

Effect of Leadership Styles on Organizational Performance in Private Commercial Banks of Dire Dawa Administration

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Abstract

The main objective of this study was to determine the effects of leadership style on organisational performance with specific reference to private commercial banks operate in Dire Dawa Administration. The study adapted a cross-sectional survey quantitative designs. The target population of this study was the leaders in different level and employees in the 6 private commercial banks, Dire Dawa Administration. The study used purposive sampling to select 81 leaders and proportional stratified random sampling to select 208 employees from the target population. This study was used primary and secondary data. Collected data was analyzed by use of descriptive and inferential statistics through the help of Statistical Package for Social Sciences (SPSS) version 23. Descriptive statistics were given using percentages, mean and standard deviation while inferential statistics were carried out using independent sample T-test and multiple regression analysis. The result showed that both transformational leadership style and transactional leadership style exhibited positive and significant effect on organisational performance in private commercial banks of Dire Dawa Administration. The study concluded that transformational leadership is more effective than transactional leadership in inducing organizational performance in private commercial banks of Dire Dawa Administration and, therefore, recommended to practice transformational leadership style according to the work situation.

Keywords: Leadership Styles, Organizational Performance, Private Commercial Banks

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1. Introduction

1.1 Background of the Study

Leadership style is to provide ways and methods to lead, implement plans and motivate employees (Ng'ethe, Namusonge, & Iravo, 2012). A leader is man or woman who influences, directs, and motivates others to carry out particular duties and additionally encourage his subordinates for green overall performance in the direction of the accomplishment of the company objectives. Performance is the accomplishment and execution of tasks. Performance is the extent to which an organization achieves a set of pre-defined targets that are unique to its mission (Albrecht & Andreetta, 2011). Leadership style is one of the factors that influence the performance of any organization. Thus, ensuring the effective leadership in an organization is very important for continued prosperity and becoming a critical issue for the success of modern business organization.

The pilot study has indicated that the two leadership styles namely Transformational and Transactional have been practiced in Private Commercial Banks of Dire Dawa Administration. Transactional leadership style can sub divide into contingent reward, management by exception (active and passive) (Bono and Judge, 2014). These authors further show that a transactional leader motivates subordinates by giving rewards for successful services provided. Transactional leadership is therefore a style of leadership based on the provision to subordinates of resources they need to complete their tasks. Further as stated by Bass & Riggio (2006) transformational leadership is one of the best methods to enhance the individuals and group's performance. A transformational leadership style motivates the subordinates and guides them accomplish their tasks. According to Bass, (1985) the major components of transformational leadership style are Idealized influence (Attribute/Behavior), Inspirational Motivation, Intellectual Stimulation and Individual Consideration.

Financial system in Ethiopia is determined by banks where total capital of the banking industry increased by more than 11 percent and reached Birr 112.9 billion by the end of June 2020 (National Bank of Ethiopia, 2020). Regarding to the share of capital, private banks jointly accounted for 49.2 percent of the total capital and the share of private banks in total branch network was 70.5 percent in 2019/20 (NBE, 2020) which is 4,593 total number of private branch operating across the country. This shows that the overall performance of banks in Ethiopia in the last years has been improving. However, despite the improvement in the performance of banks, it is not clear how different leadership styles influence organizational performance. Knowing that commercial

banks particularly private commercial banks have played and continue to play significant roles in the growth, development and industrialization of many economies, the effect of leadership style on organizational performance must be examined so that innovative recommendations can be suggested to help strengthen these banks. This study therefore sought to determine the effects of leadership style on organizational performance of private commercial banks in Dire Dawa Administration.

1.2 Statement of the Problem

Leadership style plays an important role in shaping the behavior and attitude of the members of an organization. The empirical studies at the direct dating among management and overall performance are inadequate and uncertain. A number of studies have been conducted on bank performance, and on leadership styles in commercial bank of Ethiopia. To date, there have been no detailed studies of the leadership style and performance of private commercial banks.

Study areas of most researches are undertaken in Addis Ababa and few researches were undertaken outside Addis Ababa (Tariku, 2021). Moreover, previous studies have examined the effect of leadership styles on organizational performance in various settings such as public commercial bank, healthcare, military, education and business organizations (Armstrong, 2012; and Bass, 2011 as cited in (Kala'lembang , Soetjipto, & Sutrisno, 2015).

Similarly, job satisfaction, employee performance, efficiency, effectiveness, organizational satisfaction, motivation, extra effort, peace keeping, technology usage and risk management were the concerns of the above researchers to study the outcomes of leadership. Moreover, Job satisfaction and employee performance were the most focused topic of researchers followed by employee satisfaction and motivation as a dependent variable (Tariku, 2021).

Due to limited research on relationship between leadership and performance of private commercial banks suggests the need to investigate further the nature of the relationship between leadership and performance of private commercial banks. This research aimed to identify the leadership styles applied by the managers, and to investigate its influence on organizational performance.

1.3. Research Questions

- 1) What leadership styles are adopted in private commercial banks of Dire Dawa Administration?
- 2) Is there a significant difference in the perception of leaders and employees towards the effectiveness of leadership styles adopted in private commercial banks of Dire Dawa Administration?
- 3) Do leadership styles have a significant influence on the organizational performance of private commercial banks of Dire Dawa Administration?

1.4 Objectives of the Study

- 1) To determine the leadership styles adopted in private commercial banks of Dire Dawa Administration.
- 2) To identify whether there exists a significant difference in the perception of leaders and employees towards the effectiveness of leadership styles adopted in private commercial banks of Dire Dawa Administration.
- 3) To examine the effects of leadership styles on organizational performance in private commercial banks of Dire Dawa Administration.

2. Literature Review

2.1 Leadership Styles

Transformational leadership: it helps to create an environment in which employees are encouraged, motivated and energized. Motivated personnel working in supportive neighborhood weather provide larger excellent client service, reinforcing organizational performance and aim to monetary wonderful factors for shareholders (Giroux, 2014). According to Bass, (1985) the major components of transformational leadership style are Idealized influence, Inspirational Motivation, Intellectual Stimulation and Individual Consideration.

Idealized influence: It is a part in which being a function version of a leader may be perceived with the aid of using followers so because it evokes them (Moss & Ritossa, 2007). The followers can become aware of their function version without problems and attempt to imitate as they admire, respect, and agree with them (Bass, Avolio, Jung, & Berson, 2003). This is carried out with the aid of using the fact that they proportion risks with their followers and, importantly, they are consistent, instead of arbitrary. Again, the transformational leader with an idealized influence are tremendously disciplined who do now no longer use strength for his or her very own private gain; they show excessive requirements of ethical and moral conduct. The idealized affect additionally pertains to charisma which, for lengthy has been held as a magical present that human beings possess.

Inspirational motivation: Inspirational Motivation is a part of transformational leadership style that describes the extent that the leader states appealing and inspiring imaginative and prescient to followers. Transformational leaders encourage and inspire the ones round them with the aid of using presenting that means

and mission to their followers' work. They additionally show dedication to desires and the shared imaginative and prescient. These leaders communicate with any luck approximately the destiny and what wishes to be executed to reap the imaginative and prescient.

Intellectual stimulation: Intellectual stimulation is a part of the transformational leadership that refers back to the extent wherein the leaders stimulate their followers to be progressive and innovative. Transformational leaders stimulate their fans to be progressive and innovative with the aid of using wondering assumptions, reframing problems, and coming near vintage conditions in new ways (Avolio, Waldman, & Yammarino, 1991). The transformational chief encourages the improvement of a tradition of non-stop wondering and hence non-stop learning.

Individualized consideration: Individualized Consideration is a part of the transformational leadership style that explains the extent wherein the chief can pay interest to the want of man or woman worker. Transformational leaders are more aware of male or female employees and their desires than they treat all fans the same and share the same desires. Take time to coach and educate others to expand their strengths and sell self-improvement by acting as mentors and mentors.

H1: Transformational leadership style has significant positive effect on organizational performance in private commercial banks of Dire Dawa Administration.

Transactional leadership: Transactional leadership can be defined as the exchange of targets and rewards between the management and the employees (Ojokuku, Odetayo, & Sajuyigbe, 2012). This leadership style helps create an optimal work environment for employees and articulating a compelling vision that enhances the overall organizational performance (Longe, 2014). Bass (1985) identifies two leadership factors; contingent reward and management-by-exception.

Active management-by-exception: refers to interfering with the work of people when they are not making the effort as expected. Bass & Avolio (1994) points out that although management by exclusion is necessary in some situations, it is generally ineffective because it is a recipe for mediocrity. Managers who rely heavily on passive management as an exception often try to fix problems only when they become chronic, and in many cases too late. People who use proactive exceptional management often tend to focus too much on shortcomings and thus reduce staff motivation.

Contingent reward: Refers to situations in which managers offer compensation to employees when they fulfill a contract or expectations. The leader then promises to reward or actually reward others in exchange for doing the task well. Bass & Avolio, (1994) argues that casual reward has proven to be quite effective as a leadership style. It is, however, not as effective as the transformational leadership factors in motivating others to achieve higher levels of development and performance.

Passive management-by- exceptions: Passive management-by- exceptions are used by leaders who only interfere in the employees work if they do not meet the desired goals. The passive leader waits for deviations, errors and mistakes and then takes corrective action (Judge & Piccolo, 2004 and Bass & Avolio, 1994). Leader avoids explaining agreements, expectations and standards to be achieved by subordinates, but will intervene after particular problems become apparent (Sadeghi & Pihie, 2012).

H2: Transactional leadership style has significant positive effect on organizational performance in private commercial banks of Dire Dawa Administration.

2.2 Organizational Performance

There are subjective and objective methods of measuring organizational performance. Subjective measures are non-financial bases of measuring performance like income growth, marketplace proportion, satisfaction, retention and so on. Objective Assessment is financial bases of measuring performance through the use of financial records like profit, revenue, return on investment, liquidity, operational efficiency and so on. Subjective measures are primarily based totally at the opinion of the respondent to evaluate performance (Narver & Slater, 1990). There became an inconsistent measurement of organizational performance despite the fact that maximum researchers measured organizational performance through the use of quantitative records (Sorenson, 2002; Rashid, Sambasivan, & Johari, 2003; Puni, Sammuell, & Okoe, 2013). However, many researches display a choice for subjective measures throughout the evaluation of organizational performance (Ogbonna & Harris, 2000); Zhang and Xiancheng, 2012 and Aziz, Mahmood and Abdullah, 2013). Therefore, in this study, subjective or perceptual organizational performance evaluation method have been followed and organizational performance measurement items offered by (Venkatraman & Ramanujam, 1986) have been used as the dimensions and data gathering tool of the organizational performance.

2.3 Reviewed Empirical Studies

This section provides an empirical review on studies previously conducted in relation to the variables under study.

A research report (Kebede & Lemi, 2020) focuses on the leadership and organizational performance of

commercial banks in the city of Jimma. Research shows that both transactional and transformational leadership styles have a positive significant effect on bank performance. However, the study focused on commercial banks operates in Jimma Town, Ethiopia.

A research report of (Mulugeta & Pandian, 2020) conducted on the relationship between transactional and transformational subscales on employee commitment of public organizations in Dire Dawa Administration. The results showed that transformational leadership style is more effective than transactional leadership in affecting all subscales of employees' organizational commitment. Similarly, a study was conducted to examine the effect of leadership style on the organizational commitment, and result shows that transformational and transactional leadership styles are positively significant correlation with organizational commitment (Sudarsana & Girma, 2017). However, the above listed studies were carried out in public service sector and employees' and organizational commitment.

Uchenwamgbe, (2013) study examined the effects of leadership styles on organizational performance in SMEs. Author found that leadership style behaviors jointly predict organizational performance. However, the study was carried out in in small and medium scale enterprises of Lagos state.

Muchiri & Hazel, (2019) did a study on the effects of leadership style on organisational performance of commercial banks listed at the Nairobi Security Exchange. The study found that there was a positive significant between transformational and transactional leadership and organizational performance However, the study conducted in selected commercial banks in Nairobi City County, Kenya.

Therefore, this study sought to investigate the effect of leadership styles on organizational performance in private commercial banks of Dire Dawa Administration.

3. Research Methodology

3.1 Research Design

A survey of cross sectional survey quantitative designs employed in the research to examine the effect of leadership styles on organizational performance in private commercial banks. This cross sectional survey quantitative designs would help the researcher attained systematic data on different respondents and prevalence of a situation by taking a cross-section of the population at one time (Amin, 2005).

3.2 Sources of Data

This study employed both primary and secondary sources of data collection. The primary data was collected through a survey by structured questionnaire from respondents. For secondary source of data annual reports, books, appropriate journals/articles and other similar studies conducted in the field were gathered, reviewed and used to make the study fruitful.

3.3 Sampling Design

The researchers have selected 6 private commercial banks (Bank of Abyisinia, Cooperative Bank of Oromia, Oromia International Bank, Awash Bank, Wegagen Bank and Dashen Bank) from the total 16 private commercial banks in Dire Dawa Administration for sample size determination. The reason for choosing those banks is that they are oldest in their formation and have highest number of branches and employees. It is also difficult to study the entire private banks and their branches due to costs of associated logistics and time constraints. There are two categories of respondents namely, leaders and employees. Therefore, the total population of this study was 81 leaders and 431 employees. For this study the researchers have applied stratified proportionate random sampling technique for employees and purposive sampling technique for leaders in which the selected sample size consists of 81 leaders and 208 employees.

3.4 Data Collection Instruments

In the study, Multifactor Leadership Questionnaire (MLQ Form 5X) were used by adapting (Avolio, B.J. & Bass, B.M., 2004) and the organizational performance presented by (Venkatraman & Ramanujam, 1986) were adapted as data collecting instrument.

3.5 Method of Data Analysis

This research was analyzed by using statistical tools after the collection of data was made. The relevant data was coded, summarized and then transferred to SPSS software to be analyzed and presented. Both descriptive and inferential analyses were conducted by using SPSS version 23. Frequency table was used to summarize the respondents profile in the form of frequency and percentages whereas, descriptive statistics was used to calculate mean and standard deviations of respondents' answers to leadership styles in order to determine the prevailing or dominating style of leadership in the private commercial banks. Independent sample T-test was conducted to identify perceptions difference between leaders and employees towards the effectiveness of leadership styles. Subsequently, multiple regression analysis technique was used to examine the effect of leadership style

dimensions on organizational performance.

4. Results and Discussion

4.1 Respondents Information

Table 1 Respondents Information

Variables	Frequency	Percentage	
Age	18 - 24 years	50	21.3
	25 - 31 years	120	51.1
	32 - 38 years	30	12.8
	39 - 45 years	20	8.5
	46 - 52 years	15	6.4
Gender	Male	160	68.1
	Female	75	31.9
Education	Diploma	15	6.4
	Degree	165	70.2
	Master and above	55	23.4
Year of Service	Less than 5 years	140	59.6
	5- 10 years	65	27.7
	11-15 years	10	4.3
	Over 15 years	20	8.5
Total	235	100%	

Source: Own Survey 2021

To conduct the research 289 questionnaires are distributed to the respondents and the response rate indicate that, out of 289 distributed questionnaires 235 (81.32%) which consists of 65 leaders and 170 employees are collected while 54 (18.68%) of the questionnaire remained uncollected. The descriptive statistics results of demographic characteristics of the respondents which consists age, gender, education, and experience are summarized in table 1 below and presented in terms of frequency and percentage.

4.2 Prevailing or dominating style of leadership

Table 2 Descriptive analysis for leadership styles

Subscales	N	Mean	Std. Deviation
Idealized Attributes	235	2.17	.592
Idealized Behaviors	235	2.80	.212
Inspirational Motivation	235	2.22	.408
Intellectual Stimulation	235	2.60	.392
Individual Consideration	235	2.76	.411
Transformational Leadership	235	2.48	.280
Contingent Reward	235	2.49	.726
Management by Exception (Active)	235	2.84	.617
Management by Exception (Passive)	235	2.78	1.107
Transactional Leadership	235	2.42	.410
Valid N (listwise)	235		

Source: Own Survey 2021

The observation for independent variables is aggregate of both leaders and followers/employees responses because here the purpose is to determine the prevailing or dominating style of leadership in the private commercial banks of Dire Dawa Administration as perceived by both parties. Table 2 contains descriptive data (mean and standard deviations) for the five transformational leadership dimensions and three transactional leadership dimensions as indicated by the respondents. As the results of this table 2, respondents perceived the prevailing leadership style to be slightly more transformational ($M = 2.48$) than to that of transactional ($M = 2.42$).

4.3 Comparison between Leader and Employee response towards Leadership Styles

Table 3 Results of Leader and Employee Responses

	Employment Category	N	Mean	Std. Deviation	Sig. (Two-tailed)
Idealized Attributes	Employee	170	2.10	.459	.003
	Leader	65	2.35	.824	.023
Idealized Behaviors	Employee	170	2.78	.211	.020
	Leader	65	2.85	.207	.020
Inspirational Motivation	Employee	170	2.12	.341	.000
	Leader	65	2.48	.452	.000
Intellectual Stimulation	Employee	170	2.49	.357	.000
	Leader	65	2.85	.366	.000
Individual Consideration	Employee	170	2.86	.367	.000
	Leader	65	2.52	.422	.000
Transformational Leadership	Employee	170	2.45	.252	.006
	Leader	65	2.56	.331	.016
Contingent Reward	Employee	170	2.34	.640	.000
	Leader	65	2.85	.808	.000
Management by Exception (Active)	Employee	170	2.80	.649	.087
	Leader	65	2.95	.513	.059
Management by Exception (Passive)	Employee	170	3.22	.793	.000
	Leader	65	1.63	.975	.000
Transactional Leadership	Employee	170	2.43	.372	.429
	Leader	65	2.38	.497	.487

Source: Own Survey 2021

Here, the perception of both employees and leaders for the specific prevailing leadership style has been compared in order to see if any difference is existed between the two groups. According to the result shown in the table 3, the mean scores for employees' responses on each of the transformational leadership subscales are ranged from 2.10 to 2.86 whereas for those of leaders has mean scores ranged from 2.35 to 2.85. If we consider the mean and standard deviation scores of the transformational leadership scales taken as a whole for both groups, employees' group has 2.45 and 0.252 respectively whereas leaders' group has 2.56 and 0.331 respectively which is lower than the recommended mean of 3.0 or that of Bass & Avolio, (1997) suggested one for the most effective leaders ($m \geq 3.0$).

On the other hand, the mean and standard deviation scores for each of transactional leadership subscales ranges from 2.34 to 3.22 mean and standard deviation of 0.640 to 0.793 for employees' responses while it ranges from 1.63 to 2.95 mean and 0.513 to 0.975 standard deviation values for leaders' responses. When taken as a whole, the mean and standard deviation scores of the transactional leadership scales taken as a whole for both groups, employees' group has 2.43 and 0.372 respectively whereas leaders' group has 2.38 and 0.497 respectively. This study has indicated that the respondents perceive leadership style as slightly more transformational than transactional leadership style.

The analysis results of the T-test for equality of mean scores and test to measure whether the difference is significant or not between the mean scores of the two samples (employees and leaders) for Multifactor Leadership Questionnaire (MLQ) are presented in the Table 3 above. Confidence Interval of the Difference is 95% (i.e., $p \leq 0.05$).

The finding points out significant differences between the two samples on all subscales of transformational leadership. The finding also points out insignificant differences between the two samples on transactional leadership as a whole. These significant differences implies as there are major differences between leadership behaviors which are being practically exercised and behaviors which are being perceived by the employees of the organization.

4.4 Effect of leadership styles on organizational performance

Table 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.662 ^a	.439	.434	.25826

a. Predictors: (Constant), Transactional Leadership, Transformational Leadership

b. Dependent Variable: Private Commercial Bank Performance

From the model summary table 4 the adjusted R squared is 0.434 which shows that the two independent variables included in the model are able to explain 43.4% of the variation in the dependent variable, Organizational Performance and 56.6 percent of it is explained by other variables.

Table 5 ANOVA^a

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.092	2	6.046	90.651	.000 ^b
	Residual	15.474	232	.067		
	Total	27.566	234			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Transactional Leadership, Transformational Leadership

The ANOVA (Analysis of Variance) table provides the result of test of significance for R and R2. Accordingly, it shows the F value of $F = (8, 226) = 10.982$, $P = 0.000$ is significant at 0.01, (P value that corresponds to F statistic are significant). This implies that this model is effective in predicting the effect of leadership styles on organizational performance.

Table 6 Coefficient

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.552	.160		3.458	.001
	Transformational Leadership	.517	.064	.422	8.116	.000
	Transactional Leadership	.327	.044	.390	7.500	.000

Source: Own Survey 2021

From the coefficient table 6 below transformational leadership style ($\beta = 0.517$; $P < .05$) and transactional leadership style ($\beta = 0.327$; $P < .05$) exhibited positive and significant effect on organizational performance in private commercial banks of Dire Dawa Administration. Thus, both hypotheses are supported in the study since the null hypotheses are rejected and the alternative hypotheses are accepted.

The results of this study are consistent with the existing literature on transformational and transactional leadership factors and organizational performance. The result supported with the findings of (Chung-Wen, 2008) and (Amegayibor, 2018) who state the existence of significant positive relationship between transformational leadership style and banks performance. Moreover, the result also supported with the findings of (Koech & Namusonge, 2012) who state that all variables of transformational leadership style has a positive correlation with organizational performance. Additionally, the study findings also supported with study of (Arham & Muenjohn, 2012) which stated as the existence of positive and strong relation between transactional leadership styles organizational performances. Hence, it can be concluded that transformational leadership is more effective than transactional leadership in affecting organizational performance in private commercial banks of Dire Dawa Administration.

5. Conclusion and Recommendation

The main objective of this study was to investigate the effect of leadership styles on organizational performance in private commercial banks of Dire Dawa Administration. To carry out this study; descriptive, independent sample T-test and regression analysis was employed. Finally, this study concludes that both transformational and transactional leadership styles have positive and significant effect on organizational performance in private commercial banks of Dire Dawa Administration.

Based on the findings of the study, the researchers forwarded the following recommendations for the bank leaders.

They should encourage participation in decision making, leave much room for the employees say and delegate and make to feel full responsible.

In order to cope up with ongoing and upcoming changes in the banking environment, the leaders in banks should a quire predictable ability and prepare in advance by giving more focus for research and development, making the working environment suit for creativity and innovation, and appreciating and entertaining of different ideas arises from employees.

The leader should also tell clearly what is expected from the employee and attached rewards and recognition for the achievement to induce the improvement of the performance of employee and then bank as a whole.

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