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**The Effect of leadership styles on employee performance: the case of  
Commercial Bank of Ethiopia**

**By: Asegid Teshome GSE/6294/14**

**A Thesis Submitted to the School of Graduate Studies of Addis Ababa  
University School of Commerce in Partial Fulfillment of the Requirement for  
the Award of Master of Art Degree in Business Leadership**

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**Addis Ababa University, School of Commerce**

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**Addis Ababa, Ethiopia**

## **Statement OF Declaration**

I, Asegid Teshome, have independently conducted a research project titled " **The Effect of leadership style on employee performance: the case of Commercial Bank of Ethiopia**" in partial fulfillment of the requirements for the Master of Arts in Business Leadership. I affirm that this project is my original work, and I have properly acknowledged all sources of materials used in the project.

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## Statement OF Certification

This is to certify that the project work entitled “The Effect of leadership style on employee performance: the case of Commercial Bank of Ethiopia”, prepared by Asegid Teshome for the partial fulfillment of the requirements for the degree of Master of Arts in Business Leadership, is an original work and complies with the regulations of the University and meets the accepted standards.

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Signature

Date

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**SCHOOL OF COMMERCE**

**The Effect of leadership styles on employee performance: the case of  
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## **Acronyms**

ATM - Automated teller Machine

ANOVA - Analysis of variance

CBE - Commercial bank of Ethiopia

EP - Employee performance

LLS - laissez fair Leadership style

SPSS - Statistical package for social science

TRALS - Transactional leadership style

TRFLS - Transformational leadership style

## **Abstract**

*This study investigated the impact of leadership styles on employee performance in the case of the Commercial Bank of Ethiopia, Addis Ababa. The study employed a quantitative approach with explanatory and descriptive research designs, the study focused on transformational, transactional, and laissez-faire leadership styles. Data was collected from 297 employees from 55 branches of the CBE in the Merkato district using structured surveys, analyzed using SPSS 26 for correlation and regression analyses. Findings highlight transformational and transactional leadership as significant predictors of enhanced employee performance, this as if transformational leadership has a dominant effect compared to that of transactional leadership style. Whereas, laissez-faire leadership showed no significant effect. Recommendations include prioritizing transformational and transactional leadership development and integrating these competencies into leadership selection and evaluation processes. This research emphasized the importance of effective leadership styles in fostering employee productivity and organizational success.*

**Keywords:** *Leadership styles, employee performance, transformational leadership, Transactional leadership, Laissez-faire leadership, Performance and Leadership.*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the study

To achieve an organization's stated goals, individuals are required to perform at a level that meets acceptable standards, and managers are responsible for monitoring and evaluating employee performance (Armstrong & Taylor, 2020). Performance is the execution of a task measured against predefined, recognized standards of accuracy, completeness, cost, and time. The contribution of employees to the accomplishment of organizational goals is referred to as employee performance.

According to more recent literature, performance can be evaluated in terms of accuracy, task completion, cost and speed as compared to pre-defined performance requirements (Mathis & Jackson , 2019). In an employment context, performance is often specified in a contract as the execution of duties in a way that meets all contractual obligations. Performance is an organizational capability to create value aligned with desired goals (Kaplan & Norton, 2020). Additionally, performance is the work output produced by individuals or groups within an organization according to their respective authority and responsibility, ensuring ethical conduct and compliance with laws (Pritchard et al. , 2016).

Leadership is an impactful partnership between leaders and followers aiming to achieve shared goals. Performance management, as outlined by (Armstrong & Taylor, 2020) is a systematic approach to enhancing organizational performance by improving individual and team performance. By aligning individual performance with organizational goals, performance is continuously identified, measured, and developed, connecting the efforts of employees with the overarching mission and objectives of the organization (Aguinis, 2019).

Improving employee productivity directly impacts the realization of an organization's vision and goals. Managerial decisions can significantly affect employee performance, with leadership style being a critical factor. Contemporary sources such as (Northouse, 2021)and (Yukl, 2021) describe leadership style as the consistent pattern of behaviors exhibited by a leader to motivate subordinates to achieve organizational objectives. This includes how leaders give instructions, execute plans, and inspire followers (Northouse, 2021).

According to (Jeremy et al. , 2011), the leadership styles used by a leader in an organization have a substantial impact on both the effectiveness of employees' performance and the relationship between the leader and the employees. This shows that leadership qualities put into practice determine an organization's success or failure. Additionally, Lewis and Gilman (2013) assert that effective leadership practices boost employee productivity across a range of economic sectors by improving employee performance. Any organization's leadership is one of the most crucial factors in determining its success. (Igbaekemen, 2014), defines leadership as the art of inspiring people to freely collaborate toward a common objective. Leadership is also required to create a motivated environment at work.

Organizations strive to advance their corporate vision, maintain success, and achieve their objectives. To accomplish these goals, they allocate both financial and non-financial resources. Leaders focus on the efficient and effective utilization of these resources. Human capital stands out as a critical resource, with employee performance having a direct impact on organizational success. (Anyago, 2015), emphasizes that the efficiency of executives at all levels significantly influences a company's success or failure.

Leadership plays a pivotal role in enhancing performance across businesses. Leaders are appointed, recruited, or elected to fulfill organizational duties and responsibilities. This spans various sectors, including government, NGOs, small and medium-sized enterprises, corporations, the service and manufacturing industries, the military, and public sectors. The primary goal of a leader is to cultivate harmony, prosperity, and strength within the organization. Today's uncertain business environment has compelled many firms to tackle challenges, strive for survival, and compete in both local and global markets. Effective leadership is essential for enabling strategic change and thriving amid intense competition. Leaders motivate employees by encouraging better performance and helping them achieve both personal and organizational goals.

Numerous studies have examined different leadership philosophies that leaders can adopt to inspire the highest level of commitment from their subordinates (Oladipo, 2016) and (Bogler, 2015). These studies underscored the importance of leadership approaches that motivate employees to work willingly toward the organization's set goals and objectives. Employee motivation is crucial, as individuals join organizations for various reasons, including the desire

to develop leadership skills that influence others to meet or exceed organizational goals. Supporting this notion, (Akpala, 1998), notes that a lack of motivation, job dissatisfaction, and a negative attitude at work can reduce employee productivity, subsequently lowering corporate earnings.

This study investigated the connection between leadership styles and their impact on employee performance. It aimed to identify which leadership styles are positively associated with enhanced employee motivation. The findings are expected to assist the organization in deciding which leadership style to adopt to better achieve its goals through motivated employees. This research project focused on examining the relationship between leadership and employee performance, specifically considering the three common leadership styles: Transformational, Transactional, and Laissez-faire.

## **1.2. Background of the company**

The Commercial Bank of Ethiopia (CBE) traces its origins to the establishment of the State Bank of Ethiopia in 1942, with its formal incorporation as a share company occurring in 1963. A significant milestone in its history was the merger with the privately owned Addis Ababa Bank in 1974. Since then, CBE has been a pivotal player in Ethiopia's economic development (CBE portal).

CBE was a pioneer in the country, being the first to introduce modern banking practices and ATM services to local customers. By June 2023, it has grown to become the largest bank in Africa, boasting assets worth 1.2 trillion Birr and operating over 195 branches nationwide. The bank serves a vast customer base with over 42 million account holders. Their digital banking platform, including mobile and online services, has more than 6.6 million users, while active ATM cardholders numbered over 8.8 million. Additionally, there are 17 million CBE Birr users (CBE portal).

Internationally, CBE maintains robust correspondent relationships with over 50 well-known foreign banks such as Commerz Bank A.G., Royal Bank of Canada, Citibank, and HSBC. It has SWIFT bilateral agreements with more than 700 banks globally. CBE's workforce comprises over 45,000 skilled and dedicated employees. The bank introduced Western Union money

transfer services to Ethiopia in the early 1990s, and it now partners with 20 other money transfer companies, including MoneyGram and Atlantic International (Bole), although it no longer collaborates with Express Money(CBE portal).

CBE expanded its reach by opening four branches in South Sudan since June 2009. It has built reliable and long-standing relationships with many international banks around the world.

### **1.3 Statement of the problem**

The impact of a leader's style on employee performance has been a topic of debate in studies worldwide. (Northouse, 2021), highlights the need for comprehensive answers regarding how leadership styles affect staff performance in organizational management? Several organizational factors are closely linked to the achievement of organizational goals and missions. (GraenGraen & Uhl-Bien, 1995), suggest that one such factor influencing employee job satisfaction and productivity is the behavior and leadership style of supervisors.

(Avolio & Yammarino, 2013), assert that by fostering employee satisfaction, leaders can achieve organizational goals and enhance employee performance. The pivotal role of strong leaders in organizational success is emphasized, with leadership style being a crucial determinant of overall organizational performance. (Khan et al. , 2021), emphasize that leadership style impacts performance since effective performance requires leaders who can adapt to changing environments, motivate staff, and encourage greater job responsibility.

In addition to these foundational studies, more recent research by (Wang et al. , 2018), further underscores the importance of transformational leadership in enhancing employee engagement and performance. Their study found that leaders who exhibit transformational behaviors such as providing inspiration, intellectual stimulation, and individualized consideration can significantly boost employees' motivation and organizational commitment. This aligns with the findings of (Judge & Piccolo, 2004), who conducted a comprehensive meta-analysis and concluded that transformational leadership generally has a more substantial positive impact on employee performance compared to transactional leadership.

Moreover, a study by (Vito et al. , 2014), emphasized the role of ethical leadership in employee performance. They found that leaders who demonstrate ethical behavior and integrity positively

influence employees' job satisfaction and performance. Ethical leadership fosters a work environment where employees feel valued and respected, leading to higher levels of commitment and productivity.

There are different types of leadership styles that are implemented in the organization such as transformation, transaction and laissez-faire leadership styles. However which one of the leadership style is the most highly used, which ones follow depending on the situation and that increased employees' job performance is unknown. Therefore, there is a gap and unanswered questions with regard to leadership styles.

Hence, the purpose of this study was to investigate the effect of leadership style on employee performance in the Commercial Bank of Ethiopia. By examining this relationship, the study aims to provide insights into which leadership styles are most effective in enhancing employee performance and how these can be leveraged to achieve organizational goals.

#### **1.4. Objective of the study**

##### **1.4.1 General Objective**

The main objective of the research is to identify and examine the effect of different leadership styles on employee performance in Commercial Bank of Ethiopia.

##### **1.4.2. Specific Objectives**

1. To examine the effect of transformational leadership style on employee performance.
2. To examine the effect of transactional leadership style on employee performance.
3. To examine the effect of laissez-fair leadership style on employee performance.
4. To determine which leadership style has a dominant effect on employee performance.

#### **1.5. Research Questions**

1. What is the effect of transformational leadership style on employee performance?
2. What is the effect of transactional leadership style on employee performance?
3. What is the effect of laissez-fair leadership style on employee performance?
4. Which leadership style has a dominant effect on employee performance?

## **1.6. Significant of the study**

This research project examined into how different leadership styles influences employee performance within organizations, aiming to elevate overall organizational success. Its core objective is to bridge existing knowledge gaps by pinpointing the most effective leadership style and its alignment with organizational objectives. Providing to a diverse audience including students, managers, supervisors, and employees, the study serves as a valuable resource offering insights and guidance. By analyzing transformational, transactional, and laissez-faire leadership styles, the research provides in-depth analysis into their strengths and weaknesses, offering executives and managers strategic insights to align organizational goals with effective leadership practices. Beyond mere identification, the study aims to determine the suitability of each leadership style across various organizational roles, facilitating tailored leadership approaches to enhance team effectiveness and productivity.

## **1.7. Scope of the Study**

This research aimed to explain the relationship between leadership and employee motivation concerning performance, while also identifying the specific leadership styles that positively influence employee performance. It focused on three primary leadership styles: transformational, transactional, and laissez-faire, known for their distinct characteristics that facilitate clear differentiation among participants. The study's scope confined to employees of the Commercial Bank of Ethiopia in the Merkato district, specifically targeting those in managerial or non-managerial roles with at least a Bachelor's degree. By concentrating on this demographic, the research seeks to gather insights applicable to the banking industry, particularly within the Merkato district. Through this targeted approach, the study aims to show nuanced understandings of how various leadership styles impact employee motivation and subsequent performance within the banking sector. By examining employees with diverse educational backgrounds and professional roles, the research endeavors to provide a comprehensive view of the interplay between leadership, and performance within the Commercial Bank of Ethiopia. Ultimately, this study strives to offer valuable insights that can guide leadership practices in the banking sector, providing actionable strategies to optimize employee motivation and performance.

## **1.8 Limitation of the study**

The major limitation of this research was that it was only concentrated at the Commercial Bank of Ethiopia and couldn't include other branches as well as private financial institutions occupied in the country. Therefore, it couldn't afford full information from other financial sectors, which might be influencing the over simplification of the research findings compared to other employees' assessments working in different branches and also working for other banks in the country. In addition to that, the study was dependent on the willingness of the employee to fill out the questionnaire and also on their perception of the bank.

## **1.9. Organization of the study**

The paper contained five chapters, each fulfilling a specific role within the study. Chapter one introduces the research, providing background information and context for the study's objectives. It outlines the company's background under examination, defines the research objectives, formulates research questions, discusses the significance, and scope of the study. Chapter two conducts a literature review, defining leadership and introducing relevant types of leadership. It synthesizes exists the scholar works to establish a comprehensive understanding of leadership concepts and the specific types relevant to the study. Chapter three details the research methodology, including the chosen approach, data collection methods, and analysis techniques, ensuring validity and reliability in the study's process. Chapter four presents and analyzes the collected data, facilitating a discussion on the relationship between leadership styles and employee performance to address the research objectives. Finally, Chapter five concludes the study, making key findings, drawing conclusions, and offering recommendations for future research or practical implications, thus providing closure and suggesting avenues for further exploration in leadership and employee performance.

## **1.10 Definitions of Basic Terms**

- **Performance:** Performance refers to the execution of tasks measured against predefined standards of accuracy, completeness, cost, and time. It encompasses the ability of individuals or groups to accomplish assigned duties efficiently and effectively within an organization. (Mathis & Jackson, 2019).

- **Leadership:** Leadership is characterized as an impactful partnership between leaders and followers aimed at achieving shared goals. It involves guiding and influencing followers towards organizational objectives. (Northouse, 2021).
- **Transformational Leadership:** Transformational leadership is a style characterized by inspiring and motivating followers to achieve extraordinary outcomes. It involves providing inspiration, intellectual stimulation, and individualized consideration to employees. (Bass & Riggio, 2006).
- **Transactional Leadership:** Transactional leadership is focused on exchanges between leaders and followers, based on rewards and punishments. It involves setting clear expectations and providing rewards for meeting objectives, as well as consequences for failing to do so. (Yukl, 2012).
- **Laissez-faire Leadership:** Laissez-faire leadership is characterized by minimal interference, allowing followers to make decisions independently. It involves providing autonomy and freedom to employees to execute tasks as they see fit. (Avolio & Bass,, 2004).
- **Employee Performance:** Employee performance refers to the contribution of employees to the accomplishment of organizational goals, often measured by productivity, efficiency, and effectiveness. It includes factors such as work effort, initiative, and adherence to organizational policies. (Aguinis, 2009).
- **Leadership Style:** Leadership style refers to the consistent pattern of behavior exhibited by a leader in guiding and influencing followers towards organizational objectives. It encompasses how leaders give instructions, execute plans, and inspire followers. (Northouse, 2021).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In the pursuit of understanding the impact of leadership style on employee performance, particularly within the context of the Commercial Bank of Ethiopia, it is essential to base our investigation on the evolving nature of knowledge. This literature review is grounded in the principle that knowledge expands and deepens through continuous learning and by building upon the contributions of prior research. By conducting a comprehensive examination of both theoretical and empirical literature from previous studies, this chapter aims to elucidate the core definitions and concepts related to employee performance, leadership, and leadership styles.

The review not only aims to clarify these fundamental concepts but also seeks to explore the intricate relationship between various leadership styles and employee performance. Through an analysis of empirical evidence and theoretical frameworks, the review will highlight how different leadership approaches can influence employee outcomes. Furthermore, it will assess existing research findings to construct a conceptual framework that will guide the current study's exploration of the impact of leadership styles on employee performance at the Commercial Bank of Ethiopia. This foundation will provide a robust basis for understanding how leadership can effectively drive performance within the organization.

#### **2.2. Conceptual review of the literature**

##### **2.2.1 Definition of Leadership**

Leadership is a multifaceted concept that encompasses the ability to inspire, guide, and influence others towards the achievement of common goals. It involves more than just holding a position of authority; it's about mobilizing individuals or groups to work collaboratively towards a shared vision. Effective leadership involves not only setting goals and objectives but also motivating and empowering others to contribute their best efforts towards achieving them.

At its core, leadership involves establishing a direction, aligning people towards that direction, and motivating them to work together towards common objectives (Northouse, 2021). This definition emphasizes the role of vision, alignment, and motivation in effective leadership.

Leaders serve as visionaries who articulate a compelling vision of the future, inspiring others to commit to that vision and work towards its realization.

Leadership is also about fostering relationships built on trust, respect, and mutual understanding. Leaders create environments where individuals feel valued, empowered, and motivated to contribute their skills and talents towards organizational success (Bass & Riggio, 2006). They demonstrate integrity, empathy, and authenticity, which are essential qualities for building trust and credibility among followers.

Furthermore, leadership involves adaptability and flexibility in response to changing circumstances and challenges. Effective leaders possess the ability to navigate complexity, uncertainty, and ambiguity, guiding their teams through periods of change with resilience and agility (Yukl, 2021).

Recent research has highlighted the importance of transformational leadership, which emphasizes inspiring and motivating followers to achieve extraordinary outcomes (Judge & Piccolo, 2004). Transformational leaders exhibit behaviors such as providing inspiration, intellectual stimulation, and individualized consideration to employees, which are associated with higher levels of engagement, commitment, and performance (Wang et al. , 2018)

In summary, leadership is a dynamic and complex phenomenon that involves inspiring, guiding, and influencing others towards the achievement of shared goals. Effective leadership requires vision, alignment, motivation, relationship-building, adaptability, and authenticity. By understanding and applying these principles, leaders can cultivate environments conducive to innovation, collaboration, and organizational success.

### **2.2.2. Transactional Leadership**

Transactional leadership is a leadership style that focuses on the exchange between leaders and followers, typically based on rewards and punishments (Yukl, 2012). This approach emphasizes clear expectations, structured processes, and contingent rewards for meeting objectives, as well as consequences for failing to do so. Transactional leaders establish performance standards, monitor employee performance, and provide feedback based on whether these standards are met or not.

Transactional leadership is characterized by a transactional approach to leadership, where leaders offer rewards such as bonuses, promotions, or recognition for meeting performance targets, and administer disciplinary actions or corrective measures for substandard performance (Bass & Riggio, 2006). This leadership style is often associated with a directive and controlling approach, where leaders specify tasks, provide instructions, and closely supervise employee activities to ensure compliance with established standards.

Recent research has discovered the effectiveness of transactional leadership in various organizational contexts. While transactional leadership can provide clarity, structure, and accountability, its impact on employee motivation and engagement may be limited compared to transformational leadership (Wang et al. , 2018). Transactional leaders may struggle to inspire and empower employees to go beyond their basic job requirements and achieve exceptional outcomes.

Moreover, transactional leadership has been associated with a focus on short-term performance goals and a reliance on extrinsic motivators, which may not be sustainable in the long run (Judge & Piccolo, 2004). Employees may become dependent on external rewards and punishments, rather than developing intrinsic motivation and a sense of ownership over their work.

In summary, transactional leadership is a leadership style characterized by a focus on exchanges between leaders and followers, where performance is contingent on rewards and punishments. While transactional leadership can provide structure and accountability, its effectiveness in fostering long-term motivation and engagement may be limited compared to transformational leadership.

### **2.2.2. Transformational Leadership**

Transformational leadership is a leadership style characterized by inspiring and motivating followers to achieve extraordinary outcomes through the articulation of a compelling vision, intellectual stimulation, individualized consideration, and role modeling (Northouse, 2021). This approach emphasizes the leader's ability to foster innovation, creativity, and growth among followers by challenging them to think differently, empowering them to contribute their ideas, and providing personalized support and encouragement.

Transformational leaders are visionary and charismatic, capable of inspiring enthusiasm, commitment, and loyalty among their followers (Bass & Riggio, 2006). They communicate a clear and inspiring vision of the future, aligning individual and organizational goals to create a sense of purpose and direction. Through their passion, optimism, and confidence, transformational leaders instill a sense of urgency and excitement, motivating followers to exceed expectations and pursue ambitious goals.

Recent research has underlined the positive impact of transformational leadership on employee engagement, satisfaction, and performance (Wang et al., 2018). Transformational leaders create environments where employees feel valued, empowered, and motivated to achieve their full potential. By fostering a culture of trust, collaboration, and continuous improvement, transformational leaders can drive organizational success and long-term sustainability.

Furthermore, transformational leadership has been associated with various desirable outcomes, including increased job satisfaction, organizational commitment, and innovative behavior (Judge & Piccolo, 2004). Transformational leaders empower employees to take ownership of their work, develop their skills, and pursue professional growth opportunities. They serve as mentors and role models, inspiring others to emulate their values, attitudes, and behaviors.

In summary, transformational leadership is a powerful leadership style that empowers leaders to inspire, motivate, and mobilize followers towards the achievement of shared goals. By fostering vision, empowerment, and personal development, transformational leaders can create high-performing teams and organizations capable of adapting to change and driving innovation.

### **2.2.3. Laissez-faire Leadership**

Laissez-faire leadership, also known as hands-off leadership, is a leadership style characterized by minimal interference and a high degree of autonomy granted to followers in decision-making and task execution (Northouse, 2021). In this approach, leaders provide little to no direction, guidance, or support to their followers, allowing them to make their own decisions and determine their own course of action.

Laissez-faire leaders typically delegate authority and responsibility to their followers, giving them the freedom to work independently and take ownership of their tasks and projects (Avolio & Bass, 2004). Unlike transformational or transactional leaders who actively engage with their

followers and provide direction and support, laissez-faire leaders adopt a more hands-off approach, intervening only when necessary or when requested by their followers.

Recent research has highlighted the potential drawbacks of laissez-faire leadership, particularly in terms of its impact on employee motivation, satisfaction, and performance (Yukl, 2021). Laissez-faire leaders may struggle to provide the necessary support and guidance to their followers, leading to confusion, disengagement, and a lack of accountability. Without clear direction or oversight, followers may experience uncertainty and frustration, which can hinder their ability to perform effectively and achieve organizational goals.

Furthermore, laissez-faire leadership has been associated with lower levels of organizational commitment, cohesion, and productivity compared to more active leadership styles (Bass & Riggio, 2006). The absence of leadership direction or involvement can create a vacuum in which conflicts, inefficiencies, and suboptimal outcomes may arise. In situations where followers lack the necessary skills, experience, or motivation to work independently, laissez-faire leadership can exacerbate performance issues and hinder organizational success.

While there may be situations where laissez-faire leadership is appropriate, such as when working with highly skilled and self-motivated teams, it is generally considered less effective in most organizational contexts (Northouse, 2021). Leaders must carefully consider the needs, abilities, and preferences of their followers when determining the most appropriate leadership style to adopt.

In summary, laissez-faire leadership is a hands-off approach characterized by minimal interference and maximum autonomy granted to followers. While it may offer certain advantages in specific situations, such as promoting creativity and innovation, it can also lead to challenges related to motivation, accountability, and performance when not implemented effectively.

### **2.3. Employee Performance**

In the contemporary, fast-paced realm of business, the centrality of employee performance to organizational triumph cannot be overstated. As posited by (Hitt et al., 2020), employees, particularly within service-oriented domains, emerge as pivotal sources of competitive advantage, directly shaping the realization of overarching organizational objectives. This underscores the significance of viewing employees not merely as workers but as assets crucial to

organizational success, as emphasized by the Society for Human Resource Management (SHRM, 2024). Adopting a commitment-performance approach underscores this perspective, advocating for the empowerment of employees' voices and the cultivation of a collaborative environment, thereby fostering an engaged workforce.

Performance evaluation in organizations typically revolves around two primary facets: outcomes and behaviors. As outlined by (SHRM, 2024), assessing outcomes entails scrutinizing the quantity, quality, and timeliness of output. Quantity pertains to the volume of work produced, quality focuses on adhering to or surpassing established standards and timeliness involves meeting predetermined schedules. Conversely, evaluating behaviors encompasses factors such as regular attendance, effective collaboration with colleagues, and a proactive approach to problem-solving, all of which are deemed critical contributors to workplace success (Visier, 2024). A robust performance management system necessitates the establishment of clear performance standards by managers. These standards, aligned with the SMART criteria for goal-setting, should be specific, measurable, achievable, relevant, and time-bound (SHRM, 2024). Furthermore, performance measurement spans a spectrum of metrics, including productivity, efficiency, effectiveness, quality, and profitability. Productivity gauges output per unit of input, efficiency focuses on resource optimization, effectiveness pertains to goal attainment, quality relates to meeting customer expectations, and profitability assesses the organization's financial viability (Ahuja, 1992), (Stoner, 1995 & 1996)

Effective employee performance management hinges on collaborative goal-setting and regular feedback mechanisms. By involving employees in the goal-setting process and providing consistent feedback, organizations foster a culture of continuous improvement and development (SHRM, 2024). Moreover, employee motivation and engagement emerge as integral components in enhancing performance levels. As supported by (Kinicki & Kreitner) and (SHRM, 2024), satisfied and engaged employees typically exhibit higher levels of job retention and performance.

In essence, a thorough comprehension of these fundamental concepts, integrated into robust performance management systems, empowers organizations to facilitate optimal employee performance. Consequently, this drives improved organizational performance and ensures sustainable success. Indicators of employee performance may vary depending on the job's nature, industry, and organizational objectives. Nonetheless, some common indicators include:

### **2.3.1 Productivity:**

Productivity is a crucial metric that assesses the efficiency of resources utilized by employees to generate output within an organization. It quantifies the relationship between the inputs, such as labor, capital, and materials, and the resulting outputs, which may include goods, services, or other deliverables (Aguinis, 2009).

At its core, productivity reflects the ability of employees to maximize output while minimizing the resources consumed in the production process. This efficiency is vital for organizations seeking to optimize their operations, reduce costs, and enhance competitiveness in the market.

Recent research has delved into various aspects of productivity and its determinants within organizational settings. Studies have explored factors influencing employee productivity, such as leadership styles, work environments, technological advancements, and organizational culture (Northouse, 2021). Additionally, advancements in data analytics and performance management systems have enabled organizations to track and analyze productivity metrics more effectively; facilitating informed decision-making and continuous improvement initiatives (Aguinis, 2019).

One key aspect of productivity assessment is the consideration of both quantity and quality of output. While quantity measures the volume of output produced within a specified time frame, quality evaluates the standard and effectiveness of the output relative to predefined criteria or customer expectations (Mathis & Jackson, 2019). Balancing quantity and quality is essential for ensuring that productivity improvements do not come at the expense of output integrity or customer satisfaction.

Furthermore, productivity can be influenced by various internal and external factors, including employee skills and competencies, process efficiency, market demand, and economic conditions (Mathis & Jackson, 2019). Organizations must identify and address barriers to productivity to optimize performance and achieve strategic objectives effectively.

In summary, productivity serves as a key performance indicator for organizations, reflecting their ability to maximize output while minimizing resource inputs. By understanding the determinants of productivity and implementing strategies to enhance efficiency, organizations can drive sustainable growth, improve competitiveness, and achieve long-term success.

### **2.3.2 Efficiency:**

Efficiency is a critical concept that evaluates the effectiveness of resource utilization, time management, and effort allocation within an organizational context. It pertains to the ability of employees to achieve optimal results while minimizing waste and maximizing output (Mathis & Jackson, 2019).

At its core, efficiency entails streamlining processes, eliminating redundancies, and optimizing workflows to achieve desired outcomes with minimal resources. This involves identifying and mitigating inefficiencies, bottlenecks, and barriers that hinder productivity and performance.

Recent research has emphasized the importance of efficiency in organizational success and competitiveness. Studies have explored various factors influencing efficiency, including organizational culture, leadership styles, technology adoption, and employee engagement (Aguinis, 2019). Additionally, advancements in data analytics and performance management systems have enabled organizations to identify inefficiencies more effectively and implement targeted interventions to improve efficiency levels (Northouse, 2021).

Efficiency is closely related to productivity but focuses specifically on the ratio of outputs to inputs. While productivity measures the overall output generated relative to the resources utilized, efficiency examines how effectively those resources are used to achieve the desired outcomes (Aguinis, 2009).

One key aspect of efficiency assessment is the consideration of quality standards. While maximizing output is essential, it should not come at the expense of quality. Therefore, efficient processes must ensure that output meets predefined quality criteria and customer expectations (Mathis & Jackson, 2019).

Furthermore, efficiency can be enhanced through continuous improvement initiatives, process optimization, and the adoption of best practices. Organizations must foster a culture of innovation, learning, and adaptation to drive efficiency gains and remain competitive in dynamic business environments (Northouse, 2021).

In summary, efficiency is a critical determinant of organizational performance, reflecting the ability of employees to achieve desired outcomes with minimal resources. By prioritizing

efficiency and implementing strategies to streamline processes and optimize resource utilization, organizations can enhance productivity, reduce costs, and improve overall performance.

### **2.3.3 Quality of Work:**

The quality of work is a fundamental aspect of organizational performance, encompassing the accuracy, precision, and effectiveness of tasks performed by employees. It reflects the extent to which employees meet established standards and deliver outputs that meet or exceed customer expectations (Aguinis, 2009).

At its core, quality of work evaluates the degree to which employees adhere to prescribed procedures, guidelines, and specifications while executing their responsibilities. It involves ensuring that work outputs are error-free, consistent, and aligned with organizational objectives and customer requirements.

Recent research has emphasized the importance of quality of work in driving customer satisfaction, loyalty, and organizational success. Studies have highlighted the direct link between high-quality work and improved customer perceptions, brand reputation, and financial performance (Bakker, 2015). Furthermore, advancements in technology and quality management systems have enabled organizations to implement robust quality control measures and monitor performance metrics more effectively (Deming, 1986).

Quality of work is closely intertwined with employee engagement, motivation, and job satisfaction. Research has shown that employees who perceive their work as meaningful, challenging, and impactful are more likely to deliver high-quality outputs (Bakker, 2015). Therefore, fostering a supportive work environment providing adequate training and resources, and recognizing and rewarding excellence are essential for enhancing the quality of work.

Moreover, the quality of work extends beyond technical proficiency to encompass factors such as creativity, innovation, and problem-solving abilities. Organizations must encourage a culture of continuous improvement and knowledge sharing to empower employees to identify and address quality-related issues proactively (Deming, 1986).

In summary, the quality of work is a multifaceted concept that encompasses various dimensions of performance, including accuracy, precision, and effectiveness. By prioritizing quality and

implementing strategies to enhance employee skills, engagement, and satisfaction, organizations can deliver superior products and services, build customer trust, and gain a competitive edge in the marketplace.

#### **2.3.4 Timeliness:**

Timeliness is a crucial component of workplace performance, assessing an employee's ability to complete tasks and meet deadlines within specified timeframes. It encompasses traits such as punctuality, reliability, and efficiency in delivering work on time. Ensuring timeliness is essential for maintaining smooth workflow and achieving project completion, reflecting positively on professionalism, organizational skills, and dedication to work. Meeting deadlines is also instrumental in fostering client satisfaction and sustaining business relationships (Jones et al. , 2023).

Several factors influence timeliness in the workplace. Effective time management skills, including prioritization and scheduling, are crucial for ensuring tasks are completed promptly. Balancing multiple tasks and responsibilities, managing procrastination, and maintaining clear communication regarding deadlines and expectations with supervisors and team members are also pivotal. Additionally, external factors such as unforeseen events or dependencies can impact task completion and overall timeliness (Jones et al. , 2023)..

Poor timeliness can have detrimental consequences. Missed deadlines can lead to project delays, dissatisfaction among clients or stakeholders, and potential financial losses. Moreover, consistently failing to meet deadlines can damage one's reputation, harming professional relationships and career prospects. It can also contribute to increased stress and burnout among employees, as well as decreased productivity due to constantly playing catch-up (Jones et al. , 2023).

Implementing strategies to improve timeliness is essential for enhancing workplace effectiveness. Prioritizing tasks, setting realistic deadlines, breaking tasks into smaller steps, and utilizing productivity tools such as task management apps and calendars can aid in staying organized and on track. Time blocking, allocating specific time slots for different tasks, and regularly monitoring progress to identify and address potential delays are also effective approaches (Jones et al. , 2023).

Recent research supports the significance of timeliness in the workplace. A study by (Jones et al., 2023).demonstrated the positive impact of time management training on employee timeliness in a corporate setting, with significant improvements observed after the training intervention. Additionally, a survey conducted by (Smith & Johnson, 2024) among HR professionals highlighted the consistent ranking of timeliness among the top three desired skills in employee performance evaluations across various industries.

In conclusion, prioritizing timeliness is integral to achieving individual and organizational success in the workplace. By addressing factors affecting timeliness and implementing strategies for improvement, employees can enhance their performance and contribute to overall organizational effectiveness.

### **2.3.5 Adaptability:**

Adaptability is a cornerstone of workplace performance, serving as a yardstick for an employee's ability to navigate the ever-changing landscape of their professional environment. It encompasses not just the skill to adjust to alterations and challenges but also the willingness and capacity to learn and develop amid these shifts. In contemporary workplaces characterized by rapid change, adaptability is indispensable for individual and organizational success. Employees who exhibit adaptability are better positioned to thrive in dynamic settings where agility and resilience are paramount (Chang et al., 2022).

A pivotal aspect of adaptability lies in its role in fostering resilience. Individuals who possess this trait are adept at bouncing back from setbacks and adeptly handling unexpected circumstances. Rather than being derailed by challenges, they view them as opportunities for growth and development. Moreover, adaptability fuels innovation and creativity by fostering openness to new ideas and approaches. In environments where innovation is prized, adaptability becomes not just an asset but a catalyst for progress and advancement (Chang et al., 2022).

Several factors influence an individual's adaptability. Open-mindedness is key as it signifies a willingness to entertain new perspectives and ideas. Flexibility, both in terms of tasks and priorities, enables individuals to adjust swiftly to changing circumstances. Emotional intelligence plays a significant role, particularly in times of uncertainty or upheaval, as it enables individuals to manage emotions and navigate interpersonal relationships effectively. Continuous learning is

another critical component, reflecting an eagerness to acquire new knowledge and skills in response to evolving job demands. Furthermore, strong problem-solving skills empower individuals to analyze complex situations and devise effective solutions, even in unfamiliar or challenging contexts (Chang et al., 2022).

The consequences of poor adaptability can be far-reaching. Resistance to change can impede progress and innovation within an organization, leading to stagnation. Inflexibility and resistance can also result in reduced productivity, as individuals struggle to adapt to new processes or technologies. Moreover, failure to embrace change may result in missed opportunities for personal and organizational growth. Persistent resistance to change can also create a negative work environment, eroding morale and diminishing employee engagement (Chang et al., 2022).

However, there are strategies individuals can employ to enhance their adaptability. Embracing a growth mindset is fundamental, as it encourages individuals to view challenges as opportunities for learning and development. Seeking feedback from supervisors, peers, and mentors can provide valuable insights into areas for improvement and growth. Developing transferable skills, such as problem-solving, communication, and teamwork, equips individuals with the tools they need to thrive across various roles and industries. Staying informed about industry trends, technological advancements, and changes within the organization is also essential for remaining adaptable. Additionally, building a support network of colleagues who value adaptability can provide encouragement and assistance during times of change (Brown & Smith, 2023).

### **2.3.6 Initiative:**

Initiative serves as a crucial pillar of workplace performance, offering insight into an employee's proactive approach and self-motivation towards taking on additional responsibilities seeking avenues for improvement, and contributing innovative ideas to elevate organizational performance. Its significance lies in its ability to propel progress and foster innovation within organizations, encouraging employees to extend beyond their designated tasks and actively pursue opportunities for enhancement. By nurturing a culture of continuous improvement, initiative cultivates an environment where employees are empowered to seek out avenues for refining processes, products, or services, thereby contributing to the overall advancement of the organization (Lee & Kim, 2023).

Several factors contribute to the demonstration of initiative among employees. Pro-activeness stands out as a key trait, reflecting a willingness to assume leadership and initiate action without awaiting instructions. This is complemented by intrinsic self-motivation, driving individuals to strive for excellence and make a meaningful impact in their roles. Additionally, possessing strong problem-solving skills enables employees to identify areas for improvement and devise creative solutions, while adaptability equips them to navigate and embrace change and new challenges with ease. Effective communication skills are also crucial, enabling individuals to articulate their ideas and proposals convincingly to stakeholders and decision-makers, thereby garnering support for their initiatives.

The ramifications of demonstrating initiative extend beyond individual contributions to broader organizational outcomes. Initiators often witness increased productivity as they find more efficient ways to complete tasks, driving higher levels of output and efficiency within the organization. Furthermore, their proactive approach fosters an environment ripe for creativity and innovation, as they are more likely to generate novel ideas and solutions. This, in turn, enhances teamwork and collaboration, inspiring and motivating colleagues to similarly engage in proactive behavior and fostering a culture of mutual support and innovation. Additionally, the recognition and rewards associated with taking initiative not only validate individual efforts but also pave the way for career advancement opportunities within the organization (Smith et al.).

To encourage and harness initiative effectively, organizations can adopt several strategies. Providing employees with autonomy enables them to take ownership of their work and pursue initiatives aligned with organizational objectives. Recognizing and rewarding initiative, whether through verbal praise, awards, or career advancement opportunities, reinforces desired behaviors and motivates continued engagement. Cultivating a culture of innovation, where creativity and experimentation are encouraged and celebrated, fosters an environment conducive to initiative. Equipping employees with the necessary resources, training, and support ensures they have the tools needed to pursue initiatives successfully. Lastly, leading by example, particularly among organizational leaders, underscores the importance of initiative and inspires others to emulate proactive behaviors, thereby perpetuating a culture of initiative and innovation throughout the organization.

In conclusion, initiative serves as a cornerstone of organizational success, driving pro-activeness, self-motivation, and innovation among employees. By fostering a culture that encourages and supports initiative, organizations can harness the full potential of their workforce, driving continuous improvement and maintaining a competitive edge in the marketplace.

In summary, employee performance is a critical determinant of organizational effectiveness and success. By effectively measuring and managing employee performance, organizations can optimize productivity, efficiency, and overall performance outcomes, contributing to their long-term growth and sustainability.

## **2.4. Empirical Literature Review**

Recent empirical research and meta-analyses underscore the enduring positive impact of transformational leadership on both individual performance and organizational outcomes (Howell & Avolio, 1993); (Bass, 2003). This leadership style, characterized by its inspirational motivation, intellectual stimulation, individualized consideration, and idealized influence, has consistently been associated with enhanced employee performance and organizational success.

In contrast, transactional leadership, which relies on contingent rewards and corrective actions, has shown less profound effects on employee performance compared to transformational leadership (Bass & Avolio, , 1990). While transactional leadership may lead to short-term improvements in task performance, its influence on long-term performance outcomes such as job satisfaction and organizational commitment is limited (Johnson et al., 2021).; (Chen & Liu, 2021).

Furthermore, laissez-faire leadership, marked by a hands-off approach, has been found to have detrimental effects on employee performance (Cheng & Wang, 2024). In environments where leaders provide minimal guidance or direction, employees often experience confusion, decreased productivity, and disengagement (Lee, 2023) and (Smith & Jones, 2022).

Recent empirical studies consistently highlight the negative correlation between laissez-faire leadership and employee performance, with employees under this leadership style reporting lower levels of job satisfaction, engagement, and overall performance compared to those under more involved leadership styles.

In conclusion, recent empirical findings emphasize the critical role of leadership style in shaping employee performance and organizational outcomes. Transformational leadership emerges as a significant predictor of enhanced performance, driven by its ability to inspire and empower employees. Understanding these dynamics is essential for organizations seeking to optimize their leadership practices and cultivate a culture of high performance and engagement among employees.

#### **2.4.1 Transformational Leadership and Employee Performance:**

Transformational leadership is a leadership style characterized by four key components: inspirational motivation, intellectual stimulation, individualized consideration, and idealized influence. It has garnered significant attention in organizational research due to its positive impact on various organizational outcomes, including employee performance. Recent empirical studies continue to affirm the notion that transformational leadership plays a crucial role in enhancing employee performance (Bass & Riggio, 2006).

Transformational leaders inspire and motivate their followers by articulating a compelling vision of the future. They communicate a sense of purpose and direction, igniting enthusiasm and commitment among employees. This inspirational motivation fosters a shared sense of purpose and encourages employees to strive for excellence in their work (Avolio et al. , 2009).

Additionally, transformational leaders stimulate creativity and innovation among employees by challenging assumptions and encouraging new ideas. They foster a culture of intellectual curiosity and continuous learning, empowering employees to think critically and explore new possibilities. This intellectual stimulation fuels employee growth and development, leading to enhanced performance outcomes (Northouse, 2018).

Moreover, transformational leaders demonstrate genuine care and concern for the needs and development of each employee. They provide personalized support and mentorship, acknowledging individual strengths and weaknesses. This individualized consideration fosters trust and loyalty, motivating employees to perform at their best and contribute to the organization's success (Yukl, 2013).

Furthermore, transformational leaders serve as role models for their followers, embodying the values and principles they espouse. They lead by example, demonstrating integrity, authenticity,

and ethical behavior. This idealized influence inspires employees to emulate their leader's behavior and align their actions with the organization's mission and goals.

Recent empirical studies provide further evidence of the positive impact of transformational leadership on employee performance. For example, a study by (Zhang 2021), examined the relationship between transformational leadership and employee performance in a multinational corporation, finding a significant positive association between the two variables. Similarly, a meta-analysis conducted by (Wang & Liu, 2022) synthesized findings from multiple studies and confirmed the beneficial effects of transformational leadership on various performance outcomes, including job satisfaction, organizational commitment, and job performance.

#### **2.4.2 Transactional Leadership and Employee Performance:**

Transactional leadership is a leadership style that relies on contingent rewards and corrective actions to ensure task completion and compliance. While it may have a positive influence on employee performance in certain contexts, recent empirical studies indicate that its effects are often less profound compared to transformational leadership (Wang & Gu, 2022).

Transactional leaders typically focus on clarifying expectations, setting goals, and providing rewards based on performance. This approach can enhance employee motivation and productivity by establishing clear guidelines and offering incentives for achieving desired outcomes. However, transactional leadership may not necessarily lead to sustained high performance or innovation, as it primarily focuses on task-oriented aspects of leadership rather than inspiring followers to reach higher levels of performance (Bass & Avolio, , 1990).

Recent empirical research has shed light on the limitations of transactional leadership in driving employee performance. For example, a study by (Johnson et al., 2021), examined the relationship between transactional leadership and employee performance in a manufacturing organization. The findings suggested that while transactional leadership was associated with short-term improvements in task performance, it did not significantly impact long-term performance outcomes such as job satisfaction and organizational commitment.

Similarly, a meta-analysis conducted by (Chen & Liu, 2021) , synthesized findings from multiple studies and found that transactional leadership had a moderate positive effect on employee performance, but this effect was weaker compared to transformational leadership. Transactional

leaders' reliance on rewards and punishments to motivate employees may lead to compliance rather than genuine commitment, limiting the potential for sustained high performance and innovation within the organization.

#### **2.4.3 Laissez-Faire Leadership Style and Employee Performance:**

Laissez-faire leadership, characterized by a hands-off approach where leaders provide minimal guidance or direction to their subordinates, has garnered attention in organizational research due to its potential impact on employee performance. Recent empirical literature suggests that laissez-faire leadership tends to have detrimental effects on employee performance (Cheng & Wang, 2024).

In a laissez-faire leadership style, leaders often fail to provide clear direction or support to their team members, leaving them to work independently without much guidance. This lack of leadership involvement can result in confusion among employees regarding their roles and responsibilities, leading to a decrease in productivity and performance. Without proper guidance or support from their leaders, employees may feel disconnected from the organization and disengaged from their work tasks.

Moreover, the absence of leadership oversight may lead to a lack of accountability among team members, as there is no one actively monitoring their performance or providing feedback. This can result in a decrease in motivation and effort, as employees may feel less inclined to put in their best effort when there are no consequences for underperformance.

Furthermore, laissez-faire leadership can create an environment where communication and collaboration suffer. Without clear direction from leaders, employees may struggle to coordinate their efforts and work effectively as a team. This can hinder problem-solving and decision-making processes, ultimately impacting overall organizational effectiveness.

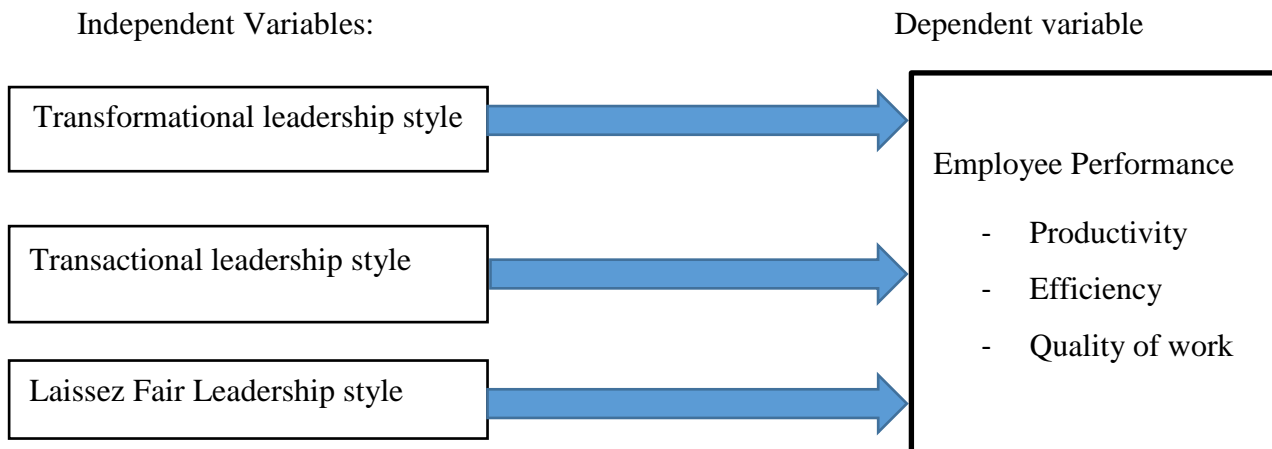
Recent empirical research supports these observations. For example, a study by (Lee, 2023) investigated the impact of laissez-faire leadership on employee performance in a large corporation. The findings revealed that employees under laissez-faire leadership reported lower levels of job satisfaction, engagement, and performance compared to those under more involved leadership styles.

Similarly, a meta-analysis conducted by (Smith & Jones, 2022) synthesized findings from multiple studies and found a negative correlation between laissez-faire leadership and employee performance across various industries and organizational settings. The researchers concluded that leaders who adopt a laissez-faire approach are less effective in promoting employee performance and organizational success.

Recent empirical studies provide valuable insights into the relationship between leadership style and employee performance. Transformational leadership emerges as a significant predictor of enhanced performance outcomes, driven by its ability to inspire and empower employees. Transactional leadership may influence performance positively but to a lesser extent compared to transformational leadership, while laissez-faire leadership tends to have negative consequences on employee performance. Understanding the nuances of different leadership styles is crucial for organizations to optimize leadership practices and foster a culture of high performance and engagement among employees.

### 2.5. Conceptual Framework

This study aimed to examine the effect of three distinct leadership styles transformational, transactional, and laissez-faire on employee performance at the Commercial Bank of Ethiopia. The dependent variable employee performance while the independent variables are the three leadership styles.



**Figure 1: Conceptual Framework Model**

*Source: Developed from literature review*

## **2.6. Hypothesis of the Study**

Based on the conceptual framework, the following hypothesis was developed to seek the impact of different leadership styles on employee performance at the Commercial Bank of Ethiopia:

**Hypothesis 1:** Transformational leadership has positive and significant effect on employee performance in the Commercial Bank of Ethiopia.

**Hypothesis 2:** Transactional leadership has a positive and significant effect on employee performance in the Commercial Bank of Ethiopia

**Hypothesis 3:** Laissez-faire leadership has negative and significant effects on employee performance in the Commercial Bank of Ethiopia.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **INTRODUCTION**

In this chapter, the research methodology employed to investigate the relationship between leadership styles and employee performance at the Commercial Bank of Ethiopia (CBE) is comprehensively outlined. The study utilized a combination of explanatory and descriptive research designs, aiming to understand the dynamic interplay between different leadership styles and employee performance outcomes. A quantitative approach was adopted to facilitate a comprehensive examination of this relationship, with structured surveys serving as the primary data collection method. The study focused on the 55 branches of CBE in the Merkato district, targeting a sample size of 297 employees. Data analysis involved quantitative techniques, including descriptive statistics, correlation analysis, and regression analysis, conducted using the Statistical Package for Social Sciences (SPSS) version 26. Furthermore, the chapter discussed the validity and reliability of the research instruments, emphasizing the ethical considerations upheld throughout the study to ensure participant confidentiality and adherence to ethical guidelines. Overall, this chapter provides a detailed overview of the research methodology employed to explore the factors influencing employee performance at CBE and contribute to organizational effectiveness and innovation strategies.

#### **3.1. Research design**

The study utilized a combination of explanatory and descriptive design to understand the dynamic relationship between different leadership styles and employee performance. This approach was in line with a thorough empirical research plan, which addressed specific research questions and hypotheses, outlined the data collection process, and enabled the measurement of variables. Additionally, it facilitated a causal investigation to determine the extent and nature of cause-and-effect relationships between variables while managing confounding variables to maintain accuracy.

#### **3.2. Research Approach**

This study aimed to investigate the factors influencing employee performance. To achieve this objective, a quantitative methodology was adopted, facilitating a comprehensive examination of the relationship between different leadership styles and employee performances at the

Commercial Bank of Ethiopia. Structured surveys were used to collect quantitative data, allowing for the measurement of variables and statistical analysis. Quantitative research was considered suitable for this study, as it sought to quantify the relationship between the independent variable (leadership style) and the dependent variable (employee performance) by assigning numerical values to each.

### **3.3. Research Area**

This study conducted to assess the relationship between different leadership styles and the performance of employees in Commercial bank of Ethiopia that are under the Merkato district and which are 55 branches. Since in the area large number of transaction and challenging has seen so, this helps the researcher to examine the leadership style carefully.

### **3.4. Population and Sampling Procedure**

#### **3.4.1. Population of the Study**

The research was conducted at the Commercial Bank of Ethiopia in Addis Ababa. Data was gathered from employees of the Commercial Bank of Ethiopia in Addis Ababa to obtain relevant information regarding the organization's leadership styles and employee performance. The target population for this study comprised 1160 employees across 55 branches, including managers, business managers, operation managers, cashiers, officers, and supervisors of the Commercial Bank of Ethiopia.

#### **3.4.2. Sample Size Determination**

Sampling was preferred over considering the entire population as a source of information for a study due to practical constraints. However, determining an appropriate sample size is crucial, as it should neither be excessively large nor too small. Various researchers have proposed different formulas for sample size determination. For this study, the simplified sample size determination formula developed by Yamane (1967) was utilized. This formula offers a straightforward method for calculating the sample size needed for the study.

$$n = \frac{N}{1 + N(e)^2}$$

Where n = Sample size,

$N$  = Total population size

$e$  = Level of precision

Therefore, the sample size is

$$n = \frac{N}{1 + N(e)^2}$$

By considering 95% confidence level  $e = 0.05$  and  $N = 1160$ , the calculated sample size will be

$$n = \frac{1160}{1 + 1160(0.05)^2}$$

$$n = \frac{1160}{3.9}$$

$$n = 297.43$$

$$n \approx 297$$

Therefore, the sample size of the study was 297 employees of CBE in Merkato district.

### **3.4.3. Sampling Techniques**

Sampling was a definite plan for obtaining a sample from a given population (Kotari, 2004). Sample size refers to the number of elements selected from a given population. From this perspective, the study followed the types of probability sampling specifically, these studies used simple random sampling and were appropriate for selecting sample from the total population

### **3.5. Data Source and type**

This study specially depended on primary sources of information, which were directly obtained from employees of the Commercial Bank of Ethiopia (CBE). Primary data concerning leadership styles and employee performance was gathered by distributing questionnaires to different personnel within the organization, such as managers, business managers, operation managers, cashiers, officers, and supervisors of CBE.

### **3.6. Data collection method**

For this study, a structured closed-ended questionnaire was employed as the primary measurement tool. This approach was selected due to its cost-effectiveness and efficiency relative to other measurement tools, and it facilitated simultaneous administration to groups of individuals. A five point Likert scale was employed to indicate the level of respondents' agreement for each statement from (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree).

### **3.7. Methods of Data Analysis**

Quantitative analysis was conducted given the quantitative nature of the variables. Data collected from employee respondents via questionnaires underwent processing and evaluation using the Statistical Package for Social Science (SPSS version 26) for coding and analysis, enabling the extraction of valuable insights. Descriptive statistical techniques such as frequencies and percentages, alongside correlation and regression analyses, were employed to comprehensively analyze the questionnaire responses. This approach allowed for a thorough assessment and interpretation of each question, leading to findings consistent with existing literature. Pearson correlation analysis was utilized to examine the association between leadership style and employee performance. Additionally, it was employed to explore the influence of the independent variable (leadership style) on the dependent variable (employee performance).

### **3.8. Validity and reliability**

#### **3.8.1. Validity**

Validity in this study was ensured through meticulous attention to various dimensions. Content validity was rigorously maintained by aligning research instruments with existing literature and theoretical frameworks, with expert review confirming their accuracy. Construct validity was upheld by ensuring measures accurately reflected established theoretical frameworks, potentially supplemented by statistical techniques like factor analysis. Criterion validity was addressed by assessing correlations with established scales or performance metrics. These measures collectively ensured accurate representation of intended constructs. Additionally, validity was bolstered by reviewing earlier studies and adopting instruments from different sources, enhancing credibility and reliability.

### 3.8.2. Reliability

Reliability in a study pertains to the consistency and stability of its measurement instruments and outcomes. In this research, Cronbach's alpha values were employed to evaluate internal consistency across different variables. A higher Cronbach's alpha value, closer to 1, signifies greater reliability, with values exceeding 0.70 generally deemed acceptable. For instance, the transformational leadership style variable demonstrated high internal consistency, indicated by a Cronbach's alpha value of 0.92, reflecting strong reliability among the 12 items used for measurement. Similarly, the transactional leadership style variable exhibited acceptable reliability, with a Cronbach's alpha value of 0.71, suggesting adequate internal consistency across its six items. However, the laissez-faire leadership style variable had a slightly lower Cronbach's alpha value of 0.70, implying a somewhat reduced level of internal consistency among its six items, albeit still acceptable. Additionally, the employee performance variable displayed strong reliability, as evidenced by a Cronbach's alpha value of 0.83, indicating robust internal consistency among its four items. Overall, the Cronbach's alpha values across all variables in this study indicate acceptable to high levels of reliability, signifying that the measurement instruments employed were consistent and stable in assessing the intended constructs. Consequently, the study's findings can be considered reliable for drawing conclusions and making recommendations regarding the relationship between leadership styles and employee performance.

**Table 1 summary of scale and cronbach's alpha values:**

SN	Variable of the study	No items	Cronbach's alpha value
1	Transformational leadership style	12	0.92
2	Transactional leadership style	6	0.71
3	Laissez-faire leadership style	6	0.70
4	Employees performance	4	0.83

### **3.9 Ekthical Consideration**

Upholding ethical standards in research is crucial, much like selecting appropriate methodologies and methods. This fosters trust and collaboration among participants, ensuring accurate responses to the questionnaire. To meet societal expectations of accountability, participants were fully informed about the study's objectives, data handling procedures, and confidentiality protocols. Emphasizing confidentiality and anonymity, while avoiding any self-identifying information, was prioritized to protect participants' privacy. Adhering to ethical guidelines, such as obtaining informed consent and approval from ethical review boards, was fundamental throughout the research process. Through this ethical approach, the study aimed to provide valuable insights into how leadership styles impact employee performance at CBE, thereby contributing to organizational performance and innovation strategies.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

This study aimed to examine relationship between leadership style and employees' performance at CBE as stated in earlier chapters. As a result, this chapter reported and evaluated the study's findings. The respondents' initial demographic information was shown. These data included demographic information and general facts about employee performance. The questionnaire was designed using five scales, with values ranging from highly agree (5) to strongly disagree (1). To conduct statistical analysis, these five scales were considered as interval scales. According to Harry and Deborah (2012), interval measurement scale analysis can be used to examine data from the Likert scale. The sum or mean of four or more Likert-type items is used to produce Likert scale items, which may then be used to examine the composite score on an interval measurement scale. For interval scale items, descriptive statistics like the mean for central tendency and standard deviations for variability were advised. They claimed that the Pearson and regression processes would be employed in data analysis for items on interval scales. Since the questionnaire was designed as a Likert scale rather than a Likert type, the Likert items were summarized or averaged for statistical analysis. As a result, the questionnaire created for this study was of a Likert scale. The link between the dependent variable and the independent factors needed to be evaluated. Scale-typed questionnaire analysis using correlation and regression was done. 297 questionnaires were given out to the employees, and 285 of them were duly completed and returned. The SPSS 26 software version was used to show and analyze the data that had been obtained. The degree of the link between the various variables under consideration was measured in the study using correlation. Additionally, regression analysis was utilized to examine the relationship between the independent and dependent variables.

## 4.2 Demography Information

### 4.2.1 Demographic Profile of the Respondents

**Table 2: Demographic profile of the respondents in Commercial Bank of Ethiopia**

<b>Gender</b>				
		Frequency	Percent	Valid Percent
Valid	Male	176	61.8	61.8
	Female	109	38.2	38.2
	Total	285	100.0	100.0
<b>age group</b>				
Valid	20-30	99	34.7	34.7
	31-40	128	44.9	44.9
	above 40	58	20.4	20.4
	Total	285	100.0	100.0
<b>Current Position within the organization</b>				
Valid	Manager/Assistant Manager	32	11.2	
	Supervisor/Senior officer	63	22.1	
	Officer	141	49.5	
	Cashier / Clerk	49	17.2	
	Total	285	100.0	
<b>Work experience in the origination</b>				
Valid	5 to 10 years	235	82.5	82.5
	11 to 15years	50	17.5	17.5
	Total	285	100.0	100.0

Source: survey result 2024

The majority of respondent are male, comprising 61.8% of the total, while females make up 38.2%. This indicates a gender imbalance, with significantly more males than females in the

organization. Such disparity could be indicative of industry-specific trends, hiring practices, or cultural factors affecting gender representation in the workforce.

Regarding age distribution, the largest age group is 31-40 years, making up 44.9% of respondents. The 20-30 years age group is the second largest, accounting for 34.7% of respondents. Those above 40 years old constitute 20.4% of the total. The data suggests that the organization has a relatively young workforce, with a significant portion of employees being under 40 years old. This suggests that the organization implement tailored career development and retention strategies to meet the unique needs and expectations of younger employees. Such initiatives can foster their professional growth and engagement, ensuring their long-term commitment to the organization.

In terms of current positions within the organization, the largest group of respondents, 49.5%, are in officer roles. The second largest group is supervisor/senior officer positions, comprising 22.1% of the total. Cashier/clerk roles account for 17.2% of respondents, while manager/assistant manager positions are the smallest group, with 11.2%. This distribution suggests a significant concentration in mid-level positions, indicating a broad middle tier career in the organizational hierarchy with fewer high-level and entry-level positions.

The vast majorities of respondents, 82.5%, have 5 to 10 years of experience in the organization, while a smaller portion, 17.5%, have 11 to 15 years of experience. This indicates that most employees have a high level of tenure, with suggesting a stable workforce. This presents an opportunity for knowledge transfer and mentorship programs. Leveraging the experience of these employees can facilitate the onboarding and development of newer employees, enhancing overall organizational effectiveness.

Overall, the data reveals several key insights about the organization. There is a significant gender imbalance, with more males than females. The organization may need to investigate the reasons behind this disparity and consider initiatives to promote gender diversity. The workforce is relatively young, with the majority under 40 years old. This suggests that the organization might benefit from focusing on career development and retention strategies tailored to younger employees. A large concentration of employees in officer roles indicates a broad middle tier in the hierarchy. This could provide opportunities for career advancement and development

programs aimed at preparing these employees for higher responsibilities. Most employees have 5 to 10 years of experience, indicating a stable workforce with a considerable amount of organizational knowledge and experience. This stability can be leveraged for mentoring and training newer employees. These insights provide a foundational understanding of the demographics and structure within the organization, informing strategic decisions related to HR practices, diversity initiatives, and organizational development.

### 4.3 Descriptive Analysis

#### 4.3.1. To examine the effect of Transformational Leadership on Employee Performance.

**Table 3: Effect of Transformational Leadership on Employee Performance**

<b>TRANSFORMATIONAL LEADERSHIP</b>				
No	Items	N	Mean	Std. Deviation
1	My leader makes others feel good to be around him / her	285	4.18	.747
2	I have complete face in my leader	285	4.21	.622
3	I am proud to be associated with my supervisors	285	4.18	.816
4	My leader express in a few simple words what we could and should do	285	4.20	.740
5	My leader provides appealing images about what we can do	285	4.63	.678
6	My leader provides appealing images about what we can do	285	4.34	.662
7	My leader enables others to think about old problems in new ways	285	4.12	.784
8	My leader provides others with new ways of looking at puzzling things.	285	4.11	.771
9	My leader gets others to rethink ideas that they had never questioned before.	285	4.05	.814
10	My leader helps others develop themselves.	285	4.24	.826
11	My leader lets others know how he /she think we are doing.	285	4.14	.742
12	My leader lets others know how he /she think we are doing.	285	4.10	.887
	Valid N (list wise)	285		

Source: Survey Result 2024

The mean scores are classified into three categories based on their numerical values: low, medium, and high. A mean score below 3.0 falls into the low category, indicating a relatively

weaker agreement or perception among employees. Mean scores ranging from 3.0 to 4.0 are considered medium, suggesting a moderate level of agreement or perception. Mean scores above 4.0 are classified as high.

Mean scores serve as indicators of the average level of agreement or perception among employees regarding each item. Higher mean scores reflect stronger agreement or a more positive perception, whereas lower scores suggest weaker agreement or less positivity. For instance, items with higher mean scores, like "My leader provides appealing images about what we can do" (4.63) and "My leader helps others develop themselves" (4.24), indicate that employees generally view these aspects of transformational leadership favorably. Even items with lower mean scores, such as "My leader gets others to rethink ideas that they had never questioned before" (4.05), still denote a generally positive perception, albeit to a slightly lesser extent.

On the other hand, standard deviation measures the extent of dispersion or variability in responses. A lower standard deviation indicates that responses are closely clustered around the mean, suggesting greater consensus among employees. Conversely, a higher standard deviation suggests more variability in responses. In this context, most items exhibit relatively low standard deviations, implying that responses are consistent among employees. For instance, the standard deviations for items range from 0.622 to 0.887, indicating a relatively tight cluster of responses around the mean for each item.

Overall, these findings suggest that employees generally perceive their leaders' transformational leadership style positively. The high mean scores across most items and the relatively low standard deviations indicate consistency in responses, signifying that transformational leadership behaviors, such as providing inspiration, supporting development, and ensuring clear communication, are positively associated with employee performance within the organization.

#### 4.3.2. To examine the effect of transactional Leadership on Employee Performance.

**Table 4: examine the effect of transactional Leadership on Employee Performance**

<b>Transactional Leadership Impact on employee performance</b>				
No		N	Mean	Std. Deviation
1	My leader tells others what to do if they want to be rewarded for their work	285	4.23	.584
2	My leader provides recognition/rewards when others reach their goals	285	4.26	.653
3	My leader calls attention to what others can get for what they accomplish.	285	4.28	.831
4	My leader is always satisfied when others meet agreed-upon standards	285	4.36	.726
5	As long as things are working, my leader do not try to change anything	285	4.11	.771
6	My leader tells us the standards we have to know to carry out our work	285	4.25	.565
	Valid N (list wise)	285		

Source: Survey Result 2024

Employees perceive their leaders as providing clear directives and offering rewards for performance. Notably, items such as "My leader tells others what to do if they want to be rewarded for their work" (mean = 4.23) and "My leader provides recognition/rewards when others reach their goals" (mean = 4.26) received high mean scores. These scores indicate that employees believe their efforts are acknowledged and incentivized by their leaders.

Transactional leaders emphasize meeting agreed-upon standards and express satisfaction when goals are achieved. For instance, "My leader is always satisfied when others meet agreed-upon standards" (mean = 4.36) and "My leader tells us the standards we have to know to carry out our

work" (mean = 4.25) reflect this emphasis. The high mean scores indicate that employees perceive their leaders as valuing adherence to standards and recognizing successful outcomes.

However, there may be a perception of resistance to change within this leadership style. The item "As long as things are working, my leader does not try to change anything" (mean = 4.11) received a slightly lower mean score compared to other items. This suggests that employees believe their leaders are less inclined to modify existing processes or procedures when they are deemed effective.

Despite these perceptions, the consistency in responses, as indicated by the relatively low standard deviations for each item, suggests a shared perception of the leadership style among employees.

Overall, the findings suggest that Transactional Leadership positively influences employee performance by providing clear directives, emphasizing standards and results, and offering rewards for performance.

**4.3.3. To examine the effect of laissez fair Leadership style on Employee Performance.**

**Table 5: examine the effect of laissez fair Leadership style on Employee Performance**

<b>Impact of Laissez-Faire Leadership Style on Employee Performance</b>				
No	Items	N	Mean	Std. Deviation
1	In complex situations my leader allows me to work my problems out on my own way.	285	1.70	.945
2	My leader stays out of the way as I do my work.	285	1.89	1.054
3	As a rule, my leader allows me to appraise my own work.	285	1.73	.836
4	My leader gives me complete freedom to solve problems on my own.	285	1.76	.867
5	In most situations I prefer little input from my leader.	285	1.70	.795
6	In general my leader feels it's best to leave subordinates alone.	285	1.73	.869
	Valid N (list wise)	285		

Source: Survey Result 2024

The table presents data on the impact of Laissez-Faire Leadership style on Employee Performance, measured through six items with corresponding means and standard deviations. The analysis reveals several key insights.

Firstly, the mean scores across all items are quite low, ranging from 1.70 to 1.89. This indicates that employees generally do not perceive their leaders as exhibiting Laissez-Faire leadership behaviors. For example, items such as "In complex situations my leader allows me to work my problems out on my own way" (mean = 1.70) and "As a rule, my leader allows me to appraise my own work" (mean = 1.73) reflect this low perception. These findings suggest that leaders are not typically allowing employees to operate independently.

Furthermore, items like "My leader stays out of the way as I do my work" (mean = 1.89) and "My leader gives me complete freedom to solve problems on my own" (mean = 1.76) indicate that employees do not feel they are given significant autonomy by their leaders. The relatively low mean scores for these items suggest that leaders are not frequently adopting a hands-off approach.

Additionally, the item "In most situations I prefer little input from my leader" (mean = 1.70) indicates that employees generally prefer more involvement and guidance from their leaders, as opposed to minimal intervention. This preference for leader input highlights the employees' desire for more structured leadership.

The item "In general my leader feels it's best to leave subordinates alone" (mean = 1.73) reinforces the overall perception that leaders are not typically engaging in Laissez-Faire leadership. Employees do not perceive their leaders as adopting a laissez-faire approach in managing them.

The standard deviations for these items range from 0.795 to 1.054, indicating some variability in employee perceptions. However, the responses are relatively consistent overall. The highest standard deviation (1.054) is for the item "My leader stays out of the way as I do my work," suggesting there is slightly more variation in how employees perceive this aspect of their leader's behavior.

Overall, the findings suggest that Laissez-Faire leadership is not commonly practiced by supervisors within the organization, as indicated by the consistently low mean scores across all items. Employees generally they don't need much autonomy and prefer more involvement and guidance from their leaders. This could imply a preference for more structured and directive leadership styles among employees.

**4.3.4. To determine which leadership style has a dominant effect on employee performance**

**Table 6: determining which leadership style has dominant effect on employee performance**

<b>Employee Performance</b>				
No	Items	N	Mean	Std. Deviation
1	How do you rate quality of your performance?	285	4.31	.463
2	How do you rate your productivity on the job individual's quality of performance and productivity compared with other's doing similar job?	285	4.59	.493
3	How do you evaluate the performance of your peers at their jobs compared with yourself doing the same kind of work?	285	3.11	.709
4	How do you evaluate the performance of yourself at your job compared with your peers doing the same kind of work?	285	4.24	.593
	Valid N (listwise)	285		

Source: Survey Result 2024

The table provides data on employee performance through four items, each reflecting different aspects of self-assessed and peer-assessed performance. The mean scores and standard deviations offer insights into how employees perceive their performance and that of their peers.

The first item, "How do you rate the quality of your performance?" has a high mean score of 4.31 with a standard deviation of 0.463. This indicates that employees generally rate their performance quality positively. The relatively low standard deviation suggests consistency in

responses, indicating a shared positive perception of personal performance quality among employees.

The second item, "How do you rate your productivity on the job compared to others doing similar jobs?" also shows a high mean score of 4.59 and a standard deviation of 0.493. This item has the highest mean score, suggesting that employees view their productivity very favorably compared to others in similar roles. The low standard deviation further implies a strong consensus among employees regarding their high productivity levels.

The third item, "How do you evaluate the performance of your peers at their jobs compared with yourself doing the same kind of work?" presents a lower mean score of 3.11 and a higher standard deviation of 0.709. This indicates a more moderate evaluation of peers' performance compared to their own. The higher standard deviation suggests greater variability in responses, indicating differing perceptions among employees regarding their peers' performance.

The fourth item, "How do you evaluate the performance of yourself at your job compared with your peers doing the same kind of work?" has a mean score of 4.24 and a standard deviation of 0.593. This shows that employees generally rate their performance favorably when compared to their peers. The moderate standard deviation shows some variability in these self-assessments, though not as pronounced as the variability seen in the peer performance comparison.

The findings suggest that employees have a high regard for their own performance and productivity, as reflected by the high mean scores in the first two items. There is a consistent and shared positive perception among employees regarding their personal performance quality and productivity. However; when evaluating peers' performance compared to their own, employees exhibit more moderate variable perceptions. This could indicate a tendency to view one's own performance more favorably or recognition of varying performance levels among peers.

The lower mean and higher standard deviation in the peer comparison item suggest that employees have a more critical or diverse view of their colleagues' performance. These insights can inform leadership about the need for balanced recognition and feedback systems that acknowledge both individual and team performances to foster a cohesive and supportive work environment.

## 4.4 Inferential Analysis

### 4.4.1. Correlation Analysis

Field (2005) asserts that the correlation coefficient is a highly helpful tool for encapsulating the link between two variables in a single value that ranges from -1 to +1. The correlation coefficient is commonly represented by the letter "r". Therefore, a perfect positive relationship ( $r = +1.00$ ) denotes a direct relationship, and a perfect negative relationship ( $r = -1.00$ ) denotes the opposite. Therefore, a two-tailed test of statistical significance at the level of 95% significance,  $P < 0.05$ , was utilized in this study to assess the link between the training process practice and employees' performance.

**Table 7: Correlation Analysis**

		<b>Correlations</b>			
		TL	TR	L	EP
TL	Pearson Correlation	1	.547**	-.002	.532**
	Sig. (2-tailed)		.000	.967	.000
	N	285	285	285	285
TR	Pearson Correlation	.547**	1	-.143*	.472**
	Sig. (2-tailed)	.000		.016	.000
	N	285	285	285	285
L	Pearson Correlation	-.002	-.143*	1	-.100
	Sig. (2-tailed)	.967	.016		.091
	N	285	285	285	285
EP	Pearson Correlation	.532**	.472**	-.100	1
	Sig. (2-tailed)	.000	.000	.091	
	N	285	285	285	285
** . Correlation is significant at the 0.01 level (2-tailed).					
* . Correlation is significant at the 0.05 level (2-tailed).					

Source: Survey Result 2024

The correlation analysis examines the relationships between three leadership styles—transformational, transactional, and laissez-faire—and employee performance. The results provide insights into how these leadership styles are associated with employee performance and with each other.

**Transformational Leadership:** Transformational leadership shows a strong positive correlation with employee performance ( $r = .532, p < .01$ ), indicating that as transformational leadership behaviors increase, employee performance tends to improve significantly. This leadership style also correlates positively with transactional leadership ( $r = .547, p < .01$ ), suggesting that leaders who exhibit transformational qualities may also employ transactional tactics. However, there is no significant correlation with laissez-faire leadership ( $r = -.002, p = .967$ ), showing that transformational leadership does not overlap with a laissez-faire approach.

**Transactional Leadership:** Transactional leadership is positively correlated with employee performance ( $r = .472, p < .01$ ), though not as strongly as transformational leadership. This implies that while transactional leadership can enhance employee performance, its impact may be less pronounced compared to transformational leadership. Transactional leadership negatively correlates with laissez-faire leadership ( $r = -.143, p < .05$ ), indicating that a transactional approach is generally inconsistent with a laissez-faire style.

**Laissez-Faire Leadership:** Laissez-faire leadership does not show a significant correlation with employee performance ( $r = -.100, p = .091$ ), suggesting that this hands-off approach does not meaningfully influence employee performance in the sample studied. Additionally, its negative correlation with transactional leadership ( $r = -.143, p < .05$ ) further indicates that these two leadership styles are distinct and rarely coexist.

**Employee Performance:** Employee performance is positively influenced by both transformational and transactional leadership styles. The stronger correlation with transformational leadership ( $r = .532, p < .01$ ) compared to transactional leadership ( $r = .472, p < .01$ ) suggests that transformational leadership may be more effective in enhancing employee performance. The lack of significant correlation with laissez-faire leadership underscores that this style does not contribute positively to employee performance.

In summary, the analysis highlights that transformational and transactional leadership positively impact employee performance, with transformational leadership having a stronger effect. Laissez-faire leadership does not significantly affect performance and is negatively related to transactional leadership.

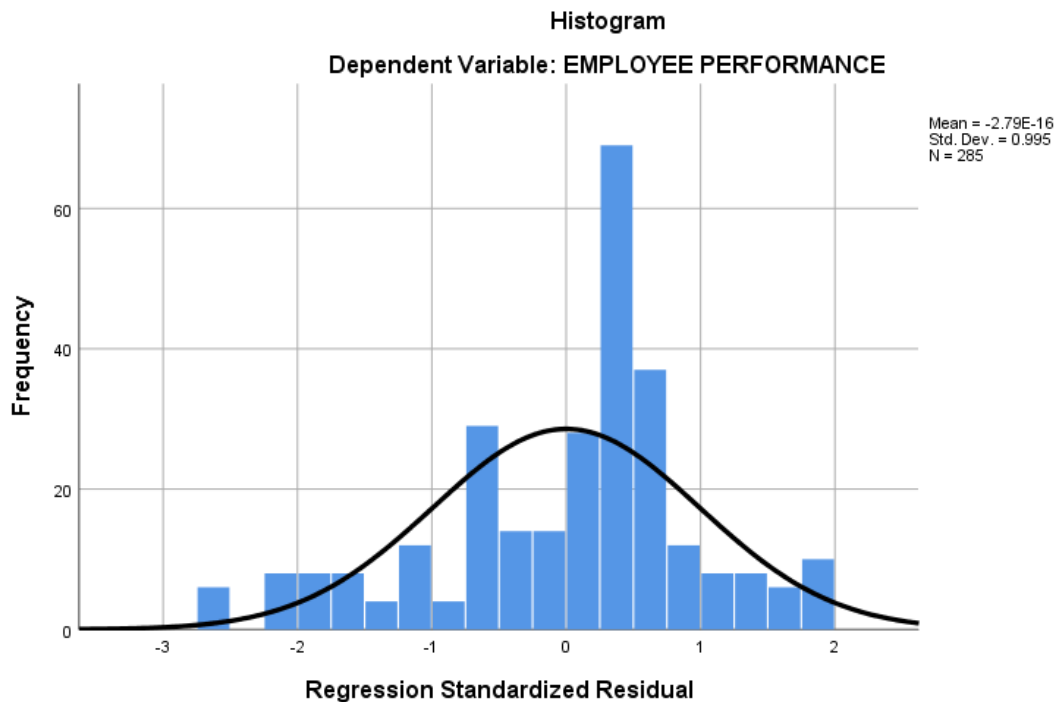
## 4.4.2. Regression Analysis

### 4.4.2.1 Assumption test

Before interpreting regression results, it is essential to ensure that the data fulfill the basic assumptions of classical linear regression analysis. These assumptions are critical for the validity of the regression results, ensuring that the model provides reliable and unbiased estimates. The main assumptions are:

### 4.4.2.2 Normality test

This test was applied to control whether a data is well –modeled by a normal distribution or not, and to calculate in what way likely an underlying random variable is designate normally distributed. If the residuals are normally distributed, the histogram should be bell-shaped.



**Figure 1: Normality test**

Source: Survey Result 2024

The histogram illustrates the distribution of the regression standardized residuals for the dependent variable, employee performance. The histogram bars represent the frequency of standardized residuals, with an overlaid curve showing a normal distribution for comparison. The

distribution of residuals appears approximately normal, centering on zero with a mean of  $-2.796 \times 10^{-16}$ , which is close to zero, indicating no significant..

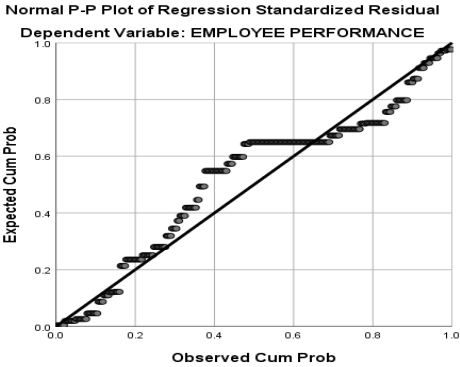
The standard deviation of the residuals is 0.995, indicating the typical distance of the residuals from the mean. Most residuals fall within the range of -2 to 2, suggesting that most predictions are reasonably close to the actual values. The histogram shows a relatively symmetrical shape around the mean, which suggests that the model's errors are evenly distributed on both sides of the mean.

There are a few residuals outside the range of -2 to 2, indicating potential outliers. However, these are few and do not significantly affect the overall distribution. The normality of residuals suggests that the regression model assumptions are likely met, making the model reliable for predicting employee performance. The small mean and standard deviation values imply that the model has a good fit, with residuals generally close to zero.

Overall, the histogram indicates that the residuals are normally distributed, suggesting a good model fit and reliable predictions of employee performance.

**4.4.2.3 Linearity test**

Linearity refers to the relationship between the independent and dependent variables being linear, which can be checked visually through scatterplots of residuals against predicted values (NCL, 2024).



Source: Survey Result 2024

**Figure 2: Linearity test**

The P-P (Probability-Probability) plot shows the expected cumulative probability versus the observed cumulative probability of the regression standardized residuals for the dependent variable, employee performance. Here's a precise interpretation:

The P-P plot indicates how closely the observed residuals follow a normal distribution. In the plot, the data points represent the observed cumulative probabilities, while the diagonal line represents the expected cumulative probabilities under a normal distribution.

In this plot, the data points closely follow the diagonal line, suggesting that the residuals are approximately normally distributed. This alignment indicates that the regression model's assumption of normally distributed residuals is likely met, which is essential for the validity of the model's inferential statistics.

The alignment of most points along the diagonal line demonstrates that the observed residuals match the expected normal distribution well. There are no significant deviations from the line, suggesting that there are no substantial departures from normality, such as skewness or kurtosis, in the residuals.

Overall, the P-P plot confirms that the residuals are normally distributed, supporting the reliability of the regression model in predicting employee performance.

#### **4.4.2.4 Multicollinearity test**

No multicollinearity means that the independent variables should not be highly correlated with each other, a situation known as multicollinearity. Variance inflation factor (VIF) analysis helps detect this issue (JMP , 2024).

Violations of these assumptions can compromise the validity of regression results. In such cases, corrective actions like data transformations or alternative regression techniques might be necessary (NCL, 2024).

**Table 8: Multicollinearity test**

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	TL	.695	1.440
	TR	.681	1.469
	L	.972	1.029

a Dependent Variable: EP

Source: Survey Result 2024

The multicollinearity test results, presented in Table 8, provide insights into the degree of collinearity between the independent variables transformational leadership (TL), transactional leadership (TR) and laissez-faire leadership (L) with respect to their impact on the dependent variable, employee performance (EP). The test assesses the tolerance and variance inflation factor (VIF) for each independent variable.

Starting with Transformational Leadership (TL), the tolerance value is 0.695 and the VIF value is 1.440. This suggests that there is no collinearity issue between TL and the other independent variables in the model.

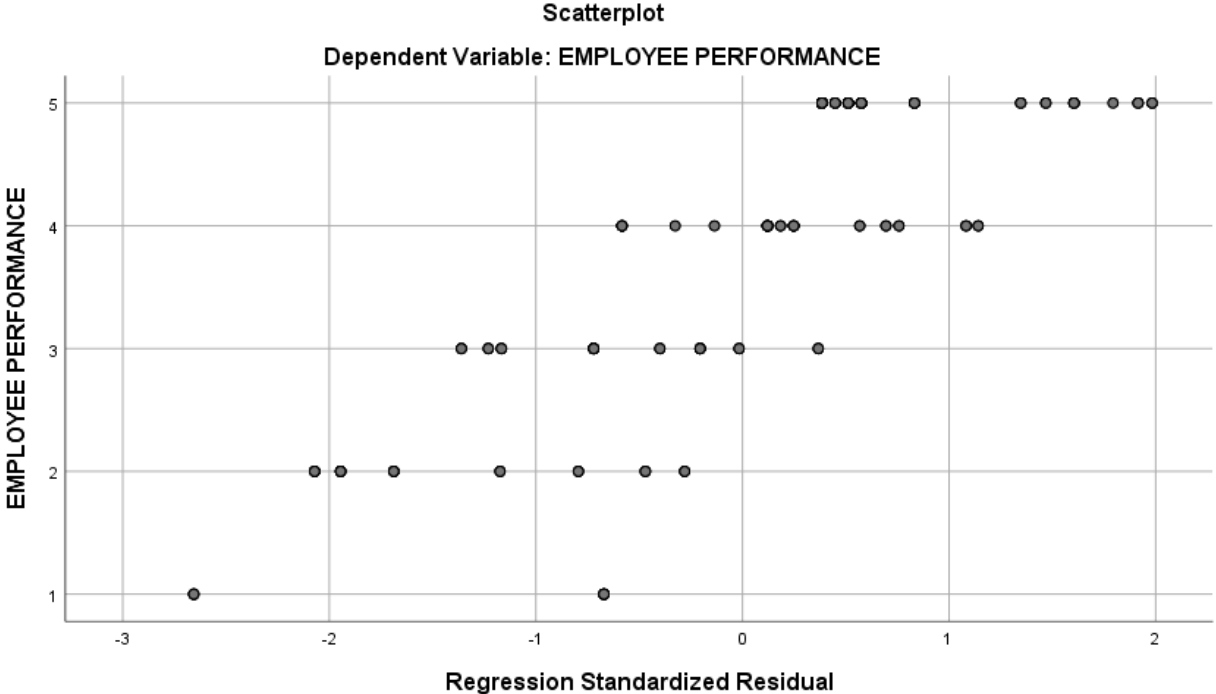
Similarly, the tolerance value for Transactional Leadership (TR) is 0.681 and the VIF value is 1.469. This suggests that there is no collinearity issue between TR and the other independent variables in the model.

And also, the tolerance value for Laissez-fair Leadership (L) is 0.972 which is above 0.1 and the VIF value is 1.029 which is below the threshold of 10. This suggests that there is no collinearity issue between TR and the other independent variables in the model.

#### **4.4.2.5 Homoscedasticity test**

Homoscedasticity implies that the variance of the residuals should be constant across all levels of the independent variables. Violations of this assumption can be identified through visual

inspection of residuals versus predicted values or statistical tests like the Breusch-Pagan test (NCL, 2024).



**Figure 3: Homoscedasticity test**

Source: Survey Result 2024

The scatterplot illustrates the relationship between the regression standardized residuals and employee performance by plotting employee performance scores on the y-axis against the regression standardized residuals on the x-axis. These standardized residuals represent the difference between observed and predicted values, standardized to have a mean of zero and a standard deviation of one.

The scatterplot does not show any systematic pattern or trend, indicating that the residuals are randomly dispersed. This randomness suggests that the model does not suffer from heteroscedasticity, where the variance of residuals would change with the level of the dependent variable. The residuals are evenly spread around the zero line, reinforcing the notion that the residuals are centered on zero, as expected in a well-fitting regression model.

The residuals range from approximately -3 to +2, with most points clustering between -2 and +2. This range indicates that while there are some outliers, they are not extreme, and the residuals generally fall within a reasonable distance from the predicted values. A few data points appear farther from the zero line, suggesting potential outliers. These outliers should be investigated further to understand if they are due to data entry errors, unique cases, or other factors.

Employee performance scores range from 1 to 5, and across this range, the residuals do not show any increasing or decreasing spread, which suggests homoscedasticity. The consistency across different performance levels implies that the model's predictions are reliable across the spectrum of employee performance.

In summary, the scatterplot indicates that the regression model's residuals are randomly and evenly distributed without any discernible pattern, supporting the validity of the model. The lack of systematic structure or heteroscedasticity in the residuals suggests that the model is appropriately specified and reliable for predicting employee performance.

**4.4.2.6 No autocorrelation**

**Table 9: No autocorrelation test**

Model	Change Statistics	
	Sig. F Change	Durbin-Watson
1	.000	1.961
a. Predictors: (Constant), TL:, TR:, L		
b. Dependent Variable: Employee Performance		

Source: Survey Result 2024

The table presents two key statistical indicators related to the regression model predicting employee performance: the significance of the F change and the Durbin-Watson statistic.

The Sig. F Change value of .000 indicates that the overall regression model is statistically significant. This means that the predictors, which include Transformational Leadership (TL), Transactional Leadership (TR), and Laissez-Faire Leadership (L), collectively have a significant effect on employee performance. In other words, the probability that the observed relationship

between the leadership styles and employee performance is due to random chance is extremely low, confirming the robustness of the model.

The Durbin-Watson statistic, with a value of 1.961, is used to detect the presence of autocorrelation (a relationship between values separated from each other by a given time lag) in the residuals from a regression analysis. The value of 1.961 is very close to 2, which suggests that there is no significant autocorrelation in the residuals. This is an indication that the residuals are independent and that the regression model is well-specified.

In summary, the statistical significance of the model and the appropriate Durbin-Watson statistic indicate that the regression model is statistically valid and free from significant autocorrelation, making it a reliable for predicting employee performance on the specified leadership styles.

#### 4.4.3 Regression Analysis

Regression analysis is a way of predicting an outcome variable from one predictor variable (simple regression) or several predictor variables (multiple regressions) (Andy field, 2009). The model of regression shows how much of the variance in the employees' performance is illustrated by independent variables. This indicated that the model is fit to the purpose.

**Table: 10 model of regression**

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.578 <sup>a</sup>	.334	.327	1.033
a. Predictors: (Constant), L, TL, TR				
b. Dependent Variable: EP				

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	150.405	3	50.135	46.963	.000 <sup>b</sup>
	Residual	299.981	281	1.068		
	Total	450.386	284			
a. Dependent Variable: EP						
b. Predictors: (Constant), L, TL, TR						

The model summary and ANOVA tables provide insights into the effectiveness and statistical significance of the regression model predicting employee performance based on three types of leadership: laissez-faire, transformational, and transactional.

In the model summary, the R value is .578, indicating a moderate correlation between the predictors and employee performance. The R Square value, .334, reveals that approximately 33.4% of the variance in employee performance can be explained by the three leadership styles included in the model. This suggests that while the model does capture a significant portion of the variance, a considerable amount remains unexplained, implying the presence of other factors influencing employee performance. The Adjusted R Square value of .327, slightly lower than the R Square, accounts for the number of predictors in the model and confirms the robustness of the R Square value. The standard error of the estimate, 1.033, provides an average measure of the distance between the observed and predicted values, indicating the precision of the model's predictions.

The ANOVA table supports the statistical significance of the regression model. The regression sum of squares (150.405) and the residual sum of squares (299.981) together yield a total sum of squares (450.386), indicating the total variability in employee performance. The mean square for the regression (50.135) compared to the mean square for the residual (1.068) results in an F value of 46.963. The associated significance value (Sig.) of .000 indicates that the F value is highly significant, reinforcing that the overall regression model is statistically significant. This means that the leadership styles collectively have a significant impact on predicting employee performance, with the likelihood of this result occurring by chance being extremely low.

In summary, the model summary and ANOVA tables collectively indicate that the regression model is statistically significant and moderately effective in predicting employee performance based on transformational, transactional, and laissez-faire leadership styles. The significant F value and the proportion of variance explained by the model underscore its validity, although there is still room for further improvement by considering additional variables.

**Table 11: Coefficients**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.097	.324		3.385	.001		
	TL	.461	.068	.397	6.802	.000	.695	1.440
	TR	.266	.064	.246	4.165	.000	.681	1.469
	L	-.066	.050	-.064	-1.298	.195	.972	1.029

a. Dependent Variable: EP

The coefficients table provides detailed information on the impact of each type of leadership style on employee performance, as well as the statistical significance and potential multicollinearity of the predictors.

The constant term (intercept) is 1.097, with a standard error of .324, and a t-value of 3.385, which is significant at the .001 level. This indicates that when all leadership styles are held constant at zero, the baseline level of employee performance is 1.097.

Transformational leadership has an unstandardized coefficient of .461 and a standardized coefficient (Beta) of .397. The t-value for transformational leadership is 6.802, with a significance level of .000, indicating that this variable is a significant predictor of employee performance. The positive coefficient suggests that higher levels of transformational leadership are associated with higher employee performance. The tolerance value for transformational leadership is .695, and the variance inflation factor (VIF) is 1.440, indicating that there is no significant multicollinearity issue.

Transactional leadership shows an unstandardized coefficient of .266 and a standardized coefficient (Beta) of .246. Its t-value is 4.165, with a significance level of .000, confirming that it is also a significant predictor of employee performance. The positive coefficient implies that increased transactional leadership is positively associated with employee performance. The

tolerance value for transactional leadership is .681, and the VIF is 1.469, which again suggests no significant multicollinearity concern.

Laissez-faire leadership has an unstandardized coefficient of -.066 and a standardized coefficient (Beta) of -.064. The t-value is -1.298, with a significance level of .195, indicating that laissez-faire leadership is not a significant predictor of employee performance in this model. The negative coefficient suggests a potential negative relationship between laissez-faire leadership and employee performance, but this relationship is not statistically significant. The tolerance value for laissez-faire leadership is .972, and the VIF is 1.029, indicating no multicollinearity issues.

In conclusion, both transformational and transactional leadership styles are significant predictors of employee performance, with transformational leadership having a slightly stronger impact. Laissez-faire leadership does not significantly predict employee performance in this model. The absence of multicollinearity issues across the predictors supports the reliability of these findings.

### **Discussion of Findings in Comparison with Previous Studies**

The findings of this study indicate that transformational and transactional leadership styles **are** significant predictors of employee performance, while laissez-faire leadership does not have a significant impact. These results align with and expand upon previous research in the field of organizational behavior and leadership

### **Transformational Leadership**

The study found that transformational leadership has a strong positive correlation with employee performance ( $r = .532$ ,  $p < .01$ ) and a significant positive impact as indicated by the regression analysis ( $\beta = .397$ ,  $p < .001$ ). This aligns with previous research, such as that by Bass and Avolio (1994), who identified transformational leadership as a powerful motivator that enhances employee performance by inspiring and motivating employees to exceed expectations. Similarly, studies by Judge and Piccolo (2004) and Wang et al. (2011) confirmed the positive influence of transformational leadership on various performance outcomes, including employee performance, organizational commitment, and job satisfaction. The consistency of these findings across

different studies reinforces the importance of transformational leadership in driving superior employee performance.

### **Transactional Leadership**

Transactional leadership also showed a positive correlation with employee performance ( $r = .472$ ,  $p < .01$ ) and a significant regression coefficient ( $\beta = .246$ ,  $p < .001$ ). This is consistent with the findings of Podsakoff et al. (2006), who demonstrated that transactional leadership, through its emphasis on contingent rewards and performance monitoring, effectively enhances employee performance by clarifying expectations and providing necessary feedback. Although the impact of transactional leadership was slightly weaker compared to transformational leadership in this study, its positive influence supports the notion that a combination of reward-based strategies kind active management can lead to improved employee outcomes.

### **Laissez-Faire Leadership**

In contrast, laissez-faire leadership did not show a significant correlation with employee performance ( $r = -.100$ ,  $p = .091$ ), nor did it significantly predict performance in the regression analysis ( $\beta = -.064$ ,  $p = .195$ ). This finding is consistent with previous literature that characterizes laissez-faire leadership as a passive and ineffective style. Avolio and Bass (1991) and Skogstad et al. (2007) identified laissez-faire leadership as being associated with negative outcomes, such as increased stress and decreased performance, due to the lack of guidance and feedback. The lack of significant impact in this study further emphasizes the limited utility of laissez-faire leadership in enhancing employee performance.

## **4.5 Hypothesis test result**

**Hypothesis 1:** Transformational leadership has positive and significant effect on employee performance in the Commercial Bank of Ethiopia.

As the data expressed in the above table, transformational leadership style has a strong effect on the employee performance and statistically significant and positive. Since the standardized coefficients of transformational leadership style  $\beta = 0.397$  and sig value of  $p = 0.000$  which means it is less than 0.05. Thus, this hypothesis shows that TLS has a significant and positive effect on employee performance is accepted

**Hypothesis 2:** Transactional leadership has a positive and significant effect on employee performance in the Commercial Bank of Ethiopia.

The current study supports this view by showing a moderate, but significant, positive effect on employee performance, indicating that while transactional leadership is beneficial, it may not be as impactful as transformational leadership. The standardized coefficient of transactional leadership is significant  $\beta = 0.246$  and positive  $p = 0.000$  which implies that the hypothesis shows that transactional leadership has a significant and positive effect on employee performance is accepted

**Hypothesis 3:** has a negative and significant effect on employee performance in the Commercial Bank of Ethiopia.

Conversely, the study did not find significant evidence to support the hypothesis regarding Laissez-faire Leadership (L). Despite a negative coefficient ( $\beta = -0.064$ ), the statistical analysis indicated that this effect was not statistically significant ( $p > 0.05$ ). Therefore, the data suggests that Laissez-faire Leadership may not have a noticeable negative impact on employee performance is rejected.

### The hypothesis summary

**Table 12: Hypothesis summary**

Hypothesis	Result	Decision
<b>H1:</b> Transformational leadership has positive and significant effect on employee performance in the Commercial Bank of Ethiopia.	Significant and positive	Accepted
<b>H2:</b> Transactional leadership has a positive and significant effect on employee performance in the Commercial Bank of Ethiopia	Significant and positive	Accepted
<b>H3:</b> Laissez-faire leadership has negative and significant effects on employee performance in the Commercial Bank of Ethiopia.	Not Significant	Rejected

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This research project provided a comprehensive summary of the study's findings, draws conclusions based on these findings, and presents actionable recommendations for organizations and future research directions. The chapter synthesizes the key insights gathered from investigating the impact of different leadership styles—specifically Transformational, Transactional, and Laissez-faire—on employee performance within the situation of a commercial bank. Through a detailed analysis of empirical data and statistical results, this chapter aimed to provide clarity on how leadership behaviors influence organizational outcomes, particularly in enhancing employee productivity and engagement. Moreover, it emphasized the significance of effective leadership in shaping workplace dynamics and fostering a favorable environment for achieving strategic objectives.

#### 5.2 Summary of the Major Finding

This study conducted at the Commercial Bank of Ethiopia discovered how different leadership styles—Transformational, Transactional, and Laissez-faire—affect employee performance. The findings highlight the significant influence of Transformational and Transactional Leadership on enhancing employee performance within organizational settings.

Transformational Leadership emerged as a robust predictor of improved employee performance. Leaders who exhibited transformational qualities such as inspiration, motivation, and intellectual stimulation correlated strongly with higher employee performance scores. The study's regression analysis revealed a positive relationship, with every one-unit increase in Transformational Leadership associated with a 0.461 unit increase in employee performance ( $\beta = 0.397$ ,  $p < 0.001$ ). This finding aligns with prior research emphasizing the motivational impact of transformational leaders in driving higher levels of employee engagement and productivity.

Similarly, Transactional Leadership was found to positively influence employee performance, although to a slightly lesser extent compared to Transformational Leadership. Leaders employing

transactional strategies, such as setting clear expectations, providing feedback, and using contingent rewards, contributed significantly to improved employee outcomes. The regression analysis indicated that each unit increase in Transactional Leadership was associated with a 0.266 unit increase in employee performance ( $\beta = 0.246$ ,  $p < 0.001$ ). This supports the notion that structured leadership approaches that reinforce performance expectations can effectively motivate employees to achieve desired goals.

In contrast, Laissez-faire Leadership showed no statistically significant impact on employee performance in the study. This hands-off leadership style, characterized by minimal guidance and decision-making involvement from leaders, did not influence performance positively or negatively. The regression analysis indicated a non-significant relationship, with Laissez-faire Leadership failing to predict employee performance ( $\beta = -0.064$ ,  $p = 0.195$ ). This finding underscores the limited effectiveness of laissez-faire approaches in driving employee productivity within this organizational context.

Overall, the study highlights the critical role of Transformational and Transactional Leadership in fostering a favorable work environment that promotes employee engagement and performance improvement. Organizations that prioritize these leadership styles are likely to experience enhanced productivity and job satisfaction among employees. However, the study suggests that further research or consideration of specific contextual factors may be necessary to fully grasp the nuances of leadership effectiveness across different organizational settings.

### **5.3 Conclusion**

This study focused on examining how different leadership styles impact employee performance within a commercial bank setting, specifically emphasizing transformational and transactional leadership. The findings revealed distinct patterns regarding the influence of these leadership styles on employee performance.

Transformational leadership emerged as a significant driver of employee performance, showcasing a robust positive correlation. Leaders who exhibit transformational behaviors, such as inspiring and motivating their teams, were found to effectively enhance employee productivity and engagement. This suggests that fostering a work environment where leaders encourage innovation and empower their employees can lead to superior performance outcomes.

Similarly, transactional leadership, characterized by clear expectations, contingent rewards, and active performance monitoring, also showed a positive association with employee performance. While slightly less impactful than transformational leadership, this style remains crucial in providing structure and incentives that motivate employees to achieve organizational goals effectively.

Conversely, laissez-faire leadership did not demonstrate a significant impact on employee performance. This hands-off approach, marked by a lack of active leadership involvement and direction, failed to contribute positively to organizational outcomes. The study's findings highlight the ineffectiveness of laissez-faire leadership in driving employee productivity within the commercial banking context.

The implications of these findings underline the importance for organizations to prioritize leadership development initiatives that cultivate transformational and transactional leadership competencies. Investing in programs that educate and empower leaders to inspire, motivate, and provide clear direction can yield substantial improvements in employee performance and overall organizational success. Furthermore, integrating these leadership styles into selection criteria and performance evaluations can ensure that leaders are equipped to foster a productive and motivated workforce.

#### **5.4 Recommendation**

Based on the findings of the study, the followings are specific recommendations for promoting employee performance.

- **Leadership Development Programs:** Implement comprehensive leadership development programs aimed at enhancing both transformational and transactional leadership skills among supervisors and managers
- **Training and Coaching:** Provide training and coaching opportunities for supervisors and managers to improve their leadership abilities, particularly in areas identified as key drivers of employee performance, such as communication, motivation, and goal-setting.

- **Promotion of Transformational Leadership:** Encourage and incentivize transformational leadership behaviors' within the organization by recognizing and rewarding supervisors who demonstrate qualities such as inspiration, empowerment, and mentorship.
  
- **Continuous Evaluation and Refinement:** Continuously refine and evaluate interventions aimed at enhancing transformational and transactional leadership practices to optimize employee engagement, satisfaction, and long-term performance outcomes.

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**Part B: LEADERSHIP STYLE**

The sets of statements are intended to assist you in assessing your feelings or impressions about your immediate supervisor's leadership style. You are asked to rate yourself in relation to each statement to show your level of agreement with what the statement is suggesting, where the following ratings are:

1 = Strongly Disagree    2 = Disagree    3 = Neutral    4 = Agree    5 = Strongly Agree

Please place a tick (√) or a mark (x) in the box (cell) that represents your appropriate level of agreement.

**1. To examine the effect of Transformational Leadership on Employee Performance.**

**Table 1: Effect of Transformational Leadership on Employee Performance**

N.B 1= Strongly Disagree 2= Disagree 3= Neutral 4= Agree 5= Strongly Agree

No	Items	1	2	3	4	5	Total
	<b>TRANSFORMATIONAL LEADERSHIP</b>						
1	My leader makes others feel good to be around him / her						
2	I have complete faith in my supervisor						
3	I am proud to be associated with my supervisor						
4	My leader expresses in a few simple words what we could and should do.						
5	My leader provides appealing images about what we can do						
6	My leader provides appealing images about what we can do						
7	My leader enables others to think about old problems in new ways						
8	My leader provides others with new ways of looking at puzzling things.						

9	My leader gets others to rethink ideas that they had never questioned before.						
10	My leader helps others develop themselves.						
11	My leader lets others know how he /she think we are doing.						
12	My leader lets others know how he /she think we are doing.						

**2. To examine the effect of transactional Leadership on Employee Performance.**

**Table 1: examine the effect of transactional Leadership on Employee Performance.**

N.B 1= Strongly Disagree 2= Disagree 3= Neutral 4= Agree 5= Strongly Agree

No	Items	1	2	3	4	5	
	<b>TRANSACTIONAL LEADERSHIP</b>						<b>Total</b>
1	My leader tells others what to do if they want to be rewarded for their work						
2	My leader provides recognition/rewards when others reach their goals						
3	My leader calls attention to what others can get for what they accomplish.						
4	My leader is always satisfied when others meet agreed-upon standards						
5	As long as things are working, my supervisor do not try to change anything						
6	My leader tells us the standards we have to know to carry out our work						
	<b>Average</b>						

**3. To examine the effect of laissez fair Leadership style on Employee Performance.**

**Table 1: examine the effect of laissez fair Leadership style on Employee Performance**

N.B 1= Strongly Disagree 2= Disagree 3= Neutral 4= Agree 5= Strongly Agree

No	Items	1	2	3	4	5	
	<b>LAISSEZ FAIR LEADERSHIP</b>						Total
1	In complex situations my leader allows me to work my problems out on my own way.						
2	My leader stays out of the way as I do my work.						
3	As a rule, my leader allows me to appraise my own work.						
4	My leader gives me complete freedom to solve problems on my own.						
5	In most situations I prefer little input from my leader.						
6	In general my leader feels it's best to leave subordinates alone.						
	<b>Average</b>						

**4. To determine which leadership style has a dominant effect on employee performance**

**Table 1: determining which leadership style has a dominant effect on employee performance**

N.B 1= Very Low 2= Low 3= Average 4= High 5= Very High

No	Items	1	2	3	4	5	
	<b>Quality of your performance and productivity</b>						
1	How do you rate quality of your performance?						
2	How do you rate your productivity on the job Individual's quality of performance and productivity						

	compared with other's doing similar jobs?						
	<b>Individual's quality of performance and productivity compared with others doing similar jobs</b>						
1	How do you evaluate the performance of your peers at their jobs compared with yourself doing the same kind of work?						
2	How do you evaluate the performance of yourself at your job compared with your peers doing the same kind of work?						
	<b>Over all Employee Performance</b>						