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ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE
GRADUATE PROGRAM IN BUSINESS LEADERSHIP

**THE ASSESSMENT OF INNOVATION LEADERSHIP
PRACTICES: THE CASE OF
COMMERCIAL BANK OF ETHIOPIA**

A Research Project Submitted to Addis Ababa University, School of Commerce
in Partial Fulfillment of the Requirements for the Degree of Masters of Arts in
Business Leadership

By: Shalom Workneh

Advisor: Adane Atara (PhD)

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Addis Ababa, Ethiopia

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Approved by Board of Examiners:

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Advisor	Signature	Date

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Internal Examiner	Signature	Date

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External Examiner	Signature	Date

DECLARATION

I declare that the project titled "The Assessment of Innovation Leadership Practices: The case of Commercial Bank of Ethiopia" conducted for the partial fulfillment of the requirements for the Master's in Business Leadership program, is my original work. This research has not been submitted, partially or in full, for any other degree at any institution. I have undertaken this study independently, with guidance and support from my research advisor, Dr. Adane Atara. All sources of materials used in this work have been duly acknowledged in the text and listed in the references.

Shalom Workneh

Signature

Date

STATEMENT OF CERTIFICATION

This is to certify that this project work titled "The Assessment of Innovation Leadership Practices: The case of Commercial Bank of Ethiopia" undertaken by Shalom Workneh for the partial fulfillment for degree of Masters in Business Leadership (MBL) at Addis Ababa University School of Commerce is an original work and fit for partial fulfillment for degree of Masters in Business Leadership.

Adane Atara (PhD)

Research Advisor

Signature

Date

ACKNOWLEDGMENT

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ABSTRACT

This study assessed innovation leadership practices at the Commercial Bank of Ethiopia (CBE), investigating the extent to which CBE employees perceived their leaders as demonstrating behaviors that encourage innovation. It assessed the prevalence of specific leadership behaviors that are impactful in fostering a culture of innovation and explored key barriers to innovation as perceived by employees. A descriptive research design with a quantitative approach was employed, using a self-administered questionnaire to collect data from 295 employees selected through random sampling from a total population of 1200. The questionnaire included items on leadership styles, innovation leadership behaviors, and perceptions of innovation outcomes. Data were analyzed using descriptive statistics, including frequencies, means, and standard deviations, in SPSS version 26. Correlation analysis was also conducted to determine the relationships between leadership behaviors and innovation outcomes. The findings suggest that while transactional leadership is prevalent, there is room to enhance transformational and innovation leadership behaviors to foster a more positive organizational climate and higher perception of innovation. Innovation leadership behaviors showed the strongest positive association with innovation outcomes, indicating that these specific behaviors are most effective in promoting innovation within the organization. This study recommends implementing leadership development programs focusing on transformational leadership skills, providing innovation-focused training, establishing recognition and reward systems, fostering a culture that values innovation, and continuously monitoring and evaluating the effectiveness of these initiatives. The research enhances existing knowledge by providing insights into the current state of innovation leadership practices at CBE and identifying areas for improvement, with implications for the bank's ability to maintain its competitive edge and continue to serve as a driver of economic growth in Ethiopia.

Keywords: *Leadership, Innovation, Innovation Leadership, Leadership styles, Transformational, Transactional*

ACRONYMS

CBE	Commercial Bank of Ethiopia
ILBS	Innovation Leadership Behaviors
MLQ	Multifactor Leadership Questionnaire
SPSS	Statistical Package for the Social Sciences

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Throughout history, organizations relied on leadership to achieve operational efficiency and employee productivity. However, the modern business landscape, characterized by rapid technological advancements, fierce competition, and evolving customer needs, demands a new approach, one that fosters innovation (Hoque & Rayhan, 2012). Traditionally, strong banking sectors have played a vital role in attracting savings, mobilizing funds for development activities, and fostering economic growth through efficient financial intermediation (Sharma et al., 2012). However, the modern economic landscape requires more than just the traditional roles of strong banking sectors. It demands adaptation to technological advancements, changing regulatory frameworks, and evolving consumer expectations.

A firm's success often depends on its ability to innovate. Creativity and product innovation are common goals for organizations, driving growth and survival in a competitive environment (Cooper, 1999). This is especially true in the financial landscape, which is undergoing rapid transformation. Competition and evolving customer needs necessitate a culture that prioritizes creativity and fresh ideas within banks. Leaders play a critical role in shaping such a culture by influencing employee behavior and motivation (Amabile & Khaire, 2008).

The financial landscape is further reshaped by the surge of creativity within the FinTech industry. These agile startups leverage technology to disrupt the traditional banking system by offering innovative and often more convenient financial services.

FinTech companies, armed with cutting-edge technologies like blockchain and user-friendly mobile apps, are redefining the customer experience, offering seamless and customer-centric solutions that force traditional banks to adapt or risk obsolescence (Smith, 2018). This disruption underscores the urgent need for innovation within established banks. The pressure goes beyond simply keeping pace with FinTech's offerings. Research by Brown & Jones (2020) highlights the increased competition that FinTech companies bring, necessitating a shift towards digital transformation for traditional banks to remain competitive in the evolving financial landscape.

To thrive in this dynamic environment, banks must prioritize innovation – the ability to develop and implement creative ideas that enhance value for customers and stakeholders. Banks that embrace innovation can differentiate themselves from competitors by offering cutting-edge financial products and services, providing superior customer experiences, and optimizing their internal operations.

The Ethiopian banking sector is mirroring a global trend towards digital and personalized banking. Customers in Ethiopia are increasingly demanding more convenient, digital banking experiences. At the same time, the banking industry is undergoing rapid technological disruption. This combination of shifting customer expectations and transformative technologies has made innovation a critical driver of success for banks in Ethiopia. The Commercial Bank of Ethiopia (CBE), the nation's leading bank, recognizes the importance of innovation and is seeking to enhance its innovation efforts to better meet these evolving customer needs and industry changes.

1.2 Background of the Organization

The history of Commercial Bank of Ethiopia (CBE) dates back to the establishment of the State Bank of Ethiopia in 1942 and was legally established as a share company in 1963. Since then, it has been playing significant roles in the development of the country. Currently, CBE operates a vast network of over 1,940 branches across Ethiopia, serving more than 40 million account holders. The bank has been instrumental in introducing modern banking practices to Ethiopia, pioneering electronic card banking services and promoting digital transactions through initiatives like CBE Birr. This digital platform enables customers to pay bills conveniently, contributing to the country's transition towards a cashless society.

In addition to its domestic presence, CBE has expanded internationally, establishing branches in South Sudan and fostering strong correspondent relationships with over 50 renowned foreign banks. The bank is also actively engaged in global financial networks through bilateral arrangements with more than 700 banks worldwide via the Society for Worldwide Interbank Financial Telecommunications (SWIFT).

1.3 Statement of the Problem

Several studies have shown that leadership positively influences organizational innovation (Jung et al., 2003). Moreover, there are strong indications that leadership is important for innovation management (Nadler and Tushman, 1990; Denti and Hemlin, 2012). Additionally, leadership plays a decisive role in enhancing organizational creativity (Mumford et al., 2002; Amabile et al., 2004).

The Commercial Bank of Ethiopia (CBE) is the largest commercial bank in Ethiopia and plays a significant role in the country's economic development.

As the banking industry faces growing competition from both domestic and international players, as well as the need to meet the evolving needs of customers, it is important for CBE to foster a culture of innovation and develop effective innovation leadership practices. The emergence of private banks and fintech solutions like Telebirr has intensified the competitive landscape, compelling CBE to enhance its innovation leadership practices to maintain relevance and competitiveness.

Understanding the current state of innovation leadership practices at CBE and identifying areas for improvement can help the bank maintain its competitive edge and continue to serve as a driver of economic growth in Ethiopia.

1.4 Research Questions

This descriptive study aims to address the following research questions:

1. To what extent do CBE employees perceive their leaders as demonstrating various leadership styles that could support innovation within the organization?
2. To what extent do CBE employees observe specific innovation leadership behaviors (such as risk tolerance, rewards and recognition, openness and collaboration) within the organization?
3. What are the key barriers to innovation perceived by CBE employees at the bank?
4. Based on the findings of the assessment of innovation leadership practices at CBE, what are the key areas for potential improvement, and what implications can be drawn for fostering a culture of innovation within the organization?

1.5 Objectives of the Study

General Objective:

To assess innovation leadership practices and the culture of innovation at the Commercial Bank of Ethiopia (CBE) using a quantitative research approach.

Specific Objectives:

1. To assess employee perceptions of leadership styles in the context of fostering an innovation climate at CBE.
2. To assess the prevalence of specific innovation leadership behaviors observed at CBE
3. To explore the key barriers to innovation perceived by CBE employees, providing insights into obstacles hindering innovation within the organization.
4. To suggest recommendations for enhancing leadership practices at CBE based on findings of areas needing improvement, aimed at fostering a culture of innovation.

1.6 Definition of Terms

Conceptual Definition of Terms:

1. **Leadership:** The process of influencing and motivating others to achieve a common goal. This definition emphasizes the leader's ability to inspire, guide, and empower others towards shared objectives.
2. **Leadership Practices:** Refers to the behaviors, actions, and strategies employed by leaders within an organization to influence and guide their followers towards achieving common goals. These practices encompass different leadership styles, such as transformational and transactional leadership, as conceptualized in leadership theories and models.

3. Innovation: Refers to the process of generating, developing, and implementing new ideas, products, services, or processes. It includes both incremental improvements and breakthrough innovations aimed at enhancing organizational effectiveness, competitiveness, and value creation.
4. Creativity: The ability to generate new and original ideas. This definition highlights the process of coming up with novel and useful solutions to problems or challenges.
5. Employee Perceptions: The beliefs, attitudes, and interpretations that employees hold regarding their work environment, leadership practices, and their own capabilities. This emphasizes the subjective nature of employee experiences and the importance of understanding their perspectives.

Operational Definition of Terms:

1. Transformational Leadership: Operationalized as a set of leadership behaviors that inspire and motivate employees, stimulate their creativity and problem-solving skills, and promote a shared vision of the organization's goals.
2. Transactional Leadership: Operationalized as leadership behaviors focused on setting clear objectives, establishing performance expectations, and providing rewards or corrective actions based on individual or team performance. This may involve actions such as setting performance targets, monitoring progress, and providing incentives or feedback based on achievement.

1.7 Significance of the Study

This study contributes by evaluating innovation leadership practices within the Ethiopian banking sector. Within the Ethiopian banking sector, there's a lack of research focused on how leadership practices influence innovation.

This study addresses this gap by evaluating innovation leadership practices specifically at CBE. Existing global literature provides insights into leadership and innovation, but its applicability in emerging economies like Ethiopia remains under-explored. By identifying effective leadership behaviors that cultivate a culture of innovation, the findings offer practical guidance for CBE.

This knowledge can inform the development of leadership training programs and ultimately enhance the bank's competitiveness in a rapidly evolving landscape. Additionally, the research delves into employee perceptions of leadership's role in innovation and explores the key barriers to innovation within the bank. This knowledge can be used to develop targeted interventions that directly encourage innovation and address the challenges that hinder it. Ultimately, the study contributes to a deeper understanding of leadership's role in driving innovation within the Ethiopian banking context.

This research extends beyond CBE, offering valuable insights for the academic community. It bridges the gap between global leadership and innovation literature and the needs of emerging economies, contributing to both knowledge advancement and improved organizational effectiveness. The findings serve as a reference point for future research, informing theory and practical applications in similar contexts.

1.8 Scope of the Study

This study describes the assessment of innovation leadership practices at Commercial Bank of Ethiopia. The sample comprised head office employees chosen for their direct involvement in decision-making and insights into organizational innovation.

The study employed a cross-sectional design, collecting survey data at a single point in time to capture a snapshot of innovation leadership practices within the organization.

This cross-sectional design allowed for an examination of the prevalence of specific leadership behaviors at CBE.

1.9 Limitations of the Study

Limitations are a natural part of any research endeavor. In the present study, the sample was specifically selected from employees located at the headquarters of the Commercial Bank of Ethiopia (CBE) in Addis Ababa. This decision was influenced by practical considerations such as geographic proximity and time constraints. However, concentrating solely on this single location, CBE headquarters, could potentially restrict the generalizability of the study's findings. The broader workforce of the Commercial Bank of Ethiopia is dispersed across various regions within the country, each possibly experiencing different operational dynamics and organizational cultures. Therefore, while the insights obtained from this study offer valuable perspectives on leadership practices and innovation within the CBE headquarters context, caution should be exercised when extending these conclusions to the entirety of the bank's diverse and geographically dispersed workforce.

1.10 Organization of the Study

The paper is structured into five chapters.

Chapter 1 serves as the Introduction, providing an overview of the study's background, problem statement, objectives, significance, and scope.

Chapter 2 consists of a Literature Review, where previous studies are reviewed, and general concepts and definitions related to the research topic are discussed.

Chapter 3, Research Design and Methodology, focuses on the design of the study and methodologies used, including data sources, data collection methods, sample size determination, and sampling techniques.

In Chapter 4, Data Presentation, Analysis, and Interpretation, the collected primary data are analyzed and organized to meet the study's objectives.

Finally, Chapter 5, Summary, Conclusion, and Recommendations, summarizes the findings, presents conclusions, and provides recommendations based on the study's outcomes.

CHAPTER TWO

LITERATURE REVIEW

2.1 Leadership and Leadership Styles

The concept of leadership is multifaceted, with scholars offering diverse definitions and perspectives that reflect its complexity and significance in various fields. From organizational management to psychology and sociology, the discourse surrounding leadership has evolved over time, giving rise to a multitude of interpretations and understandings.

According to Bass (1990a), "leadership consists of influencing the attitudes and behaviors of individuals and the interaction within and between groups for the purpose of achieving goals." Chemers (1997) defines leadership as "a process of social influence in which one person is able to enlist the aid and support of others in the accomplishment of a common task.

According to House and Aditya (1997), the term "leadership styles" refers "to the manner by which leaders express specific behaviors." Leadership styles are significant as they represent different approaches to leadership practice. In this regard, the traits of leaders reflect individuals' ability to engage in specific leadership styles.

Leadership styles play a pivotal role in shaping organizational dynamics and driving performance outcomes. Understanding the diverse approaches to leadership empowers individuals to navigate varied contexts effectively and adapt their leadership strategies to meet organizational goals. Each leadership style embodies distinct philosophies, behaviors, and approaches to decision-making, influencing how leaders interact with followers and shape organizational culture.

By examining the characteristics and effects of different leadership styles, organizations can cultivate environments conducive to innovation, collaboration, and sustainable growth. This section provides an overview of different leadership styles commonly observed in organizational settings.

1. Transformational Leadership

According to Simola et al. (2012), transformational leadership is characterized as a type of leadership in which interactions among interested parties are organized around a collective purpose, with the aim to transform, motivate, and enhance the actions and ethical aspirations of followers. They further assert that this leadership style seeks positive transformations in those who follow and achieves desired changes through the strategy and structure of the organization (Geib and Swenson, 2013).

Transformational leadership, a cornerstone in organizational behavior literature, embodies a holistic approach to leadership that transcends mere management. It is characterized by leaders who inspire and motivate their followers to achieve beyond their perceived capabilities, fostering an environment of growth and innovation. By nurturing individual development and fostering a collective vision, transformational leaders cultivate organizational cultures that prioritize collaboration, creativity, and adaptability. Through their visionary outlook and empathetic understanding, they instill a sense of purpose and commitment among followers, driving organizational success and sustainability. In essence, transformational leadership serves as a catalyst for positive change, shaping the future trajectory of both individuals and organizations alike.

2. Transactional Leadership

Transactional leadership is an exchange of valued things between the leaders and subordinates in order to achieve an outcome. It is a method of getting subordinates to achieve job requirements by reinforcing towards rewards or punishment. (Avery, 2004., Bass, 1985).

At its core, transactional leadership is characterized by a reciprocal relationship between leaders and their subordinates, where both parties engage in a give-and-take dynamic to accomplish specific goals (Dong, 2023). This leadership approach is fundamentally based on an exchange model, where leaders offer rewards or impose corrective actions in response to the performance of their team members. Beyond this foundational understanding, transactional leadership entails a structured framework marked by clearly defined expectations and standards set by leaders. Rewards are granted for meeting these criteria, while corrective actions are implemented for deviations. This structured approach not only fosters a disciplined work environment but also promotes accountability and responsibility among team members. Effective communication channels are essential in transactional leadership, facilitating the seamless transmission of information and ensuring alignment with organizational objectives. Through adept utilization of transactional leadership, leaders can drive performance, enhance employee engagement, and ultimately propel their organizations towards success.

2.2 Creativity and Innovation

Creativity refers to the ability to generate novel and useful ideas or concepts (Amabile, 2022).

It is the ability to think outside the box and come up with original and imaginative solutions to problems, as well as to generate new and unique ideas, regardless of their practicality or feasibility (Sawyer, 2023).

Innovation refers to the process of creating and implementing new ideas, products, or processes (Smith, 2020). It involves taking a creative idea and turning it into a tangible outcome that has value in the marketplace (Jones, 2021). Innovation is focused on the practical application of ideas and the implementation of new solutions (Smith, 2020).

It involves taking a creative idea and transforming it into a product or service that can be introduced to the market (Jones, 2021).

The two types of innovations are exploratory innovation, which involves generating brand new ideas, and value-added innovation, which focuses on modifying and renewing existing ideas (Jansen et al., 2006). Exploratory innovation thrives in environments valuing creativity and originality, such as technology startups or research labs pioneering cutting-edge solutions, pushing boundaries to discover novel concepts. On the other hand, value-added innovation enhances existing ideas or products to meet current needs or explore new applications, especially in industries like manufacturing and software development, aiming to optimize efficiency and adapt to evolving market demands.

In conclusion, while innovation and creativity are closely related, they are distinct concepts. Innovation is the process of developing and implementing new ideas, products, or processes. It is focused on practical application and problem-solving. Creativity, on the other hand, is the ability to generate novel and useful ideas or concepts. Creativity is more about the generation of new ways of thinking, rather than the practical implementation. Creativity is the foundation for innovation, providing the spark of new ideas, but innovation goes a step further by taking those creative ideas and transforming them into tangible, real-world solutions. In essence, innovation builds upon creativity, turning ideation into execution and implementation. Understanding the nuances between these two concepts is important for effectively fostering both within an organization or individual.

2.3 Leadership Styles and Innovation

There are perhaps at least as many definitions of innovation as there are of leadership. According to a rather broad definition by Baregheh et al. (2009), 'Innovation is the multi-stage process whereby organizations transform ideas into improved products, service or processes, in order to advance, compete and differentiate themselves successfully in their marketplace.'

Today we live in a time of globalization where the business environment suffers from intense competition and pressure from technological development, which has shortened the life cycle of production. This has elevated the importance of creativity and innovation in generating new ideas and strategies that ensure sustainable business activities (Rastogi et al., 2019). Leadership is considered a crucial element in the innovation process (Günzel-Jensen, Hansen, Jakobsen, & Wulff, 2018; Van Hemmen, Alvarez, Peris-Ortiz, & Urbano, 2015) and plays a significant role within organizational structures. Leaders are expected to foster a positive working environment, address issues requiring change through innovative processes, and motivate organizational members to meet and exceed expectations set by organizational objectives (Wipulanusat, Panuwatwanich, & Stewart, 2017).

2.4 Theories of Innovation Leadership

2.4.1 Path-Goal Theory

Path-goal theory was developed by Robert House, an Ohio State University graduate, in 1971 and later revised in 1996 (House, 1996). The theory suggests leaders should help followers achieve their goals by providing direction and support. The theory proposes that effective leaders clarify the path to help followers reach their work goals and make the journey easier by reducing roadblocks.

Leaders can use different leadership styles contingent on employee and environmental factors to be effective, such as participative, supportive, directive, or achievement-oriented behaviors (House, 1996).

Path-goal theory provides a foundation for innovation leadership by advocating the use of different leadership styles, similar to how innovation leadership combines various styles (Sarros et al., 2008). The idea of a single leader using different behaviors originated in path-goal theory and is associated with the approach underlying innovation leadership, which aims to create a work environment conducive to innovative thinking (Yukl, 2013). This flexibility in leadership approach aligns with the dynamic nature of innovation, where leaders need to adapt their style to the specific needs and challenges of the innovative process.

2.4.2 Leader-Member Exchange (LMX) Theory

Leader-member exchange (LMX) theory focuses on the dyadic relationship between leaders and followers. It proposes that leaders develop different types of relationships and exchange patterns with each subordinate (Graen & Uhl-Bien, 1995). High-quality LMX relationships are characterized by mutual trust, respect, and obligation, while low-quality LMX relationships are more formal and based on employment contracts.

LMX theory has its origins in the vertical dyad linkage (VDL) approach introduced by Dansereau, Graen, and Haga in 1975 (Dansereau et al., 1975). This early work suggested that leaders differentiate in their relationships with subordinates, forming higher-quality exchanges with some and lower-quality exchanges with others. Graen and Scandura (1987) later proposed that LMX development involves three stages: role-taking, role-making, and role-routinization.

LMX theory is another component that influences innovation leadership. It follows a similar principle as path-goal theory by suggesting different leadership styles are required to manage

different subordinates (Basu & Green, 1997). Research has shown that high-quality LMX relationships lead to positive outcomes like increased job performance and satisfaction, which can impact innovativeness (Erdogan & Bauer, 2014). The change in innovative attitude is related to the quality of the interaction between the leader and member, considering contributions from both parties.

2.5 Innovation Leadership

In today's rapidly evolving business landscape, innovation is indispensable for organizational success (Elkington & Booyesen, 2015). It serves as a crucial driver for organizational growth and competitiveness, enabling companies to adapt to evolving market dynamics and meet the changing needs of customers.

Embracing innovation allows organizations to stay ahead of the curve, pioneering new products, services, and strategies that propel them to prominence in their respective industries.

Innovation leadership encompasses a methodology and mindset that blends diverse leadership styles to inspire and drive employees towards creating innovative products, services, and ideas (Horth & Buchner, 2014). This approach not only encourages proactive problem-solving and idea generation but also fosters a culture of creativity and experimentation within organizations. Innovation leaders play a pivotal role in championing this ethos, leveraging their strategic vision and collaborative skills to empower teams and drive organizational success.

The concept of innovation leadership has become increasingly prominent in today's rapidly evolving business landscape, where the ability to foster creativity, adaptability, and pioneering solutions is paramount to organizational success.

At the heart of this philosophy lies the innovation leader, a role that encompasses a unique blend of leadership styles and competencies. Dr. David Gliddon (2006) at The Pennsylvania State University developed a competency model for innovation leaders, bolstering the concept of innovation leadership.

2.6 Innovation Leadership Behaviors

Innovation leadership encompasses a fundamental set of behaviors that foster creativity, encourage employee voice, and promote knowledge sharing within organizations. Key behaviors include developing supportive group norms, strategically designing teams, managing interactions with external stakeholders, demonstrating strong leadership support, and ensuring effective team management. Effective innovation leaders not only inspire their teams to generate creative ideas but also cultivate an environment where diverse perspectives are valued and actively solicited. Some of the key innovation leadership behaviors include:

Vision and Inspiration

These leaders paint a clear and compelling picture of the future, one that excites and motivates teams to challenge the status quo and embrace innovative thinking.

This vision serves as a guiding light, directing the team's efforts toward innovation aligned with the organization's strategic objectives (Amabile & Khaire, 2008).

Curiosity and Openness to New Ideas

Innovation thrives on exploration. Effective innovation leaders actively seek diverse perspectives and encourage a culture of questioning and experimentation. They demonstrate intellectual curiosity, constantly searching for new ways to improve processes, products, or services (Hargadon & Bechky, 2006).

Empowerment and Autonomy

Micromanagement stifles creativity. Innovation leaders empower their teams by providing autonomy and resources necessary to explore new ideas and develop solutions. They trust their team members' capabilities, fostering a sense of ownership and accountability, ultimately motivating teams to go the extra mile (Shalley & Gilson, 2004).

Risk Tolerance and Psychological Safety

Fear of failure can be a significant barrier to innovation. Effective innovation leaders create a safe space for experimentation. They understand that calculated risks are essential for innovation and encourage their teams to take chances. They foster an environment where failure is seen as a learning opportunity, not a punishment (Edmondson, 1999).

Collaboration and Knowledge Sharing

Innovation rarely happens in isolation. Effective innovation leaders actively promote teamwork and break down silos within the organization. They encourage open communication and knowledge sharing, fostering cross-pollination of ideas and perspectives. This collaborative approach allows teams to leverage diverse expertise and build upon each other's ideas (Hargadon & Bechky, 2006).

Rewards and Recognition

Positive reinforcement fuels innovation. Effective innovation leaders recognize and reward individuals and teams who contribute to the innovation process. This can come in various forms, from public acknowledgement to bonuses or promotions. Recognition validates the effort invested in innovation and motivates continued creativity (Amabile & Khairi, 2008).

Feedback and Coaching

Effective innovation leaders provide regular and constructive feedback to their teams. This feedback helps team members identify areas for improvement and refine their ideas.

Additionally, innovation leaders act as coaches, offering guidance and support throughout the innovation process (Yukl, 2013).

Idea Promotion and Realization

Great ideas need champions. Effective innovation leaders actively promote promising ideas within the organization. They connect their teams with the resources and stakeholders needed to bring their ideas to life. This advocacy is crucial for moving innovative ideas from concept to reality. Additionally, innovation leadership isn't just about generating ideas; it's about bringing them to fruition.

Effective innovation leaders create a clear path for turning ideas into tangible results. This may involve establishing processes for idea evaluation, prototyping, and implementation (Amabile & Khairi, 2008).

Communication Channels

Effective communication is essential for successful innovation. Innovation leaders establish clear communication channels to keep everyone informed about innovation initiatives, progress, and challenges. This transparency fosters trust and collaboration within the team (Kremer et al., 2019).

2.7 Leadership and Innovation in the Banking Sector

Innovation greatly impacts survival, competitiveness, and growth of organizations, and the desired effect of innovation on customer satisfaction, employee productivity, service quality, market value, and share of the firm, as well as on customer retention. Innovation also has the potential to generate economic value for the organization, thereby increasing their profits and enhancing and improving their performance (Martinez-Perez et al., 2016).

Schumpeter (1934) described innovation as “the creation of new possibilities for additional value added, taking into account not only the typical product/process innovation of manufacturing but also market, organizational, and resource input innovation,” innovations are functions of “creative destruction” (Schumpeter, 1934, p. 2483), which challenges market equilibriums and provides new opportunities for exploration and revitalization by existing and new firms (Wikhamn et al., 2018).

Smith (2018) effectively highlighted the significant challenges facing traditional banks following the rapid growth of Fintech. Agile Fintech companies have disrupted the traditional banking paradigm with their traditional systems and conventional structures. Fintech companies, armed with cutting-edge technologies such as blockchain, artificial intelligence and user-friendly mobile apps, have redefined the way financial services are delivered, Smith noted. They offer seamless, efficient and customer-centric solutions that force traditional banks to adapt or risk obsolescence. Smith's findings underscore the urgent need for traditional banks to transform their operations and improve their digital capabilities to remain competitive in this new environment.

Building on Smith's insights, Brown and Jones (2020) delved into the specific challenges that traditional banks face due to Fintech disruption. They argued that the traditional banking sector is under increasing pressure, mainly due to increased competition from fintech companies. As a result, traditional banks are forced to embrace digital transformation.

Despite the wealth of global literature, research examining the interplay between leadership and innovation within the Ethiopian banking sector remains scarce. While existing studies touch upon leadership styles and organizational performance, there exists a notable void concerning the specific relationship between leadership and innovation.

2.8 Conceptual Framework

The conceptual framework of this study is derived from a comprehensive review of literature and the analysis of data collected during the research. It describes the innovation leadership behaviors and the culture of innovation within the Commercial Bank of Ethiopia (CBE). This study investigated the extent to which employees within CBE perceive the following key innovation leadership behaviors: vision and inspiration, curiosity and openness to new ideas, empowerment and autonomy, risk tolerance, collaboration and knowledge sharing, rewards and recognition, and feedback and coaching. These behaviors collectively create an environment that fosters creativity, encourages proactive problem-solving, and facilitates the implementation of new ideas. The framework aims to describe the current landscape of leadership practices and employee experiences, providing actionable insights for enhancing the innovation culture within CBE. This framework guided the research and serves as a foundation for developing recommendations to strengthen the innovation culture, contributing to the bank's growth and competitiveness.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Approach

The study leveraged a quantitative approach to comprehensively assess the innovation leadership practices at the Commercial Bank of Ethiopia (CBE) and their perceived impact on employee creativity and innovation. This methodology is crucial for gathering and analyzing objective, quantifiable data to understand the leadership dynamics shaping innovation at the CBE.

3.2 Research Design

The study employed a descriptive research design, aiming to provide a detailed picture of leadership practices at CBE and their perceived impact on employee creativity and innovation.

3.3 Sampling Design

Simple random sampling was employed to ensure a fair representation of Commercial Bank of Ethiopia (CBE) employees. This method involves randomly selecting employees from the entire population without dividing them into subgroups or strata. By doing so, biases are reduced, and each employee has an equal chance of being selected for the sample. The number of participants chosen was determined based on the research goals and the level of accuracy needed for the analysis. This approach allowed gathering insights from employees across different departments and hierarchical levels within the bank.

The target population for this study consisted of 1200 head office employees of the Commercial Bank of Ethiopia. Headquarter employees were selected as the relevant population for this study because of their direct involvement in decision-making processes,

which enables them to provide valuable insights into leadership practices and their impact on innovation within the organization.

The sample size of 300 was determined using the Yamane Tore formula, chosen for its systematic and straightforward approach to calculating sample sizes from large populations.

$$n = N / (1 + N (e)^2)$$

Where n = Sample size

N = Population size

E = Level of precision or acceptable sampling error (0.05)

$$n = 1000 / (1 + (1200) (0.05)^2)$$

$$n = 300$$

3.4 Data Collection

The study employed primary data collection through a self-administered questionnaire designed to evaluate innovation leadership practices at the Commercial Bank of Ethiopia. The questionnaire incorporated established instruments for assessing leadership styles, innovation leadership behaviors, and perceptions of organizational climate. Initially, the Multifactor Leadership Questionnaire (MLQ) by Bass and Avolio (1995) provided the framework for examining transformational and transactional leadership styles, adapted to suit the study conducted at the CBE.

The innovation leadership behaviors questions were derived from the Leader Support for Innovation Questionnaire (LSIQ) developed by Vincent-Höper and Stein (2019), focusing on leadership behaviors supporting innovation within organizational contexts. The innovation perception questions were adapted from the research by Mok (2023), focusing on employee

perception of innovation. These adaptations ensured alignment with the study's specific research objectives and the operational context of the Commercial Bank of Ethiopia.

Before full-scale data collection, a pilot test was conducted to validate the questionnaire's reliability and ensure its effectiveness in measuring employee perceptions and leadership practices conducive to innovation within the bank.

3.5 Data Analysis

Quantitative data analysis techniques were employed to investigate the relationships between leadership practices, employee perceptions, and innovation within Commercial Bank of Ethiopia (CBE). Descriptive statistics summarized the data on leadership practices, employee perceptions, and innovation outcomes, providing insights into prevailing trends and patterns. SPSS version 26 software was utilized for statistical analyses, facilitating calculations of measures such as means, standard deviations, and frequency distributions.

These analyses enabled exploration of correlations, associations, and significance levels among variables of interest.

The study's approach aimed to uncover how specific leadership practices influence employee perceptions of innovation within CBE. By employing quantitative methods supported by SPSS, the research ensured thorough examination and identification of factors contributing to fostering a culture of innovation within the organization. This methodological approach underscores the study's commitment to providing reliable insights into innovation leadership dynamics in the Ethiopian banking sector context.

3.6 Validity and Reliability

This research prioritizes the accuracy and trustworthiness of its findings by ensuring both validity and reliability.

Validity

For validity, particular attention is given to construct validity, achieved through theory-driven questionnaire development and pilot testing. This approach ensures that the questionnaire accurately measures the intended concepts.

By employing these strategies, the study aims to establish the validity of the data collection instrument, providing a trustworthy representation of employee perceptions.

Reliability

In the study, the assessment of a measure's reliability was crucial, as it signifies the stability and consistency in gauging the intended concept (Zikmund, 2003). To evaluate this, Cronbach's alpha was employed, which is widely recognized for assessing internal consistency, particularly with Likert scale items (Sekaran, 2003). It's noted that as the reliability coefficient approaches 1.0, it indicates better reliability, with values exceeding .80 considered as particularly robust, while those in the .70 range are still deemed acceptable.

Within the study, all four sections of the survey achieved Cronbach's alpha scores exceeding 0.8, indicating exceptional reliability.

This high level of reliability underscores the consistency and stability of the survey items in measuring the intended constructs. Such robust reliability provides assurance regarding the validity of the study findings, as it ensures consistent results across repeated administrations of the instrument.

Table 3.1 Cronbach’s Alpha (Reliability analysis)

S.NO.	Construct	Cronbach's Alpha	Number of Items
1	Leadership Styles (MLQ)	0.947	14
2	Innovation Leadership Behaviors	0.937	9
3	Innovation	0.826	6

Source: Own field survey data, SPSS, 2024

By employing these strategies, the research aims to ensure the validity and reliability of the data collection instrument. This strengthens the confidence that the findings accurately reflect the intended constructs and provide a trustworthy representation of employee perceptions within the Commercial Bank of Ethiopia.

3.7 Ethical Considerations

Ethical considerations in research are paramount to upholding the rights and well-being of participants, maintaining the integrity of the research process, and ensuring credibility (Oliver, 2010). These considerations encompass key aspects such as obtaining informed consent, ensuring confidentiality and anonymity, minimizing harm or discomfort to participants, and adhering to ethical guidelines and regulations.

When distributing the questionnaire, ethical measures were implemented to ensure participant privacy and confidentiality. Responses were collected anonymously, and findings were reported in aggregate form to safeguard participant identities.

CHAPTER FOUR

DATA ANALYSIS, RESULTS, AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of data collected to reveal the current state of innovation leadership practices at the Commercial Bank of Ethiopia (CBE). The analysis begins by examining the demographic background of respondents to set the stage for understanding the data. Following this, descriptive data analysis carefully dissects the information, identifying patterns and trends in leadership styles, innovation leadership behaviors, and employee perceptions of innovation within CBE. The chapter then explores the connection between leadership styles and innovation, examining how leadership styles influence employee perceptions of behaviors that encourage innovation and how these behaviors in turn shape employee perspectives on innovation at the bank. Finally, the chapter concludes with interpretation and discussion, weaving together the findings and exploring their relationships to draw clear conclusions about the state of innovation leadership at CBE.

A high response rate was achieved, with a significant portion (over 95%) of the distributed surveys being completed and returned for analysis. This robust sample size allowed for confident interpretation of the findings.

Data analysis was conducted using appropriate statistical methods implemented in the Statistical Package for Social Sciences (SPSS) version 26. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were employed to summarize the responses of the participants and provide insights into the innovation leadership practices at CBE.

4.2 Demographic Background of Respondents

The survey included 295 respondents from the Commercial Bank of Ethiopia (CBE), and their demographic profiles are summarized as follows:

Table 4.1 Demographic Data

Demographic Variables		Frequency	Percent
Gender	Female	93	31.5
	Male	202	68.5
	Total	295	100
Age	18-34	180	61
	35-44	82	27.8
	45-55	28	9.5
	>55	5	1.7
	Total	295	100
Education Level	Bachelor's Degree	208	70.5
	Master's Degree	87	29.5
	Total	295	100
Years of Experience	1-2	75	25.4
	3-5	79	26.8
	6-10	118	40
	>10	23	7.8
	Total	295	100
Position in the Organization	Managerial	11	3.7
	Non-Managerial	284	96.3
	Total	295	100

Source: Own Field Survey Data, SPSS, 2024

The respondents consisted of 31.5% females and 68.5% males, indicating a higher representation of male employees in the survey. This gender distribution within the sample reflects the demographic makeup of the workforce at CBE, highlighting a predominant presence of male participants in the study.

A significant majority of the respondents, 61%, were aged between 18-34 years, while 27.8% were aged 35-44 years. Additionally, 9.5% were aged 45-55 years, and only 1.7% were over 55 years old. This shows a relatively young workforce at CBE.

Regarding educational qualifications, 70.5% of the respondents held a Bachelor's degree, and 29.5% had a Master's degree. This suggests that the workforce is well-educated, with a substantial portion having postgraduate education.

The distribution of years of experience among the respondents was varied. About 25.4% had 1-2 years of experience, 26.8% had 3-5 years, 40% had 6-10 years, and 7.8% had over 10 years of experience. This indicates a diverse range of experience levels within the workforce.

The vast majority of respondents, 96.3%, were in non-managerial positions, whereas only 3.7% held managerial roles. This highlights a predominantly non-managerial respondent base in the survey.

These demographics offer a comprehensive snapshot of the survey participants, revealing a predominantly male composition along with a youthful demographic profile. The workforce is characterized by a high level of education and diversity in terms of professional experience, with a significant proportion occupying non-managerial positions within Commercial Bank of Ethiopia (CBE). This profile underscores the varied perspectives and insights gathered from individuals across different roles and backgrounds, contributing to a robust and nuanced understanding of leadership practices and perceptions of innovation within the organization.

4.3 Descriptive Data Analysis

This section provides an overview of the descriptive data analysis conducted to examine the mean and standard deviation of the four key constructs: leadership styles, innovation leadership behaviors, organizational climate, and perceptions of innovation within Commercial Bank of Ethiopia. The findings offer insights into the current state of leadership and innovation at CBE, highlighting key aspects identified in the study.

4.3.1 Leadership Styles

This section examines employee perceptions of leadership styles at the Commercial Bank of Ethiopia (CBE) using the Multifactor Leadership Questionnaire (MLQ). The data analysis, incorporating the specific survey statements and their corresponding descriptive statistics, outliers, and standard deviations, provides valuable insights into how employees view their managers.

Table 4.2 Leadership Styles

Leadership Styles	Descriptive Statistics			
		N	Mean	Std. Deviation
Transformational Leadership				
My manager's strong leadership makes me feel valued and motivated to contribute more	Q1	295	3.5	1.053
My manager's leadership creates a strong sense of trust and confidence among team members	Q2	295	3.52	1.016
Idealized Influence (II)	II	295	3.51	0.992
My manager provides a clear and compelling vision for our team's future	Q3	295	3.23	0.881
My manager inspires me to feel excited about our team's goals	Q4	295	3.36	1.037
Inspirational Motivation (IM)	IM	295	3.29	0.881
My manager challenges me to think critically about my work and explore new approaches	Q5	295	3.38	0.971
My manager provides new perspectives that help me rethink old problems	Q6	295	3.29	0.909
Transformational Leadership				

Leadership Styles	Descriptive Statistics			
		N	Mean	Std. Deviation
Intellectual Stimulation (IS)	IS	295	3.33	0.846
My manager provides personalized guidance and support to aid in my professional growth	Q7	295	3.33	1.031
My manager recognizes and appreciates my unique contributions to the team	Q8	295	3.32	0.951
Individual Consideration (IC)	IC	295	3.32	0.869
Transformational Leadership (TL)	TL	295	3.36	0.789
Transactional Leadership				
My manager clearly communicates the goals and expectations for my role	Q9	295	3.46	0.992
My manager provides recognition and rewards when I meet or exceed my targets	Q10	295	3.00	1.111
Contingent Reward (CR)	CR	295	3.23	0.905
My manager closely monitors the team's progress to ensure that we stay on track	Q11	295	3.72	0.769
My manager takes corrective action when problems become serious	Q12	295	3.78	0.800
Management by Exception (MBE)	MBE	295	3.75	0.647
Transactional Leadership (TR)	TR	295	3.49	0.668

Source: Own Field Survey Data, SPSS, 2024

Transformational Leadership

Transformational leadership, characterized by idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, is a crucial factor in fostering innovation. The data reveals some positive aspects:

Idealized Influence (II): The mean score of 3.51 for the statement "My manager's strong leadership makes me feel valued and motivated to contribute more" (SD = 0.992) suggests that most employees perceive their managers as role models (although there is some variation in these perceptions). This is a positive finding, as idealized influence can inspire employees to go the extra mile. However, alongside positive indicators, there is also room for improvement, as evidenced by standard deviations.

Inspirational Motivation (IM): The clarity of the vision provided by managers is slightly lower (Mean =3.23) compared to the motivational inspiration they offer (Mean =3.36). This indicates room for improvement in communicating the vision.

Transactional Leadership

Transactional leadership focuses on rewarding good performance and correcting mistakes.

The data suggests some strengths.

Contingent Reward (CR): The results for Contingent Reward (CR) show that managers are moderately effective at communicating goals and expectations (Mean = 3.46, SD = 0.992), but less consistent in providing recognition and rewards for meeting targets (Mean = 3.00, SD = 1.111). This mixed picture suggests that while managers are generally clear in setting expectations, they may need to improve in consistently rewarding employees for good performance, which is a key aspect of effective transactional leadership

Management-by-Exception (MBE): The results for Management-by-Exception (MBE) show that managers are effective in taking corrective action when problems become serious (Mean = 3.75, SD = 0.800), indicating a consistent approach to addressing serious issues. This is a key aspect of transactional leadership, where managers take a more directive role in addressing problems and ensuring performance meets expectations.

4.3.2 Innovation Leadership Behaviors

Following the exploration of leadership styles, this section delves into employee perceptions of innovation leadership behaviors at the Commercial Bank of Ethiopia (CBE). The data, based on the Innovation Leadership Behaviors (ILBS) construct, sheds light on how employees view their managers' specific actions in fostering a culture of innovation.

Table 4.3 Innovation Leadership Behaviors

Innovation Leadership Behaviors	Descriptive Statistics			
		N	Mean	Std. Deviation
Risk Taking Orientation				
My manager encourages taking calculated risks to pursue innovative approaches and solutions	Q15	295	3.15	0.991
Rewards and Recognition				
My manager celebrates successes achieved through innovative approaches	Q16	295	3.13	1.060
Openness and Collaboration				
My manager actively encourages knowledge sharing and collaboration among team members to facilitate innovation	Q17	295	3.74	1.067
Time Allocation				
My manager provides time for employees to work on innovative ideas during regular work hours	Q18	295	3.23	1.059
Failure Learning				
My manager encourages employees to learn from failures and try again with innovative ideas	Q19	295	3.49	0.972
Feedback and Coaching				
My manager provides feedback and coaching to help employees develop their innovation skills	Q20	295	3.34	0.889
Idea Promotion				
My manager ensures that innovative ideas are communicated to the relevant stakeholders	Q21	295	3.28	0.918
Idea Realization				
My manager facilitates the implementation of innovative ideas into practice	Q22	295	3.18	0.937
Communication Channels				
My manager is open to discussing innovative ideas with employees	Q23	295	3.38	0.924
Innovation Leadership Behaviors (ILBS) Average	ILBS	295	3.32	0.764

Source: Own Field Survey Data, SPSS, 2024

Risk Taking Orientation (RTO): The mean score of 3.15 for "My manager encourages taking calculated risks to pursue innovative approaches and solutions" (SD = 0.991) suggests that there is some space for improvement in this area. While some managers might encourage calculated risks, a significant portion of employees may not perceive this consistently. This could be an area targeted for leadership development programs focused on fostering a culture of innovation that embraces calculated risks.

Rewards and Recognition (RR): The results for the Rewards and Recognition (RR) dimension show that managers are moderately effective in celebrating successes achieved through innovative approaches (Mean = 3.13, SD = 1.06). This suggests variability in the consistency of recognition, as the higher standard deviation indicates that the acknowledgment of innovative achievements is not uniformly applied across the organization. To promote a culture of innovation, it would be beneficial for managers to ensure more consistent and meaningful recognition of employee contributions, as the current inconsistency in rewards and recognition could potentially demotivate employees from pursuing new ideas and projects.

Openness and Collaboration (OC): The results indicate a positive trend in Openness and Collaboration (OC), with a mean score of 3.74 (SD = 1.067). This suggests that employees perceive their managers as fostering a collaborative environment that supports knowledge sharing, which is crucial for innovation.

Time Allocation (TA): The results indicate a neutral trend in Time Allocation (TA), with a mean score of 3.23 (SD = 1.059). This suggests that employees perceive their managers as providing varying levels of dedicated time for innovation, with some managers allocating

time and others not. This inconsistency could be addressed through clear policies and structures that prioritize time for innovative work.

Failure Learning:

The results show a moderately positive perception of managers encouraging employees to learn from failures and try again with innovative ideas (Mean = 3.49, SD = 0.972). This suggests that managers are generally supportive of a learning-oriented approach to innovation, where employees are empowered to experiment, learn from mistakes, and iterate on their ideas.

Feedback and Coaching:

The data also indicates that managers are somewhat effective in providing feedback and coaching to help employees develop their innovation skills (Mean = 3.34, SD = 0.889). This moderate level of support for employee development in the innovation domain could be an area for potential improvement, as ongoing feedback and coaching can be crucial for fostering a culture of continuous learning and improvement.

Idea Promotion:

The results show a moderately positive perception of managers ensuring that innovative ideas are communicated to relevant stakeholders (Mean = 3.28, SD = 0.918). This suggests that managers are generally effective in disseminating innovative ideas to the right people, which is crucial for their adoption and implementation.

Idea Realization:

The data indicates that managers are somewhat effective in facilitating the implementation of innovative ideas into practice (Mean = 3.18, SD = 0.937). This moderate level of support for idea realization could be an area for potential improvement, as the successful implementation of innovative ideas is critical for their long-term impact.

Communication Channels:

The results also show that managers are moderately effective in being open to discussing innovative ideas with employees (Mean = 3.38, SD = 0.924). This suggests that managers are generally receptive to employee ideas and willing to engage in discussions about innovation, which can help foster a culture of creativity and collaboration.

Overall, the results paint a picture of managers who are moderately engaged in supporting the innovation process through idea promotion, realization, and communication channels, but there may be room for further enhancement of these leadership behaviors to fully cultivate a thriving innovative environment.

4.3.3 Innovation Perception

Expanding upon the examination of different leadership styles and innovation leadership behaviors, this section delves into exploring employee perceptions of innovation at the Commercial Bank of Ethiopia (CBE). By focusing on how employees perceive innovation within CBE, the study aims to uncover insights into their perspectives and attitudes towards innovation initiatives within the organization. This exploration provides a detailed understanding of how innovation is perceived by employees and the factors that shape their perceptions within the organizational context of CBE.

Table 4.4 Innovation Perception

Innovation	Descriptive Statistics			
		N	Mean	Std. Deviation
General Innovation Perception				
The bank actively promotes a culture of innovation, with visible efforts and initiatives	Q32	295	3.15	0.909
he bank effectively portrays itself as innovative company to the public	Q33	295	3.55	0.712
General Innovation Perception (GIP)	GIP	295	3.35	0.679

Innovation	Descriptive Statistics			
Recent Innovation Implementations				
The bank is actively implementing new technologies and business models to stay competitive	Q34	295	3.80	0.806
Recent innovative efforts by the bank are having a significant impact on its competitiveness in the financial industry	Q35	295	3.62	0.91
Recent implementation of new technologies and business models has been smooth and efficient	Q36	295	3.61	0.892
Employees are kept informed about how recent innovations are impacting the bank's performance	Q37	295	3.29	0.973
Recent Innovation Implementations (RRI)	RII	295	3.58	0.732
Innovation	INNOVATION	295	3.5	0.653

Source: Own Field Survey Data, SPSS, 2024

General Innovation Perception

General Innovation Perception (GIP): The mean score of 3.35 (SD = 0.679) for the construct "Innovation Perception" suggests a somewhat neutral perception. Employees have a moderately positive view of the bank's overall approach to innovation, but there is room for improvement.

Recent Innovation Implementations

Recent Innovation Implementations (RRI): The mean score of 3.58 (SD = 0.732) for "Recent Innovation Implementations" suggests a slightly more positive perception of the bank's recent innovation efforts compared to the overall innovation perception. Employees seem somewhat more approving of the specific innovations that have been implemented recently.

Perceptions of Effectiveness and Efficiency

Effectiveness: The mean score of 3.80 (SD = 0.806) for "The bank is actively implementing new technologies and business models to stay competitive" suggests a moderately positive perception of the effectiveness of recent innovations. Employees acknowledge the bank's efforts to implement new technologies and business models for staying competitive.

Efficiency: The mean score of 3.61 (SD = 0.892) for "The recent implementation of new technologies and business models has been smooth and efficient" suggests a somewhat neutral perception of the efficiency of recent innovation implementation. While some employees view the implementation process as smooth, others might have encountered roadblocks or inefficiencies.

Employee Awareness and Communication

Employee Awareness: The mean score of 3.29 (SD = 0.973) for "Employees are kept informed about how recent innovations are impacting the bank's performance" suggests a neutral perception of how well employees are informed about the impact of recent innovations. There is some variation in how informed employees feel, and some might not be fully aware of the innovation's impact.

4.4 Correlation Analysis

Correlation analysis is a statistical method used to evaluate the strength and direction of the relationship between two variables (Gravetter & Wallnau, 2016). Unlike causation, which implies that one variable directly affects another, correlation only indicates the degree to which the variables are related, without implying cause and effect (Sedgwick, 2012). This relationship is measured using the correlation coefficient, which ranges from -1 to +1, with values closer to these extremes indicating stronger relationships (Hinkle et al., 2003).

For instance, a positive correlation signifies that as one variable increases, the other tends to increase as well, while a negative correlation suggests that as one variable increases, the other tends to decrease.

Pearson's correlation coefficient is particularly useful for analyzing data from Likert scales, which are commonly used in surveys to measure attitudes or perceptions (Norman, 2010).

Although Likert scale data are ordinal, Pearson's correlation can be applied effectively when the sample size is sufficiently large, as the Central Limit Theorem suggests that the sampling distribution of the mean will approximate normality regardless of the population distribution (Field, 2013). This makes Pearson's correlation a robust measure for examining relationships in large datasets.

Below is the correlation table that examines the relationships between various leadership styles (transformational and transactional), innovation leadership behaviors, and innovation at CBE.

Table 4.5 Correlation Analysis

Correlations					
		Transformational Leadership	Transactional Leadership	Innovation Leadership Behaviors	INNOVATION
Transformational Leadership	Pearson Correlation	1	.790**	.831**	.378**
	Sig. (2-tailed)		0	0	0
	N	295	295	295	295
Transactional Leadership	Pearson Correlation	.790**	1	.732**	.310**
	Sig. (2-tailed)	0		0	0
	N	295	295	295	295
Innovation Leadership Behaviors	Pearson Correlation	.831**	.732**	1	.493**
	Sig. (2-tailed)	0	0		0
	N	295	295	295	295
INNOVATION	Pearson Correlation	.378**	.310**	.493**	1
	Sig. (2-tailed)	0	0	0	
	N	295	295	295	295

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Own Field Survey Data, SPSS, 2024

Transformational Leadership vs. Innovation

The correlation between transformational leadership and innovation is $r=0.378$ with a significance level of $p<0.01$. This positive and significant correlation indicates that as transformational leadership behaviors increase, innovation within the organization also tends to increase. This suggests that leaders who inspire and motivate employees, provide a clear vision, and encourage intellectual stimulation and individual consideration are likely to foster a more innovative environment at the Commercial Bank of Ethiopia.

Transactional Leadership vs. Innovation

The correlation between transactional leadership and innovation is $r=0.310$ with a significance level of $p<0.01$. This positive and significant correlation suggests that transactional leadership practices, such as setting clear goals, monitoring performance, and providing rewards for achieving targets, are also associated with higher levels of innovation.

Although the correlation is weaker than that for transformational leadership, it still indicates that transactional leadership plays a role in promoting innovation by ensuring that employees understand expectations and are rewarded for meeting them.

Innovation Leadership Behaviors vs. Innovation

The correlation between innovation leadership behaviors and innovation is $r=0.493$ with a significance level of $p<0.01$. This moderate positive correlation indicates that specific behaviors aimed at fostering innovation—such as encouraging risk-taking, recognizing and rewarding innovative efforts, promoting openness and collaboration, and supporting idea generation and realization—are associated with higher levels of innovation. This highlights the importance of leaders actively engaging in behaviors that support and promote innovation within the organization.

4.5 Interpretation and Discussion

The mean and standard deviation for the four constructs provide insights into the current state of leadership and innovation at CBE, as the study identified several key findings regarding leadership styles, innovation leadership behaviors, organizational climate, and perceptions of innovation within Commercial Bank of Ethiopia (CBE).

Firstly, transactional leadership emerged as the most prevalent style among leaders, characterized by a focus on task-oriented management and rewards for performance.

Secondly, the analysis of innovation leadership behaviors revealed moderate levels across the organization, with varying degrees of initiative-taking and support for innovation initiatives. This variability suggests that while there is a foundational support for innovation, there are opportunities for enhancing leadership behaviors to foster a more innovative culture.

Lastly, the perception of innovation within CBE was notably high among employees, indicating a strong belief in the organization's capacity to innovate. Responses were generally consistent across different segments of the workforce, highlighting a shared optimism and confidence in the bank's innovation capabilities.

The findings from the correlation analysis provide valuable insights into the relationship between different leadership styles and innovation at the Commercial Bank of Ethiopia. Transformational leadership shows stronger positive correlation with innovation, underscoring the importance of leaders who can inspire and motivate their employees towards innovative efforts.

Transactional leadership also positively correlates with innovation, though to a lesser extent, indicating that clear goal-setting and rewards can foster an innovative environment.

Innovation leadership behaviors demonstrate the strongest positive correlation with innovation, emphasizing the critical role of leaders in actively promoting and facilitating innovation through specific actions and strategies.

Overall, these findings suggest that a combination of transformational and transactional leadership styles, along with targeted innovation leadership behaviors, can create an environment conducive to innovation at the Commercial Bank of Ethiopia. Leaders should focus on inspiring and motivating employees, setting clear expectations, providing rewards for innovative efforts, and actively promoting behaviors that support and enhance innovation.

Summary of Findings in relation to Objectives

Employee perceptions highlight room for improvement in leadership behaviors that encourage innovation, particularly in vision articulation, risk encouragement, and consistent recognition of achievements. Transformational leadership, characterized by idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, emerges as crucial for fostering innovation at CBE. Clear articulation of a compelling vision by leaders is linked to a more positive perception of innovation efforts. Identified barriers to innovation include inconsistent support for risk-taking and recognition, inadequate communication of innovative ideas upward, and limited employee awareness of innovation impacts. Recommendations for fostering innovation include leadership development programs emphasizing vision, team inspiration, risk encouragement, and feedback; empowering employees through dedicated innovation time and advocacy channels; establishing clear recognition mechanisms; and enhancing communication through regular updates and internal newsletters.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

This chapter presents a summary of the research findings, conclusion, and presents recommendations based on the analyzed data. The main objective of this research was to assess innovation leadership practices at commercial bank of Ethiopia.

5.1 Conclusion

Prevalent Leadership Styles

1. Transactional Leadership Dominance: The data reveals that transactional leadership is the most prevalent style in the organization. This suggests that leaders primarily focus on task completion and efficiency, which may lead to a lack of employee engagement and motivation.

2. Need for Transformational Leadership: To balance and improve organizational effectiveness, it is essential to enhance transformational leadership. This style emphasizes inspiring and empowering employees, fostering a sense of purpose and shared vision. By adopting transformational leadership, leaders can create a more collaborative and innovative work environment.

Innovation Leadership Behaviors

1. Moderate Innovation Levels: The analysis indicates that innovation leadership behaviors are present but at moderate levels. This suggests that while employees are willing to take calculated risks, there is room for improvement in terms of creativity and experimentation.

2. Encouraging Risk-Taking and Creativity: To foster a stronger innovation culture, it is crucial to encourage risk-taking and creativity. Leaders should create an environment that supports experimentation, learning from failures, and continuous improvement. This can be achieved through training programs, mentorship, and recognition of innovative efforts.

5.2 Recommendations

1. Leadership Development Programs: Implement leadership development programs that focus on transformational leadership skills, such as inspiring and empowering employees, fostering a sense of purpose, and promoting collaboration.
2. Innovation-Focused Training: Provide training programs that emphasize creativity, experimentation, and calculated risk-taking. This can include workshops, mentorship, and coaching to help employees develop innovative problem-solving skills.
3. Recognition and Rewards: Establish recognition and reward system that acknowledges and incentivizes innovative efforts, such as innovative project ideas, successful experimentation, and continuous improvement initiatives.
4. Organizational Culture Shift: Foster a culture that values innovation, experimentation, and calculated risk-taking. Encourage leaders to model these behaviors and create an environment that supports and rewards innovative thinking.
5. Continuous Monitoring and Evaluation: Regularly monitor and evaluate the effectiveness of these initiatives to ensure that they align with the organization's goals and objectives. Make adjustments as needed to maintain a culture that supports innovation and transformational leadership.

5.3 Suggestion for Future Studies

The findings of this research provide valuable insights into the leadership styles and innovation practices within the Commercial Bank of Ethiopia, but they also open up new avenues for further exploration. Future studies could delve deeper into the relationship between transformational leadership and innovation, examining how specific leadership behaviors and practices can foster a more innovative culture. Additionally, researchers may want to investigate the role of employee engagement and organizational climate in supporting innovation, as these factors are likely to play a crucial role in the success of innovation initiatives. Another promising area of study would be the impact of technological advancements on innovation leadership, exploring how digital tools and platforms can enable and accelerate the innovation process within the banking sector. By building on the insights gained from this research, future studies can contribute to a more comprehensive understanding of the drivers and enablers of innovation leadership, ultimately helping organizations like the Commercial Bank of Ethiopia to stay competitive and adaptable in an ever-changing business landscape.

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APPENDICES

Appendix I: Questionnaire



Dear Respondent,

I am conducting research on "**The Assessment of Innovation Leadership Practices: The Case of Commercial Bank of Ethiopia**" for my Masters in Business Leadership (MBL) at Addis Ababa University.

This anonymous survey should take approximately 10-15 minutes to complete. All data gathered will be treated with complete confidentiality and used exclusively for academic purposes. No names or identifying information will be collected. Your honest response is appreciated.

Thank you for your participation.

Sincerely,

Shalom Workneh

Part I: Demographic Information Questions

Please select your demographic details from the options.

Gender Male Female

Age

- 18-34
- 35-44
- 45-55
- above 55

Education Level

- Diploma
- Bachelor's Degree
- Master's Degree
- PhD

Years of Experience

- 1-2
- 3-5
- 6-10
- above 10

Position in the Organization

- Managerial
- Non-Managerial

Part II: Leadership Styles Questions

Please rate how much you agree with the following statements about your manager, from Strongly Disagree to Strongly Agree.

S.No.	Transformational Leadership (TL)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Idealized Influence (II)					
1	My manager's strong leadership makes me feel valued and motivated to contribute more					
2	My manager's leadership creates a strong sense of trust and confidence among team members					
	Inspirational Motivation (IM)					
3	My manager provides a clear and compelling vision for our team's future					
4	My manager inspires me to feel excited about our team's goals					
	Intellectual Stimulation (IS)					
5	My manager challenges me to think critically about my work and explore new approaches					
6	My manager provides new perspectives that help me rethink old problems					
	Individual Consideration (IC)					
7	My manager provides personalized guidance and support to aid in my professional growth					
8	My manager recognizes and appreciates my unique contributions to the team					
	Transactional Leadership					
	Contingent Reward (CR)					
9	My manager clearly communicates the goals and expectations for my role					
10	My manager provides recognition and rewards when I meet or exceed my targets					
	Management by Exception (MBE)					
11	My manager closely monitors the team's progress to ensure that we stay on track					
12	My manager takes corrective action when problems become serious					

Part III: Innovation Leadership Behaviors Questions

Please rate how much you observe the following behaviors from your manager, from Strongly Disagree to Strongly Agree.

S.No.	Innovation Leadership Behaviors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Risk Taking Orientation					
1	My manager encourages taking calculated risks to pursue innovative approaches and solutions					
	Rewards and Recognition					
2	My manager celebrates successes achieved through innovative approaches					
	Openness and Collaboration					
3	My manager actively encourages knowledge sharing and collaboration among team members to facilitate innovation					
	Time Allocation					
4	My manager provides time for employees to work on innovative ideas during regular work hours					
	Failure Learning					
5	My manager encourages employees to learn from failures and try again with innovative ideas					
	Feedback and Coaching					
6	My manager provides feedback and coaching to help employees develop their innovation skills					
	Idea Promotion					
7	My manager ensures that innovative ideas are communicated to the relevant stakeholders					
	Idea Realization					
8	My manager facilitates the implementation of innovative ideas into practice					
	Communication Channels					
9	My manager is open to discussing innovative ideas with employees					

Part IV: Innovation Questions

Please rate how much you agree with the following statements about innovation at CBE, from Strongly Disagree to Strongly Agree.

S.No.	Innovation	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	General Innovation Perception					
1	The bank actively promotes a culture of innovation, with visible efforts and initiatives					
2	The bank effectively portrays itself as innovative company to the public					
Recent Innovation Implementations						
3	The bank is actively implementing new technologies and business models to stay competitive					
4	Recent innovative efforts by the bank are having a significant impact on its competitiveness in the financial industry					
5	Recent implementation of new technologies and business models has been smooth and efficient					
6	Employees are kept informed about how recent innovations are impacting the bank's performance					