides considerable empirical international evidence from different cultural and organizational context. Moreover, this study is unlike other research in their domain as it utilized two performance constructs, financial and marker indicators to measure the effect of transformational leadership and organization trust.

From a practical perspective, the findings of this study provide valuable guidance for leaders and organizations seeking to improve their performance. By highlighting the importance of organizational trust as a mediator, this research will emphasize the significance of

fostering trust within the workplace. It will provide leaders with actionable strategies to enhance trust, thereby positively influencing organizational performance. Furthermore, the study will underscore the importance of transformational leadership in driving organizational success and provide evidence-based recommendations for leadership development and training programs.

2. Literature Review and Hypotheses Development

2.1 Transformational Leadership

Leadership is a complicated multidimensional phenomenon in the organizational and psychological literature and, over the years, the definition of a leader and the characteristics that signify leadership have developed. Since the notion of the leader and leadership first appeared in the dictionary, scholars have investigated leadership attributes utilizing various approaches. The initial conceptions of leadership arose during the industrial revolution (Hunt et al., 1990), with a leader being defined as an outstanding figure, but the philosophies around leaders and leadership have matured and altered. For example, trait theory and behavioural styles have provided conceptual approaches such as authentic leadership and situational leadership (Hunt & Fedynich, 2018).

Recent leadership approaches have claimed that the influence of practice is determined by a leader's ability to develop attractive and challenging goals for an organization's future and describe strategies for people to achieve these goals. Leaders play a crucial role in assisting individuals and organizations to thrive or at least stay alive (Gomes, 2014). However, the work performance of the leader is a critical indication that

enhances overall performance and improves the organization's competitive edge (Muhammad et al, 2016). In the world of leadership, there are two main types: transactional and transformational leadership (Hay, 2006). For the current study, our focus will be on transformational leadership.

Transformational leadership is an effective approach utilized in an organization that is seeking to make changes (Gomes, 2014). Downton (1973) was the first to discuss the theory of transformational leadership, followed by Burns (1978), who was a political scientist. According to Bass & Avolio (1994) transformational leadership is the procedure of encouraging fundamental shifts in followers' thoughts, attitudes, and beliefs to the degree to which the organization's objectives and the leader's vision are engaged. This definition is based on the notion that individuals are reliable and determined, everyone has an important contribution to offer, and complicated problems are dealt with at the most feasible point. Also, transformational leadership does not rely upon punishment or control of others (Waldman et al. 1990). Thus, transformational leaders are defined by four distinct traits known as the four Is of transformational leadership: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass & Avolio, 1994).

There has been scholarly discussion in the literature regarding the nature and efficacy of this style of leadership and its ethics have in fact been called into doubt, particularly by the school of libertarianism and organizational development experts, with one major objection being that it has the capacity for misuse of power, e.g., trust in leaders (Hay, 2006). Moreover, it

inspires people by engaging them in powerful emotions despite the long-term impact on people, e.g., employees' innovation, and work engagement (Hay, 2006). Nevertheless, several scholars believe that the notion of transformational leadership is vague, and many also believe that the theory of inspirational leadership is overtaking it, even though they believe it to be more effective (Lee, 2014).

2.2 Organizational Performance

Organizational performance refers to the achievement of goals and objectives set by an organization, reflecting its effectiveness and efficiency in utilizing resources and achieving desired outcomes. Performance outcomes can be measured in various ways, such as financial performance, customer satisfaction, employee productivity, and innovation (Marr & Adams, 2004). High-performing organizations are those that consistently exceed performance expectations and exhibit superior performance in comparison to their peers. Research has consistently shown a positive association between effective leadership and organizational performance, highlighting the critical role leaders play in driving organizational success (Eisenbeiss, Knippenberg, & Boerner, 2008; Waldman, Ramirez, House, & Puranam, 2001). Dess and Picken (2000) discuss the evolving nature of leadership in the 21st century and its impact on organizational performance. Their study highlights the importance of adaptive and transformational leadership styles in driving performance in dynamic and complex environments.

Dappa et al., (2019) examines the impact of transformational leadership on both organizational and

personal outcomes. The findings indicate a positive relationship between transformational leadership and various performance indicators, including job satisfaction, organizational commitment, and employee productivity. Moreover, Becker and Huselid (1998) provided a synthesis of research on high-performance work systems (HPWS) and their impact on firm performance. They emphasize the importance of leadership practices, including transformational leadership, in fostering HPWS, leading to improved organizational performance.

2.3 Organizational Trust

Organizational trust is defined as the shared belief that neither party will take advantage of the vulnerability of the other (Sabel, 1993), similarly Das and Tange (1998) state that trust is a foundation of belief that one party has a good attitude about the actions of another. However, trust is generally acknowledged as a critical enabler for firms' successful outcomes. Among its advantages are that it encourages cooperative conduct within businesses, supports employee engagement, passion, inspiration, innovation, and knowledge transfer, facilitates efficient commercial transactions, and boosts customer loyalty (Pirson & Malhotra, 2011). It is also known to be a complex concept with several definitions, as well as influencing elements and events (Adams & Wiswell, 2007). Vidotto et al (2008) give one definition of organizational trust as the belief or feeling that the management keeps its commitments, negotiates fairly with employees, and does not take unfair advantage. Bastug et al, (2016 and Acosta et al (2012) state that organizational trust is regarded as the most crucial criteria for organizational success, a core component in a psychological construct, and a

psychological resource for employees that is positively associated with work engagement.

Organizational trust is seen as a substance that binds teamwork, collaboration, communication, learning, and information exchange (McAllister, 1995). Moreover, it accounts for a great deal of innovation in an organization (Ellonen et al., 2008), and organizational performance (Paliszkievicz & Koohang, 2013).

The structuring of organizational trust is defined as the optimistic belief that an employee has regarding the intention and actions of organizational associates built on organizational responsibilities, relations, experiences, and interdependencies (Shockley-Zalabak et al, 2000). However, there is no universal instrument to measure organizational trust, and there are different ways of measuring it (Adams & Wiswell, 2007). At the same time, during measurement, it must be kept in mind that many factors interact with organizational trusts like job opportunities within the organization, job autonomy, the level of centralization or decentralization, salary, level of employee, employee satisfaction, and gender (Nanjundeswaraswamy et al., 2012). Measuring the level of trust is important because it influences both company and employee performance (Paliszkievicz et al, 2014). Accordingly, Cummings and Bromiley (1996) developed an organizational trust inventory which has been proven for its validity and reliability. The OTI measures four important facets of organizational trust: honesty, respect, fairness, and credibility. The OTI will be used in the current study accordingly.

2.4 Transformational Leadership and Organizational Performance

The relationship between transformational leadership and organizational performance has been extensively studied. Researchers have consistently found a positive association between transformational leadership and various performance outcomes. For example, Bass and Riggio (2006) conducted a meta-analysis and found that transformational leadership was significantly related to follower satisfaction, motivation, and performance. Other studies have shown that transformational leadership is associated with higher levels of employee creativity and innovation (Zhang & Bartol, 2010), as well as improved team performance (Piccolo & Colquitt, 2006). These findings underscore the critical role of transformational leadership in enhancing organizational performance. Moreover, Wang et al. (2011) examines the relationship between transformational leadership and various performance criteria and levels. The findings reveal a positive association between transformational leadership and objective performance indicators, subjective performance measures, and follower performance ratings. Other researchers discussed how transformational leadership influences employees' engagement in OCBs, which ultimately contributes to enhanced organizational performance (Podsakoff et al. 2000). Following Judge and Piccolo (2004); Wang et al. (2011); Avolio et al (2004), this research hypothesizes that:

Hypothesis 1: Transformational leadership positively influences organizational performance.

2.5 Transformational Leadership and Organizational Trust

Transformational leaders are known for their ability to inspire trust among their followers through their

charisma, integrity, and ethical behaviours (Dirks & Ferrin, 2002). Studies have shown that transformational leadership positively influences organizational trust (Eisenbeiss et al., 2008). For example, Choi (2016) found that transformational leadership positively predicted employees' trust in their leaders. Similarly, Thomas (2018) demonstrated that transformational leadership was positively associated with organizational trust among employees. Moreover, Dirks & Ferrin (2002) investigates the relationship between trust and transformational leadership. The study reveals a positive association between transformational leadership and organizational trust, indicating that transformational leaders are more likely to be perceived as trustworthy by their followers.

The effects of transformational leadership on followers' trust in leader and organizational citizenship behaviours has been studied by Wang et al., (2016) who examine the reciprocal relationship between transformational leadership, trust in the leader, and organizational citizenship behaviours (OCBs). The findings demonstrate that transformational leadership positively influences trust in the leader, which subsequently leads to higher levels of OCBs among followers.

Regarding team performance, Eisenbeiss et al. (2008) explores the role of transformational leadership in fostering team innovation. They demonstrate that transformational leadership positively influences team trust, which, in turn, enhances team innovation capabilities. The findings highlight the importance of trust as a mechanism through which transformational leadership drives positive team outcomes. It suggests that transformational leaders create a conducive

environment for trust to flourish within the organization. Therefore, this study hypothesis:

Hypothesis 2: Transformational leadership positively influences organizational trust.

2.6 Organizational Trust and Organizational Performance

The relationship between organizational trust and organizational performance has also received significant attention in the literature. Studies have consistently shown a positive association between trust and various performance outcomes. For instance, Dirks and Ferrin (2002) found that trust was positively related to job performance. Similarly, Kramer (1999) demonstrated that trust within teams was associated with higher levels of cooperation and performance. Furthermore, studies have highlighted the role of trust in fostering innovation (Mayer et al., 1995) and enhancing organizational effectiveness (Eisenbeiss et al., 2008).

McAllister (1995) explores the impact of trust on interpersonal cooperation. The research highlights how trust promotes collaboration and positive work relationships, ultimately leading to improved organizational performance. These findings suggest that higher levels of trust within an organization contribute to improved performance outcomes. Therefore, this research hypothesis that:

Hypothesis 3: Organizational trust positively influences organizational performance.

2.7 The Role of Trust in the Relationship between Leadership and Organizational Performance

The role of trust in mediating the relationship between leadership and organizational performance has been a

subject of interest in recent studies. Researchers have emphasized that trust acts as a crucial mechanism through which leadership influences organizational outcomes. For instance, Eisenbeiss et al. (2008) found that trust partially mediated the relationship between transformational leadership and follower performance. Similarly, Asbari et al. (2020) demonstrated that trust mediated the relationship between ethical leadership and organizational performance. The relationship between the three components of commitment and employee performance in China was also investigated. Chen and Francesco (2003) examine the mediating role of trust in the relationship between leadership commitment and employee performance. The findings suggest that trust in leadership acts as a mediator, transmitting the effects of leadership commitment to employee performance.

Bhuiyan & Menguc (2002) empirically investigate the relationship between trust, commitment, and performance. The results reveal that trust mediates the relationship between commitment and performance, suggesting that trust plays a significant role in translating employees' commitment into improved performance. In relation to the team performance, Furst et al. (2004) discuss the role of trust in managing virtual teams and their performance. The study highlights that trust is crucial for overcoming the challenges of virtual teamwork and fostering effective collaboration, which in turn influences team performance. Therefore, this research hypothesis the following:

Hypothesis 4: Organizational trust mediates the relationship between transformational leadership and organizational performance.

3. Research Model

The literature review provides an overview of key concepts related to transformational leadership, organizational performance, and organizational trust. The review highlights the positive relationship between transformational leadership and organizational performance, as well as the mediating role of organizational trust in this relationship. Additionally, it emphasizes the reciprocal relationship between transformational leadership and organizational trust. Furthermore, the review explores the role of trust in

mediating the relationship between leadership and organizational performance. These insights lay the foundation for the proposed research, which aims to further investigate the complex dynamics between transformational leadership, organizational trust, and organizational performance.

An integrated framework construct was proposed to specify the dynamic relationship using a set of specific and interrelated variables. Accordingly, the conceptual framework was proposed as illustrated in figure 1.

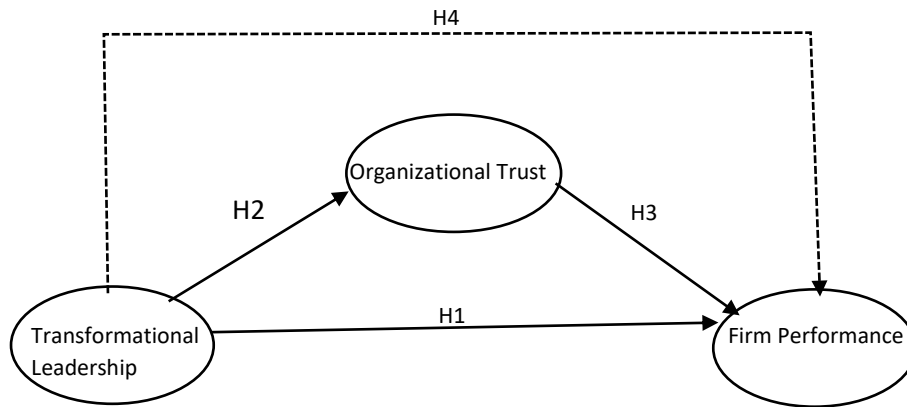


Figure 1: Theoretical Framework and Proposed Hypotheses

4. Research methodology

4.1 Research Methods, Population, Sample and Materials

The current study adopted a conceptual methodological approach. In operationalizing this research, a quantitative approach was conducted using cross-sectional method. Data was collected from June to August 2023 via a questionnaire developed for the objective of the study and distributed by email, and other social network platforms included WhatsApp, LinkedIn, and Twitter using Google Form created for

the purpose of collecting data. It is a considerable approach based on the type of hypotheses involved in the research. Indeed, the quantitative approach was valid because it was justified by other studies and was found to be effective. Importantly, transformational leadership, organizational performance and organizational trust had established validity and thus the quantitative approach was considered the most appropriate for this study. The questionnaire has instructions, including the aim and confidentiality of the questionnaires and the respondents completed them willingly. Thus, each respondent filled out the Google

forms directly using computers or smartphones and the data was stored and used directly by the server.

The study's target population was employees working in various companies, including petrochemical, transport, tourism, service industry, manufacturing, retail, banking and finance, construction, and agriculture in Saudi Arabia. The aim of the study's tool was to find out their attitudes and opinions concerning the impact of transformational leadership on organizational performance, and organizational trust. The sample encompassed 350 employees. The number of questionnaires answered and returned by the sample reached 260 questionnaires; out of these, 226 questionnaires were valid for statistical analysis, with a response rate of 64.5%. Due to the sample size and normality, the researchers concluded that a two-step Structural Equation Modelling—the measurement model or confirmatory factor analysis and structural model through SPSS AM 'OS was adequate for statistical analysis.

4.2 Research Measurements

The questionnaire used for this study consisted of four sections. The first section was to collect data on subjects' personal characteristics (e.g., gender, job experience, education level, age). Other sections were used to measure research variables, transformational leadership, organizational performance, and organizational trust. The questionnaire was designed using a five-point Likert scale (1 = strongly disagree; 5 = strongly agree), Appendix A provides details on research instruments.

Transformational Leadership (TL) refers to seven leader behaviors and represents the first order

independent construct of this research. It was measured through 7 items in according with (Carless et al., 2000), TL is a short measure of transformational leadership. Example of statement include "Our corporation' s leaders Communicates a clear and positive vision of the company's future" and "Our corporation' s leaders treat staff as individuals, supports and encourages their development".

Organizational trust (OT) refers to employees' attitudes and beliefs towards the organization and represents the first order mediating construct of this research Therefore, the questionnaires started with "I think management..." and "I feel that ...". It was measured through 7 items in accordance with (Cummings & Bromiley 1996).

Organizational Performance (OP) refers to financial and non-financial performance and represents the second-order dependent construct of this research, which was measured through 7 items in accordance with (Hooley *et al.*, 2005; Venkatraman,1986). OP is divided into two first-order constructs: Marketing performance was measured using 4 items (OPM1–OPM4). Example of statement include "Relative to our competitors, we have a greater market share". Financial performance was measured using 3 items (OPF1–OPF4). Example of statement include "Relative to our competitors, we have a better return on investment".

5. Data analysis and Results.

A recommended approach towards conducting SEM is following a two-step modelling method developed by Anderson and Gerbing (1988). In the first stage, we identified each latent construct and its respective indicators. Following that, items' reliability and their

respective loadings on their respective latent constructs have been assessed independently (see Tables 2, 3, 4, 5 & 6). The aforementioned stage tests the reliability, factor loadings, confirmatory factor analysis, constructs correlations covariances and significance, and goodness-of-fit for each scale of the study. correlation coefficients and Cronbach's alpha (see table .2) for all study variables and latent constructs are derived and

tabulated. Construct reliability was assessed using Cronbach's Alpha. Cronbach Alpha for each construct in our study was found to be above 0.7 (Nunnally and Bernstein, 1994). Pearson's correlation coefficient magnitude revealed that there is a strong correlation between the three constructs "OT", "TL", and "FP". No weak or moderate correlation was found between latent constructs at the 0.000 significant levels

Table2. Reliability of constructs & correlation coef.

Latent variables	Cronbach's alpha (α)	TL	OT
<i>Transformation Leadership (7-items)</i>	0.95		
Firm Performance (7-items)	0.93	0.49***	0.43***
Organizational Trust (8-items)	0.92	0.86***	
Organizational Trust (12-items)	0.86		

Table 3. Dimensionality of Transformational Leadership

Items (total variance explained 75.66%)	Factor loadings
Transform 1	0.79
Transform 2	0.89
Transform 3	0.94
Transform 4	0.92
Transform 5	0.80
Transform 6	0.85
Transform 7	0.90

Table 4. Dimensionality of Firm Performance

Items (total variance explained 71.35%)	Factor loadings
Market. Perf.1	0.80
Market. Perf.2	0.79
Market. Perf.3	0.87
Market. Perf.4	0.83
Fin. Perf.1	0.87
Fin. Perf.2	0.88
Fin. Perf.3	0.88

Table 5. Dimensionality of Organizational Trust

Items (total variance explained 45.74%)	Factor loadings
Org. Trust 1	0.75
Org. Trust 2	0.80
Org. Trust 3	0.85
Org. Trust 4	0.11
Org. Trust 5	0.30

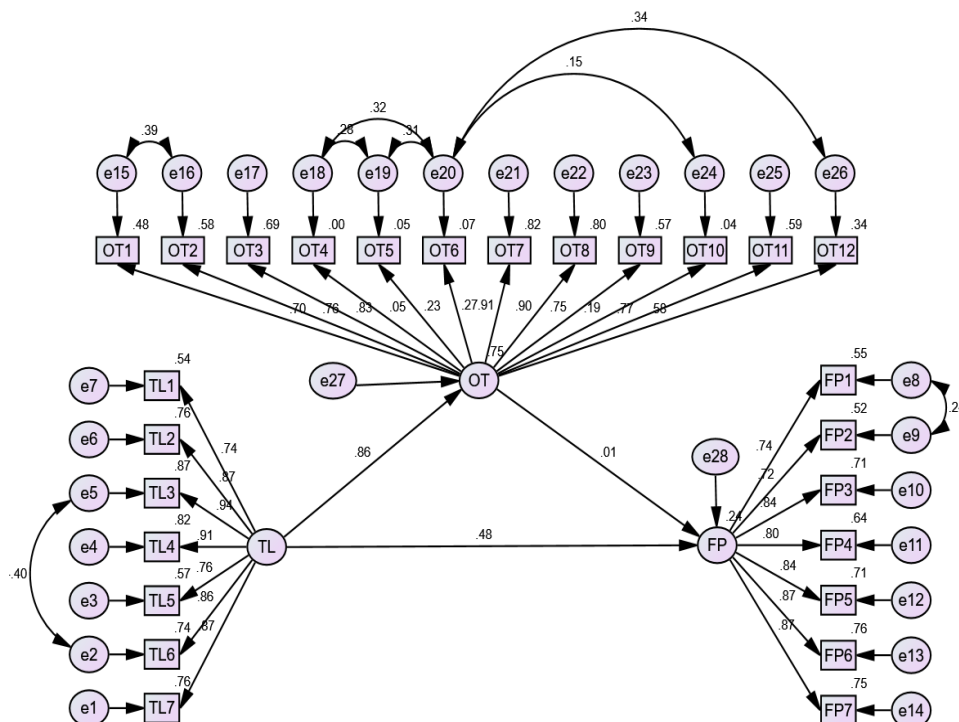
Org. Trust 6	0.37
Org. Trust 7	0.90
Org. Trust 8	0.88
Org. Trust 9	0.77
Org. Trust 10	0.26
Org. Trust 11	0.80
Org. Trust 12	0.66

Table 6. Dimensionality of Organizational Trust (adjusted for modified model)

Items (total variance explained 65.82%)	Factor loadings
Org. Trust 1	0.77
Org. Trust 2	0.83
Org. Trust 3	0.86
Org. Trust 7	0.91
Org. Trust 8	0.89
Org. Trust 9	0.78
Org. Trust 11	0.83
Org. Trust 12	0.63

In the second stage, which is the structural model stage, we focused on the overall relationships between constructs by specifying how each construct appears in the model. The logic behind this 2-step approach is to attain an accurate representation of the reliability of the whilst avoiding the interactions between measurements and the structural model (Diamantopoulos et al., 2000).

Figure 2: Confirmatory Factor Analysis



Notes: n = 226. Bootstraps resample = 5,000; percentile and bias corrected confidence intervals is on 95 per cent.
 e1-e26: errors terms for indicators; e27 and e28 are residuals for latent variables (endogenous variables); TL1 - TL7: seven items of Global Transformational Leadership; OT1-OT12: twelve items of Organizational Trust; FP1-FP7: Seven items of Firm Performance.

Table 1. Socio demographic characteristics

5.2

Variable (n=226)	Frequency	%
<i>Age (years)</i>		
<30	59	26.1
30-39	106	46.9
40-49	42	18.6
50+	19	8.4

Education

High school	12	5.3
Diploma	24	10.6
Undergraduate	132	58.4
Masters	54	23.9
Doctorate	4	1.8

Gender

Male	164	72.6
Female	62	27.4

Industry

Agriculture	2	0.9
Banking & Finance	45	19.9
Construction	8	3.5
Innovation, science and tech	6	2.7
Manufacturing	19	8.4
Mining	6	2.7
Petrochemical	24	10.6
Retail	9	4.0
Service Industry	24	10.6
Tourism	7	3.1
Transport	5	2.2
Other	71	31.4

Experience

1-5 years	62	27.4
6-10 years	65	28.8
11-15 years	45	19.9
15+ years	54	23.9

Measurement model:

Confirmatory Factor Analysis (CFA) was computed using AMOS 22.0 to test the measurement models. As part of confirmatory factor analysis, factor loadings were assessed for each item. The indicators of both constructs, Firm Performance and Transformational Leadership, loaded adequately on the respective factors with no loading below the 0.7 cutoff point (Williams et al., 1996), and even prior work by Carless et al. (2000) indicated that TL 7-item scale required a 0.50 cut-off, whereby our results ranged from 0.79 to 0.94. The Organizational Trust constructed 4 items loaded relatively inadequately, and after reevaluating the survey and looking at the literature to reconcile these

low loadings (below 0.5- see tables 5 and 6), we decided to drop them. The model-fit measures were used to assess the model's overall goodness of fit (Chi-Square, CMIN/df, GFI, CFI, TLI, SRMR, and RMSEA) and all of the values were within the appropriate acceptance levels (Ullman, 2001; Hu & Bentler, 1998; Bentler, 1990). The three factors model (Organizational Trust, Firm Performance, and Transformational Leadership) all yielded an adequate fit with the following parameter values: Chi-Square= 387.879, CMIN/df = 2.01, GFI = 0.88, CFI = 0.96, TLI=0.95 SRMR =0.05, and RMSEA = 0.06.see Modified Model

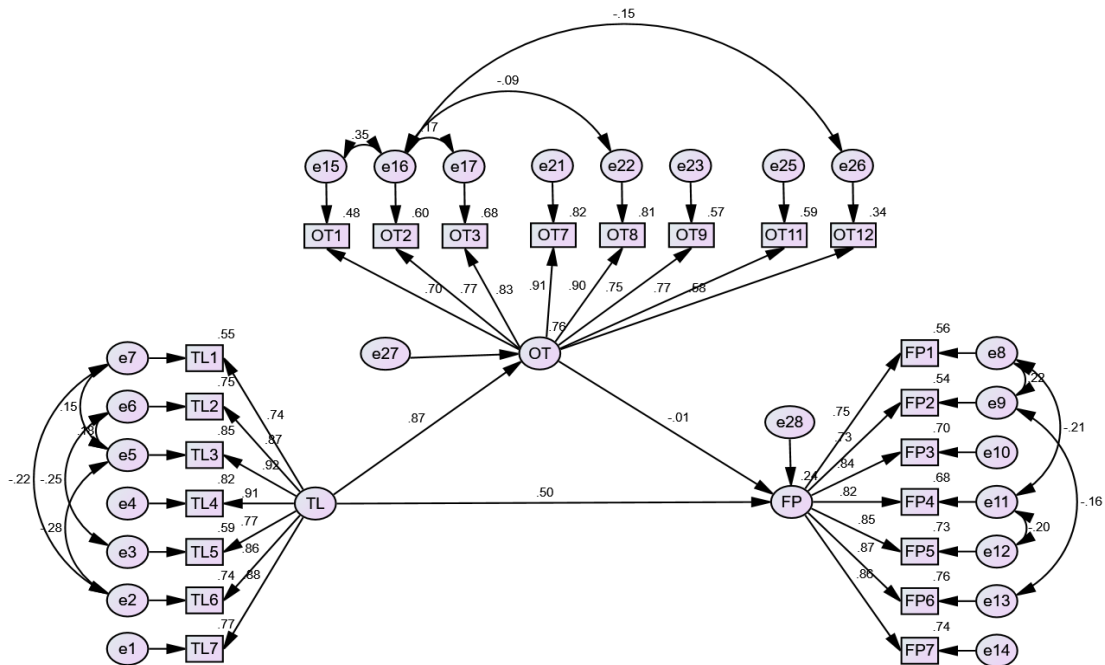


Figure 3: Structural paths

Modified model: Notes: n = 226. Bootstraps resample = 5,000; percentile and bias corrected confidence intervals is on 95 per cent. e1-e26: errors terms for indicators; e27 and e28 are residuals for latent variables (endogenous variables); TL1-TL7: seven items of Global Transformational Leadership; OT_{1, 2, 3, 7, 8, 9, 11, 12}: eight items of Organizational Trust; FP1-FP7: Seven items of Firm Performance.

5.3 Hypothesis testing results

We ran the model using bootstrapping procedure in AMOS (performing 5,000 resamples). Additionally, statistical significance for the indirect effect was determined at 95 per cent bias and accelerated confidence intervals which is a standard in social sciences (Hayes, 2009). According to our data and the calculation parameters applied, our results demonstrated the following:

Hypothesis 1 is supported. There is a significant direct effect between our independent variable of focus Transformational Leadership and our dependent variable of interest Firm Performance. The standardized coefficient for direct effect (H1) of transformational leadership on firm performance (excluding the effect of the mediator) is with ($\beta = 0.50$; $p < 0.05 = 0.000$). This means that hypothesis 1 is supported.

Hypothesis 2a is supported. There is a significant direct effect between our independent variable of focus Transformational Leadership and our mediating variable of interest Organizational Trust. The standardized coefficient for the direct effect (H2a) of transformational leadership on organizational trust is significant with ($\beta = 0.87$; $p < 0.05 = 0.000$). This means that hypothesis 2a is supported.

Hypothesis 2b is not supported. There is an insignificant direct effect between our mediating variable Organizational Trust and our dependent variable of interest Firm Performance. The standardized coefficient for the direct effect (H2b) of organizational trust on firm performance is insignificant with ($\beta = -0.01$; $p > 0.05 = 0.873$). This means that hypothesis 2b is not supported.

Hypothesis 3 is not supported. There is an insignificant indirect effect (mediation effect by Organizational Trust) between transformational leadership and firm performance ($\beta = 0.009$; $p > 0.05 = 0.869$). We can say that transformational leadership has an insignificant

indirect effect on firm performance through the mediator organizational trust. So, there is no mediation effect.

Table 7. Mediation Analysis

Latent variables	Direct Effect	Indirect effect	P
TL → FP	0.87		0.000
TL → OT → FP		-0.009	0.869

6. Discussion and Conclusions

The present study investigated whether transformational leadership has a positive effect on firm performance through the enhancement of organizational trust. The results indicate a significant direct effect between transformational leadership and work firm performance; therefore, this hypothesis statistical support from our data. The results support a positive relationship between transformational leadership and organizational trust and a significant direct effect between trust and firm performance. These findings of this research are in agreement with a number of previous published research work (Judge and Piccolo, 2004; Wang et al. 2011; Rutherford et al. 2008; Choi (2016). More interestingly, the mediating role of organizational trust in the relationship between transformational leadership behaviour and work engagement was found insignificant. This hypothesis (H4) did not receive statistical support from our data. Although this result is partially in line with some previous research (Eisenbeiss et al. 2008) found that trust partially mediated the relationship between transformational leadership and performance, while contradicting others (Chaudhry et al 2020; Chen et al 2003) who found a significant result in the mediating relationship. However, a mediating variable such as trust is important Furst et al (2004). What you can say from a statistical perspective is that the lack of significance in mediation could be attributed to the small sample size that reduced the statistical power to detect an effect. It also could be that the measurement of organizational trust was over complicated where numerous dimensions could be derived of the 12 items

that measured it. There could also be mediator collinearity with the DV (firm performance).

The present study makes three important contributions: First, the added value of the present study is that it avoids the traditional linkage in the leadership– firm' Performance relationship by attempting to highlight the critical mediation effect of organizational trust.

Second, the added value in this study is that it explores the research model in the Saudi context with a cultural profile different from Western countries where most similar studies were conducting. While at the same time responding to the dearth of research in such a context to offer theoretical and practical insights for academics and practitioners. Moreover, this study is advantageous as the study's data was collected from a big and wider range of sectors hence, wider employment size and greater effect in return unlike other studies that used a single sector.

Third, organizational trust seems to be an important mediator that contributes to the firm's performance. It was found interesting that when trust acts as a mediator,

the influence of transformational leadership on firm' performance was insignificant.

7. Limitations and Suggestions for Future Research

The current research has achieved its aim and objectives, nevertheless, like any research studies this research has unavoidable limitations that need to be addressed. First, making any generalizations based on a sample of 226 participants is difficult. Furthermore, the participants are in one city of Saudi Arabia. One could argue with other employees from other economic cities for more robust and wide-ranging results. However, the validity of the statistical results is only possible with the actual associations within the data set. Thus, the findings of this research should be treated exclusively as an indication of a specific situation and cultural context. Further research could be conducted in neighbourhood countries (e.g., Arab Gulf Countries) to determine the association between variables, confirm these findings, and validate and extend our model used in this study.

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Appendix A: Variables Constructs

Dimension	Items (Variables)	Code	Source
Transformational Leadership	Our corporation's leaders communicate a clear and positive vision of the company's future.	TL 1	Carless, S. A., Wearing, A. J., & Mann, L. (2000)
	Our corporation's leaders treat staff as individuals and support and encourage their development.	TL 2	
	Our corporation's leaders give encouragement and recognition to staff.	TL3	
	Our corporation's leaders foster trust, involvement, and cooperation between team members.	TL4	
	Our corporation's leaders encourage thinking about problems in new ways and questions.	TL5	
	Our corporation's leaders are honest about their values and practice what they preach.	TL6	
	Our corporation's leaders instill pride and respect in others and inspire individuals by being highly competent.	TL7	
	Organizational Trust	I think management tells the truth in negotiations.	
I think management meets its negotiated obligations to our department.		OT 2	
In my opinion, management is reliable.		OT 3	
I think that the people in management succeed by stepping on other people.		OT4	
I feel that management tries to get the upper hand.		OT 5	
I think that management takes advantage of our problems.		OT 6	
I feel that management negotiates with us honestly.		OT 7	
I feel that management will keep its word.		OT 8	
I think management does not mislead us.		OT 9	
I feel that management tries to get out of its commitments.		OT 10	
I feel that management negotiates joint expectations fairly.		OT11	
I feel that management takes advantage of people who are vulnerable		OT 12	
Firm Performance	Relative to our competitors, we have stronger growth in sales revenue.	Marketing performance	Hooley et al. (2005), Venkatraman & Ramanujam, (1986)
	Relative to our competitors, we have better ability to acquire new customers.	FP 1	
	Relative to our competitors, we have a greater market share.	FP 2	
	Relative to our competitors, we are able to increase sales to existing customers.	FP 3	
		FP 4	
	Relative to our competitors, we are more profitable.	Financial performance	
	Relative to our competitors, we have a better return on investment.	FP 5	
Relative to our competitors, we have better ability to reach financial goals.	FP 6		
	FP 7		