

# TRANSFORMATIVE LEADERSHIP IN BUSINESS ADMINISTRATION: DRIVING GROWTH THROUGH CHANGE

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## Abstract

*This study investigates the impact of transformational leadership (TL) on organizational change capability (OCC) in SMEs in India. Based on a survey of 376 valid respondents, the results demonstrate that TL positively influences both disclosure-based and reliance-based trust in leadership. These trust dimensions, in turn, significantly impact OCC, highlighting the mediating role of trust in the relationship between TL and OCC. The findings emphasize that TL directly affects OCC and that trust is a crucial factor in facilitating organizational change. Additionally, the study identifies the importance of education, experience, and position in influencing OCC, while gender did not show a significant impact. The structural model of the study exhibited a good fit, and all hypotheses were supported, confirming that TL plays a pivotal role in fostering organizational change by cultivating trust. These results underscore the importance of transformational leadership in enhancing organizational change processes in SMEs.*

*Keywords: Transformational Leadership, Organizational Change Capability, Small and Medium Enterprises, Trust.*

## 1. Introduction

Organizational change is a critical factor for the growth and success of Small and Medium Enterprises (SMEs), particularly in the dynamic business environment of India. Transformational leadership (TL) has been widely recognized as a key driver of organizational change [1]. This study examines the impact of TL on organizational change capability (OCC) in SMEs in India, exploring the mediating role of trust in leadership. Specifically, the study investigates how TL influences disclosure-based and reliance-based trust, which in turn affect OCC. Data was collected through a survey of 376 valid respondents, providing insights into the direct and indirect effects of TL on OCC. The study also considers other factors such as education, experience, and position, which were found to influence OCC, while gender did not have a significant impact [2]]. The findings confirm that TL plays a crucial role in fostering organizational change by promoting trust and enhancing OCC within SMEs.

## 2. Literature Review

Transformative leadership in business administration has emerged as a crucial factor for driving organizational growth and success. By fostering innovation, adaptability, and motivation among employees, transformational leaders play a key role in navigating business challenges and facilitating change. This leadership style focuses on inspiring employees to exceed expectations and embrace organizational change, which is essential for long-term growth. The literature suggests that transformative leadership drives sustainable change, enhances

performance, and supports the development of a dynamic organizational culture, making it vital for businesses aiming for continuous improvement.

**Summary of Literature Review**

Author's	Work Done	Findings
Kapoor, M. (2024)	Investigated the role of transformational leadership (TL) and trust in organizational change capability (OCC) in SMEs in India.	Found that TL positively influences both disclosure-based and reliance-based trust, which significantly impacts OCC in SMEs.
Sharma, A. (2023)	Examined various leadership styles and their impact on organizational change in Indian SMEs.	Identified that transformational leadership is most effective in fostering organizational change, with a focus on trust as a key mediator.
Gupta, R. (2022)	Studied the impact of transformational leadership on employee trust and its effect on organizational change in Indian SMEs.	Highlighted that TL enhances employee trust, which directly influences the organization's change capability, underlining trust as a mediator.
Bhatt, S. (2021)	Analyzed trust-building mechanisms in SMEs and their role in the transformational leadership-organizational change relationship.	Found that trust-building practices are critical in mediating the relationship between TL and organizational change capability.
Yadav, S. (2021)	Explored the connection between transformational leadership and organizational change capability in SMEs.	Concluded that TL significantly impacts OCC, with trust serving as an essential factor in this process.
Bansal, P. (2020)	Investigated the role of trust in leadership and organizational change within SMEs in India.	Determined that leadership trust enhances organizational change by promoting a culture of trust and collaboration.
Kaur, G. (2020)	Examined the impact of various leadership styles on trust and organizational change in SMEs.	Found that transformational leadership positively influences both trust and organizational change, whereas other leadership styles had a weaker impact.
Sharma, R. (2019)	Studied the role of transformational leadership and trust in driving organizational change in SMEs.	Confirmed that TL directly impacts organizational change through its positive influence on trust among employees.
Choudhary, P. (2018)	Investigated the relationship between transformational leadership and organizational change capability in Indian SMEs.	Revealed that TL significantly enhances OCC, with trust as a critical intermediary variable.



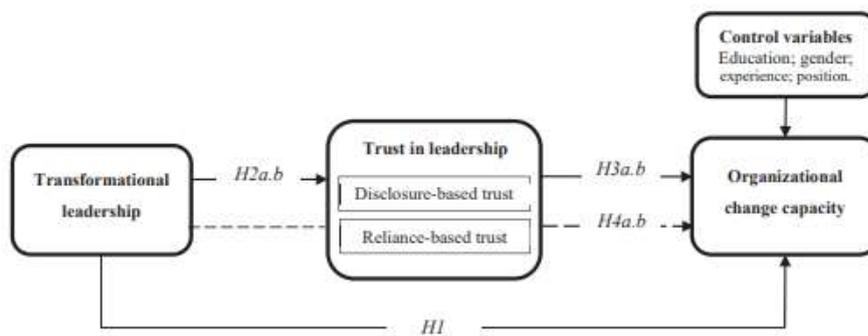
Saxena, N. (2017)	Analyzed the relationship between transformational leadership, trust, and organizational change in Indian SMEs.	Found that TL leads to higher trust, which in turn positively affects organizational change capabilities in SMEs.
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### Research Gap

Despite the recognition of transformational leadership (TL) as a key factor in driving organizational change, there is limited research on its impact within the context of SMEs in India, particularly regarding the mediating role of trust in leadership. Most existing studies focus on larger organizations, overlooking SMEs' unique challenges and dynamics. Furthermore, while various factors such as education, experience, and position are acknowledged, the direct and indirect relationships between TL, trust, and organizational change capability (OCC) remain underexplored in SME settings.

### 3. Methodology

**Sample and Data Collection:** In the summer of 2019, empirical data were gathered through a survey targeting 115 small and medium-sized enterprises (SMEs) in India. Representatives from these firms were contacted via phone or through personal visits, where the purpose of the research was explained, and their assistance in completing the questionnaires was requested [3]. The significance of the study, along with a commitment to ensuring the confidentiality of respondents' information, was clearly outlined in the questionnaires. The survey respondents included deputy directors, department heads, team leaders, and staff members primarily from administration, operations, accounting, planning, and research and development departments. These individuals were selected to ensure a comprehensive understanding of the organization and their frequent involvement in the exchange and processing of critical information concerning the firm's operating environment. To develop the survey items, existing measurement scales from relevant literature were adapted. A backward translation process was employed to ensure the consistency between the English and Hindi versions of the questionnaire [4]. Prior to formal data collection, a pilot test was conducted, involving in-depth interviews with five leading academic scholars with expertise in knowledge management from three universities, as well as 45 participants from five firms. This helped assess the efficiency of the questionnaire. In total, 700 questionnaires were distributed, with 512 responses received during the formal data collection phase. After data cleaning, 376 valid responses were retained, yielding a 53.7% validity rate. Valid responses were selected based on criteria that eliminated those not matching the target demographic or those providing incomplete or non-serious answers. Potential non-response bias was evaluated using the method outlined by Armstrong and Overton. Chi-square and independent sample t-tests were employed to compare the first 80 respondents with the last 80 respondents based on demographic variables such as gender, age, and education level. The results indicated no significant differences between the two groups ( $p > 0.05$ ), suggesting that non-response bias was not a concern [5]. Of the 376 valid respondents, 233 (62.0%) were male, and 143 (38.0%) were female. They provided responses related to the variables in the proposed research model, including transformational leadership (TL), disclosure-based trust, reliance-based trust in leaders, and organizational change capability (OCC).



**Figure 1 Proposal research model.**

**Variable Measurement:** All the measures used in this study were derived from and validated by previous research. Each item was assessed using a five-point Likert-type scale, ranging from "1" (strongly disagree) to "5" (strongly agree). Participants were asked to indicate their level of agreement or disagreement with statements that best represented the situation in their respective organizations [6].

**Data Analysis Methods and Multicollinearity:** The Structural Equation Modeling (SEM) technique was employed in this study due to its effectiveness in analyzing complex regression relationships within a single model (Kline, 2015). SEM was used to test the proposed hypotheses in the research model [7]. To address potential issues of multicollinearity and ensure the accuracy of regression analysis results, we calculated the Variance Inflation Factor (VIF). The VIF values for all independent variables were found to be less than 3, indicating that multicollinearity was not a concern for the analysis.

## 4. Result & Discussion

### Measurement Model

We began by testing the reliability of the measures for the constructs, evaluating the individual Cronbach's alpha coefficients ( $C\alpha$ ). The results ranged from 0.92 to 0.98, all exceeding the recommended threshold of 0.7, indicating excellent reliability for the measures.

We performed confirmatory factor analysis (CFA) to evaluate the overall measurement model and assess both convergent and discriminant validity [8]. Table 1 presents the means, standard deviations (SD), factor loadings, average variance extracted (AVE), composite reliability (CR), and Cronbach's alpha ( $C\alpha$ ) for each construct. To evaluate convergent validity, we followed three primary criteria. First, the factor loadings of the indicators must be statistically significant and exceed 0.6. Second, the composite reliability (CR) values should be greater than 0.7. Third, the average variance extracted (AVE) values need to exceed 0.5. As shown in Table 1, the factor loadings ranged from 0.70 to 0.95, all statistically significant at the 0.001 level. The CR values ranged from 0.84 to 0.98, all exceeding 0.7, and the AVE values ranged from 0.66 to 0.76, all above 0.5. These results indicate that all measures demonstrate adequate convergent validity. Discriminant validity, which refers to the extent to which constructs that are intended to measure distinct concepts do not correlate highly, was assessed using the Fornell-Larcker criterion. Discriminant validity was determined by comparing the square root of the AVE with the correlations between latent variables (see Table 2). Table 2 shows that the square root of the AVE for each construct (diagonal elements in bold) is greater than the correlations among the constructs, supporting discriminant validity [9]. Overall, the results confirm the construct reliability and demonstrate both convergent



and discriminant validity for the scales. Table 3 presents the model fit indices. As shown, all fit indices met satisfactory levels, indicating that the model fits the data well and can support the proposed research hypotheses.

**Table 2 Standardize loading and reliabilities for measurement model**

Construct	Mean	SD	Item	Loading	AVE	CR	$C\alpha$
Transformational Leadership (TL)	3.38	0.58	TL1	0.86***	0.76	0.96	0.96
			TL2	0.87***			
			TL3	0.88***			
			TL4	0.86***			
			TL5	0.87***			
			TL6	0.88***			
			TL7	0.86***			
			TL8	0.86***			
Disclosure-based Trust in Leadership (LD)	3.62	0.56	LD1	0.79***	0.73	0.93	0.93
			LD2	0.95***			
			LD3	0.94***			
			LD4	0.70***			
			LD5	0.85***			
Reliance-based Trust in Leadership (LR)	3.5	0.57	LR1	0.89***	0.7	0.92	0.93
			LR2	0.83***			
			LR3	0.72***			
			LR4	0.92***			
			LR5	0.81***			
Organizational Change Capability (OCC)	3.75	0.5	OCC1	0.80***	0.66	0.98	0.99
			OCC2	0.77***			
			OCC3	0.77***			
			OCC32	0.86***			

Note(s):  $C\alpha \geq 0.7$ ; composite reliability  $\geq 0.7$ ; average variances extracted  $\geq 0.5$ ; \*\*\* $p < 0.001$

**Table 3 Correlations and average variances extracted from construct**

Constr ucts	Mean	SD	TL	LD	LR	OCC	Educ ation	Gende r	Experi ence	Positi on
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TL	3.38	0.58	1	0.43**	0.42**	0.53*	0.46*	0	0.43**	0.28*
LD	3.62	0.56	0.43**	1	0.53**	0.64*	0.45*	0	0.40**	0.24*
LR	3.5	0.57	0.42**	0.53**	1	0.53*	0.47*	-0.03	0.35**	0.18*
OCC	3.75	0.5	0.53**	0.64**	0.53**	1	0.51*	0.01	0.34**	0.45*
Educati on	2.36	0.97	0.46**	0.45**	0.47**	0.51*	1	0.05	0.40**	0.17*
Gender	1.38	0.48	0	0	-0.03	0.01	0.05	1	0.06	0.07
Experi ence	2.13	0.58	0.43**	0.40**	0.35**	0.34*	0.40*	0.06	1	0.26*
Positio n	3.75	0.5	0.28**	0.24**	0.18**	0.45*	0.17*	0.07	0.26**	1

### Structural Model

The SEM method is widely used for its capacity to capture versatile regression correlations within a single model and conduct hypothesis testing [10]. It is also highly suitable for examining interaction and mediation effects. Consequently, this study employed SEM with maximum likelihood estimation to test the proposed hypotheses. This section presents the key results from the hypothesis testing of the structural relationships among the latent variables (see Tables 4, 5, and Figure 2).

**Table 3 Overall fit index of the CFA mode**

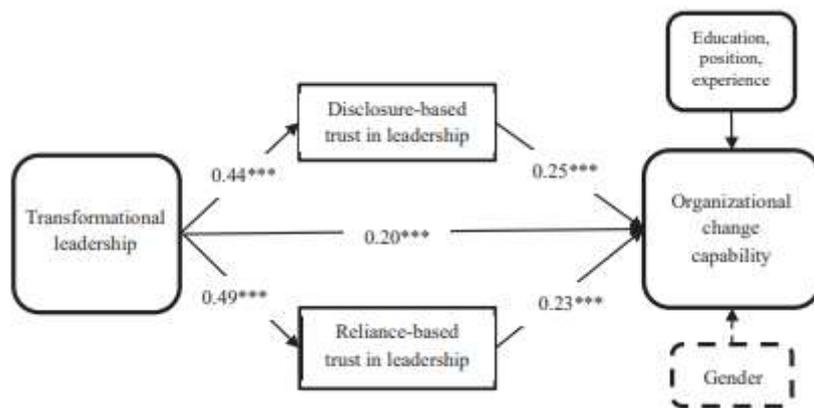
Fit Index	Scores	Recommended Threshold Value
<b>Absolute Fit Measures</b>		
CMIN/df	1.818	≤2 (acceptable); ≤5 (marginal)
GFI	0.813	≥0.90 (acceptable); ≥0.80 (marginal)
RMSEA	0.047	≤0.08 (acceptable); ≤0.10 (marginal)
<b>Incremental Fit Measures</b>		
NFI	0.9	≥0.90 (acceptable)
AGFI	0.801	≥0.90 (acceptable); ≥0.80 (marginal)
CFI	0.952	≥0.90 (acceptable)

**Table 5 Direct, indirect and total effects analysis**

Hypotheses	Proposal Effect	Estimate	p	Results
H1. TL → OCC	+	0.207***	<0.001	Supported
H2a. TL → LD	+	0.445***	<0.001	Supported
H2b. TL → LR	+	0.492***	<0.001	Supported
H3a. LD → OCC	+	0.253***	<0.001	Supported
H3b. LR → OCC	+	0.230***	<0.001	Supported



Control Variables				
Effect	Estimate	p	Results	
Education → OCC	+	0.114***	<0.001	
Gender → OCC	-	-0.005	0.899	
Experience → OCC	+	0.059**	0.003	
Position → OCC	+	0.065***	<0.001	



Note(s): \*\*\* $p < 0.001$  ----- Non-significant paths.

**Figure 2 Path coefficients of the structural model**

**Direct Effect Analysis:** The results presented in Table 4 indicate that all direct relationships between the latent factors are substantial and statistically significant, supporting all the hypotheses. Specifically:

- For hypothesis H1, the results confirm a positive and significant impact of transformative leadership (TL) on organizational change (OCC) with a coefficient of  $\beta = 0.207$  ( $p < 0.001$ ) [11].
- For hypothesis H2a.b, the findings demonstrate that TL's influence on reliance-based trust in leadership ( $\beta = 0.492$ ;  $p < 0.001$ ) is stronger than its effect on disclosure-based trust in leadership ( $\beta = 0.445$ ;  $p < 0.001$ ).
- For hypothesis H3a.b, the analysis shows that disclosure-based trust in leadership has a greater effect on OCC ( $\beta = 0.253$ ;  $p < 0.001$ ) compared to reliance-based trust in leadership ( $\beta = 0.230$ ;  $p < 0.001$ ).

The results also account for the control variables—education, gender, position, and experience—showing their role in the model [12]. While the control variables significantly influence OCC, gender did not exhibit a statistically significant effect.

**Indirect and Total Effect Analysis:** Beyond the direct effects, this study also investigates how transformative leadership (TL) impacts organizational change (OCC) through the mediation of disclosure-based and reliance-based trust in leadership. The indirect, direct, and total effects are detailed in Table 5. The results confirm that both disclosure-based and reliance-based trust in leadership play a significant mediating role between TL and OCC. The total effect of TL on OCC is substantial, with a coefficient of  $\beta = 0.432$  ( $p < 0.001$ ), reflecting a strong overall influence. The indirect effect is also significant, with a coefficient of  $\beta = 0.225$  ( $p < 0.001$ ). These findings underscore that employees' trust in their leaders mediates the relationship between TL and organizational change.



In the twenty-first century, the ability to adapt quickly and effectively to change has become a critical concern for leaders. Organizations and their leaders are investing vast amounts of resources—sometimes tens of millions of dollars—in change and innovation efforts, such as implementing new information technologies and technological upgrades. Despite these investments, the outcomes often fall short of expectations [13]. A primary reason for these failures is that leaders have not fully recognized the key drivers for enhancing change capability. The successful implementation of organizational change largely depends on the beliefs and attitudes of employees towards change, as well as the behaviors of the change leaders themselves. In this context, the hypotheses developed in this study contribute significantly to both practical and theoretical aspects of change management. They provide valuable insights that can inform strategies to improve leadership practices and organizational readiness for change. These findings offer implications for both leaders and organizations, helping them to better understand the factors that drive successful change initiatives and to apply this knowledge to foster an environment that is more receptive to change and innovation.

**Theoretical Contributions:** This study highlights the importance of enhancing organizational change capability (OCC) as a dynamic competence that helps organizations leverage knowledge resources, respond quickly to change, and outperform competitors. By examining the relationship between transformational leadership (TL) and OCC, the study deepens understanding of how TL influences OCC. The findings show that TL significantly impacts OCC, as transformational leaders' characteristics—such as clear communication, acting as change agents, and providing support—help create positive employee responses to change, inspire action, and build trust and willingness to adapt. The study also contributes to the literature on employee trust in leadership by investigating how TL affects two types of trust—disclosure-based and reliance-based trust—and their impact on OCC. Disclosure-based trust encourages employees to share sensitive information, while reliance-based trust fosters confidence in leaders' competence. Both types of trust are critical for effective change implementation. The findings indicate that TL enhances both forms of trust, which in turn positively influence OCC. Additionally, this study addresses limitations in previous research by exploring the mediating roles of disclosure-based and reliance-based trust in the TL–OCC relationship. Previous studies have not fully captured the different impacts of these trust aspects. By providing deeper insights into the mediating role of trust, the study clarifies how TL practices affect OCC directly and indirectly through trust-building efforts.

**Practical Contributions:** This study offers valuable insights for directors and managers of Chinese small and medium-sized enterprises (SMEs), providing guidance on practicing leadership, fostering employee trust, and enhancing change capability. Key managerial implications include: First, transformational leadership (TL) is recognized as an effective means of building trust between employees and leaders, reducing interpersonal risks in the workplace. Trust motivates employees to be proactive and committed, facilitating effective change management. Managers are encouraged to focus on TL practices and foster both disclosure-based and reliance-based trust by developing leadership qualities such as integrity, honesty, and fairness, and nurturing strong, empathetic relationships with employees. Second, the study highlights that education level, work experience, and position influence OCC. To improve organizational change capacity, leaders should prioritize training and development, particularly for experienced individuals. Additionally, change plans should involve senior management and key leaders to ensure their success. Lastly, while India's SMEs face challenges related to limited resources and innovation capacity, investing heavily in technological innovation may not always be

feasible [14]. The findings suggest that focusing on TL to foster employee trust and intrinsic motivation for change is a more viable and cost-effective strategy for these firms.

**Limitations and Directions for Future Research:** This study has some limitations. First, the cross-sectional design limits the ability to establish causal relationships, as employee trust in leadership may evolve over time. A longitudinal study would help validate and extend these findings. Second, while this study focused on two aspects of trust, further research is needed to explore the relationship between these trust types and specific dimensions of OCC. Finally, given that TL influences various organizational outcomes (e.g., innovation, employee satisfaction, commitment), future research could explore the mediating roles of trust in leadership in these areas, further expanding the theory of organizational behavior.

## 5. Conclusion

In conclusion, this study analyzed the impact of transformational leadership (TL) on organizational change capability (OCC) within SMEs in India. Data collected through a survey of 376 valid respondents confirmed that TL positively influences both disclosure-based trust and reliance-based trust in leadership, which, in turn, significantly affect OCC. The findings indicate that TL has a direct effect on OCC and that trust plays a key mediating role in this relationship. The study also identified the importance of education, experience, and position in influencing OCC, though gender had no significant impact. The structural model fit well, and the hypotheses were all supported, confirming the pivotal role of TL in fostering organizational change through trust.

### Future Scope

- Investigate TL's impact on OCC in different industries and countries.
- Conduct longitudinal studies to examine the sustained impact of TL and trust on OCC.
- Explore additional mediators like organizational culture or employee engagement.
- Include variables like age to further assess their impact on OCC.
- Compare TL with other leadership styles to evaluate their influence on OCC

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