

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT, MBA

THE EFFECT OF LEADERSHIP STYLES ON EMPLOYEES' PERFORMANCE: THE MEDIATING ROLE OF EMPLOYEE MOTIVATION AT SELECTED ETHIOPIAN BANKS

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Declaration

I, the undersigned, declare that this study entitled ***"The Effect of Leadership Styles on Employee Performance: The Mediating Role of Employee Motivation at Selected Ethiopian Banks"*** is my original work and has not been presented for a degree in any other university, and that all sources of material used for the study have been duly acknowledged.



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Signature

Eman Kemal
Name of the student

June, 2026

Date of submission

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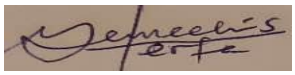
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List of Abbreviations and Acronyms

EP……..	Employee Performance
SPSS……..	Statistical Package for Social Sciences
TRANSFL…….	Transformational Leadership
TRNASL……	Transactional Leadership
LFL……	Laissez-Faire Leadership
SL	Servant Leadership
PLS	Partial Least Square
SEM	Structural Equatiion Modelling

Abstract

This study sought to evaluate the impact of leadership styles on employee performance in Ethiopian commercial banks where employee motivation played a mediating role. Four types of leadership styles considered in this study included transformational, transactional, servant and laissez-faire leadership. The research design utilized in this study was descriptive and explanatory, while data was collected using a questionnaire among the employees of Awash Bank S.C. and Hibret Bank S.C. Simple random sampling technique was used in order to obtain 310 respondents out of the targeted 450 respondents. PLS-SEM with the help of SmartPLS 4.0 software was used in analyzing the data collected. The structural model accounted for 42.2% of the variance in employee performance. As for the direct effect, transformational leadership positively impacted employee performance significantly while the effect of laissez-faire leadership on employee performance was significantly negative. Transactional leadership snd servant leadership found to be statistically insignificant. On the other hand, the mediation effect of employee motivation was found to be significant in all four-leadership style-performance relations. The results showed that servant leadership had the highest indirect effect, followed by transformational leadership, whereas the lowest indirect effect was registered for laissez-faire leadership. Thus, the study suggests that leadership styles can be identified as a significant predictor of the performance level achieved by employees working in commercial banks in Ethiopia. In addition, this relationship is positively affected by employee motivation. Transformational and servant leadership styles have proven to yield the best results in motivating employees and improving their performance. At the same time, laissez-faire leadership negatively affects employee motivation and performance. The study recommends introducing transformational and servant leadership training programs in banks as well as implementing a reward system based on performance.

Keywords: *Commercial Banks, Employee Performance, Employee Motivation, Leadership Styles.*

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Employee performance has been recognized as a key factor and as one of the most influential theories in economic research (Dumaguing, 2022). It is developed from the conceptions of employee satisfaction, organizational performance, and public action, but it goes far beyond the fundamental ideas of "determination" and "willingness to participate" (Narag, 2018). It might be challenging to get employees to support a company's mission. To encourage staff to increase their level of engagement at work, it is necessary to pay special attention to a number of concepts and standards.

Employees are the unsung heroes who drive organizational success and create the competitive advantage that differentiates one company from another in the same industry. Managers and leaders must contribute their ideas to create a positive work environment by providing incentives for employees to deliver exceptional performance that results in success (Makhanya & Jili, 2023). Leaders have a special role in fostering a friendly workplace, motivating employees, increasing job satisfaction, and enhancing employee attitudes, all of which determine the efficiency of the workplace (Reyaz, 2024). Leadership is the ability to influence others to achieve organizational goals and the organization's vision through different means.

Prior empirical studies revealed that leadership style had a crucial effect on employee performance. The leadership style of the boss can affect how well or poorly workers perform at work (Super, 2020). According to Feng et al. (2020), a leader's style has a big impact on how well their team members perform. Since a leader's relationship with his subordinates is very tight, a leader's management of the company cannot be successful without the support of his team and the leadership style he employs. A person uses a leadership style while attempting to influence the behavior of others. A leader's leadership style, according to Feng et al. (2020), is a mix of behavior and strategy because of the variety of philosophies, abilities, qualities, and attitudes that are frequently used by a leader while attempting to influence his subordinates. Therefore, any leader who wants to surpass goals, both in terms of time and things to be accomplished in a work organization, must abide by the tolerance law that links leadership style to performance. He abides by the leadership structure such that each person accountable for the organization's success is required to take direction from the leader (Haar et al., 2022). Leadership styles, as defined by Ciobanu and Androniceanu (2015), are distinct behavioral

patterns that leaders like to use while managing and influencing subordinates, and numerous studies revealed a positive effect on employee performance (González-Cruz et al., 2019; Adiguzel et al., 2020).

However, empirical findings on the effect of specific leadership styles remain inconsistent. Concerning transformational leadership, some studies (e.g., Ekpenyong, 2021; Sugiharjo et al., 2023) found negative influence on employee performance, while others (e.g., Qomariah et al., 2023; Ichsan et al., 2021; Bachmid and Ermawati, 2021) showed positive and significant effects. This implies that organizational-level or situational aspects might be working differently in different firms, particularly in the banking industry (Adesuyi et al., 2025).

In the same manner, transactional studies revealed mixed findings. For instance, Mohamad et al. (2024) observed that transactional leadership is positively associated with employee performance, while Shakib (2024) found a very weak predictive significance, and Ekpenyong (2021) reported insignificant and negative influence. These results raise the possibility of organizational or methodological elements that distinguish this study from other studies held in similar settings.

Further, studies on laissez-faire leadership are similarly inconsistent; Mohamad et al. (2024) obtained significant and positive influence on employee performance. On the contrary, Asrar-Ul-Haq et al. (2020) discovered that employees experienced a negative impact on performance by laissez-faire leadership, while Ekpenyong (2021) found positive but non-significant effects.

Given these inconsistent findings and the scarcity of empirical studies in the Ethiopian banking industry context, this study intends to investigate the effect of leadership styles on employees' performance in the Ethiopian banking industry, in the case of the Awash Bank S.C. and Hibret Bank S.C.

1.2. Statement of the Problem

It is believed that leadership is one of the significant factors critical to the productivity and success of an organization. Leaders who lack the capability to guide people effectively are never successful and thus are unable to guide their subordinates effectively (Okolie et al., 2021). Therefore, it is strongly recommended that the right kind of leaders be placed in the organization to facilitate not only efficiency but also productivity within the organization (Cai, 2023). The leadership role in an organization is significant because it assists in formulating the vision, mission, and development of objectives, as well as planning the policies and strategies in

a manner that realizes the objectives of the organization in an effective and efficient manner (Khalilov et al., 2025). It is also the leadership that assists in the guidance and coordination of the organizational activities. At the current period, various organizations are experiencing issues that are associated with unethical behavior in organizations, which is also leading to ineffective performance as well as high labor turnover. The weak leadership is one of the potential causes of this (Lian et al., 2022). The managers of some of the organizations take the leadership styles seriously, which they use to identify the problems and solve them in a better way. It is on this premise that the current research seeks to identify the connection and influence of the leadership style and the performance of employees in the Ethiopian banking sector.

In spite of the large number of studies carried out in Ethiopia in an attempt to investigate the influence of leadership style on employee performance, the findings are ambiguous and inconsistent, even when considering similar sectors and organizations. Laissez-faire (Worku, 2024; Solomon, 2025; Atrsaw, 2024; Mesfin, 2023; Kesto & Aregawi, 2021; Ejigu, 2024), autocratic (Worku, 2024; Ejigu, 2024), and democratic leadership styles (Worku, 2024; Atrsaw, 2024; Mesfin, 2023; Ephrem, 2024; Shimelis, 2017) were significant and positive predictor variables of employee performance in one study, whereas they were insignificant and even inverse predictor variables of employee performance in other studies carried out in similar banking sector organizations (Atrsaw, 2024; Solomon, 2025; Ephrem, 2024; Shimelis, 2017). This is evidenced when considering all the studies carried out in Awash Bank, Commercial Bank of Ethiopia, and other financial organizations. It can be seen specifically in the research done in CBE, in which the same leadership styles do not yield the same results in different districts and headquarters, despite the same methodological and statistical means. This is an indicator that no one knows the style of leadership that actually works.

The inconclusive results suggest that the influence of leadership styles on employee performance is a highly contextual one. The variability of organizational culture, management, expectations of its employees, and institutional structure seems to have an effect on the manner in which leadership styles affect performance (Maamari & Saheb, 2018). This kind of variation reveals the necessity to learn more about how effective leadership works in particular organizational settings instead of assuming the homogeneity of its impacts in different institutions (Lotta, 2020).

In addition to the disparities in research design, measurement approaches, and leadership constructs across studies, many of the existing studies use different instruments to measure

leadership, sample populations, and analyze data, which may lead to difficulties in comparing the results of different studies and determining if the discrepancies in the results are due to different leadership practices or differing methodologies.

Furthermore, most of the existing research lacks systematic replication of studies with consistent constructs and methodologies across multiple organizations. Most of the studies on leadership styles in Ethiopia have limited their focus to a single financial institution (i.e., the Commercial Bank of Ethiopia), making it difficult to compare the findings from this institution to other organizations in the banking sector or generalize the findings to the banking sector as a whole. Therefore, the current literature does not provide a clear understanding of how leaders' leadership styles affect employee job performance within comparable organizations.

There exists a research gap that can be filled by carrying out research that reproduces the findings with the application of the same style of leadership and the same procedure. The solution of the gap would help in resolving the inconsistencies, clarifying the contextuality of the research findings, and improving the overall level of the research findings on the general contribution of the style of leadership to the overall performance of the employees within the organizations in Ethiopia. Hence, the purpose of undertaking the research would revolve around filling the gap by examining the effect of the style of leadership on the performance of the employees in the case of Awash Bank S.C. and Hibret Bank S.C.

1.3. Research Questions

In order to solve the mentioned problem, this study primarily attempts to answer the following basic research questions:

1. What leadership styles are being practiced in the selected Ethiopian banks?
2. To what extent does transformational leadership style influences employees' performance among employees of selected banks?
3. Does transactional leadership style have an effect on employees' performance among employees of selected banks?
4. To what extent does laissez-faire leadership style influence employees' performance among employees of selected banks?
5. To what extent does servant leadership style influence employees' performance among employees of selected banks?
6. Does employee motivation mediate the relationship between leadership styles and

employees' performance among employees of selected banks?

1.4. Research Objectives

1.4.1. General Objective

The study's main objective is to examine the effect of leadership style on employees' performance, the case of Awash Bank and Hibret Bank Headquarters.

1.4.2. Specific Objectives

The study has the following specific objectives

1. To identify the leadership styles being practiced in selected Ethiopian banks.
2. To examine the effect of transformational leadership style on employees' performance among employees of selected banks.
3. To evaluate the effect of transactional leadership style on employees' performance among employees of selected banks.
4. To examine the effect of laissez-faire leadership style on employees' performance among employees of selected banks.
5. To examine the effect of servant leadership style on employees' performance among employees of selected banks.
6. To examine the mediating role of employee motivation in the relationship between leadership styles and employees' performance among employees of selected banks.

1.5. Significance of the Study

The study findings provides empirical data concerning the effects of different leadership styles on employees within both Awash Bank and Hibret Bank. These large banks in Ethiopia, which the researcher is interested in, help bridge an application gap to understand leadership within the banking sector in Ethiopia, rather than basing the data on other nations and different sectors.

Second, the study is also instrumental to the bank's management and leaders since the study informs the kind of leadership styles to adopt if employees are to perform better. This way, the bank's managers and leaders be aware of the kind of leadership to adopt if it is to become more efficient, thereby improving the existing supervision jobs of the employees, creating environments where employees feel motivated to perform better.

Third, the research is crucial to the HR department in the organization in that it helps in understanding which aspects of leadership have a positive effect on the performance of the

employees and hence guide different programs, such as promotions and leadership training, to effective goal attainment in the organization.

Lastly, the research contributes to academic knowledge. It will do so through the literature and information already available concerning leadership and employee performance, and contributes to the underrepresentation and under-recognition of the banking sector in Ethiopia within the literature. It is expected to become a base for comparison for other researchers in other bank institutions and service sectors.

1.6. Scope of the Study

The study focused on examining the effect of leadership style on employees' performance among employees of Awash Bank S.C. and Hibret Bank S.C. The study is conceptually confined to four independent variables (transformational leadership style, transactional leadership style, servant leadership style, and laissez-faire leadership style) and one mediating variable (employee motivation). Geographically, the study is confined to Awash Bank and Hibret Bank Headquarters. Due to time and resource constraints, the researcher will conduct the study using a simple random sampling approach and believes that the chosen sample reflects the whole population.

In terms of methodology, the study utilized a descriptive research design to assess the level of employees' performance and the dominant leadership styles being practiced, and an explanatory research design to explain the cause-and-effect relationship between the independent variables (transformational leadership style, transactional leadership style, servant leadership style, and laissez-faire leadership style) and employee performance (dependent variable). The study also tested the mediating role of employee motivation in the relationship between leadership styles and employee performance. This study is cross-sectional in nature, with data were collected at a particular moment in time.

1.7. Limitations of the Study

Some limitations are associated with this study; therefore, steps are taken to minimize their possible effects.

First, it should be noted that this study used a cross-sectional research approach, which makes it difficult to identify cause-and-effect relationships between leadership styles and employee

performance. To minimize this limitation, this study focused on identifying associations instead of cause-and-effect relationships.

Secondly, since questionnaire was used in conducting the study, handling of response bias such as social desirability bias or common method bias is an issue. In order to address this challenge, it must be highlighted that this study was conducted for academic purposes only; therefore, it can be assumed that people responded honestly during the questionnaire because the need to complete the questionnaire honestly had been conveyed to them. This study also uses a combination of positive and negative questions to ensure that response pattern bias is minimized. However, this study used self-reporting measure taken from one source to measure independent variables (leadership styles) and dependent variable (employee performance), CMB becomes a threat to validity of results. The procedures that have been adopted to address CMB include: maintaining anonymity of respondents to ensure that there is no socially desirable responding; separating two measures by using a psychological separator statement; reversing items; and ensuring that respondents understand that there are no right or wrong answers.

Third, this study will focus on the performance of employees who work at the headquarters of Awash Bank S.C. and Hibret Bank S.C. There could be variations in leadership dynamics among branch-level employees that could reduce the ability to generalize the results from this study.

Fourth, reliance on a quantitative research design could be viewed as one of the limitations regarding the dynamics of leadership behaviors and performances. However, a larger number of respondents can be included in the study with the use of a questionnaire.

Finally, the study will focus on three specific types of leadership: namely, transformational leadership, transactional leadership, and laissez-faire leadership. These leadership types might not represent the entire spectrum of leadership types influencing employee performance. However, these leadership styles are widely recognized in the field of leadership studies. By recognizing the limitations mentioned above and utilizing the strategies listed above, this study intends to minimize the possibility of bias in its results.

1.8. Organization of the Study

The study is presented under five chapters. Chapter one covers the introduction of the study, the background of the organization, problem statement, basic research questions, significance

and objectives of the research, and scope of the study. Chapter two covers a review of relevant literature and includes theoretical and empirical reviews. Chapter three covers the research methodology employed by the researcher during the process of collecting and analyzing data. Data presentation and discussion on the findings is included in chapter four. Lastly, the fifth chapter covers the conclusions and recommendations of the current research study.

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1. Introduction

This section involves the review of relevant literature that is related and consistent with the objectives of the study. This chapter contains the literature review, theoretical review, conceptual framework, empirical review and the summary of the literature review.

2.2. Theoretical Framework

This section details the various theories used to explain the independent variables of the study.

2.2.1. Transactional Leadership Theory

This theory fits in with the work of Max Weber of 1947. This theory places high value in terms of the application of knowledge-based control. Weber (1947) developed transactional leadership theory where he argues that management offers an employee what he/she wants in return for something he or she desires. This theory argues that employees need direction and supervision so that they can work effectively because they are not self-motivated. Transactional model of leadership will be successful in situations where there is an emergency or a particular project requires linear processes. What makes this theory unique is the fact that it describes the process of exchange whereby goals are set, progress reviewed, and outcome controlled through contractual obligations.

According to Kuhnert and Lewis (1987), the theory entails the following first-order factors: (a) contingent reward leadership which refers to the clarification of the role and task requirements and rewarding followers materially or psychologically for their compliance with the terms of contract; (b) active management by exception which involves active correction; and (c) active management by exception which involves preventive actions. The theory basically operates under the following assumptions: first, people tend to perform at their best when there is a well-established chain of command. Motivators may take the form of incentives and sanctions in the second place. Finally, it holds the assumption that people should mainly follow the rules, instructions, and orders, while management should monitor workers closely to meet expectations. Moreover, research reveals that the transactional approach to leadership is more appropriate for situations where goals remain quite stable and leads to desired results (Alrowwad et al., 2020). Hence, transactional leadership is relevant in initiatives that involve high objective clarity.

The three factors that form transactional leadership measure within the framework of transactional leadership theory have been critiqued from two different perspectives. First, it is focused on the relationship between transactional and laissez-faire management when it comes to passive management by exception. Second, passive management by exception and active management by exception are negatively related because these concepts are supposed to represent similar things (Aldhaheri, 2023). Transactional leadership theory is considered important for this research, based on the assumption that it is built on the reasonable premise that transactional leaders can motivate followers through self-interest. They encourage subordinates to perform at a certain level by making them aware of responsibility, objectives, and ability to fulfill these objectives, respectively.

The transactional leadership model emphasizes the need for employees to understand their roles and responsibilities, and for the leader to set performance expectations for each employee (Dong, 2023). The leader also monitors employees' activities to ensure that the organization's goals are achieved.

The transactional leadership model operates through two major channels. These channels are contingent reward and management by exception (Shakib, 2024). The contingent reward channel involves rewarding employees when they successfully execute their assigned tasks. The management by exception channel involves the leader monitoring the performance of the employees and intervening only when necessary. A structured environment involves a well-defined task and a highly regulated environment within an organization. In a structured environment, the leader can directly influence the performance of the employees.

2.2.2. Transformational Leadership Theory

The phrase is currently being applied to the field of organizational psychology, even though James MacGregor Burns (1978) was the first to coin the concept in his descriptive study of political leaders. Burns (1978) also postulates that in transformative leadership, the leaders and followers assist one another to rise to a greater morale and motivation level. Burns (1978) explained that sometimes it could be difficult to define the line between management and leadership and stipulated that the differences lie in qualities and activities (Price and Weiss, 2013). According to Burns (1978), the transformative approach has a profound way of changing the lives of the people and the institutions. The idealized transforming leaders are supposed to be a moral example of the work in the interest of the team, company, and/or community (Ciulla,

2020). It reformulates perceptions and perception and changes the expectations and aspirations of the workers.

Generally speaking, transformational leadership may occur at any level in an organization ranging from teams, departments, divisions up to organizational level. These individuals are visionary, inspiring, daring, adventurism and thought-provoking. The transformational style of leading project was a good example because the team had a positive effect by applying this style based on research. For instance, the organizational objectives would be accomplished more successfully by leaders using a different style to meet the need of their subordinates (Bwalya, 2023). Transformational leaders are less task-oriented and more people-oriented, they are innovative planners, use flexible planning systems and pursue multiple objectives with organizational performance being their main objective (Manu, 2022). It should be pointed out that the subordinates under transformational style were extremely satisfied with their jobs and committed to organizations and were involved in civic affairs (Nurjanah et al., 2020).

The opponents of the theory, however, argued that transformational leadership employed impression management and therefore was prone to unethical self-promotion by leaders (Olomi, 2024). Moreover, owing to the fact that the theory is a synthesis of other leadership concepts, Blythe (2021) asserts that it is incredibly difficult to train or teach. Lastly, critics claim that leaders can deceive their followers and they can potentially lose more than they can gain (Almeida et al., 2022).

Transformational leaders inspire and influence employees by sharing a vision, providing intellectual stimulation, and individually considering employees' needs (Khan et al., 2025). According to the theory, transformational leaders inspire employees by developing a psychological connection with them, which motivates them to put in extra effort beyond what is required of them. Transformational leaders inspire employees by sharing a vision with them, motivating them, and gaining their trust.

According to the theory, there are four major aspects of transformational leadership. These aspects are idealized influence, inspirational motivation, intellectual stimulation, and individual consideration. Idealized influence is when the transformational leader becomes a role model to employees and earns their trust and respect. Inspirational motivation is when the transformational leader comes up with a vision that motivates employees to take part in achieving organizational goals. Transformational leaders stimulate employees' creativity by

encouraging them to think creatively. Transformational leaders also consider individual employees by mentoring them.

Through these processes, transformational leadership can shape employee performance by inspiring employees to show greater commitment, work harder, and improve their problem-solving skills. Inspired employees, through the influence of transformational leaders, will be more likely to perform behaviors that improve organizational performance.

2.2.3. Behavioral Theory of Leadership

The behavioral theory was put forward by Blake & Mouton (1964), within the context of the managerial grid approach, moving leadership theories from the trait perspective to the behavioral perspective in leadership studies. The theory suggests that behavior is responsible for leadership achievements and not personality traits, hence, leadership behavior can be cultivated rather than considered a personal trait. The behavioral approach was further developed by Bass (1990) by dividing leadership styles according to McGregor's Theory X and Theory Y principles of employee motivation.

The empirical basis for behavioral leadership theory that is considered to be most significant was developed by Lewin et al., (1939), who carried out an experimental study of boys' groups under three leadership conditions and presented the results in their paper called "Patterns of Aggressive Behavior in Experimentally Created 'Social Climates'". Three leadership styles were found – authoritarian, democratic, and laissez-faire, on the basis of how much control and participation each of those styles allows in the activity of group members. It is this study that is most frequently cited as the empirical basis of the three-fold classification of leadership styles (Lewin et al., 1939). Under laissez-faire leadership, the workers have the freedom to implement the tasks independently without strict supervision from the leader. The decision-making process depends mostly on the employees, but not on the leader (Lewin et al., 1939).

Zaccaro et al. (2018) place this style in a wider theoretical framework, namely, that the choice of leadership style by a leader depends on people and environment around the leader, not just a personality trait, and that a good style should maintain the performance of the team while developing strong interpersonal relationships through communication. Zaccaro et al. (2018) introduces a conceptual caveat for laissez-faire style of leadership in particular, pointing out that separating the influence of a particular style of leadership from the environment in which it occurs still proves difficult in theory, because defining behavior associated with a style does not

explain under what circumstances a particular result will occur. Nanjundeswaraswamy et al. (2024) express this as a situational condition, where the leader must determine the requirements of the situation and implement the appropriate leadership style for that situation.

According to behavioral leadership theory, leader behavior impacts performance of employees through the extent of control, freedom, and participation employees have in their work environment (Blake & Mouton, 1964). Laissez-faire leadership makes use of the freedom accorded to allow employee-initiated actions and self-motivation to be the main avenue by which leadership behavior impacts performance results, and the direction of such impact will depend on employee capabilities and the situation at hand (Judge & Piccolo, 2004; PMC, 2024).

2.2.4. Expectancy Theory

Another explanation of employee performance is based on motivation theories, which explain how employees direct their efforts towards performing work activities. One of the most prominent theories of employee performance is the expectancy theory, which was proposed by Victor Vroom in 1964.

The expectancy theory states that employees are motivated to perform if they believe that their performance will be rewarded, as they expect that their performance will be enhanced, leading to desirable outcomes (AlKhalifa et al., 2024). There are three main components of the expectancy theory: expectancy, instrumentality, and valence. These components mean that employees believe that if they perform, they will be successful, they believe that if they are successful, they will be rewarded, and they value the rewards, respectively (AlKhalifa et al., 2024). Research has shown that understanding these components leads to enhanced motivation for individuals in different sectors of the organization (Victor Vroom, 1964).

These leadership behaviors are expected to impact these factors because they shape the employees' perception of effort, performance, and rewards. For example, transactional leadership increases the instrumentality factor by linking performance and rewards. Transformational leadership increases the expectancy factor by instilling confidence, motivation, and commitment among employees (Syaharudin et al., 2022). Various studies that have examined different leadership styles have found that transformational leadership increases employees' intrinsic motivation through vision, trust, and development. Transactional leadership maintains task performance through structured rewards systems (Wuryaningrat et al., 2024).

Consequently, leadership styles can impact employees' performance through shaping employees' motivation, attitudes, and efforts towards the achievement of organizational goals (Syaharudin et al., 2022). Organizations that adopt leadership styles and motivation systems that align with the principles of expectancy theory can lead to better employee engagement and performance (AlKhalifa et al., 2024).

2.2.5. Greenleaf's Servant Leadership Theory

According to Greenleaf theory, the servant-leader is first a servant. Here, leadership arises out of desire to serve and not to rule and/or control (Greenleaf Center for Servant Leadership, n.d.). Indeed, this idea overturns the conventional hierarchical structure of organization where the followers serve as mere means to achieve the goals of their leaders. According to Greenleaf, the nature of the relationship is thus reversed in such a way that the leaders exist to ensure the progress and wellbeing of the followers (Giorgiov, 2010).

In contrast to the models of charismatic leadership and positional leadership, Greenleaf did not put forward the specific attributes or traits that should characterize the servant-leader. Instead, he proposed to apply an outcome-oriented test which evaluates whether the people served grow and mature as persons, become healthier, wiser, freer and stronger as a result of being served, and whether the weakest members of society prosper or at least do not suffer any losses (Smith, 2005).

The subsequent research, associated with the Greenleaf Center and author Larry Spears, identified ten recurring attributes of the servant leadership described by Greenleaf's essays: listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment to the growth of people, and community building (Business Leadership Today, 2023). These attributes outline servant leader's actions. This set does not constitute a measurement tool per se but is a basis for developing such a tool through psychometric analysis.

Servant leadership belongs to a family of value-based and ethics-oriented leadership theories that includes transformational, authentic, and ethical leadership theories. Eva et al. (2019) have performed a systematic review of 285 studies on servant leadership that were published between 1998 and 2018 and used it to distinguish the concept of servant leadership from similar concepts. In servant leadership, the needs of followers precede the organizational objectives, while in transformational leadership, followers should be motivated to achieve the organization's goals (Eva et al., 2019).

Liden et al. (2008) made an important effort by devising and validating a multivariate construct for measuring servant leadership, which became an important tool for researchers working with the same theory to have one common instrument that could be used to conduct research. On the basis of this measurement tool, Chaudhry et al. (2015) performed a meta-analysis involving 85 different samples consisting of 16,803 people. They concluded that servant leadership results in better job performance, organizational citizenship behavior, leader trust, organizational commitment, job satisfaction, and reduced turnover intentions.

There are three main characteristics of servant leadership theory that make it relevant to the research of employee performance. Firstly, the theory assesses the success according to the results achieved by followers and not just by organizational productivity alone. The Greenleaf criterion includes questions about health, wisdom, and independence of people who are being served, which makes employee development the mechanism of achieving organizational success instead of its consequence (Smith, 2005). Secondly, van Dierendonck (2011) found out two behavioral components of servant leadership: one is based on strength and direction and the other is on humility and service, and their connection was found with employee engagement and development. The mentioned two-dimensional structure allows considering servant leadership as the mechanism of creating certain states in employees, which affect their performance. Finally, the servant leadership theory was also considered in self-determination theory framework, where the way of transformation of servant leadership into task performance and organizational citizenship behavior through the fulfillment of psychological needs, autonomy, competence, and relatedness was described (Liden et al., 2008; van Dierendonck, 2011).

2.2.6. Leadership Styles

2.2.6.1. Transformational Leadership

Transformational leaders bring confidence, allegiance, adoration, and esteem to their juniors, which goes in inspiring them to give their best in any given assignment and advance organizational objectives voluntarily (Sidik et al., 2024). The subordinates view transformational leaders as effective persons who are of high moral character, will and high ethical conduct (Liborius, 2021). Transformational leaders put the needs of the organization above their needs and most importantly, the need of the subordinates, and most of the time, they consider the needs of the subordinates more than their needs and seriously consider their input and suggestions regarding a decision (Guarana & Avolio, 2022).

The behavior of a transformational leader has its roots in values and beliefs of the leader and inspires subordinates to perform more than anticipated (Hermawan et al., 2024). This is the nature of transformational leadership that was identified by Idiko and Obah (2023) as the process in which one or more individuals interact with others in a manner that leaders and their followers elevate each other to enhanced levels of motivation and morality. In the transformational style of leadership, the followers develop trust, admiration, loyalty, and respect towards the leader and are encouraged to do more than would have been expected (Yuan et al., 2022). Transformational leaders are capable of inspiring their followers by explaining them the results of the task, the decision-making process, and this will assist in arousing them to place the company interest over their ego and contribute their best towards providing a specific task towards the overall benefit of the organization (Alkadash et al., 2022). He urges subordinates to think and take an alternative approach in a critical manner, which, in its turn, will lead to intellectual stimulation, which, in turn, will make them more satisfied, perform better, and devote more efforts to the organizational goals (Khan et al., 2025).

To come up with four components and behaviors of transformational leadership, Bass (2010) presents them as intellectual stimulation, charisma, inspirational and individual consideration. Thought provocation equips the subordinates with a novel ideology, as well as encouraging them to abandon their previous ways of thinking (Kariuki, 2021). In this case, leaders are regarded as one that encourages the intelligence, logical thinkers, rational and good solution providers. Intellectual stimulation attributes involve finding other perspectives on resolving problems, presenting new paths to undertaking tasks, and stimulating a reconsideration of dissatisfied ideas (Kimble, 2024).

Subordinates are also motivated when challenges are to be solved and they are made to be part of the solutions team (Afsar and Umrani, 2020). Inspirational leaders promote collaboration within the subordinates (Kariuki, 2021). Leaders are strongly motivated to engage in inspirational motivation as it assists them in building self-confidence in the subordinates and challenging them to reach the goals set by the organization (Afsar and Umrani, 2020). The dimension of individual consideration is in the transformational leadership alone which is more oriented to mentoring and coaching (Malik and Malik, 2023). The leaders in this aspect consider inter-individual differences among the subordinates and serve as mentors to the subordinates. Individual consideration leaders develop followers to learn their own strengths, listen/ overcome fears and weaknesses and manage organisational tasks in their day to day lives.

The subordinates are handled in a one-on-one basis to enable them grow and become their own person capable of performing any task assigned to them. Individual consideration leaders perform the role of coaches to facilitate the development of subordinates need to actualize their interests and aims (Khan et al., 2025). They identify the skills, ability, and needs of their followers and coach them to a point that they are confident enough to implement them in their daily activity without relying on them (Afsar and Umrani, 2020).

2.2.6.2. Transactional Leadership

Under transactional leadership, the subordinates obey the request and command of the leader with less enthusiasm of making sure that the tasks objectives are achieved (Jaqua & Jaqua, 2021). Transactional leaders use the service of outside actors in executing the task which the organization needs in order to achieve its desired objectives. A transactional leader has the primary goals of ensuring that the process of the organizational goal attainment is clear to the internal actors, eliminating possible risks that may be a part of the system, and encouraging the actors to meet the established goals (Dong, 2023). Transactional leadership is largely founded on a giving and take basis; the leaders require the subordinates to excel at any given giving activity as a reward at the completion of the task (Jaqua & Jaqua, 2021). Transactional leaders who support compliance of the subordinates mostly by reward and occasionally punishment are champions of the transactional leadership.

Transactional leaders will only make intervention when the performance fails to match the expected result or outcome (Dong, 2023). Transactional leadership manifests corrective and constructive behaviors. The corrective dimension implies management by exemptions, and contingent rewards are the qualities of constructive behaviors (Boyd, 2024). The influence is exerted through the use of contingent rewards thus the subordinates anticipate rewards as they achieve something extraordinary with regard to a certain activity that advances the interests of an organization. In this type of leadership, closer attention is implied towards deviances, mistakes, or errors so that the same are corrected as soon as they take place.

2.2.6.3. Laissez-Faire Leadership

According to Ahsan and Khalid (2023), a laissez-faire leader is defined as the one who entirely delegates and avoids the key decision-making processes and flees to leave the subordinates with the initiatives of performing the job duties and tasks. Zheng and Li (2024) also include that the leaders who practice laissez faire are not personally involved in allocating the work

responsibilities to the employees; the employees themselves identify the appropriate initiative to perform the duties and responsibilities. The authors proceeded to find two dimensions of a laissez faire leadership to embrace: the leaders are assumed to have no idea of what the subordinates are doing at a particular time or the job; they are not supposed to interfere at all, therefore, make poor leaders (Udin, 2023). The leaders in the laissez-faire style do not identify any decision to the subordinates or engage in any decision-making activity. Ekpenyong (2021) states that the indifference attitude as exhibited by laissez-faire leaders may occasionally go out of pivot resulting in chaos, poor employee productivity, inefficiency, and other unanticipated adverse effects. Khan and Tidman (2021) stated that laissez-faire leadership style is opposite to the active leadership stance of transactional and transformational leadership.

2.2.6.4. Servant Leadership

Servant leadership emerged as a distinct leadership paradigm following Robert Greenleaf's foundational 1970 essay, which reframed the leader's primary role as one of service rather than authority (Greenleaf, 1970). In this formulation, the leader operates as "first among equals," placing the fulfillment of followers' needs above the leader's own interests (Ehrhart, 2004). Greenleaf later expanded this idea by describing servant leaders as individuals who practice empathy, humility, and a commitment to serving others rather than seeking personal power or control (Greenleaf, 1977). Subsequent theorists translated this original, largely philosophical account into more operational terms: servant leadership is now commonly associated with humility, the provision of direction, empowerment of employees, authenticity, a focus on followers' needs, and a stewardship orientation toward the organization (Van Dierendonck, 2011). This conceptual evolution reflects an effort within leadership scholarship to move Greenleaf's originally prescriptive framework toward one that can be systematically studied and measured (Regent University, 2023).

A recurring theme in the theoretical literature is servant leadership's departure from transactional and purely performance-driven leadership models. Ehrhart's extension of the theory argued that servant leaders assume a moral responsibility extending beyond financial outcomes to encompass subordinates, customers, and the wider organizational community (Ehrhart, 2004). Liden and colleagues later specified concrete behavioral dimensions of the construct, including ethical conduct, emotional healing, conceptual skill, and the deliberate creation of value for the community (Liden et al., 2008). Building on this trajectory, servant leadership is characterized in more recent syntheses as a paradigm shift rather than a simple

stylistic variant, since it prioritizes serving subordinates and cultivating a values-based work climate (Wu et al., 2021). This climate, marked by dignity, respect, and community building, is said to support subordinates' development in ways linked to satisfaction and improved organizational performance (Eva et al., 2019; Canavesi & Minelli, 2022).

The theory's continued relevance is evident in systematic and bibliometric reviews published within the past two years. Comparative measurement research has examined the psychometric consistency of servant leadership instruments across cultural settings, using China as a case example (Van Dierendonck et al., 2023). Elsewhere, servant leadership has been linked to trust, organizational commitment, and performance outcomes in higher education institutions (Sihombing et al., 2024), and to indicators of general health among education-sector employees through its association with brand love and work ethic (Laura-Arias et al., 2024). Taken together, these studies suggest that servant leadership has moved from a largely normative philosophy toward an empirically testable construct, even as scholars continue to debate its conceptual boundaries relative to related relational leadership theories (Demeke et al., 2024).

2.2.7. Employee Motivation

Employee motivation is considered the internal and external driving force that propels the individuals within an organisation towards the achievement of particular organisational goals and objectives (Paais & Pattiruhu, 2020). Employee motivation is, therefore, the energy and drive that the employees put into their respective jobs towards the achievement of success, not only individually but also as an organisation. The task of motivating the workforce, however, is not an easy task, as the workforce within an organisation tends to respond differently to the motivating factors. The modern-day workforce, therefore, requires to have a sense of direction and meaning behind the efforts being put into the job, and this is the reason why employee motivation is considered the most important factor in the success of an organisation, whether public or private (Lencho, 2020).

The various definitions of motivation, as offered by various scholars, highlight the multifaceted nature of motivation. According to Hajiali, Kessi, Budiandriani, Prihatin, and Sufri (2022), motivation could be defined as, “the stimulation and inspiration that motivates employees to perform at their best capacity.” The above definition highlights the role that motivation plays in tapping into human potential, especially within an organisational context. The above definitions, therefore, highlight that motivation, in essence, involves various aspects, including the cognitive, emotional, and environmental factors, making it a multifaceted construct that

cannot be ignored in management. Generally, motivation among employees could be classified into two major categories: financial motivation and non-financial motivation, both of which operate in diverse ways.

Financial Motivation

Financial motivation is described as "the process whereby an organisation uses monetary rewards to encourage workers to improve their performance and reward them for achieving or going beyond set standards" (Nnubia, 2020). It is one of the most widely used forms of motivation in various industries and different work settings. In this regard, Obumneme and Ghapar (2024) have stated that "organisations often make use of different forms of monetary rewards to boost workers' performance, including salary increments, cash rewards, bonuses based on performance, recognition rewards with monetary value, and retirement benefit plans."

Non-Financial Motivation

Apart from using financial motivation, organisations also use other non-financial motivational strategies to maintain employee engagement and drive. According to Adil Albalush and Devesh (2023), non-financial motivation is the sum total of all the motivation that is not given to an employee through direct financial payment.

Some common non-financial motivational tools commonly used in organisational settings include promotion to a higher position, recognition awards, training and development, and involvement in organisational decision-making processes. Position promotion, for example, taps into the motivational potential of employees to advance and ascend to a higher status in the organisational hierarchy. Recognition awards, on the other hand, acknowledge and reward organisational and individual achievements through public recognition, thereby instilling a sense of excellence and belongingness among employees. Training and development programmes, on the other hand, instill a sense of organisational investment in employees, thereby motivating them to be loyal and competent at the same time. Lastly, employees tend to be more committed to organisational decisions in which they are involved, hence instilling a sense of ownership and psychological empowerment in them. Both large and small organisations increasingly understand and acknowledge the importance and benefits associated with non-financial motivation.

2.2.8. Employee Performance

Employee performance is a key aspect of organizational effectiveness in terms of the level of accomplishment of tasks towards the achievement of the organization's goals by the employees. Nevertheless, the literature reveals a number of conceptual complexities in the definition and measurement of the construct (Al Zeer et al., 2023). Employee performance is defined by scholars as the behaviors and outcomes developed by employees in the execution of their job roles, albeit the level of precision in the definition of the construct varies from one organization to another (Fikri Sama et al., 2024). Though the conceptual definition of the construct is clear in terms of the distinction between behavior and outcomes, the level of precision in the measurement of the construct is disputed in the literature.

In organizational behavior literature, it is commonly conceptualized that employee performance is a multidimensional concept; however, there is disagreement regarding the ideal number of performance dimensionality. One of the widely used models of performance dimensionality is that it comprises three major aspects of performance: task performance, contextual performance, and adaptive performance (Al Zeer et al., 2023). Although it is widely used, it is an incomplete concept that may not capture other equally important aspects of performance, such as counterproductive work behaviors (Yoo & Kim, 2021).

Task performance is defined as those activities that are directly associated with performing or executing job responsibilities or duties. It includes developing goods or services, performing assigned tasks, and performing administrative functions that are directly associated with organizational outputs (Manook et al., 2025). It is essentially concerned with how effectively employees perform assigned job responsibilities. It is found that task performance is given disproportionate importance in performance management compared to other aspects of performance, although it is found to be least correlated with organizational sustainability in unstable environments (Junça Silva & Costa, 2024).

On the other hand, contextual performance involves behaviors that facilitate the organizational, social, and psychological framework through which work tasks are carried out. These behaviors include helping others, cooperating with coworkers, supporting organizational initiatives, and showing commitment to organizational goals (Bhatti et al., 2022). The only limitation with these behaviors is that contextual performance's influence on organizational outcomes varies significantly depending on the organizational environment. Therefore, it has been argued that its

significance might be overstated in some industry sectors while being understated in other sectors (Hameed et al., 2023).

Adaptive performance involves employees' ability to adapt to changing work demands, new technology, and changing organizational conditions (Jundt & Shoss, 2023). Therefore, employees with adaptive performance can easily learn new skills, deal with unforeseen problems, and can easily respond to changing organizational conditions. Notably, it has been established that adaptive performance has become more important in contemporary organizations that operate under a volatile, uncertain, complex, and ambiguous environment. Unfortunately, many performance management practices are not adequately designed to measure this form of performance (Morris, 2025).

However, a major gap in the existing literature is that it does not take into account the relative importance of different performance dimensions. In most organizational studies, performance is primarily examined in terms of task performance and contextual performance, as these represent the most obvious aspects of employees' contribution to overall organizational goals; however, this is perhaps more a reflection of measurement convenience than any theoretical importance (Saidin et al., 2024). There is a growing body of evidence to indicate that a sole focus on task performance and contextual performance fails to capture dynamic performance needs in contemporary organizations. In addition, studies have also found that relationships between performance dimensions vary in different organizational contexts; for instance, effective performance in banking institutions is quite different from that in service organizations or knowledge-intensive organizations (Guevara-Rosero et al., 2023).

2.3. Empirical Review

2.3.1. Global Studies

In research conducted on the Middle Eastern banking industry, it has been noted that transformational leadership has a positive effect on employee performance. In research carried out in the UAE, Agarwal (2020) employed multiple regression analysis on five banks with 200 employees. The research found that transformational leadership and democratic leadership had a positive effect on employee performance. In another study carried out in Yemen on five banks with 246 employees from the managerial cadre, Samad and Ahmed (2021) used structural equation modeling. The research found that transformational leadership had a high impact on employee performance. In Turkey, Ozcan and Ozturk (2020) used multiple regression analysis

on 285 employees from private banks. The research found that transformational leadership had a statistically significant positive effect on employee performance.

In the above research on the Middle East region, the trend is clear: in every instance, transformational leadership is related to increased employee performance. There are also contextual factors at play. For instance, in the Turkish research on organisational culture, the leadership effect is moderated by the culture in Turkey. This implies that the leadership effect may not be universal (Ozcan & Ozturk, 2020). Methodologically, the research varies in sample size, type of analysis used (regression vs. SEM), and the level of employee sampling (managers vs. employees in general).

Research in South Asian banking also supports the effectiveness of transformational leadership, but it also reveals more nuances in the relationship between transformational leadership and its effects. Anwar et al. (2023) conducted research in Pakistan, where they found that transformational leadership has a direct and positive impact on employee performance in the banking sector, where the sample consisted of 466 employees of private banks, with employee commitment mediating the relationship between transformational leadership and employee performance. Another study by Asrar-Ul-Haq et al. (2020) surveyed the perception of 65 managers and 225 subordinates in the top five alpha banks in Pakistan by performing regression analysis. The findings showed that transformational leadership has a positive and significant effect on employee performance from the subordinates' point of view, but it does not have a significant effect from the managers' point of view. Khan et al. (2023) compared the results of the study in the private and public banking sectors, where the sample consisted of 200 employees, and found that leadership styles have more influence on male employees than female employees, and also more influence on rural employees than urban employees, but more in the private banking sector than the public banking sector. Such studies demonstrate positive outcomes of transformational leadership as well as moderating variables like gender, location, employee perception, and bank type, etc. Methodological variations in these studies could be a reason for variations in findings. These studies imply that transformational leadership has consistent positive effects, while transactional and laissez-faire leadership are situation-dependent. The differences could be due to differences in research methods used (regression and PLS-SEM), sample sizes, and cultures.

Similar trends are evident from research carried out in Africa. In Tanzania, for instance, Magasi (2021) used a mixed research method with 12 interviewees and 325 survey participants. The

results showed that individualized consideration and intellectual stimulation subscales of transformational leadership had a positive and significant effect on employees' performance. In another study carried out in Dar es Salaam, Mbogo and Mnyavanu (2025) used 60 employees from NMB bank. The results showed that laissez-faire had the least effect on employees' performance. In Sierra Leone, Kebe et al. (2024) used 903 employees from fourteen different banks. The results showed that transformational and transactional leadership had a positive and significant effect on performance using SEM-PLS.

On the other hand, Ekpenyong's (2021) study in Nigeria reported that transformational and transactional leadership had negative but insignificant effects on performance among 60 GTB Abuja employees, while laissez-faire leadership had positive but insignificant effects. Another study by Adesuyi et al. (2025) surveyed 179 finance/accounting specialists in ten banks in Ondo State, Nigeria. It was reported that transactional and transformational leadership had positive and significant effects on employee performance. The studies conducted in Africa indicate that, although transformational leadership is good for performance, other factors such as structure, culture, and employee characteristics may influence performance differently. Additionally, methodological differences may be the basis for the observed differences.

Throughout all of this research conducted around the world, a number of factors have been made clear. The first of these factors is that transformational leadership tends to be associated with better performance among employees. The second factor that has been made clear through this research is that transactional and laissez-faire leadership tend to be associated with mixed results. The final factor that has been made clear through this research is that different methodologies play a part in the mixed results. The literature has also made it clear that employee perceptions and factors play a crucial part in leadership styles. This has all been made clear through the different studies conducted around the world. In the Ethiopian banking industry, little research has been conducted. The research that has been conducted in this industry has been limited and inconsistent. This provides a new opportunity for new knowledge to be created about the impact of transformational leadership styles and their relationship to employee performance.

The Effect of Transformational Leadership on Employee Performance

Although the majority of empirical research supports the positive effect of transformational leadership on employees' performance, some notable exceptions are worth mentioning. In the context of Nigeria, Ekpenyong (2021) investigated the influence of transformational leadership,

transactional leadership, and laissez-faire leadership on the performance of 60 employees in Guaranty Trust Bank in Abuja. The results revealed a negative and insignificant influence of transformational leadership on employees' performance in Nigeria. These findings are in direct contradiction with the majority of the research on the positive effect of transformational leadership on employees' performance in Nigeria. For example, in a similar context, Adesuyi et al. (2025) found a significant positive effect of transformational leadership and transactional leadership on the performance of 179 finance and accounting specialists in ten banks in Ondo State in Nigeria.

A similar phenomenon is found in Indonesia. In their study, Sugiharjo et al. (2023) employed SEM-PLS to analyze data from 57 purposively selected employees of Bank Syariah Indonesia West Jakarta Branch to examine the impact of leadership style on employees' performance with work environment as a mediator variable. Their findings revealed that there is a negative and statistically insignificant direct effect of leadership style on employees' performance, which is different from other findings in Indonesia. Qomariah et al. (2023) found that leadership style has a positive and significant impact on employees' performance among 41 employees of Bank Jatim, while Ichsan et al. (2021) found positive effects of leadership style with work environment as a mediator variable among 47 employees of Bank Sumut, and Bachmid & Ermawati (2021) found positive effects of leadership style with work environment as a mediator variable among 48 employees of Bank Mandiri Syariah Palu.

Such findings indicate that there are certain exceptions to the overall results, which point to two major issues: First, it appears that the direct relationship between transformational leadership and employee performance could be subject to certain contingencies, including institutional norms, culture, and practices. Second, it is possible that methodological variations, including sampling size, approach (regression vs. SEM-PLS), as well as sampling (purposive vs. random sampling), could have contributed to these inconsistencies in findings. These findings, therefore, emphasize the need for conducting context-specific, comparative studies to identify under what circumstances transformational leadership positively affects employee performance; hence, we hypothesize:

H1: Transformational leadership style has a positive and significant effect on employee performance.

The Effect of Transactional Leadership on Employee Performance

Empirical findings regarding the impact of transactional leadership on employees' performance are more inconsistent than those regarding transformational leadership. While some empirical findings support strong positive effects of transactional leadership, other findings show that it has weak, insignificant, or even negative effects.

Many empirical findings support the notion that transactional leadership has strong positive effects on employees' performance. Al-Zu'bi et al. (2025) conducted an empirical study in Jordan among 356 employees of a bank. By employing PLS-SEM, they found that transactional leadership has a statistically significant positive direct effect on employees' performance, sometimes even stronger than other types of leadership. Thus, it seems that transactional leadership may be even more effective than transformational leadership in some cases. Setiawan et al. (2021) conducted an empirical study in Somaliland and found that transactional leadership has a statistically positive and significant effect on employees' performance, even stronger than transformational leadership. In Sierra Leone, the study by Kebe et al. (2024) used SEM-PLS to examine the relationship between the employees' performance and the two types of leadership, where the results showed that transactional leadership had a greater impact than transformational leadership on the employees' performance.

On the other hand, some research findings show low and statistically insignificant results. In the Malaysian context, Mohamad et al. (2024) found a positive relationship between transactional leadership and performance, which was statistically insignificant in the context of the sample of 380 employees in the financial institution. Shakib (2024) also found the effect of transactional leadership on the performance of 100 employees in an Islamic private bank in Bangladesh to be very low in terms of predictive significance compared to the effect of transformational leadership. Ekpenyong (2021) also found the effect of transactional leadership on the performance of 60 employees in Guaranty Trust Bank in Nigeria to be statistically insignificant and negative, similar to the effect of transformational leadership.

The effectiveness of transactional leadership is context-dependent in the sense that the effect is determined by different factors such as the context in which the research is conducted. Transactional leadership may be highly effective in a particular context, but in other contexts, the effectiveness may not materialize in terms of enhancing employee performance. Therefore, we hypothesize:

H2: Transactional leadership style has a positive and significant effect on employee performance.

The Effect of Laissez-Faire Leadership on Employee Performance

The empirical studies of laissez-faire leadership are few, but the findings are inconclusive. Regarding laissez-faire leadership, the findings are inconclusive. In Malaysia, Mohamad et al. (2024) found that laissez-faire leadership had a significant positive effect on employee performance for 380 bank employees. This contradicts the general view that laissez-faire leadership is not effective. In Pakistan, Asrar-Ul-Haq et al. (2020) found that employees experienced the negative impact of laissez-faire leadership on employee performance, but managers did not find any significant effect of laissez-faire leadership on employee performance. These findings are based on 65 managers and 225 subordinates. Ekpenyong (2021) found positive effects of laissez-faire leadership, but they were statistically nonsignificant for 60 bank employees in Nigeria. Mbogo and Mnyavanu (2025) found that laissez-faire leadership had the least positive effect of all the leadership styles for 60 bank employees in Tanzania.

These findings highlight a number of gaps and inconsistencies in the literature. Firstly, the inconsistencies in the findings, such as those found in Ekpenyong (2021) and Sugiharjo et al. (2023), are not explained in the literature. Secondly, the empirical research on laissez-faire leadership is less common than the research on transformational leadership and transactional leadership. Thirdly, the research on mediating factors such as employee commitment and psychological empowerment is available in the literature, but the organizational context in which these mediating factors are most effective is not specified. Fourthly, the research comparing the importance of mediating factors such as demographics and type of organization (Khan et al., 2023) is available in the literature, but the research on such moderators is limited. Fifthly, the majority of the research is available in the context of Asian and African nations, but the research in the context of developed Western nations is limited. These gaps highlight the importance of context-specific and comparative research in places such as Ethiopian banks to investigate the consequences of laissez-faire leadership on employees' performance. These we hypothesize:

H3: Laissez-faire leadership style has a negative and significant effect on employee performance.

The Effect of Servant Leadership on Employee Performance

Servant leadership was first proposed by Robert Greenleaf (1977). This style of leadership emphasizes the fact that the main aim of a servant leader is to serve and not to lead or gain power. Unlike the transactional and transformational leaders who lead from the front, servant leaders lead from behind and focus on the subordinates' needs (Liden et al., 2008). This style of leadership is highly relevant and can be widely applied in service-oriented industries such as banks, where the workers' and customers' needs are of utmost importance.

The dimensions of servant leadership are emotional healing, creating value for the community, conceptual skills, empowering, helping subordinates grow and succeed, putting subordinates first, and being ethical (Liden et al., 2008). In the banking sector of Ethiopia, Solomon (2025) found that the servant leadership style had a statistically positive and significant effect on the performance of the employees of the Awash Bank, making the concept relevant to the objectives of the proposed study. The inclusion of the servant leadership concept is also significant because the majority of the previous studies on the banking sector in Ethiopia focused only on the typology of transformational-transactional-laissez-faire leadership, making the inclusion of the servant leadership concept relevant and unique relative to the previous studies. Therefore, this is expected to include the concept of servant leadership as an independent variable, in addition to the concepts of transformational, transactional, and laissez-faire leadership styles. The inclusion of the concept of servant leadership is expected to make the proposed study unique relative to the previous literature. Therefore, the proposed hypothesis is as follows:

H4: Servant leadership has a positive and significant effect on employee performance

The effect of Employee Motivation on Work Performance

The relationship between employee motivation and performance has been a subject of scholarly focus, highlighting the significance of the concept in organisational performance. Alshemmari (2023) argues that the motivation of employees is critical in ensuring the availability, commitment, and readiness of the same to execute the responsibilities assigned to them. Motivation in the workplace is an extremely sensitive concept, considering the fact that it has a direct bearing on the extent of commitment an employee is willing to make in the execution of the assigned duties, as well as the quality of output they are willing to produce (Ahmed, Islam,

& Asheq, 2023). In effect, the concept of employee motivation acts as the driving force behind the motivation of an employee to attain specific organizational objectives.

In the contemporary business environment, organizations are increasingly concerned with the development of systematic approaches to motivate their employees as a way of achieving improved performance outcomes. On the other hand, the performance of the employee is considered to comprise the entire gamut of what the employee does and what the employee refrains from doing in the process of executing the employee's task or role. Work performance, as elaborated by Nugraha and Rusmiati (2024), is considered to comprise a number of important aspects, including the quality and quantity of output produced by the employee, regular attendance and punctuality at the place of work, a helpful attitude towards colleagues at the place of work, and the promptness with which the employee completes the tasks and output required of the employee. This is due to the well-established relationship in the literature that an adequately motivated workforce is more likely to channel greater effort, concentration, and subsequently better performance. This is again an important factor that highlights the need to use a holistic approach to understanding motivation in the workplace.

H5: Employee motivation has a positive and significant effect on employee performance

The mediating role of employee motivation

Motivation was also seen as the major means through which leadership styles are related to employees' performance, as motivation is seen to channelize the level, direction, and persistence of efforts expended at the workplace. Leadership was seen to affect the cognitive evaluation of the relation between performance and effort, and the desirability of outcomes, which would indirectly affect motivation for performance, based on the Expectancy Theory. Different leadership styles are seen to be related to different forms of motivation. Vision, support, and participative leadership are seen to be related to autonomous or intrinsic motivation, as this form of motivation satisfies the psychological needs of employees, such as autonomy, competence, and relatedness, based on the Self-Determination Theory. Directive leadership is seen to be related to controlled or extrinsic motivation, as this form of motivation explains the performance-outcome relation, performance-reward relation, and the processes for reaching performance goals, based on the Goal-Setting Theory.

In addition to need satisfaction and reward systems, leadership styles also impact self-efficacy beliefs of employees, which in turn impact the level to which individuals expect that their

efforts will lead to successful performance, thus impacting motivational intensity. Moreover, Social Exchange Theory offers another perspective on the relationship, suggesting that employees reciprocate the support they perceive from the organization in terms of leadership styles with higher levels of motivation. Empirical studies have also supported the role of motivation as a mediator, suggesting that leadership styles do not impact performance directly but rather indirectly through motivation, thus channeling employees' efforts towards organizational goals. Moreover, it is important to note that leadership styles have partial mediation effects on motivation, suggesting that leadership styles also have direct effects on performance through structural alignment, role clarification, and behavioral modeling. Overall, leadership styles activate both autonomous and controlled motivation to varying levels, and motivation plays the pivotal role of being the conduit for the impact of leadership styles on different levels of performance.

H6: Employee motivation mediates the effect of leadership styles on employee performance

2.3.2. Related Studies in Ethiopia

Empirical studies done in Ethiopia continuously looks at the correlation between leadership style and employee performance, primarily in banking and financial industry. These works were conducted in various organizational environments Awash bank, commercial bank of Ethiopia (CBE), Abay bank and Ethiopian SACCOs and the sample size used was between 114 and 336 employees.

Majority of the research articles used the quantitative cross-sectional study design and multiple regressions to evaluate the impact of various types of leadership styles on worker productivity. For instance, Ejigu (2024) conducted a study to determine the effect of transactional, laissez faire, and autocratic leadership styles on worker performance of 171 randomly selected subjects from 15 branches of Awash Bank applying the stratified random sampling method. The findings revealed that transactional, laissez faire, and autocratic leadership styles significantly impacted worker performance. Similarly, Kesto & Aregawi (2021) investigated the influence of transformational, transactional, laissez faire, and authoritative leadership styles on worker performance of 140 randomly selected employees of Commercial Bank of Ethiopia, Head Office. The results of the multiple regression analysis revealed that transformational, transactional, and laissez faire leadership styles significantly impacted worker performance while authoritative leadership style did not have a significant impact on worker performance.

The results of some of the studies conducted using CBE methodology are conflicting. From the data gathered from 216 employees of the Jimma District, Shimelis (2017) analyzed the impact of different leadership styles on employee performance. It was found that transformational, democratic, charismatic, and transactional leadership styles positively and significantly affected the performance of employees. On the other hand, laissez-faire and authoritative leadership styles negatively, but insignificantly, affected the performance of employees.

With a sample of size 336 employees at CBE headquarters, Ephrem (2024) investigated the influence of various leadership styles on the performance of employees. The researcher conducted a multiple regression analysis and concluded that Transformative, Transactional, and Democratic Leadership styles have statistically significant effects on employee performance, whereas servant, bureaucratic, autocratic, charismatic, and laissez faire leadership styles have statistically insignificant influence on employee performance. On the other hand, Mesfin (2023) concluded that autocratic leadership style, democratic leadership style, and laisse-faire leadership, styles have statistically significant and positive effect on the performance of employees. Moreover, in his research study Solomon (2025) analyzed the impact of different leadership styles on performance among 235 participants who were conveniently selected from Awash Bank S.C., Head Office. The study results showed that leadership styles such as participatory, transformational, transactional, laissez-faire, servant and process leadership positively impacted employees' performances at Awash Bank.

Despite the fact that many empirical studies in Ethiopia have explored the link between leadership styles and employee performance, their results are highly contradictory, even at the same industry and organization. As an example, laissez-faire (Worku, 2024; Solomon, 2025; Atrsaw, 2024; Mesfin, 2023; Kesto & Aregawi, 2021; Ejigu, 2024), autocratic (Worku, 2024; Ejigu, 2024), and democratic (Worku, 2024; Atrsaw, 2024; Mesfin, 2023; Ephrem, 2024; Shimelis, 2017) leadership styles have been reported as statistically significant and positively predicting employee performance in one study but as insignificant or even negative in other studies based on similar banking settings (Atrsaw, 2024; Ephrem, 2024; Shimelis, 2017). Such inconsistent findings can be traced throughout the studies that were performed in Awash Bank, Commercial Bank of Ethiopia, and other financial institutions, which implies that there is no consensus on what leadership style actually works.

In spite of the increasing number of empirical investigations that have explored the impact of leadership styles and employee performance in the Ethiopian banking industry, literature

reviews have revealed that existing literature is characterized by inconsistent findings. It is possible that the inconsistent findings of literature may be attributed to the fact that the effectiveness of leadership styles is highly dependent on specific contexts. However, it is evident that most literature findings were based on single organizations, which made it difficult to differentiate whether differences were attributed to differences in leadership styles or differences in specific contexts.

Therefore, despite the significant number of studies conducted on the influence of leadership styles on employee performance, there is still a gap in comparative empirical literature that examines the influence of leadership styles on employee performance using consistent constructs and methodological approaches in different banking institutions. This gap is important in determining whether the influence of leadership styles on employee performance is consistent or whether it differs depending on the organization. Therefore, this study aims to bridge the gap in literature by determining the relationship between leadership styles and employee performance through a comparative study of Awash Bank S.C. and Hibret Bank S.C.

2.3.3. Theoretical Gaps

There are also some theoretical gaps identified in the current literature on leadership and performance, especially in the banking industry in Ethiopia. The areas of disagreement and theoretical tension are as follows:

First, there is theoretical disagreement over whether the effect of transformational leadership on performance is direct or indirect. According to Bass and Avolio (1994), transformational leadership is said to have a direct effect on performance through motivational factors, idealized influence, inspirational motivation, etc. However, the result indicated by Sugiharjo et al. (2023) revealed that the effect of transformational leadership is not direct, but rather fully mediated through the work environment.

Second, the Full Range Leadership Model (FRLM) assumes a hierarchical structure in leadership effectiveness, where transformational leadership comes first, then transactional leadership, and finally laissez-faire leadership. However, research findings did not support this structure. According to Al-Zu'bi et al. (2025) and Setiawan et al. (2021), in banking sectors, transactional leadership was even stronger or equally strong than transformational leadership. Moreover, Mohamad et al. (2024) reported that the effect of laissez-faire leadership was

significant and positive, while theoretically this type of leadership should be considered the least effective leadership style.

Third, the expectancy theory (Vroom, 1964) and the transformational leadership theory differ in their predictions about what factors are considered most important in determining employees' performance. The expectancy theory focuses more on instrumental factors, while the transformational leadership theory focuses more on intrinsic factors. The relative importance of these factors remains theoretically obscure and unknown in a highly structured environment in Ethiopian banks.

2.3.4. Knowledge Gap

The following are the gaps in the knowledge that the current study intends to fill:

Temporal Gap: The majority of the banking leadership studies undertaken in Ethiopia have been conducted between 2017 and 2023 (Shimelis, 2017; Kesto & Aregawi, 2021; Mesfin, 2023; Ejigu, 2024). The period between 2024 and 2026 is marked by major changes in the banking sector in Ethiopia, as the National Bank of Ethiopia has initiated new banking regulations, and foreign banking institutions have begun operations. The temporal gap, as indicated, is the gap the current study intends to fill.

Methodological Gap: The majority of the banking leadership studies undertaken in Ethiopia have been based on single-institution designs (Ejigu, 2024; Solomon, 2025; Worku, 2024; Ephrem, 2024). The banking leadership and performance constructs have been measured using vastly differing instruments. The current study is the first to have undertaken the same standardized and validated instrument, the Multifactor Leadership Questionnaire, in two private banking institutions, namely, the Awash Bank and the Hibret Bank.

Disagreement Gap: The empirical findings on each of the three leadership styles were found to be inconsistent. For example, laissez-faire leadership was rated as a positive and statistically significant predictor of performance in the study conducted at Awash Bank (Solomon, 2025; Ejigu, 2024). However, in other studies on banking sector organizations in Ethiopia, laissez-faire leadership was rated either negative or statistically insignificant (Shimelis, 2017; Ephrem, 2024).

Contextuality Gap: The majority of the studies on the relationship between leadership and performance in the Ethiopian banking sector were conducted on the Commercial Bank of Ethiopia (CBE), which is owned by the government. However, private sector organizations,

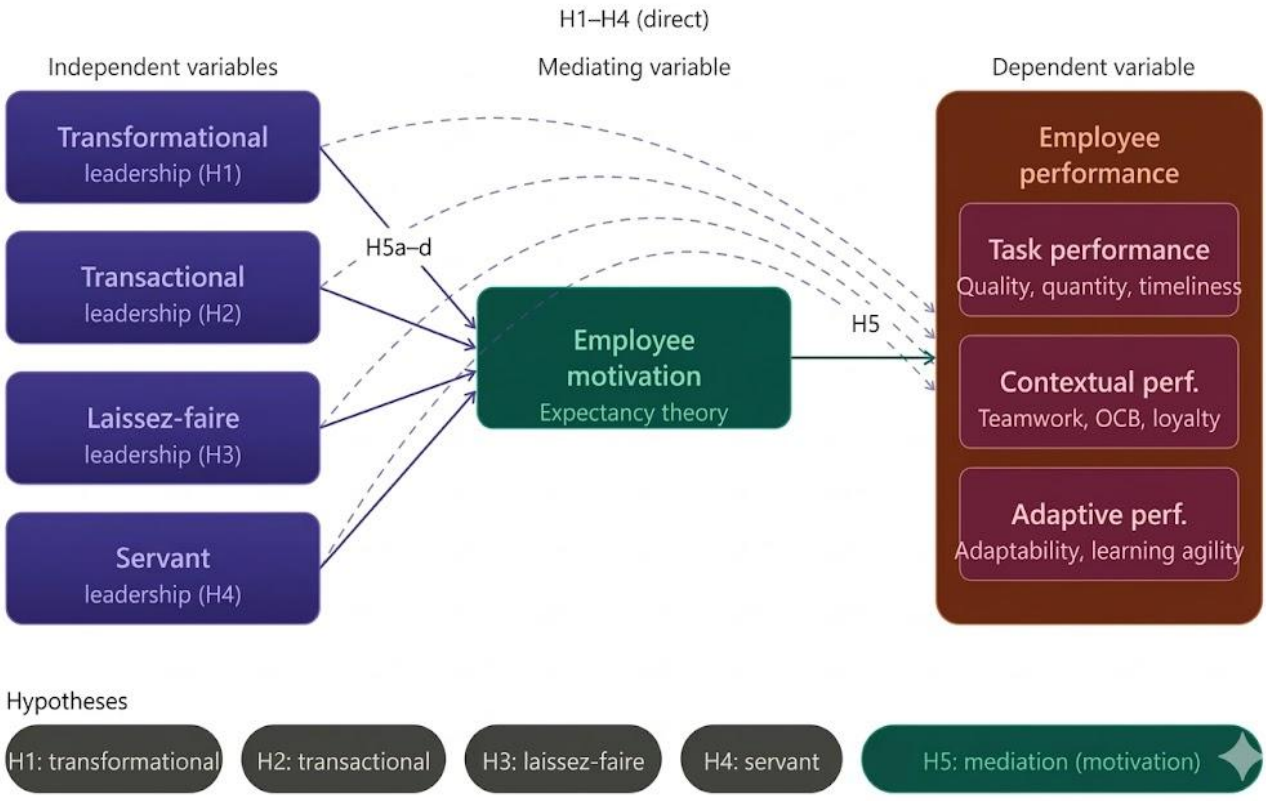
such as Awash Bank and Hibret Bank, have different ownership and competitive scenarios. Therefore, the applicability of findings on leadership-performance relationships in studies on CBE to private sector organizations is unknown.

The above gaps are directly addressed in this study, where private sector organizations in the banking sector in Ethiopia, namely, banking headquarters in Addis Ababa, were exclusively investigated.

2.4. Conceptual Framework

The figure below represents that there are various variables that determine the performance of employees. The dependent variable (DV) is the Employee Performance and the Independent variables (IVs) are leadership style; transformational leadership, transactional leadership, and laissez-faire leadership styles which have a significant effect on employee performance.

Figure 2.1: Conceptual framework of the study



Source: *Hundie & Habtewold (2024).*

The conceptual framework of this study is based on Bass and Avolio's (1991) Full Range Leadership Model (FRLM), which places transformational, transactional, and laissez-faire leadership styles on a continuum from the most to the least active and effective forms of

leadership. The conceptual framework of this study is based on Bass and Avolio's Full Range Leadership Model, which has been widely accepted for conducting leadership-performance research globally (Kebe et al., 2024; Al-Zu'bi et al., 2025) and in Ethiopia (Kesto & Aregawi, 2021; Solomon, 2025). The Full Range Leadership Model is a well-validated framework for assessing how different leadership behaviors differentially affect employee performance outcomes.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter will concentrate on the way the research questions are answered, research methods used in the research, the target audience, sample size, and other sources of varied data that can be employed to answer the research question.

3.2. Research Design

Research design refers to the general plan that links the conceptualized research problem to the actual empirical inquiry (Yin, 2009). This particular study aims to explore the link that exists between leadership styles, including transformational leadership, transactional leadership, and laissez-faire leadership, and employee performance in some selected banks in Ethiopia. To achieve the objectives of the proposed study, a quantitative cross-sectional survey is employed.

The proposed study used a descriptive component of the research design to establish the incidence of leadership styles in the selected banks and the level of employee performance. Descriptive design provides an in-depth look at the phenomena of interest without any implication of causality (Orodho & Kombo, 2002).

3.3. Research Approach

With respect to research approach, the study adopted a quantitative research design, where a survey questionnaire is employed in order to gather data from the sample respondents. As Creswell (2009) argues, the inquiry tactics of the quantitative approach involve experiments and surveys, and information is gathered on identified instruments that provide numeric information, which can be analyzed through statistical procedures. It is an approach for assessing objective concepts through an examination of the relationship between variables. It is practical because it applies a scientific approach to determine the reliability and validity of the instrument. It uses a large sample size to minimize bias brought about by the influence of the

researcher. Consequently, the findings can be relied on and generalized to a larger group of people. However, it is unable to respond to those concerns that are not measurable.

3.4. Population and Sampling Design

3.4.1. Population

The target population consists of the total number of employees in the headquarters of both Awash Bank S.C. and Hibret Bank S.C. As of 31st December 2025, the number of employees in Awash Bank is 541, and the number of employees in Hibret Bank is 489. Therefore, the total number of employees is 1,030. The target population is clear and accessible and is relevant for the study in terms of making inferences on leadership styles and employees' performances (Mugenda & Mugenda, 2003).

The selection of Awash Bank S.C. and Hibret Bank S.C. is grounded in comparative research design logic rather than convenience alone. Comparative case selection is strongest when cases are matched on background variables so that the variable of theoretical interest, here, leadership style, can be more confidently isolated as the explanatory factor for variation in employee performance (Przeworski & Teune, 1970). This "most similar systems" logic holds that selecting units alike in structure and context but potentially differing on the independent variable strengthens causal inference, since observed outcome differences become less attributable to confounding institutional factors (Przeworski & Teune, 1970). The similarity in size, customer base, and organizational structure between the two banks approximates this controlled comparison.

The shared regulatory environment reinforces this logic. Because both banks are supervised by the National Bank of Ethiopia, they face common coercive and normative pressures that, per institutional isomorphism theory, push organizations under a shared regulator toward structurally similar practices over time (DiMaggio & Powell, 1983). This reduces the likelihood that performance differences stem from divergent regulatory context, consistent with contingency theories of leadership, which hold that leadership effectiveness depends on situational favorableness (Fiedler, 1967), making leadership style the more credible explanatory variable once context is held constant.

Finally, the adequate headquarters staff size at each bank supports the measurement requirements of multi-item leadership constructs, which need sufficiently powered samples for reliable estimation (Van Dierendonck et al., 2023). The absence of prior research applying

identical leadership-style constructs across both institutions further identifies a genuine empirical gap, since existing banking studies have largely examined single institutions in isolation (Charting Success, 2024).

3.4.2. Sampling Design

3.4.2.1. Sampling Frame

A sampling frame is defined as a complete list of all individuals contained in the population from which the sample is selected (Creswell & Plano, 2011). In our study, the sampling frame is comprised of all employees of Awash Bank headquarters and Hibret Bank headquarters, which is obtained from the Human Resource departments of the respective organizations. This ensured that everyone in the population has an equal probability of being selected.

3.4.2.2. Sampling Technique

The simple random sampling technique is used in selecting the respondents. This is because the technique would ensure that every employee in the organization had an equal chance of being picked for the sample. This would ensure the representativeness of the sample since the chance of sampling bias is eliminated (Orodho, 2002). The population is also somewhat homogeneous in terms of job characteristics and exposure to leadership practices in the headquarters.

3.4.2.3. Sample Size

The study sample only included employees of Awash Bank S.C. and Hibret Bank S.C. who are at the head office. A random probability sampling procedure is used to select 450 respondents, 230 belonging to Awash Bank S.C and 220 belonging to Hibret Bank S.C. The sample size of the study is obtained when the Yamane (1967) formula is used. The formula is shown below;

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

Where;

n_0=sample size

N=population size

e=the level of precision, set at 5% for this study.

After using the formulae, the researcher found out that the study's sample size is;

$$n0 = \frac{541}{1 + 541(0.05^2)}$$

The sample size from Awash Bank S.C. is 229.97, approximately 230.

$$n0 = \frac{489}{1 + 489(0.05^2)}$$

The sample size from Hibret Bank S.C. is 220.02, approximately 220.

3.4.2.4. Expected Response Rate

The expected percentage of responses for this survey, given the similar organizational setting of past surveys, is assumed to be around 80%. This assumption is based on the guidelines provided in Mugenda and Mugenda (2003). A total of 450 questionnaires are distributed proportionally in order to reach an expected effective number of 360.

3.5. Data Type and Sources

3.5.1. Data Type

Primary data were collected directly from the target audience via questionnaires that have been designed for the objectives of the research. The secondary data were collected from the banks' web site and also from other relevant literatures.

3.5.2. Data Sources

Primary and secondary sources were used in collecting data for this research work. The variables of the study were measured using 5-point Likert scale questionnaires. Secondary data were collected from theoretical and empirical literatures, books, journals, internet, and other sources.

3.6. Measurement Instruments and Scales

Laissez-faire leadership

The assessment of laissez-faire leadership is based on 5 items that measure the level of involvement of managers in the work processes of their subordinates. Some of the items used to measure laissez-faire leadership include "In difficult situations, the manager lets the subordinate solve the problem on their own," "The leaders need to stay away from the subordinate while they work," and "The leaders allow the subordinates to evaluate their own performance." These

measurement items are based on the passive nature of laissez-faire leadership, where leaders do not get involved in the activities of their employees, as noted by Desgourdes et al. (2024).

Transactional leadership

Transactional leadership is evaluated using 8 items that focus on evaluating management practices related to contingent reward systems and problem-focused monitoring (Mendoza-Martinez et al., 2025). Some of the items that were related to this subdimension were: The leader helps me "in return for my contribution," "discuss in detail who has the responsibility for meeting the performance objectives," and "clarify exactly what one might receive once the performance objectives have been met."

Transformational leadership

Transformational leadership is also measured using 12 items that cover four primary dimensions: Idealized Influence (Charisma), Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration (Mendis, 2025). These four dimensions cover leadership behaviors that are inspirational, motivational, and developmental in nature (Desgourdes et al., 2024).

Employee Performance

The performance of employees was assessed through a structured questionnaire comprising ten items grouped under four performance dimensions: organizational goal clarity, task performance, contextual performance, and performance influences related to leadership.

Item 1 was designed to measure employees' knowledge of the organization's mission, vision, and goals. This item was developed to measure employees' organizational goal clarity. The performance of employees in their tasks was assessed through two items measuring work efficiency and punctuality in completing assigned tasks (Items 2 and 3). Two items measuring team spirit in the department and supervisory support in attaining work goals were developed to measure contextual performance (Items 4 and 7). Employee performance in performance evaluation and motivation was assessed through items measuring result-based rewards and individual work motivation (Items 5 and 6). The performance influences of leadership were assessed through three items measuring positive and negative leadership influences on performance. These items included supervisory constraints and reduced employee confidence in performance. Two of the items measuring leadership performance influences are worded negatively.

In line with the multidimensional nature of employee performance (Al Zeer et al., 2023; Aguilera et al., 2024), the present study examines employee performance on three dimensions: Task Performance, Contextual Performance, and Adaptive Performance. The inclusion of adaptive performance is significant in the banking sector, especially in the Ethiopian banking system, where the banking environment is changing rapidly and is characterized by the use of modern banking technologies, and is an important gap in the previous literature, where only task and contextual performance have been considered.

3.7. Data Collection Instruments

Information was collected by the use of a closed-ended questionnaire in order to collect very useful and viable information that will be required in the research process. According to Bulmer (2004), the use of questionnaires has become a widely used method of information collection in the field of social sciences where information regarding participants' social characteristics, behaviors, attitudes, reasons behind actions, and attitudes towards the issues being investigated are sought. It is the most effective method of information collection for this particular study, since the purpose of this research is to gauge participants' perceptions about factors influencing their performances.

The surveys will be beneficial since they will be quick, anonymous, and lack any biases that the interviewers may possess (Kombo & Tromp, 2011). Hence, a structured and close-ended questionnaire is used for obtaining the required information. The questions will be set up as a Likert Scale based on secondary data collected from previous studies with values from “1” (Strongly Disagree) to “5” (Strongly Agree).

3.8. Measurement Validity and Reliability

The measurement items employed in this study are based on previously validated scales used in leadership and employee performance studies.

Content Validity

Ensuring content validity of the questionnaire involves reviewing the questionnaire items to ensure they adequately represent the constructs of interest. This involves seeking evaluation of the questionnaire by experts in academics and supervisors, who review the questionnaire for its adequacy in representing the constructs of leadership and employee performance.

Construct Validity

Construct validity will be carried out through statistical methods. In this regard, factor analysis will be used during data analysis. The aim of using factor analysis is to validate that the

measurement items are loading correctly onto their intended constructs, thus confirming that the questionnaire measures the theoretical constructs of leadership styles and employee performance correctly.

Reliability Testing

The reliability of the measurement scales will be tested using Cronbach's alpha. The acceptable value for Cronbach's alpha coefficient is 0.70 and above.

3.9. Data Analysis and Presentation

Both descriptive and inferential analyses are employed for the analysis of the primary data. Descriptive analysis is employed to investigate the characteristics of the study variables and the leadership styles commonly perceived by employees. Inferential analysis is done in order to investigate the relationship that exists between the study variables.

To study the direct impact of leadership styles on employee performance, hypothesis 1 to hypothesis 4 are tested using multiple linear regression analysis. To study the indirect impact of leadership styles on employee performance through employee motivation, hypothesis 5 to 8 are tested using Partial Least Squares Structural Equation Modeling. PLS-SEM is an ideal method for testing hypothesis 5 because it is capable of estimating both the measurement and the structural models simultaneously, handling non-normal distribution of the collected data, and testing both direct and indirect effects in one analysis. To establish the indirect effects, the bootstrapping method with 5,000 resamples is used to produce bias-corrected confidence intervals. Descriptive analysis is done using the Statistical Package for Social Sciences (SPSS) version 27. Mediation and path analysis is done using SmartPLS version 4.

The regression model is illustrated as follows:

Model 1: IV → Mediator (testing H5a–d)

$$MOT = \alpha + \beta_1 TRANSFL + \beta_2 TRANSL + \beta_3 LFL + \beta_4 SL + e$$

Model 2: IV → DV direct (testing H1–H4)

$$EP = \alpha + \beta_1 TRANSFL + \beta_2 TRANSL + \beta_3 LFL + \beta_4 SL + e$$

Model 3: IV + Mediator → DV (full mediation test)

$$EP = \alpha + \beta_1 TRANSFL + \beta_2 TRANSL + \beta_3 LFL + \beta_4 SL + \beta_5 MOT + e$$

Where;

α = The constant

β_1- β_5 = The parameters

EP = Employees' Performance

TRNASFL = Transformational Leadership Style

TRNASFL = Transactional Leadership Style

LFL = Laissez-Faire Leadership Style

SL = Servant Leadership

e = error term

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

4.1. Introduction

This chapter highlights the findings of the survey study done among 310 employees working at Awash Bank S.C. and Hibret Bank S.C. Response patterns, demographic profile, and general characteristics of survey respondents will be presented to justify the reliability and validity of the sample chosen for this study. Statistical tests in relation to the hypotheses formulated in the previous chapters were performed by employing Partial Least Squares Structural Equation Modeling (PLS-SEM) approach in SmartPLS 4.0 based on path coefficient, explanatory power (R^2) and predictive relevance (Q^2). Eight hypotheses were tested, and an emphasis was also made on the mediation effect of employee motivation in leadership-employee performance relationships.

4.2. Analysis of Survey Response

4.2.1. Response Rate

There was a total number of 450 participants in the study. Questionnaires were structured for these participants before being collected back from them. Out of 450 questionnaires that were administered, there were 310 completed questionnaires that were analyzed, whereas 23 were discarded owing to missing information in many variables. According to Mirzaei et al. (2022), missing cases should be removed from the analysis since these cases do not represent the target population at all, leading to skewed statistics. Therefore, 310 cases were retained for further analysis (Table 4.1).

Table 4.1: Response Rate

Questionnaire	Frequency	Percentage
Distributed Questionnaires	450	100
Questionnaires Returned	333	74
Questionnaires Unreturned	117	26

Rejected Questionnaires	23	5.1
Usable Questionnaires	310	68.9

Source: Survey data (2026)

In conclusion, the total number of respondents who participated in this study was 310, thus indicating a response rate of 68.9%. This response rate is regarded as good enough considering the levels of participation in the study. In a report published by Sataloff and Vontela (2021), a good response rate for survey-based research should be more than 60%, and at least 50%.

4.2.2. Demographic Profile of the Respondents

This section provides a description of the respondents' demographic profile with the inclusion of gender, age, length of services, and academic qualification as presented in Table 4.2.

Table 4.2: Respondents' demographic characteristics

No.	Items	Variables	Frequency	Percent
1	Gender	Male	162	52.3
		Female	148	47.7
		Total	**310**	**100.0**
2	Age	21-30	87	28.1
		31-40	117	37.7
		41-50	74	23.9
		Over 50	32	10.3
		Total	**310**	**100.0**
3	Education	Diploma	25	8.1
		First Degree	174	56.1
		Second Degree	88	28.4
		PhD	23	7.4
		Total	**310**	**100.0**
4	Experience	< 3 Years	68	21.9
		3-5 Years	101	32.6
		6-10 Years	94	30.3
		> 10 Years	47	15.2
		Total	**310**	**100.0**

Source: Survey data (2026)

The characteristics of the 310 respondents participated in the study are provided in Table 4.2 above. As can be seen, the sample comprised mostly male respondents (52.3%) and females (47.7%), demonstrating that there is a well-balanced representation of both sexes within the selected sample of research participants.

In relation to age, most respondents fall in the age group of 31-40 years (37.7%, n = 117), followed by those in the age range of between 21 & 30 years (28.1%, n = 87), 41-50 years (23.9%, n = 74) and more than 50 years old (10.3%, n = 32). It should be noted that the participants have an average age; therefore, their experiences would be more relevant to the research problem.

With regards to educational attainment, over fifty percent of the total number of respondents had attained a bachelor's degree (56.1%, n=174), while others had master's degrees (28.4%, n=88), diplomas (8.1%, n=25), and PhDs (7.4%, n=23). From the foregoing, we can deduce that a large percentage of the total sample has an adequate educational background and can provide reliable information about the study variables.

On the other hand, regarding work experience, respondents who had three to five years of working experience represented the largest group (32.6%, n=101), followed by those with six to ten years of experience (30.3%, n=94), those with less than three years of experience (21.9%, n=68), and lastly, those with more than ten years of experience (15.2%, n=47).

4.2.3. Descriptive Analysis

In this section, the descriptive statistics of transformational leadership, transactional leadership, laisseizfaire leadership, servant leadership, employee motivation, and employee performance are provided. According to Table 4.5, the mean scores and standard deviations are presented for each variable. To facilitate interpretation of the five-point Likert scale applied to this research, the response was divided into three intervals, namely: low (1.0-2.5), medium (2.5-3.5), and high (3.5-5.0). Following Nameni and Dowlatabadi (2019), this classification facilitates interpretation of results.

Overall, the highest mean score obtained was 3.79 (transactional leadership), while the lowest was 2.41 (employee motivation); standard deviations are also included for better understanding of the data distribution in each variable. Table 2 below shows the descriptive statistics of the six independent and dependent variables using a sample size of 310 participants. Transformational Leadership had the highest mean of 3.79 (SD = 0.57), thus, is within the high interval (3.5-5.0) category. Servant Leadership followed with a mean of 3.78 (SD = 0.63), also within the high range. The same trend can be observed with Transactional Leadership that had a mean of 3.59 (SD = 0.65), thus, still within the high interval, although relatively lower than transformational and servant leadership styles.

Means for variables "Employee Motivation" and "Employee Performance" were 3.75 (SD = 0.62) and 3.75 (SD = 0.67) respectively. Both variables' means were in the range of high interval. Thus, based on these findings one can state that employees considered their levels of motivation and overall performance quite high; it can be attributed to the impact of leadership styles prevailing in the organization. As far as "Laissez-faire Leadership" variable is concerned, its lowest mean was 2.41 (SD = 0.71). It was also the only variable whose mean was within the range of the low interval (1.0-2.5).

Therefore, employees regarded laissez-faire leadership style, which implies non-interference and no supervision, as non-existent or used very seldom. Summing up, one can conclude that prevailing leadership styles in an organization are transformational, servant, and transactional, which coincide with high levels of employee motivation and performance.

Table 4.3: Descriptive Statistics of the Constructs (n=310)

No.	Variables	N	Mean	Std. Dev.
1	Transformational Leadership	310	3.7917	.56824
2	Transactional Leadership	310	3.5891	.65319
3	Laissez-faire Leadership	310	2.4110	.71163
4	Servant Leadership	310	3.7778	.63066
5	Employee Motivation	310	3.7471	.62305
6	Employee Performance	310	3.7546	.67144

Source: Survey data (2026)

4.3. Assessment of PLS-SEM Path Model

Data analysis was done in the study using the Smart PLS 4.0 software (Sarstedt et al., 2020). It is commonly used in research for marketing and management sciences (Cheah et al., 2026). Analysis and interpretation of a PLS model are mostly performed using a two-step approach (Hair et al., 2021). The initial step involves assessing the measurement model in order to evaluate its validity and reliability involving the following aspects; item reliability, internal consistency, convergent validity and discriminant validity. The second step entails analyzing the structural model where analysis involving the coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2) will be performed, followed by the hypothesis testing through the bootstrapping method.

Conceptual framework of the current study includes 55 items of the reflective measurement for manifest variables. There are six latent variables that encompass four independent variables,

Transformational Leadership, Transactional Leadership, Laissez-Faire Leadership, and Servant Leadership, one mediator, Employee Motivation, and one dependent variable, Employee Performance.

Overall, this study developed 8 hypotheses, which are shown in Figure 2.1 in the chapter discussing the conceptual framework. The theoretical framework will consider how transformational leadership, transactional leadership, servant leadership, and laissez-faire leadership influence directly the performance of employees and how the role of the motivation of employees can mediate the relationship between the styles of leadership and performance of employees.

4.3.1. Assessment of Measurement Model

There are two main methods that can be applied when evaluating measurement models and they include validity and reliability wherein the validity method measures whether the instrument under test measures what it is supposed to measure regardless of the concept under consideration while the reliability test checks the quality of an instrument as per its ability to measure what it should (Hair et al., 2021). The evaluation of reflective measurement items was done in accordance with the guidelines outlined by Hair et al. (2021). These tests were carried out in the following sequence; individual reliability of the item, internal reliability, convergent validity and discriminant validity.

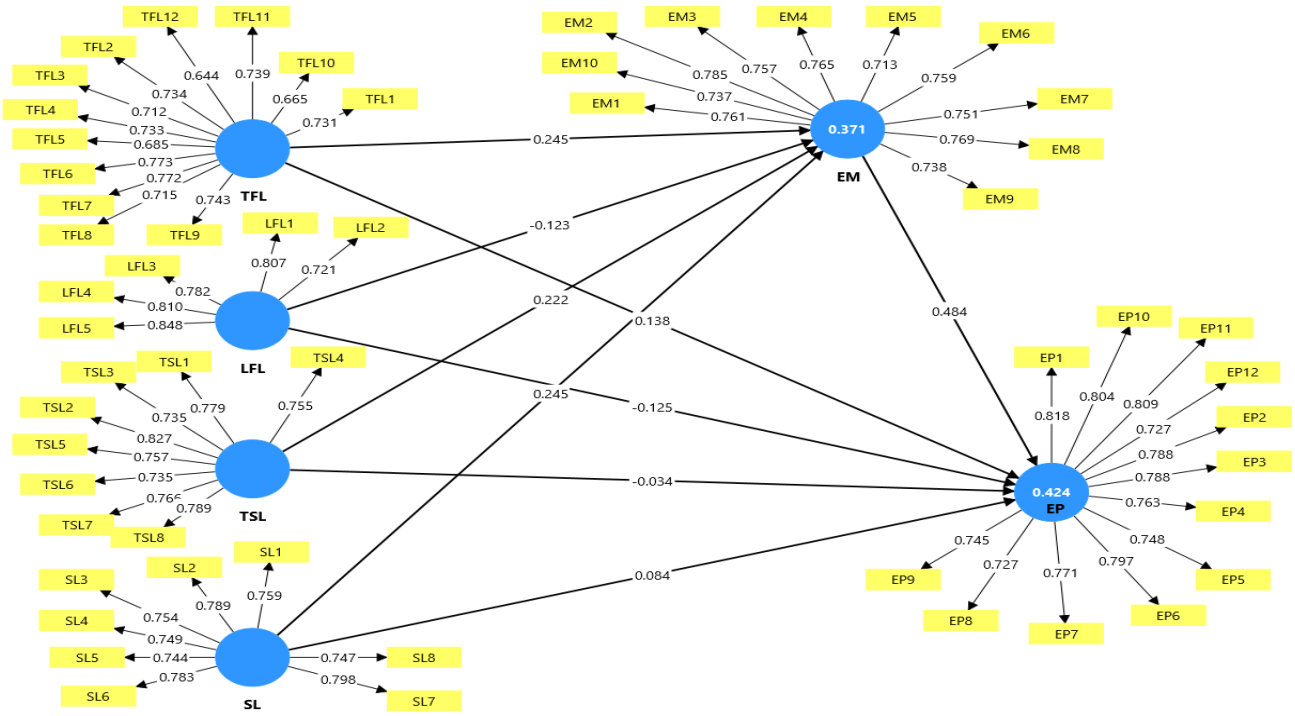
4.3.1.1. Validation of the Measurement Model

Reliability and validity test of the measurement model was done based on the existing guidelines, such as the level of consistency, reliability of construct, and validity. The reliability and validity outcomes of constructs are presented in Table 4.4 below.

Test of Individual Indicator Reliability

Test of individual indicator reliability involved analysis of outer loadings of measures of each construct. Hair et al. (2021) explained that indicator loadings/ factor loadings need to be greater than 0.70. Based on this guideline, the current study used 0.70 as the cutoff value of factor loading. Consequently, the study found out that out of 55 indicators, three loadings were excluded due to having small loadings (<0.70). In particular, the loadings of TFL 10, TFL 12, and TFL 5 were excluded because of having loadings less than 0.7. It follows that only 52 loadings out of 55 had loadings ranging from 0.705-0.845 (See Table 4.6 & Fig 4.1 below).

Figure 4.1: Measurement Model Assessment



4.3.1.2. Internal Consistency Reliability Test

Internal consistency reliability refers to the extent to which all the questions on a certain scale/sub-scale gauge the same underlying dimension or concept (Revicki, 2023). The two most popularly adopted measures of internal consistency reliability include Cronbach's alpha coefficient and composite reliability (Cheung et al., 2026).

To evaluate the internal consistency reliability of the constructs used in the current study, composite reliability was used rather than the conventional Cronbach's alpha. Composite reliability has been regarded as a better reliability measure especially when it comes to structural equation modeling and, particularly, partial least squares structural equation modeling (PLS-SEM). Unlike Cronbach's alpha, which assumes equal contributions of the items measuring a construct and equal factor loadings, composite reliability recognizes unequal contributions of the indicators (Hair et al., 2021). Thus, while Cronbach's alpha may under-represent the true levels of reliability, especially in cases where there is inequality between the factor loadings, composite reliability gives a better estimation (Sarstedt et al., 2020). Considering these advantages, composite reliability has recently been recommended for evaluating reliability in SEM studies (Sarstedt et al., 2020).

Also, the loading of all the variables must be above 0.70, according to Hair et al. (2021). Values greater than 0.70 (composite reliability coefficient) represent the extent to which the indicators represent the construct latent variable. In this research, the overall value of composite reliability ranged between 0.714 and 0.848 for the constructs (Table 4.4).

Table 4.4: Constructs' Loadings, Cronbach's Alpha, Composite Reliability and AVE.

Variables	Indicators	Loadings	Cronbach's Alpha	CR	AVE
Transformational Leadership	**TFL1**	0.731	0.903	0.907	0.562
	TFL10	0.665			
	TFL11	0.739			
	TFL12	0.644			
	TFL2	0.734			
	TFL3	0.712			
	TFL4	0.733			
	TFL5	0.685			
	TFL6	0.773			
	TFL7	0.772			
	TFL8	0.715			
	TFL9	0.743			
Transactional Leadership	**TSL1**	0.779	0.901	0.907	0.591
	TSL2	0.827			
	TSL3	0.735			
	TSL4	0.755			
	TSL5	0.757			
	TSL6	0.735			
	TSL7	0.766			
	TSL8	0.789			
Servant Leadership	**SL1**	0.759	0.899	0.900	0.586
	SL2	0.789			
	SL3	0.754			
	SL4	0.749			
	SL5	0.744			
	SL6	0.783			
	SL7	0.798			
	SL8	0.747			
Laissez-faire Leadership	**LFL1**	0.807	0.854	0.865	0.631
	LFL2	0.721			
	LFL3	0.782			
	LFL4	0.810			
	LFL5	0.848			
Employee Motivation	**EM1**	0.761	0.916	0.917	0.568
	EM10	0.737			
	EM2	0.785			
	EM3	0.757			
	EM4	0.765			
	EM5	0.713			
	EM6	0.759			
	EM7	0.751			

	EM8	0.769			
	EM9	0.738			
	EP1	0.818			
	EP10	0.804			
	EP11	0.809			
	EP12	0.727			
	EP2	0.788			
Employee Performance	**EP3**	0.788	0.939	0.941	0.599
	EP4	0.763			
	EP5	0.748			
	EP6	0.797			
	EP7	0.771			
	EP8	0.727			

Note. CR = Composite Reliability, AVE = average variance extracted.

4.3.1.3. Convergent Validity Test

Convergent validity refers to how well the items are consistent that are designed to measure the same construct are (Chin & Yao, 2024). The test of convergent validity is done by considering the correlations among the responses derived from different methods of measuring the same construct (Cheung et al., 2024). The most common way of testing convergent validity of each latent construct is the AVE approach (Hair et al., 2021).

AVE represents the shared variance of a construct with its indicators. According to Hair et al. (2021), AVE value above 0.50 demonstrates sufficient convergent validity. As can be seen from Table 4.4, in this study, the AVE coefficient of all the constructs are between 0.562 and 0.631, implying convergent validity was satisfactory. Thus, the constructs had adequate reliability and validity required for carrying out structural model analysis (Hair et al., 2021).

4.3.1.4. Discriminant Validity Test

Discriminant validity refers to the extent to which the items evaluate the constructs differently, or alternatively, the extent to which they are measured using the specific constructs. With regard to this, Rönkkö & Cho (2022) state that discriminant validity refers to the representation of each latent construct has a value of AVE. In this process, comparisons are done between the correlation values among the latent constructs and the square roots of average variance extracted, or secondly, by comparing indicator loadings against all cross loadings.

In this case, discriminant validity for the measure in the current study has been examined using Fornell and Larcker's criterion and Heterotrait-Monotrait (HTMT) ratio. Finally, the measurement model was tested to assess the distinctiveness of the constructs of interest. Following the recommendation of Hair et al. (2021), we used the heterotrait-monotrait (HTMT)

ratio to test whether the variance shared within each construct (AVE) was larger compared to the variance shared between constructs. Based on Table 4.5, all HTMT ratios were less than the value of 0.9 (Hair et al., 2021).

Table 4.5: Heterotrait-monotrait ratio (HTMT)

	EM	EP	LFL	SL	TFL
EP	0.660				
LFL	0.329	0.356			
SL	0.531	0.458	0.419		
TFL	0.523	0.446	0.252	0.535	
TSL	0.463	0.297	0.141	0.361	0.468

Note: *EM= Employee Motivation, EP = Employee Performance, LFL = Laissez-faire Leadership, SL = Servant Leadership, TFL = Transformational Leadership, TSL = Transactional Leadership.*

Moreover, the Fornell-Larcker criterion table is a matrix that shows the square root of the Average Variance Extracted (AVE) of each construct on the main diagonal and correlations between constructs in off-diagonals. The Fornell-Larcker criterion test is applied in assessing discriminant validity. In this regard, the AVE is considered as the indicator of internal consistency and, thus, the construct's AVE must be higher than all other correlations with other constructs to confirm discriminant validity. As demonstrated below, the values of the main diagonals (AVE square roots) in the Fornell-Larcker criterion table are larger than off-diagonal values of correlations. That is, all diagonals' values exceed all other correlations with the corresponding constructs. For instance, from Table 4.6 above, the AVE value for the EM construct is 0.754. However, this value exceeds correlations between all other constructs. The same trend continues with all other constructs as well, meaning that all constructs under analysis are different from one another and do not measure the same construct at all. Therefore, the application of the Fornell-Larcker criterion shows that discriminant validity is high enough for all constructs.

Table 4.6: Fornell-Larcker Criterion

	EM	EP	LFL	SL	TFL	TSL
EM	0.754					
EP	0.616	0.774				
LFL	-0.296	-0.325	0.795			
SL	0.485	0.423	-0.371	0.766		
TFL	0.483	0.418	-0.224	0.486	0.750	
TSL	0.426	0.277	-0.125	0.326	0.428	0.769

Note: *EM= Employee Motivation, EP = Employee Performance, LFL = Laissez-faire Leadership, SL = Servant Leadership, TFL = Transformational Leadership, TSL = Transactional Leadership.*

As stated, one can prove the discriminant validity through a comparison of the indicator loadings and the cross loadings (Dirgiatmo, 2023). Cross loadings show the presence of correlation between an indicator and another factor except the main factor on which an indicator is loaded (Rönkkö & Cho, 2022). Adequate discriminant validity implies that all indicator loadings should be larger than their cross loadings (Dirgiatmo, 2023). The Table 4.7 below shows the comparison of indicator loadings with reflective indicators – it seems like all the indicator loadings are greater than their cross loadings, indicating adequate discriminant validity for the further analysis.

Table 4.7: Loadings and Cross Loadings

	EM	EP	LFL	SL	TFL	TSL
EM1	**0.761**	0.475	-0.237	0.351	0.393	0.342
EM10	**0.737**	0.456	-0.218	0.320	0.330	0.325
EM2	**0.785**	0.522	-0.255	0.412	0.403	0.337
EM3	**0.757**	0.462	-0.226	0.348	0.423	0.324
EM4	**0.765**	0.458	-0.265	0.402	0.317	0.338
EM5	**0.713**	0.414	-0.116	0.313	0.329	0.321
EM6	**0.759**	0.469	-0.222	0.453	0.407	0.305
EM7	**0.751**	0.499	-0.246	0.401	0.338	0.235
EM8	**0.769**	0.440	-0.188	0.299	0.395	0.357
EM9	**0.738**	0.434	-0.241	0.342	0.373	0.335
EP1	0.525	**0.818**	-0.295	0.354	0.400	0.202
EP10	0.507	**0.804**	-0.313	0.350	0.327	0.219
EP11	0.550	**0.809**	-0.189	0.344	0.357	0.195
EP12	0.415	**0.727**	-0.187	0.264	0.273	0.151
EP2	0.431	**0.788**	-0.251	0.321	0.305	0.179
EP3	0.481	**0.788**	-0.278	0.281	0.353	0.222
EP4	0.486	**0.763**	-0.232	0.361	0.313	0.244
EP5	0.464	**0.748**	-0.287	0.354	0.365	0.214
EP6	0.486	**0.797**	-0.246	0.316	0.313	0.205
EP7	0.440	**0.771**	-0.226	0.329	0.343	0.250
EP8	0.479	**0.727**	-0.268	0.305	0.310	0.280
EP9	0.429	**0.745**	-0.240	0.340	0.330	0.212
LFL1	-0.267	-0.278	**0.807**	-0.316	-0.212	-0.077
LFL2	-0.187	-0.187	**0.721**	-0.232	-0.163	-0.064
LFL3	-0.218	-0.232	**0.782**	-0.314	-0.191	-0.097
LFL4	-0.244	-0.291	**0.810**	-0.321	-0.159	-0.126
LFL5	-0.247	-0.284	**0.848**	-0.281	-0.153	-0.123
SL1	0.347	0.302	-0.299	**0.759**	0.417	0.232
SL2	0.360	0.371	-0.323	**0.789**	0.408	0.226
SL3	0.386	0.287	-0.292	**0.754**	0.389	0.283
SL4	0.400	0.314	-0.261	**0.749**	0.375	0.248

SL5	0.359	0.334	-0.274	**0.744**	0.352	0.294
SL6	0.369	0.357	-0.308	**0.783**	0.398	0.247
SL7	0.349	0.303	-0.225	**0.798**	0.335	0.245
SL8	0.398	0.317	-0.282	**0.747**	0.371	0.225
TFL1	0.404	0.374	-0.237	0.350	**0.731**	0.312
TFL11	0.378	0.316	-0.209	0.390	**0.739**	0.273
TFL2	0.320	0.265	-0.130	0.353	**0.734**	0.364
TFL3	0.308	0.240	-0.150	0.330	**0.712**	0.265
TFL4	0.306	0.316	-0.205	0.352	**0.733**	0.309
TFL6	0.406	0.343	-0.188	0.423	**0.773**	0.390
TFL7	0.415	0.349	-0.147	0.412	**0.772**	0.328
TFL8	0.301	0.259	-0.119	0.310	**0.715**	0.317
TFL9	0.378	0.316	-0.104	0.336	**0.743**	0.323
TSL1	0.351	0.246	-0.085	0.248	0.340	**0.779**
TSL2	0.387	0.235	-0.102	0.297	0.401	**0.827**
TSL3	0.265	0.180	-0.097	0.269	0.295	**0.735**
TSL4	0.333	0.227	-0.107	0.218	0.367	**0.755**
TSL5	0.304	0.194	-0.045	0.231	0.301	**0.757**
TSL6	0.257	0.148	-0.117	0.198	0.300	**0.735**
TSL7	0.288	0.250	-0.127	0.272	0.318	**0.766**
TSL8	0.393	0.203	-0.092	0.263	0.395	**0.789**

Note: *EM= Employee Motivation, EP = Employee Performance, LFL = Laissez-faire Leadership, SL = Servant Leadership, TFL = Transformational Leadership, TSL = Transactional Leadership.*

4.3.2. Assessment of Structural Model

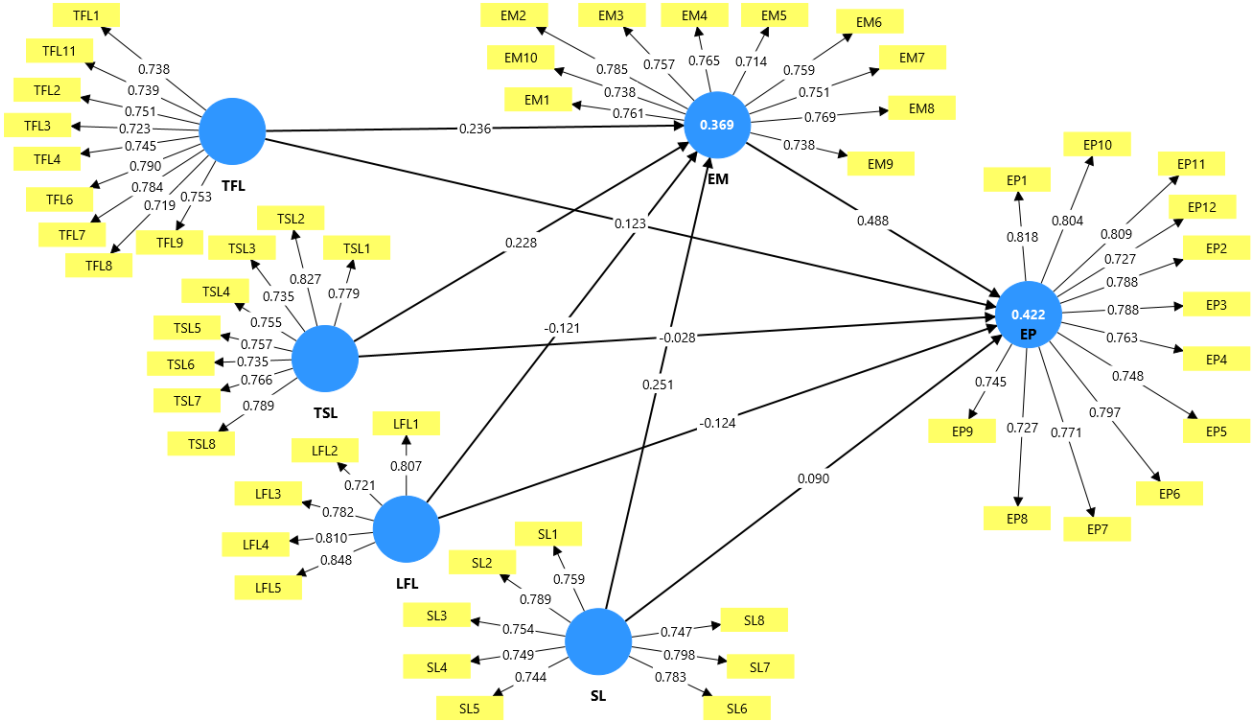
In continuation to the results from analysis of the measurement model, the next procedure entails the use of PLS to investigate the structural model through the inner model analysis. For identification of any misspecifications on the PLS-SEM structural model developed, the current study utilized three guidelines on assessing the model fit, R^2 values, effect size (f^2), and predictive relevance of the model, according to Hair et al. (2017). For testing of the proposed hypotheses in the current study, the level and significance of path coefficients were investigated in addition to bootstrapping procedures. Furthermore, statistics on mediating variables such as employee motivation are provided.

4.3.2.1. Variance Explained in the Endogenous Latent Variables

The main indicators used for assessing the structural model in PLS-SEM include the value of R^2 and the magnitude and significance of path coefficients (Hair et al., 2017). Because PLS-SEM seeks to predict and explain variance in endogenous latent variables, obtaining R^2 values for important outcome constructs becomes imperative. R^2 refers to the coefficient of determination, which determines the prediction capacity of the model with regard to endogenous constructs (Hair et al., 2021). This statistic falls within the range of 0-1, with larger values denoting better

predictions. On a general scale, R^2 values of 0.75, 0.50, and 0.25 indicate significant, moderate, and low explanatory power, respectively (Hair et al., 2021). In the current research, the R^2 value is 0.422, meaning that 42.2% of total variance in employee performance can be attributed to the four leadership styles used in the model (see Fig. 4.2).

Figure 4.2: Path Coefficient, P-values, and R^2 Values



4.3.2.2. Effect Size (f2)

It is equally critical to determine the effect sizes of the latent variables. Troiville et al. (2025) suggest evaluating the effect size of each latent predictor on the dependent variable through f^2, which supplements the R^2 statistic. The TFL, TSL, SL, and LFL are considered as exogenous predictors, while EP is the main endogenous variable. The EM function as a mediator variable, which means they are endogenous variables that help transmit the impact of the leadership styles on the EP. For determining the effect size of each predictor on its endogenous variable, f^2 values were obtained by observing the change in the R^2 after removing each predictor. Based on Cohen's (2013) standards for interpreting the f^2, values of 0.02, 0.15, and 0.35.

Table 4.8: Effect Size (f^2)

	EM	EP
EM		0.260
EP		
LFL	0.020	0.022

SL	0.067	0.009
TFL	0.060	0.017
TSL	0.066	0.001

Note: *EM= Employee Motivation, EP = Employee Performance, LFL = Laissez-faire Leadership, SL = Servant Leadership, TFL = Transformational Leadership, TSL = Transactional Leadership.*

It is apparent from the table (Table 4.8) that the f^2 values ranged from 0.001 (small) to 0.260 (medium) in relation to the effect of TSL on EP, and the effect of EM on EP respectively. In regard to the analysis of effect size, EM had a medium impact on the performance of employees ($f^2 = 0.260$), whereas LFL ($f^2 = 0.022$), SL ($f^2 = 0.009$), TFL ($f^2 = 0.017$), and TSL ($f^2 = 0.001$).

4.3.2.3. Predictive Relevance of the Model (Q^2)

Additionally, it can be analyzed using the blindfolding procedure to establish the value of cross-validated communality and redundancy. According to Hair et al. (2021), cross-validated redundancy via PLS-SEM should be used to assess the estimates of the structural and measurement models in terms of data predictions. This technique is also aligned with the PLS-SEM technique. Concerning this, when the cross-validated redundancy measure value of the endogenous construct (Q^2) for an endogenous latent variable surpasses zero (0), the explanatory latent construct exhibits predictive relevance (Hair et al., 2021).

Firstly, the structural model's in-sample predictive power (f2) was assessed. Secondly, its out-of-sample predictive relevance (Q^2) was evaluated. The reflective model was estimated via PLS-SEM approach. Values of Q^2 were obtained based on the results of application of the blindfolding technique to derive the value of cross-validated redundancy. Following established guidelines, Q^2 coefficient of 0.02, 0.15, and 0.35 reflect small, moderate, and higher predictive relevance, respectively (Asiaei et al., 2022). Our structural model demonstrated moderate predictive power (see Table 4.9). Q^2predict of 0.250 is above zero; hence, the model demonstrates predictive relevance for EP. It shows that the model has predictive power in predicting EP given the independent variables.

Table 4.9: Q^2 Values

	Q^2 Predict
EP	0.253

4.3.2.4. Model Fit

Model Fit Evaluation Model fit evaluation is an important stage in structural equation modeling and is used to evaluate whether the proposed model represents adequately the latent data

structure. Within the framework of PLS-SEM, several model fit indices measuring the gap between empirical covariances and covariances implied by the model were used for assessing model fit. Specifically, following Henseler et al. (2014) and Dijkstra & Henseler (2015), the analysis included the application of several goodness-of-fit criteria to test saturated and estimated models, namely Standardized Root Mean Square Residuals (SRMR) and exact fit criteria, including the unweighted least squares discrepancy (d_ULS) and the geodesic discrepancy (d_G). SRMR was suggested as a global fit measure by Henseler et al. (2014) to be used in identifying possible misspecifications in the model, whereas d_G and squared Euclidean distance were proposed by Dijkstra & Henseler (2015) for assessing exact fit by comparing empirical and model-implied covariance matrices. A model is assumed to have an appropriate fit when the correlation matrices are equal ($p > 0.05$). According to Henseler et al. (2014), if d_ULS and d_G values are lower than the 95% bootstrapped quantile, then the model fits.

In this case study, as shown in Table 4.10, the saturated model included zero free paths. This implies that there was a perfect correlation between the observed and predicted structure values. The observed fit indicators for this model were SRMR = 0.044 and d_ULS = 2.618. These measures were both lower than the bootstrapped 95% CI for d_ULS, which is 2.754. Moreover, in PLS-SEM, an SRMR less than 0.08 indicates that there is very little difference between the observed and implied model correlations. This is according to Ringle et al. (2024). The measure d_G was 0.957, below the 95% CI of 1.067.

Table 4.10: Model fit test

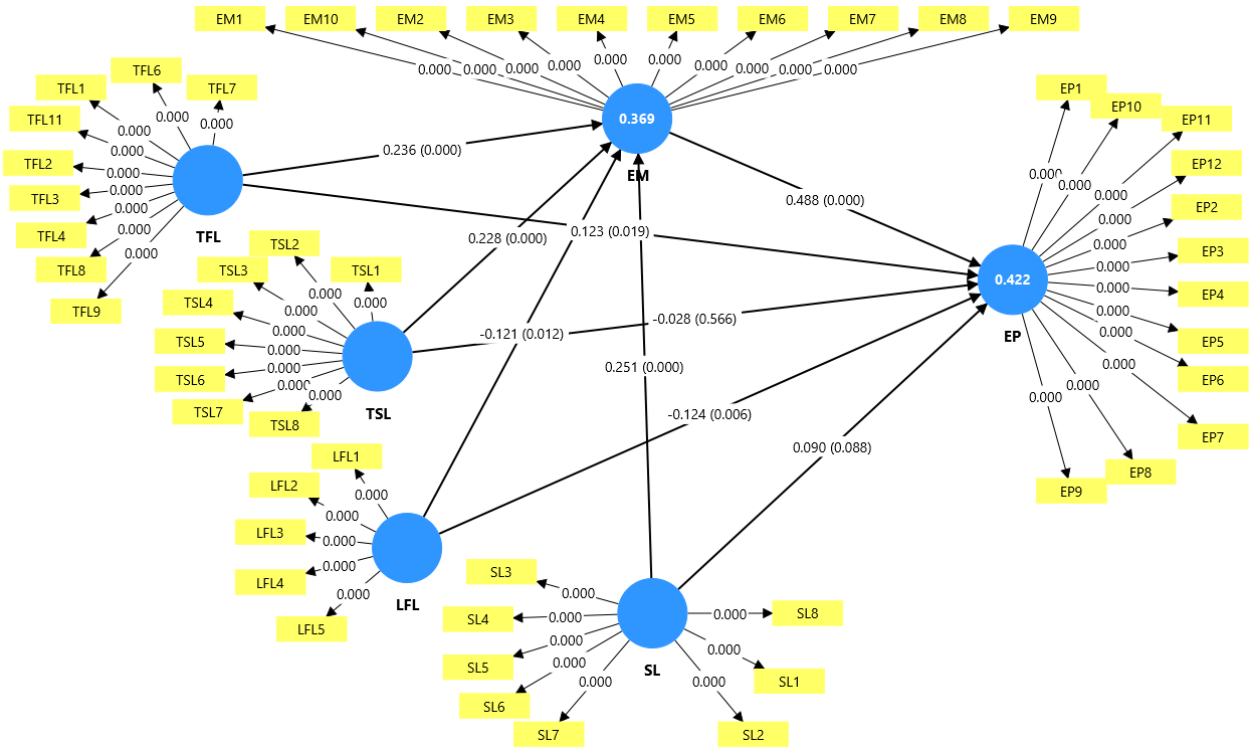
SRMR				
	Original sample (O)	**Sample mean (M)**		**99%**
Saturated model	0.044	0.041		0.046
Estimated model	0.044	0.041	0.045	0.046
d_ULS				
	Original sample (O)	Sample mean (M)	95%	99%
Saturated model	2.618	2.345	2.754	2.939
Estimated model	2.618	2.345	2.754	2.939
d_G				
	Original sample (O)	**Sample mean (M)**	**95%**	**99%**
Saturated model	0.951	0.922	1.067	1.134
Estimated model	0.951	0.922	1.067	1.134

4.3.2.5. Hypotheses Testing

Ultimately, the relationships between the constructs are tested using PLS algorithm and bootstrap algorithm in Smart PLS 4.0. Path coefficients in PLS analysis prove to be important

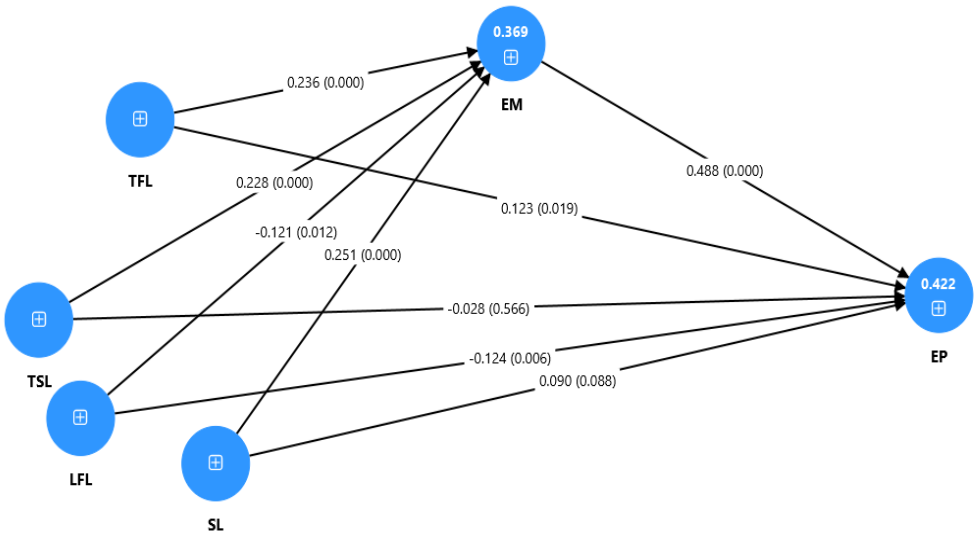
as in case they are insignificant or in opposition to the hypothesized direction, they lead to rejection of the hypothesis. On the contrary, significant paths leading towards the hypothesized direction and thereby validating the causal relationship proposed confirm the hypothesis (Hair et al., 2021). Path coefficients significance, just like indicator weight and loadings, can be analyzed via bootstrapping technique (Hair et al., 2021). Path coefficients, p-values and R^2 values have been displayed in Figure 4.3 below.

Figure 4.3: Structural Model – Path coefficients, P-values, and R^2 values



Path coefficients were tested using bootstrapping method, which is an advanced approach to sampling that involves testing the the structural model's statistical significance through resampling (Hair et al., 2021). This process was done through sampling with replacement where new samples with similar sizes as the initial sample of 371 cases were drawn. Standard errors and t-values were computed from this resampling method and used to determine whether the path coefficient values are statistically significant. The critical t-value for two-tailed hypothesis test at 10%, 5%, and 1% levels of significance (α = 0.10, 0.05, and 0.01 respectively) is 1.65, 1.96, and 2.58 respectively.

Figure 4.4: PLS Bootstrapping (t-values) for the Study Model



The direct relationships are depicted in the structural model in Figure 4.4. According to the results, it can be said that most of the paths have been found to be significant. Nonetheless, there are some relationships that are negative, and even there is an insignificant path. The summary of the results is provided below:

H1: The variable TFL positively and significantly affects EP (β = 0.123, p = 0.019). Therefore, Hypothesis 1 is supported.

H2: The variable TSL does not positively affect EP (β = -0.028, p = 0.566). Thus, Hypothesis 2 is not supported.

H3: LFL negatively and significantly affects EP (β = -0.124, p = 0.006). Thus, Hypothesis 3 is supported.

H4: The variable SL positively affects EP (β = 0.090, p = 0.088); however, as the effect is not statistically significant at 0.05 significance level, Hypothesis 4 is not supported.

According to R^2 values, it can be inferred that the explanatory power of the structural model is relatively good; 36.9% of variation of EM and 42.2% of variation of EP are explained.

Furthermore, the mediation analysis provided evidence of the hypothesized indirect effects of the structural model, shown in Table 4.11. In this regard, the analysis revealed that employee motivation had a significant mediating role in the relationship between transformational leadership and innovative behavior. This finding provides empirical evidence for the mediating mechanisms proposed by this study. The results are listed below, while a detailed summary of the direct and indirect effects is provided in Table 4.14.

H5: EM significantly mediates the relationship between LFL and EP (β = -0.059, t = 2.425, p = 0.015), Hypothesis 5 is supported.

H6: EM significantly mediates the effect of SL on EP (β = 0.122, t = 3.945, $p < 0.001$), Hypothesis 6 is supported.

H7: EM significantly mediates the effect of TFL on EP (β = 0.115, t = 3.635, $p < 0.001$), Hypothesis 7 is supported.

H8: EM significantly mediates the effect of TSL on EP (β = 0.111, t = 3.811, $p < 0.001$), Hypothesis 8 is supported.

Table 4.11: Hypothesis Testing (β-Value, t-Value, and p-Value).

Hypothesis		β - value	Std. Dev.	T- statistics	P values
H1	LFL -> EP	-0.124	0.045	2.750	0.006
H2	SL -> EP	0.090	0.053	1.707	0.088
H3	TFL -> EP	0.123	0.052	2.344	0.019
H4	TSL -> EP	-0.028	0.049	0.574	0.566
H5	LFL -> EM -> EP	-0.059	0.024	2.425	0.015
H6	SL -> EM -> EP	0.122	0.031	3.945	0.000
H7	TFL -> EM -> EP	0.115	0.032	3.635	0.000
H8	TSL -> EM -> EP	0.111	0.029	3.811	0.000

Note: *EM= Employee Motivation, EP = Employee Performance, LFL = Laissez-faire Leadership, SL = Servant Leadership, TFL = Transformational Leadership, TSL = Transactional Leadership.*

4.4. Results Discussion

4.4.1. Transformational leadership and employee performance

It was established that transformational leadership significantly influences employees' performance positively. The finding is in line with the prevailing school of thought in previous studies like those carried out by Adesuyi et al. (2025), Qomariah et al. (2023), Ichsan et al. (2021), and Bachmid and Ermawati (2021). The above studies have been able to show the direct

link between leadership style and employee performance within the banking industry. The result shows that the characteristics of transformational leadership motivate the employee to perform his/her task efficiently.

The finding contradicts the studies carried out by Ekpenyong (2021) and Sugiharjo et al. (2023), in Nigeria and Indonesia, respectively. In both cases, the findings revealed no significant effect and negative effects, respectively, of transformational leadership on employee performance. Inconsistency in these findings could be explained by the difference in cultural practices, organizational structures, employees' perceptions, and the nature of organizations. Alternatively, inconsistency in research methodology used in these studies could also explain the difference in findings.

Considering the case of Awash Bank S.C. and Hibret Bank S.C., it means that there is a direct positive correlation between the role of transformational leadership style and the likelihood of employees displaying high-performance levels through articulation of organizational vision, promotion of innovation, personal recognition, and creating an encouraging organizational culture. Consequently, it means that in the banking sector in Ethiopia, employee performance does not depend only on the technical skills of the employees, but it depends on effective leadership behaviors that motivate employees.

This research finding also implies that transformational leadership style may play a significant role in the Ethiopian banking sector in relation to banks operating in a highly competitive and ever-changing environment. It is because banks experience digital transformation, quality of services, and changes in customer needs. In such environments, the style of transformational leadership can help employees become more adaptable, motivated, and ready to put in extra effort that improves their performance.

4.4.2. Transactional leadership and employee performance

It was revealed that transactional leadership approach had an insignificant negative influence on the productivity of workers ($\beta = -0.028$, $t = 0.574$, $p = 0.566$). This suggests that transactional leadership cannot be considered an effective tool for boosting worker performance in line with this study’s findings. It is worth pointing out that previous studies have also shown a lack of a strong connection between the two variables under discussion. Thus, according to Mohamad et al. (2024), there is a statistically insignificant positive relationship between transactional leadership and worker performance of Malaysian financial organizations' employees.

Furthermore, Shakib (2024) discovered that transactional leadership showed insignificant predictive power when it came to predicting worker performance, while the same variable exhibited significant predictive power regarding worker performance in the case of transformational leadership. The results of the study confirm those reported by Ekpenyong (2021): Transactional leadership has an insignificant negative impact on employee performance of Guaranty Trust Bank employees in Nigeria.

Nevertheless, the result goes against various research works which revealed that transactional leadership was one of the factors that significantly influenced the performance of employees in their jobs. For example, Al-Zu'bi et al. (2025), Setiawan et al. (2021), Kebe et al. (2024), Adesuyi et al. (2025), and Lama et al. (2024) concluded that there were positive and statistically significant correlations between transactional leadership and employee performance. Some of these studies revealed that transactional leadership had more positive impacts on employee performance than transformational leadership. The differences between results from these earlier studies and the current study reveal that the influence of transactional leadership is highly situational.

Specifically, in Awash Bank S.C. and Hibret Bank S.C., the lack of an impact of transactional leadership may indicate that transactional leadership approaches are not enough in terms of improving employee performance. Transactional leadership mainly entails supervisory, performance-monitoring, reward-giving, and corrective action measures for employee performance improvement. In other words, the current findings imply that workers in the Ethiopian banking sector are less interested in purely transactional interactions and transactions and that they might appreciate inspirational, empowering, supportive, and relational leadership behavior more.

4.4.3. Laissez-faire leadership and employee performance

From the inferential stat analysis, it was determined that laissez-faire leadership has a a significant statistical effect on employee performance ($\beta = -0.124$, $t = 2.750$, $p = 0.006$). This implies that an increase in laissez-faire leadership leads to a decrease in employee performance at both Awash Bank and Hibret Bank. Thus, laissez-faire leadership negatively impacts employee effectiveness because of its associated attributes of avoiding decision-making, lack of supervision, and providing little guidance in banking organizations.

This result agrees with the findings by Asrar-Ul-Haq et al. (2020) concerning the negative effect of laissez-faire leadership on employee performance. Likewise, Mbogo & Mnyavanu (2025) reported that laissez-faire leadership showed the lowest impact on employee performance among different leadership styles in Tanzanian banks. Based on this finding, it can be argued that lack of leadership guidance in a structured setting such as banking may lead to poor coordination and reduced productivity.

Nevertheless, the result contradicts previous research findings by Mohamad et al. (2024), which revealed a positive and significant impact of laissez-faire leadership on employees' performance in the case of Malaysian commercial banks. It also contrasts with Ekpenyong's (2021) finding of the positive but not statistically significant relationship between laissez-faire leadership and employees' performance in Nigerian banks. Such contradictions confirm the highly context-dependent nature of this type of leadership, as it can vary under certain conditions related to organizational culture, level of employees' competencies, and task structure.

As regards Awash Bank and Hibret Bank, the negative relationship is easily explained by the specifics of activities performed within banks, which necessitate a high level of supervision, decision-making, and compliance with procedures. Thus, laissez-faire leadership, minimizing the managers' participation in the process, leads to role ambiguity and decreases accountability of actions, as well as increases time required for resolving problems; hence, the negative impact on employee performance. Generally, it seems that the finding confirms the statement regarding the inappropriateness of this type of leadership in highly regulated and performance-oriented settings, including commercial banking in Ethiopia.

4.4.4. Servant leadership and employee performance

From the study result, it was observed that servant leadership had a statistically insignificant positive influence on the performance of the employees ($\beta = 0.090$, SE = 0.053, $t = 1.707$, $p = 0.088$). What this means is that, even though servant leadership influences positively the performance of the employees in the two banks studied in this research, the relationship between the variables is statistically insignificant. This means that any rise in the level of servant leadership should result in improved employee performance.

This result is partially in agreement with the expectations from servant leadership. According to servant leadership theory, leaders are supposed to serve their followers, develop them, and

create an ethical environment for them (Liden et al., 2008). From this perspective, servant leadership is expected to boost the performance of the employees.

Nevertheless, the lack of significance in the relationship is at odds with another study conducted by Solomon (2025) who found a statistically significant positive impact of servant leadership on employee performance in Awash Bank. Differences in the contexts under study, samples used, and methods may provide some insights on this difference in findings. Overall, this finding demonstrates that the influence of servant leadership on employee performance may vary depending on its actual implementation in various institutions.

The finding is also valuable in the broader context since it adds to evidence showing that although servant leadership is a very appropriate concept for service organizations like banks, the results of its implementation may not always lead to an increase in performance. Thus, it can be concluded that the practice of servant leadership is not evident among the employees of Awash Bank and even less evident in Hibret Bank.

On the whole, the findings indicate that servant leadership alone is not enough for a considerable improvement in performance among employees of Ethiopian commercial banks. It may produce more tangible results when applied together with more traditional leadership practices like performance management systems and more supervision over task fulfillment.

4.4.5. Laissez-Faire Leadership Style, Employee Motivation, and Employee Performance

This study's finding shows that laissez-faire leadership had a negative and significant effect on the performance of the employees through their motivation at Awash Bank S.C. and Hibret Bank S.C. (beta = -0.059, t = 2.425, p = .015), thus validating hypothesis five. The finding is consistent with the idea that laissez-faire leadership demotivates employees and lowers their performance levels since employees under such leaders lack proper support from them. It has been indicated in literature that employees under laissez-faire leaders are usually less motivated and satisfied because they fail to get proper support from their leaders. According to Zhang et al. (2023), laissez-faire leadership hinders performance through the hindrance appraisal process, and it is considered the least effective form of leadership.

In addition, regression analysis of organizational performance in an East African business showed that the style of laissez-faire leadership negatively affected organizational performance (t = -2.87, p < .05, beta = -0.34), since the absence of any form of leadership direction makes

workers demotivated and unproductive (Mwangi, 2023). This means that branch managers and supervisors of Awash Bank S.C. and Hibret Bank S.C. will be at a disadvantage if they decide to adopt a hands-off leadership approach, since they will end up having a motivational problem among their employees. This is particularly so in a field like banking, where performance standards cannot be negotiated.

4.4.6. Servant Leadership, Employee Motivation, and Employee Performance

Servant leadership positively impacted the performance of employees by way of employee motivation in Awash Bank S.C. and Hibret Bank S.C. (beta = 0.122, t = 3.945, p = .000), thus proving hypothesis H6 as well as the largest indirect effect of the four hypotheses tested. This proves the fact that servant leaders help improve motivation of employees and hence, improve their performance. Self-determination theory-backed researches have shown a significant and positive association between servant leadership and intrinsic motivation that is additionally mediated by organizational factors promoting satisfaction of basic psychological needs (Fikri et al., 2024). Servant leadership was found to positively impact employee engagement (coefficient = 0.667), and this variable was found to predict job performance significantly and positively (coefficient = 0.816) (Santoso & Azizah, 2025).

In similar fashion, Al Majid & Puspita (2024) established those motivational mediators were a key influence when it comes to the relationship between servant leadership and employee performance, especially in industries based on services, with several researches establishing a clear connection between servant leadership and performance improvement by way of indirect means. The above-mentioned conclusion is highly relevant for the case in hand and bears a specific managerial implication for both Awash Bank S.C. and Hibret Bank S.C. Considering the fact that among all four leadership styles evaluated by the researcher, servant leadership had the highest indirect influence on employee performance, both organizations should promote servant leadership among their employees by supporting their development, eliminating possible barriers to effective work performance, and nurturing a positive organizational culture in which employees will be comfortable.

4.4.7. Transformational Leadership, Employee Motivation, and Employee Performance

Based on the study findings, transformational leadership positively and significantly influenced the performance of employees via their motivation at Awash Bank S.C. and Hibret Bank S.C.

(beta = 0.115, t = 3.635, p = .000), thereby providing evidence for hypothesis H7. This finding is inline with the proven ability of transformational leaders to induce employees' intrinsic motivation, which subsequently leads to improved performance. According to Suryadi et al. (2024), transformational leadership is found to play a crucial role in enhancing employee motivation and performance by creating a common vision and empowering employees, whereas according to Udin et al. (2023), it helps develop intrinsic motivation. According to the research findings through the use of SmartPLS, the results demonstrated a path coefficient of 0.432 (t = 4.762) among transformational leadership and motivation and transformational leadership positively motivates employees to perform better at work because motivation mediates the influence of transformational leadership on performance. In a study conducted in Vietnam, Anindya et al. (2025) through PLS-SEM on 605 civil servants, transformational leadership had a significant positive influence on the work outcomes of the employees due to the mediating role played by motivation. In the case of Awash Bank S.C. and Hibret Bank S.C., transformational leaders who can articulate vision, motivate and inspire employees towards performing more than what is expected of them, and develop individuals will create high levels of motivation and high performance.

4.4.8. Transactional Leadership, Employee Motivation, and Employee Performance

From the study findings, it is evident that transactional leadership had a positive influence on employee performance by way of motivating employees at Awash Bank S.C. and Hibret Bank S.C. (beta = 0.111, t = 3.811, p = .000), thus providing empirical evidence in support of hypothesis eight (H8). The finding further proves that through the incentive mechanism provided under transactional leadership, employees become motivated, resulting in improved performance levels. According to Hutama et al. (2024), transactional leadership had a positive indirect impact on employee performance through the job satisfaction variable (beta = 0.235, t = 2.897, p < .05). It has also been shown that transactional leadership will be effective in enhancing the performance of employees through motivating them to do their best since the process involves providing proper guidance and supervision as well as rewards that make the workers feel respected and safe thus giving them more motivation to perform (Abdelwahed et al., 2023). In case of Awash Bank S.C. and Hibret Bank S.C., this means that the concept of performance-linked incentives, targets, and proper supervision is still useful for motivating staff. Both organizations need to create a transparent, equitable, and performance-oriented

reward scheme. This way, the staff will know that their efforts are appreciated and rewarded accordingly.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1. Introduction

This chapter provides an elaborate summary of the results that have been found in Chapter Four, conclusions on basis of these results, and recommendations. This chapter is divided into four main parts, namely: (1) summary of results; (2) conclusion based on the results; (3) recommendations; and (4) scope for future research.

5.2. Summary of Major Findings

The study was undertaken to investigate the influence of the four types of leadership style (transformational, transactional, servant, and laissez-faire) on the performance of employees through motivational behaviors in reference to employees of Awash Bank S.C. and Hibret Bank S.C. in Ethiopia. Data were collected from 310 participants utilizing the simple random sampling method, and analysis was carried out utilizing the PLS-SEM approach through the SmartPLS 4.0 application. The structural model explained 42.2% of the variability of employee performance.

5.2.1. Direct Effects of Leadership Styles on Employee Performance

In terms of the direct impact, it is evident that there was a statistically significant positive direct effect of transformational leadership on the employee performance ($\beta = 0.123$, $t = 2.344$, $p = .019$); thus, hypothesis one (H1) is confirmed. However, laissez-fair leadership exerted a statistically significant negative effect on the employee performance ($\beta = -0.124$, $t = 2.750$, $p = .006$); hence, hypothesis three (H3) is confirmed. Moreover, there was no statistically significant impact of transactional leadership on the employee performance ($\beta = -0.028$, $t = 0.574$, $p = .566$). Thus, hypothesis two (H2) could not be verified. Furthermore, servant

leadership also had a statistically insignificant impact on employee performance (β = 0.090, t = 1.707, p = .088). Therefore, hypothesis four (H4) is rejected.

5.2.2. Indirect Effects Through Employee Motivation

As for the indirect effect, it has been discovered that the mediating variable is employee motivation when assessing the relationships between all four kinds of leadership and performance. Laissez-faire leadership had an indirect and significant effect employees' performance via their motivation (β = −0.059, t = 2.425, p = .015). Thus, the hypothesis (H5) is supported. The largest indirect effect can be observed when discussing servant leadership, as there was a highly significant and positive effect of this form of leadership on employees' performance via their motivation (β = 0.122, t = 3.945, p < .001). Hence, H6 is proven to be true. Transformational leadership had a significant effect on the performance of employees via their motivation (β = 0.115, t = 3.635, p < .001). Therefore, H7 is confirmed. The same result can be discussed regarding transactional leadership because it had a significant effect on employee performance via motivation (β = 0.111, t = 3.811, p < .001). H8 is verified.

5.3. Conclusions

Based on the findings above, the following conclusions can be drawn:

To begin with, leadership style is among the most important factors determining the level of performance of employees in Ethiopian commercial banks. This is because the results reveal that the way managers conduct themselves as leaders affects employee performance either directly or indirectly. This finding is a reflection of the core idea behind the theory of leadership and highlights the importance of careful selection, training, and assessment of leaders.

Second, motivation is an important mediating factor in leadership and employee performance dynamics. Motivation was revealed to be an important factor since leadership styles affect employee performance through their ability to motivate employees. The fact that the mediation effect is strong in all the four leadership styles suggests that the best way to improve employee performance is to motivate them.

Thirdly, the two leadership orientations which emerge to be the most constructive are transformational and servant leadership. The reason for their emergence lies in the fact that these leadership orientations are associated with positive performance outcomes. Transformational leadership directly leads to such performance outcomes while servant leadership produces such results indirectly through motivational processes. In the context of

indirect influence, servant leadership proved to be the most effective leadership style for influencing employee performance among all leadership styles evaluated in the study.

Fourthly, the least effective leadership orientation emerges to be laissez-faire leadership. The reason for this lies in the fact that both the direct and indirect negative impacts of laissez-faire leadership have been found to be influential and significant. Such leadership orientations are thus inconsistent with organizational performance requirements in the context of banking organizations.

Finally, although there was no statistically significant direct influence of transactional leadership on employee performance, the positive and significant indirect influence of the latter through the employee's motivation shows that reward and accountability systems are still valuable provided that they match with the motivation of the workers. It can be inferred that transactional leadership, contrary to popular belief, does not need to be abandoned but should rather be used alongside other means to create an effective motivational system.

In summary, all of the above considerations prove that the best way to ensure long-term improvements in employee performance at Awash Bank S.C. and Hibret Bank S.C. lies in using a motivation-focused leadership approach.

5.4. Recommendations

In light of the above conclusions, the following recommendations for action have been made with regard to the leadership, human resource management activities, and governing bodies of Awash Bank S.C. and Hibret Bank S.C.

Instill Transformational Leadership Competencies

The banks are recommended to institutionally instill its leaders' acquisition of the competencies required for effective transformational leadership. Specifically, this recommendation implies the following actions:

- The Human Resources Departments of each of the banks should develop and implement a transformational leadership training program for their middle and upper-level managers. This program should cover competencies in visionary communication, intellectual stimulation, individual consideration, and inspirational motivation among others. Outside experts known for developing transformational leadership in banks should be involved in conducting and evaluating the program.

- The management systems of the banks need to be altered in terms of promoting managers who display qualities of transformational leaders. The managerial promotion process and evaluation criteria need to include elements of transformational leadership such as developing an organizational vision, challenging subordinates to think differently, and demonstrating care for subordinates' personal development. These qualities should carry an appropriate weightage when evaluating managers in the performance appraisal process moving forward.
- The senior leaders need to role-model transformational behavior. It is important for the executive management committee meetings to report the performance of the organization by connecting individual performances to organizational objectives and vision.

Foster Servant Leadership Behavior Actively

In light of the fact that the impact of servant leadership was the most significant one among all indirect impacts on employee performance in the study, especially considering the motivational route, it is necessary for both banks to make deliberate and systematic efforts to instill the principles of servant leadership in their management practices. Namely,

- The banks will need to integrate servant leadership sessions into their current management training calendar, giving special attention to the behavioral aspects of eliminating organizational and administrative impediments to employee performance, promoting professional growth plans for individuals, and ensuring psychological safety in the workplace environment.
- A “Voice of the Employee” process should be developed quarterly, by way of formal feedback sessions or other similar means, that would allow employees to voice any difficulties faced regarding their performance. The bank’s managers must be responsible for taking action against these complaints, solving them, and ensuring that all of this is documented in the performance management system.
- An assessment of servant leadership practices should be added to the existing Employee Engagement Surveys, asking employees to rate their immediate supervisors on their willingness to listen and help their development. The results of these surveys could then be used in coaching managers who perform poorly based on their benchmark scores.

Design and Implement Performance-Based Reward Structures

In order to leverage the power of transactional leadership, which, although not having any direct influence on performance, did have a considerable indirect effect on performance through motivation, it is essential for both banks to design and implement appropriate reward structures that are fair, open, and based on performance. In particular:

- The banks need to conduct an extensive evaluation of their present reward and recognition policies during the ongoing financial year with the aim of setting up clear performance standards that are communicated in advance and consistently applied at all branches and divisions. Target setting needs to be participative.
- All supervisors need to be educated and responsible for providing relevant, precise, and constructive performance feedback to their subordinates on at least a quarterly basis. The process of performance feedback will have to be standardized using the performance management system.
- The banks should develop an employee recognition system whereby the recognition is formally performed. There would be need for various means of recognizing employees depending on how they have performed. This would include financial incentives such as performance bonuses as well as non-financial incentives like awards and recognition during staff meetings.

Identify and Correct Passive Laissez-Faire Leadership Style

Since the detrimental effects of laissez-faire leadership style have been proven in terms of its adverse impact on employees' motivation and performance, both banks should make the identification and correction of such leaders a high-priority task within the organization. In particular, the following measures can be implemented.

- Both banks need to include behaviorally-based items that would allow identifying the managers displaying laissez-faire leadership style into their 360-degree performance appraisal tools. Such measures include, but are not limited to, reluctance to make decisions, poor performance of guidance duties, and lack of engagement during supervision processes.
- Managerial personnel characterized as persistently having laissez-faire management behavior should be subjected to a Performance Improvement and Leadership

Coaching Program administered by certified executive coaches. The program would define goals regarding behavioral change within specified timelines and quarterly reviews of progress should be conducted by the respective HR Director and line manager.

- The banks should clearly define standards regarding management practices that would include provisions on how often team and individual performance sessions should occur and how management handles employee grievances. Adherence to these standards would be monitored through feedback from direct reports' ratings.
- Whereas coaching and improvement initiatives have proven ineffective in producing long-lasting behavior change, both organizations should implement progressive disciplinary measures within the framework of their human resource management procedures, all the way to assigning supervisory responsibilities to different individuals. The presence of unresponsive supervisors in positions of authority is indeed a serious liability to productivity and effective management.

5.5 Suggestions for Further Research

This study provides useful insights into the leadership and employee performance relationship in the context of the banking sector in Ethiopia; however, several areas for future research can be suggested. Firstly, future researchers should try to extend the sample size by including more banks in different parts of Ethiopia. Secondly, it is also suggested to introduce other mediating variables like organizational commitment, job satisfaction, and psychological empowerment in order to develop an even more robust theory of how leadership impacts employee performance. Thirdly, it might be useful to apply a longitudinal design to improve causality, as in the current study, only the cross-sectional design was used, which means that it is rather difficult to make causal assumptions about the impact of one variable on another. Additionally, it might be useful to investigate the role of different moderating variables, including organizational culture, gender, and tenure.

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APPENDIX

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT - MBA PROGRAM

This questionnaire is designed for collecting data for research to be conducted on the ***"Effect of Leadership Style on Employees' Performance in Selected Ethiopian Banks (Awash Bank and Hibret Bank Headquarters)"*** for partial fulfillment of the requirements for masters of business administration. Your information is vital for the accomplishment of the study; it is intended for academic purpose only and it will be kept confidential.

General Instructions

- There is no need for writing your name
- In all cases where answer options are available please make a tick mark (√) in the appropriate box where the choice is appropriate for you.

Part One: Demographic characteristics

1. Gender: 1. Male ☐ 2. Female ☐

2. Age: 1. 21-30 ☐ 2. 31-40 ☐ 3. 41-50 ☐ 4. Over 50 ☐

4. Education: 1.Diploma ☐ 2. Degree ☐ 3.Masters ☐ 4.PhD ☐

5. Year of service: 1. <3 years ☐ 2. 3-5 years ☐ 3.6-10 years ☐ 4.>10 year ☐

Part Two: Leadership Styles

These are the questions that have been provided on a five point scale. If the statement highly coincides with your opinion, give it a rating of five (strongly agree). In case you somewhat agree with the statement, mark four (agree). If you are undecided about your opinion, give three (neutral). Disagreement with the statement will be rated two (disagree) and one (strongly disagree).

Section A: Transformational Leadership

No.	Statement	1	2	3	4	5
TFL1	My supervisor makes others feel genuinely good to be around them.					
TFL2	I have complete confidence in my supervisor's ability and judgment.					
TFL3	I am proud to be associated with my supervisor.					
TFL4	My supervisor expresses in clear, simple terms what we can and should do.					
TFL5	My supervisor provides an appealing and inspiring picture of our work's future.					
TFL6	My supervisor helps me think about old problems in completely new ways.					
TFL7	My supervisor provides new ways of looking at difficult or puzzling problems.					
TFL8	My supervisor challenges me to reconsider ideas and assumptions I had never questioned before.					
TFL9	My supervisor encourages me to use reasoning and evidence when addressing challenges.					
TFL10	My supervisor helps me find personal meaning and purpose in my work.					
TFL11	My supervisor actively supports and helps others to develop their strengths.					
TFL12	My supervisor gives personal attention to team members who appear disengaged or left out.					

Section B: Transactional Leadership

No.	Statement	1	2	3	4	5
TSL1	My supervisor provides recognition and rewards in exchange for my effort and performance.					
TSL2	My supervisor clearly discusses who is responsible for achieving specific performance targets.					
TSL3	My supervisor makes clear exactly what one can expect to receive					

	when performance goals are met.					
TSL4	My supervisor expresses satisfaction when I meet agreed-upon performance standards.					
TSL5	My supervisor focuses close attention on any deviations, mistakes, or failures from set standards.					
TSL6	My supervisor keeps a systematic track of all errors or performance shortfalls.					
TSL7	My supervisor concentrates attention on handling mistakes, complaints, and failures.					
TSL8	My supervisor directs attention to failures to meet established standards.					

Section C: Laissez-Faire Leadership

No.	Statement	1	2	3	4	5
LFL1	In complex situations, my supervisor leaves subordinates to work problems out entirely on their own.					
LFL2	My supervisor avoids getting involved when important issues arise among team members.					
LFL3	My supervisor allows subordinates to appraise their own work without providing feedback.					
LFL4	My supervisor is absent when needed and delays responding to urgent matters.					
LFL5*	My supervisor avoids making decisions, leaving the responsibility entirely to subordinates. (R)					

Section D: Servant Leadership

No.	Statement	1	2	3	4	5
SL1	My supervisor puts my best interests first, even above their own personal interests.					
SL2	My supervisor listens carefully to what I say before making decisions that affect me.					
SL3	My supervisor actively encourages me to grow and develop as a person, not only as an employee.					
SL4	My supervisor takes personal responsibility when things go wrong rather than blaming others.					
SL5	My supervisor gives me the freedom to make decisions about how I carry out my own work.					

SL6	My supervisor genuinely cares about my overall well-being, including my life outside work.					
SL7	My supervisor acts with honesty and high ethical standards in all situations.					
SL8	My supervisor helps me see how my daily work contributes to a broader and meaningful purpose.					

Part Three: Employee Motivation

The statements below relate to your own feelings, attitudes, and experiences at work. Please answer based on what actually motivates you, not what you think is expected.

No.	Statement	1	2	3	4	5
EM1	I feel a strong sense of personal satisfaction when I perform my job well.					
EM2	I am motivated to work hard because I find my tasks genuinely interesting.					
EM3	I feel energized and full of enthusiasm during a typical workday.					
EM4	I take initiative in my work because I personally enjoy doing so, not because I have to.					
EM5	I would still put in full effort at work even if there were no external rewards attached.					
EM6	I believe that putting in greater effort will lead to better performance outcomes in my work.					
EM7	I believe that performing well will result in the rewards or recognition I value.					
EM8	The rewards I receive for good performance are things I genuinely find worthwhile.					
EM9	I am motivated to perform well specifically to gain recognition from my organization.					
EM10	I put in extra effort when I know that it will lead to promotion or salary advancement.					

Part Four: Employee Performance

The statements below ask about your own work performance. Please answer honestly based on your actual behavior and output over the past six months.

No.	Statement	1	2	3	4	5
EP1	I complete my assigned tasks in an accurate and timely manner and in line with bank standards.					

EP2	I manage my workload effectively and consistently meet deadlines without compromising quality.					
EP3	The volume and quality of work I produce meets or exceeds what is expected of me.					
EP4	I achieve the individual performance goals set by my supervisor within the agreed timeframe.					
EP5	I voluntarily help my colleagues with their tasks when they are under pressure.					
EP6	I cooperate constructively with team members to achieve shared departmental goals.					
EP7	I demonstrate strong commitment and loyalty to the goals of this bank beyond what is formally required.					
EP8	I take on additional responsibilities not formally part of my job to support the team.					
EP9	I adapt quickly and effectively to new banking technologies, systems, or processes introduced at work.					
EP10	When I encounter unexpected problems at work, I find effective solutions with minimal disruption.					
EP11	I proactively seek to acquire new skills and knowledge relevant to changes in my role.					
EP12	I remain productive and effective even when facing ambiguous or rapidly changing work demands.					

Thank You!