

Effect of Leadership Style on Employee performance: A case of Dashen bank, Addis Ababa, Ethiopia

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Abstract

Leadership style is widely regarded as a decisive factor shaping employee performance in the banking sector, yet comparative empirical evidence on multiple leadership styles within a single Ethiopian bank remains limited. This study aimed to examine the effect of four leadership styles Autocratic, Democratic, Laissez-faire, and Transformational on employee performance at Dashen Bank, Addis Ababa. Both descriptive and explanatory designs were employed, utilizing a combination of quantitative and qualitative methods. From the total population of 1,851 employees, 329 respondents were selected through a combination of stratified and simple random sampling. Data came from structured questionnaires and were supported by a review of relevant literature. Multiple regression analysis produced a strong overall model ($R = 0.989$, $R^2 = 0.978$), indicating that the four leadership styles jointly explained 97.8% of the variance in employee performance. The results showed that the democratic, transformational, and laissez-faire leadership styles are positively and significantly correlated with employee performance, but there was no significant effect for the autocratic leadership style. This implies that participative and inspirational leadership styles are more effective in increasing employee motivation, productivity, and engagement, while strict autocratic approaches do not have a significant impact on performance. Based on these findings, it is recommended that Dashen Bank's management strengthen leadership development programs for branch leaders in Addis Ababa, with emphasis on democratic and transformational leadership competencies, so as to sustain measurable improvements in employee performance across all branches.

Keywords: autocratic leadership; democratic leadership; laissez-faire leadership; transformational leadership; employee performance

INTRODUCTION

Banks play a vital role in a nation's economy by facilitating the flow of financial assets, supporting both investment and consumption needs. Stability in the banking system is crucial, as instability can result in financial crises. Leadership is crucial for providing a clear vision, setting objectives, and guiding the organization's direction (Handoko, 2025; Linda, S., & Tekle, 2023). Effective leaders design strategies and policies to achieve their goals and must adapt to changes in order to meet employee missions (Khajeh, 2018). Recently,

companies have faced challenges such as employee misconduct, high employee turnover, and poor financial performance. Leadership significantly influences the formulation and achievement of employee goals, shaping the success or failure of organizations (Oladipo et al., 2013). Its interdependent relationship with employee activities means leadership cannot exist without a group, nor can a group be sustained without leadership.

Globally, effective leadership remains one of the most persistent challenges confronting the banking industry, as financial institutions operate in an increasingly volatile, competitive, and technology-driven environment (Handoko, 2025). Effective leadership is therefore increasingly regarded as decisive for how banks in developing economies navigate such volatile, competitive, and technology-driven conditions (Kebe et al., 2024). Weak or inconsistent leadership practices have been associated with declining employee morale, higher turnover, and reduced organizational performance across banking institutions in both developed and developing economies (Oladipo et al., 2013). Indeed, recent evidence identifies leadership and management among the key determinants of employee performance in the banking sector, alongside compensation, organizational culture, and work motivation (Ng et al., 2024). In many emerging economies, including Ethiopia, banks continue to operate within hierarchical and centralized management structures that limit employee participation, a condition that scholars argue constrains innovation and long-term competitiveness (Sakiru et al., 2013). Comparative evidence from other developing-country settings likewise indicates that combining transformational and transactional leadership behaviours strengthens employee commitment and performance (Puni et al., 2021). These patterns underscore why understanding how different leadership styles shape employee performance is not merely a local concern for Dashen Bank, but part of a broader effort within the banking sector worldwide to identify leadership approaches capable of sustaining employee engagement and institutional performance.

Definitions of leadership vary, but it generally involves influencing and guiding individuals toward common goals (Sakiru et al., 2013). Performance measures output against resources and is improved by employee diligence. The interaction between leadership style and employee performance is increasingly recognized as a key factor. Leadership style has a significant impact both positive and negative on productivity and employee performance (Handoko, 2025). Ultimately, leadership is a driving force in employee success, including that of Dashen Bank. This study aims to examine the effect of leadership on employee performance at Dashen Bank, Addis Ababa, Ethiopia.

This research examined whether the leadership style employed by leaders in a specific work environment affects employee performance of Dashen Bank employees. Although many studies exist about employee performance and leadership styles in Ethiopia (BogaleFeye, 2021; Solomon Arya, 2019), the researcher found that no detailed study has explored the effect of leadership styles on employee performance at Dashen Bank's Addis Ababa branches. Due to the limited research findings in this area, further investigation is necessary to explore the relationship between leadership styles and employee performance. In a related Ethiopian study, Hundie and Habtewold (2024) examined the effects of transformational, transactional, and laissez-faire leadership styles on employees'

level of performance in the health sector; however, comparable comparative evidence has not been established for the banking sector, and specifically not within Dashen Bank's Addis Ababa branches. Leadership style is one of the main factors that affects employee performance (Handoko, 2025).

The novelty of this study lies in its simultaneous, within-organization comparison of four distinct leadership styles Autocratic, Democratic, Laissez-faire, and Transformational on employee performance, an approach rarely applied together within a single Ethiopian banking institution. While prior Ethiopian studies (BogaleFeye, 2021; Solomon Arya, 2019) have examined leadership and employee performance separately or in limited combinations, this research offers a more comprehensive, comparative framework situated in a developing-country banking environment where hierarchical and centralized leadership traditions remain dominant. This comparative design allows the relative strength of each leadership style to be assessed against the others within the same organizational context, extending existing leadership literature beyond single-style investigations. This study offers both theoretical and practical benefits. Theoretically, it contributes new empirical evidence to leadership theory, particularly regarding the comparative explanatory power of autocratic, democratic, laissez-faire, and transformational leadership styles within a developing-country banking context. Practically, the findings are expected to benefit Dashen Bank's management by providing an evidence base for redesigning leadership development programs, improving leader selection and promotion criteria, and strengthening employee engagement strategies.

The results may also benefit policymakers and regulators in the Ethiopian banking sector who are concerned with strengthening governance and human-resource practices across financial institutions. The implications of this research extend to scientific development, policy, and organizational practice: scientifically, the findings reinforce leadership-effectiveness theory by demonstrating how multiple leadership styles operate concurrently within a single organizational setting; for policy, the results suggest that regulatory and supervisory bodies overseeing the banking sector may wish to consider leadership competency as part of governance standards for financial institutions; and for practice, the findings imply that Dashen Bank and similar institutions should prioritize participative and inspirational leadership competencies in leader recruitment, training, and promotion decisions in order to sustain employee performance.

Leadership has a significant effect on employee performance and employee attitudes. The success of any organization depends largely on its management team and chosen leadership style (Saleem, 2015). Effective leadership is crucial for any successful organization, whether it is a large company, a small business, a major project, or any other group. Employee culture, norms, and success factors are mainly defined and influenced by the organization's leadership. Building the Bank's image requires sustainable leadership principles, winning back society's trust, and enhancing employee performance. However, DB's leadership, expected to boost excellence, often works in the opposite direction. According to organization reports and plans (2023, 2024), obvious problems within DB

include unclear leadership and a lack of democratic relationships between leaders and subordinates.

Leaders often use an authoritarian style. They set the tone and keep the administration centered on themselves. Including staff and subordinates in decision-making, as appropriate, is crucial to performance and staff well-being. Another problem in the DB Addis Ababa branches is the competence of leaders appointed to senior positions. In most cases, appointments are not based on merit or competence. As a result, the organization has non-competent leaders who lack the skills to employ effective leadership styles to achieve their goals. Unless Dashen Bank assesses appointments against a set of leadership principles it wants to uphold, and encourages leaders to cherish and live by these values, the organization will remain stagnant and struggle with increasing complexity. There should also be mechanisms and genuine leadership commitment to reflect desired traits in daily life.

Leaders must champion these principles unwaveringly to build a strong, steady employee culture. If the Bank does not address these critical leadership issues wisely and credibly, it will miss opportunities to rectify problems in a timely manner and may face serious consequences. Therefore, this research was guided by four specific objectives: to determine the influence of democratic leadership style on employee performance; to assess the effect of transformational leadership style on employee performance; to examine the effect of laissez-faire leadership style on employee performance; and to investigate the relationship between autocratic leadership style and employee performance.

METHODS

This chapter outlines the methodology used in the study, covering research design, approach, population, sample size determination, data types and sources, data collection, analysis methods, and data presentation.

Research Design

The study used descriptive and explanatory research designs. Cresswell (2003) states that descriptive design lets researchers gather, summarize, present, and interpret data for clarification. Descriptive research focuses on describing views or opinions and studying relationships and differences among variables in a large sample (Lee & Lings, 2008).

Research Approach

In this study, the researcher employed both quantitative and qualitative approaches. The quantitative approach was chosen because the research questions require a combination of factual analysis and in-depth understanding of the study population (A. Aunders, 2009). This approach is also valuable for addressing any data insufficiency. Qualitative research is essential for obtaining culturally specific information about values, opinions, behaviors, and social contexts within specific populations.

In this study, the quantitative approach was dominant, as the hypothesis testing, correlation, and regression analyses reported in the Results and Discussion section rely entirely on the questionnaire data. The qualitative interviews were used in a supplementary capacity, namely to enrich the researcher's contextual understanding of leadership practice

at Dashen Bank during instrument development and interpretation of findings, rather than as a separately analyzed and reported data set. This clarification is provided to avoid the impression of a fully integrated mixed-methods design when the interview findings themselves are not presented as standalone results.

Sampling Design

Target Population

Population is a general term for the entire group of relevant cases in a study. It may include objects, individuals, or events Walliman, (2021) The population consists of all units the research intends to study. For this research, the sample consists of 1,851 employees: Department Managers, City Area Bank Managers, Customer Service Managers, Assistant Managers, Accountants, Supervisors, and Senior Clerical Employees at Addis Ababa Dashen Bank branches.

Sampling Technique

A stratified random sampling technique was used to ensure each subgroup was represented. The population was divided into strata based on key characteristics. Then, participants from each stratum were randomly selected. Stratified random sampling ensures all segments are included, making the study more efficient. It also offers administrative convenience and can improve the precision of population estimates (Kothari, 2004).

Sample size and distribution

The total number of employees at Addis Ababa Dashen Bank branches is 1,851, including all leadership levels, accountants, and supervisors. The researcher used Yamane's formula (1967) to decide the sample size. This formula is reliable to 95% and allows a 5% deviation. Using the formula: $n = N / (1 + N(e)^2)$, the sample size is: $n = 1,851 / (1 + 1851 * (0.05)^2) = 329$.

Where n = the sample size

N = size of population

e=0.05

Source: Yamane's

The sample size, comprising 1,851 employees, was 329. To split the sample among strata, the 329 questionnaires were distributed according to the following distribution.

Table 1. Sample distribution

Staff Category	N	n
Senior Leadership Team	24	4
Middle Level Leadership	297	53

Staff Category	N	n
Junior Leadership	503	89
Staff	1027	183
Total	1851	329

Source: Own Survey (2025)

Accordingly, the researcher planned to distribute the questionnaire in the following Dashen Bank Branches.

Table 2. Sample distribution

No.	Place of Sample Distribution	Number of Samples Distributed
1	Head Office of Dashen Bank	43
2	Arada DB Branches	26
3	Bole Police DB Branches	26
4	Yeka DB Branches	26
5	Ledeta DB Branches	26
6	Kirkos DB Branches	26
7	Kolfe DB Branches	26
8	Nefas Silk-Lafto DB Branches	26
9	Akaki DB Branches	26
10	Gulele DB Branches	26
11	Addis Ketema DB Branches	26
12	Lemi Kura DB Branches	26
Total		329

Source: DB record

After detailing the sampling design, the next section describes the data sources and methods used for data collection in the study. Both primary and secondary data were used to examine leadership style practices in Dashen Bank Addis Ababa branches and their effect on employee performance. Primary data were collected from employees using a structured questionnaire, and secondary data were obtained from journal articles, books, and the company profile.

Data Collection Methods

The study utilized primary data collected through questionnaires and structured interviews. It also used secondary data from websites, books, journals, theses, and

magazines. Using both sources increases the validity of the results. Questionnaires were in English.

Data Collection Procedure

The main data collection method was a structured and organized questionnaire. The primary tool was a five-point Likert scale questionnaire. It aimed to collect the needed data from respondents. The questionnaire included a Likert scale and closed-ended questions. The study was divided into four parts: Part 1 covered respondent demographics, Part 2 measured leadership style, Part 3 assessed employee performance, and Part 4 focused on leader improvement. The literature review encompassed both theoretical and empirical works, with publications from reputable journal.

Validity and Reliability

Validity means that data reflect what it is meant to. The instrument should measure what it is supposed to. To improve validity, the questionnaire was developed using previous studies, literature reviews, and standard questions. The researcher also discussed the questionnaire with the advisor before distribution to ensure validity. According to Khotari (2004), reliability means consistency. Internal consistency checks whether answers to each question align with those of others. Cronbach's alpha is a common indicator of internal consistency. Pallant, (2010) suggests that the alpha should be at least 0.70, with higher values being better. The Cronbach's Alpha result for all items was greater than 0.70.

Table 3. Measurement of reliability Analysis

Variable	No. of Items in the Scale	Cronbach's Alpha (α)
Autocratic Leadership Style	6	0.876
Democratic Leadership Style	6	0.885
Laissez-faire Leadership Style	6	0.887
Transformational Leadership Style	6	0.893
Employee Performance	10	0.892

Source: own survey (2025)

Operational Definition of Variables

To ensure conceptual clarity and measurement transparency, the study variables are operationally defined as follows. Autocratic Leadership Style (ALS) refers to the extent to which a leader makes decisions unilaterally, centralizes authority, and directs subordinates with limited employee input, measured through six Likert-scale items (ALS1-ALS6). Democratic Leadership Style (DLS) refers to the extent to which a leader involves employees in decision-making, encourages open communication, and shares authority, measured through six Likert-scale items (DLS1-DLS6).

Laissez-faire Leadership Style (LLS) refers to the extent to which a leader grants employees autonomy and minimal supervision in carrying out their tasks, measured through six Likert-scale items (LLS1-LLS6).

Transformational Leadership Style (TLS) refers to the extent to which a leader inspires, motivates, and intellectually stimulates employees toward a shared vision, measured through five Likert-scale items (TLS1-TLS5). Employee Performance (EP) refers to employees' self-reported effectiveness, productivity, and goal attainment in carrying out their job responsibilities, measured through ten Likert-scale items (EP1-EP10). All items were rated on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), consistent with the reliability results reported in Table 3.

Method of Data Analysis

The data collected was analyzed using a quantitative, explanatory method. Both descriptive and inferential statistics were used. Descriptive statistics helped summarize and present data. Statistical techniques, such as mean, frequency, and standard deviation, were used to analyze and describe data, as well as to interpret the results. Inferential statistics were also used. They helped identify important patterns and possible links among variables. They also helped evaluate the effect of leadership style on employee performance. SPSS Version 27 was used to encode and analyze the data.

Ethical Consideration

In this research, permission was obtained from all respondents after they were informed about the study's purpose. Respondents were treated with dignity and informed about the purpose of the questionnaire and interview. They were assured of anonymity and confidentiality. They were told, both verbally and in writing, that the information would be used only for academic purposes and kept confidential. The process would not affect their lives in any way or at any time. This chapter outlines the methodology used in the study, including research design, approach, population, sample size determination, types and sources of data, data collection procedures, analysis methods, and data presentation.

RESULTS AND DISCUSSION

This chapter presents and analyses the data collected from the participants. The findings about the relationships and effects of leadership style with employee performance relevant statistical analysis to answer the research questions will also be presented and analyzed.

Characteristics of Respondents.

The sample consisted of participants of this study surveyed from DB Addis Ababa branches and DB head office. Researcher's distributed, 4 senior, 53 middle and 89 junior leader's questionnaires and subordinate or Staff members of the organization questionnaires, whereas 183 subordinate questionnaires were successfully completed and returned with a non-response rate of 3%. According to Mugenda (2003); Cooper and Schindler (2014), 50% response rate is adequate for analysis, while 60% is good and 70% excellent response rate for analysis. Therefore, the research's response rate of 97% which is excellent to proceed with data analysis.

Demographic Characteristics of Respondents

There were a total sample of 319, who participated in this study from various departments and positions of Addis Ababa Dashen Bank branches.

Table 4. presented the summary of the leaders and staff members of the organization demographic data results respectively.

Demographic Variable	Category	Percent
Gender	Male	48.0
	Female	48.9
Age Group	18-25	16.1
	26-30	31.3
	31-35	18.5
	36-40	13.4
	41-45	11.9
	Above 46	5.8
Marital Status	Married	60.2
	Single	35.6
	Divorced	1.2
Educational Qualification	Diploma	0.6
	First Degree	65.0
	Second Degree & Above	31.3
Length of Service	1-5 years	26.1
	5-10 years	35.6
	10-15 years	20.7
	Above 20 years	14.6

Source: own survey (2025)

Table 4. shows that female employees comprised 48.9% of participants and male employees comprised 48.0%, indicating a broadly balanced gender composition among respondents. Regarding the age group in the organization, Table 4.1 shows that the majority of respondents' age group was between 26 to 30 years old (31.3%), followed by those 31 to 35 years old (18.5%). This implies that most of the staff are within an age category commonly identified as young, so that having a group of employees who belong to the most active and energetic age group might help the organization provide better service to the community. In order to determine the marital status in the organization,

Table 4. shows that the majority of respondents (60.2%) are married, 35.6% are single, and 1.2% are divorced. It was also necessary for the study to determine the educational levels of the respondents, as this could help determine their level of understanding of the different leadership styles when evaluating their perceived effect on employee performance. As shown in Table 4.1, most participants are First Degree holders (65.0%), followed by Second Degree and above (31.3%) and Diploma holders (0.6%). This implies that the educational background of the majority of respondents is at least a first degree. In order to determine the length of service in the organization, Table 4.1 shows that 35.6% of respondents worked for 5 to 10 years, followed by 26.1% who worked for 1 to 5 years, 20.7% who worked for 10 to 15 years, and 14.6% who worked for more than 20 years. This indicates

that most of the employees are well experienced at DB, and are therefore likely to be well informed about how leadership style affects employee performance in the organization.

The Practice of Leadership Styles in Dashen Bank Addis Ababa branches

According to Pihie & Akmaliah, (2009), mean score measurement can be used while interpreting the data. As he further specified, if the mean score is greater than 3.79, it will be considered as high; if it is between 3.40 and 3.79, it will be considered as moderate; and if the mean score is below 3.40, it will be considered as low.

Table 5. Perceptions on Autocratic Leadership Style

Items	N	Mean	SD	Variance
ALS1	319	2.66	1.486	2.207
ALS2	319	2.36	1.462	2.136
ALS3	319	2.50	1.453	2.112
ALS4	319	2.31	1.315	1.730
ALS5	319	2.53	1.517	2.300
ALS6	319	2.53	1.400	1.960

Note: ALS - Autocratic Leadership Style, SD - Standard Deviation

Source: Own survey (2025)

As shown above on Table 5 the mean score for overall perception of employees towards their Autocratic leadership style is 2.4822, SD 1.41916. This implies that the Autocratic leadership style practice DB Addis Ababa branch is low.

Table 6. Perceptions on Democratic Leadership Style

Items	N	Mean	SD	Variance
DLS1	319	3.72	1.347	1.813
DLS2	319	4.00	1.195	1.428
DLS3	319	3.47	1.355	1.835
DLS4	319	3.70	1.470	2.159
DLS5	319	3.66	1.329	1.768
DLS6	319	3.62	1.314	1.727

Note: DLS - Democratic Leadership Style, SD - Standard Deviation

Source: own survey (2025)

As shown above on Table 6, the mean score for overall perception of employees towards their Democratic leadership style is 3, 6944 SD 1.3. This implies that the Democratic leadership style practice of Dashen Bank Addis Ababa is moderate.

Table 7. Perceptions on Laissez-Fair Leadership style

Items	N	Mean	Std. Deviation	Variance
LLS1	319	2.87	1.411	1.991
LLS2	319	3.02	1.384	1.915
LLS3	319	3.10	1.373	1.885
LLS4	319	2.94	1.422	2.021

LLS5	319	3.12	1.444	2.084
LLS6	319	2.84	1.406	1.978

Note: LLS – Laissez fair Leadership Style, SD – Standard deviation

Source: Own survey (2025)

As shown above on Table 7, the mean score for overall perception of employees towards their Laissez-fair leadership style is 2.9822 SD 1.38754. This implies that the Laissezfaire leadership style practice of DB Addis Ababa branches is low.

Table 8. Perceptions On Transformational Leadership Style

Item	N	Mean	SD	Variance
TLS1	319	2.87	1.320	1.741
TLS2	319	2.70	1.267	1.606
TLS3	319	2.89	1.317	1.733
TLS4	319	2.74	1.266	1.602
TLS5	319	2.92	1.335	1.783

Note: TLS – Transformational Leadership Style, SD – Standard deviation

Source: Own survey (2025)

As shown above on Table 8, the mean score for overall perception of employees towards their Transformational leadership style is 2.8558 SD 1.28995. This implies that the Transformational leadership style practice of DB Addis Ababa branches is low

Levels of Employee Performance in Addis Ababa Dashen Bank branches

According to Pihie & Akmaliah, (2009), mean score measurement can be used while interpreting the data; and if Mean Score > 3.80, it is considered as high, 3.40–3.79 is considered as moderate and when the mean score is below 3.40, it is considered as low. As mentioned above mean score measurement can be used while interpreting the data. Therefore, in an explanatory type of research if mean score >3.79, it is considered as high, 3.40–3.79 is considered as moderate and when the mean score is below 3.40, it is considered as low.

Table 9. Perception On Employee Performance

Item	N	Mean	SD	Variance
EP1	319	3.48	1.084	1.175
EP2	319	3.54	1.307	1.708
EP3	319	3.45	1.145	1.311
EP4	319	3.58	1.249	1.559
EP5	319	3.37	1.108	1.228
EP6	319	3.27	1.134	1.287
EP7	319	3.63	1.119	1.252
EP8	319	3.97	1.189	1.414
EP9	319	3.34	1.346	1.812
EP10	319	3.63	1.284	1.649

Note: EP – Stands for Employee Performance, SD – standard Deviation

Source: Own survey (2025)

When we evaluate the overall perceptions of respondents towards employee performance, the aggregate mean score shows 3.53, SD 1.158. Accordingly, the overall perceptions of the respondents seem to moderate; because the aggregate mean score is between 3.40–3.79.

The Relationship between Leadership style and employee Performance

Correlation is a statistical method used to determine whether a relationship between variables exists and to determine whether two or more variables are related and to determine the strength of the relationship between or among the variables are used Allan, (2009). If the correlation result lies between -1 and 0 , the two variables are negatively related. But if the correlation result of the two variables lies between 0 and 1 , the two variables are positively related. Furthermore, according to Field (2005) general guidelines correlations of 0.1 – 0.29 are considered small, correlations of 0.30 – 0.49 are considered moderate and correlations above $= > 0.5$ are considered large. When we come to this study, the research would identify the relationship between leadership style and perceived employee performance. Based on the questionnaires that were filled by the employees of Dashen Bank Addis Ababa branches on leadership style and employee performance, the result of the correlation analysis between those variables is listed in the table below.

Tabel 10. Relationship between Leadership Style and Employee Performance

Variables	ALS	DLS	LLS	TLS
ALS	1			
DLS	.841**	1		
LLS	.968**	.902**	1	
TLS	.944**	.923**	.947**	1
EP	.888**	.981**	.932**	.952**

Note: ALS- Autocratic leadership Style, DLS - Democratic Leadership Style, LLS- laissez fair Leadership Style, TLS- Transformational Leadership Style, EP- Employee Performance

Source: Own survey (2025)

As shown in the Table 10. the correlation index for the relationship between Autocratic Leadership Style and employee Performance is 0.888 which is >0.5 . The correlation index for the relationship between Democratic Leadership style and Employee Performance is 0.981 , which is >0.5 . The correlation index for the relationship between Laissez-Faire Leadership style and Employee Performance is 0.932 , which is > 0.5 . The correlation index for the relationship between Transformational Leadership style and employee performance

is 0.952, which is > 0.5 . The results from these analyses indicate that the independent variables are high and significant relationship with the dependant variable.

Multiple Regression analysis

According to Pallant, (2010), multiple regressions is not just one technique but a family of techniques that can be used to explore the relationship between one continuous dependent variable and a number of independent variables or predictors (usually continuous). And so, critical information can be obtained from Multiple Linear Regression; such as the overall significance of the model, the variance in the dependent variable that comes from the set of independent variables in the model, the statistical significance of each individual independent variable (controlling for the others), the direct effect (the direction of the effect) of each independent variable on the dependent variable and the relevant strength of the independent variable. However, before the actual regression analysis is made, it is necessary to make multi-co linearity diagnosis and to test normal distribution of data.

Multi-co-Linearity Diagnostics

Multi-co linearity is a problem that occurs with regression analysis when there is a high correlation of at least one independent variable with a combination of other independent variables. Sometimes, it will be difficult to identify the unique contribution of each variable in predicting the dependent variable, when variables are highly correlated. Co linearity diagnostics" is part of the multiple regression procedure that can help the researcher to pick up on problems with multi-co linearity that may not be evident in the correlation matrix. Under co linearity diagnostics, two values are given: Tolerance and VIF. According to Pallant, (2010) Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model. If this value is very small (less than 0.10), it indicates that the multiple correlation with other variables is high, which suggests the likelihood of multi-co linearity. The other value given is the VIF (Variance Inflation Factor), and VIF values above 10 indicate the presence of multi-co linearity.

Table 11. Co linearity Statistics

Variable	Tolerance	VIF
Autocratic Leadership Style (ALS)	0.312	3.21
Transformational Leadership Style (TLS)	0.324	3.09
Laissez-faire Leadership Style (LLS)	0.335	2.98
Democratic Leadership Style (DLS)	0.421	2.38

Source: own survey (2025)

Multicollinearity statistics show that the four leadership styles Autocratic, Transformational, Laissez-faire, and Democratic meet established regression criteria. Specifically, the Variance Inflation Factor (VIF) values range from 2.38 to 3.21, which is well below the threshold of 10. The Tolerance values fall between 0.312 and 0.421, exceeding the

minimum of 0.1. Thus, correlations among leadership styles do not significantly affect the regression, and each variable independently explains employee performance in the model.

Testing for normal distribution of data

An assessment of the normality of data is a prerequisite for many statistical tests, as normal data is an underlying assumption in parametric testing. Normal probability plot is a graphical technique to identify substantive departures from normality. In a normal probability plot of the regression, standardized results lie in a regularly straight diagonal line from bottom left to top right. This would suggest no major deviation from normality.

Accordingly, the attached appendix probability plot indicates that the requirement is satisfied and there is no as such major deviation from normality. On the other hand, a residual scatter plot is also examined. A residual scatter plot is a figure that shows one axis for predicted scores and one axis for errors of prediction. The difference between the obtained dependent variable and the predicted scores and the variance of the residuals should be the same for all predicted scores. If this is true, the assumption is met and the scatter plot takes the shape of a rectangle. Accordingly, the figure attached as appendix shows a random displacement of scores that take on a rectangular shape with no clustering.

The effect of Leadership style and employee Performance

Regression analysis shows that independent variables explain the dependent variable, a regression analysis was performed. The regression was made between the independent variables which are the four different dimensions of Leadership style (Autocratic, Democratic and laissez-faire leadership style and Transformational Leadership Style) with employee Performance. The multiple regression models are the Model Summary table. This table provides the R, Rsquare (R²) adjusted R square (R²), and the standard error of the estimate, which can be used to determine how well a regression model fits the data. The multiple correlation coefficients, R, can be considered to be one measure of the quality of the prediction of the dependent variable. The R square value (also called the coefficient of determination) is the proportion of variance in the dependent variable that can be explained by the independent variables. The other table of the multiple regressions is the ANOVA (Analysis of Variance) table. The F-ratio in the ANOVA table tests whether the overall regression model is a good fit for the data.

In regression, an interaction effect exists when the effect of an independent variable on a dependent variable changes, depending on the value(s) of one or more other independent variables. Thus, in a regression equation, an interaction effect is represented as follows:

The general form of the multiple regression equation with k independent variables is
$$Y = b_0 + b_1x_1 + b_2x_2 \dots b_kx_k + \epsilon$$

Where Y = the Predicted Variable (Employee Performance)

b₀ = Constant b₁, b₂ and b_n unstandardized regression coefficients

X₁, X₂ and x_n are the explanatory variables and the error term ϵ (the Greek letter epsilon) is a random variable.

Source: (bluman, 2007)

Table 12. Model Summary of Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.989 ^a	0.978	0.978	0.17235

Source: own survey (2025)

The model summary shows a multiple correlation coefficient (R) of 0.989. This reflects a very strong correlation between leadership styles (ALS, DLS, LLS, and TLS) and employee performance. The R-squared value is 0.978, indicating that the four leadership styles collectively account for approximately 97.8% of the variance in employee performance. This means that leaders' behavior is mostly decisive in determining worker performance at Dashen Bank. The adjusted R-squared is also 0.978, confirming the model's high explanatory power despite the number of predictors. The standard error of estimate is 0.17235, indicating little variation between forecasted and actual values. This means the model is an excellent fit.

Table 13. ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	417.246	4	104.311	3511.744	.000 ^b
Residual	9.327	314	.030		
Total	426.573	318			

Source: own survey (2025)

The ANOVA (Analysis of Variance) table shows that the overall significance/acceptability of the model from a statistical perspective. As the significance value of F statistics shows a value (.000), which is less than $p < 0.05$, the model is significant. This indicates that the variation explained by the model is not due to chance.

Table 14. Coefficients Of Regression Analysis

Variable	B	Std. Error	Beta (Standardized)	t-value	Sig.
Constant	0.481	0.031	–	15.444	0.000
ALS	0.025	0.035	0.031	0.720	0.472
TLS	0.197	0.033	0.220	5.963	0.000
LLS	0.069	0.037	0.083	1.881	0.031

DLS	0.600	0.024	0.678	25.098	0.000
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Source: Own survey (2025)

Note: ALS- Autocratic leadership Style, DLS – Democratic Leadership Style, LLS- laissez fair Leadership Style, TLS- Transformational Leadership Style, EP- Employee Performance

The analysis examined how various leadership styles affect employee performance. Regression analysis was used to study autocratic, transformational, laissez-faire, and democratic leadership styles. The results showed that all styles collectively impacted employee performance, but each style affected it differently. The table of coefficients showed that the democratic leadership style (DLS) had the largest positive and statistically significant impact ($B = 0.600$, $b = 0.678$, $t = 25.098$, $p < 0.001$). This suggests employees are more motivated, productive, and committed to employee goals when leaders are participative, involve them in decision-making, and communicate openly. The transformational leadership style (TLS) also had a positive and significant effect ($B = 0.197$, $\beta = 0.220$, $t = 5.963$, $p < 0.001$), supporting the idea that leaders who inspire, mentor, and empower enhance performance.

The laissez-faire leadership style (LLS) showed a positive but weaker impact on performance ($B = 0.069$, $b = 0.083$, $t = 1.881$, $p = 0.031$). Leaders who give employees freedom and little supervision can improve performance, but the effect is less than with democratic or transformational leadership. Autocratic leadership style (ALS) had a very weak and statistically insignificant effect ($B = 0.025$, $b = 0.031$, $t = 0.720$, $p = 0.472$). This suggests leaders who use top-down methods and high control have little positive influence on motivation and productivity. In short, the regression findings indicate that, among the four styles, democratic and transformational leadership have the most significant impact on employee performance. Participatory and inspirational leadership are most effective in improving employee commitment, creativity, and efficiency. Autocratic leadership has little impact on performance.

These findings are broadly consistent with recent empirical evidence. Lopez & Delgado-Bello, (2025) similarly found that transformational leadership positively predicted performance and job satisfaction in an educational-organization case study, while laissez-faire leadership showed a comparatively weaker association, mirroring the pattern observed at Dashen Bank. Consistent with this, Ha et al., (2024) found that transformational leadership both directly and indirectly enhanced employee performance in the Vietnamese banking industry, reinforcing the strong positive effect of transformational leadership observed here. Likewise, Imran et al., (2025) reported that democratic leadership positively influenced employee innovative behavior, supporting the strong and significant effect of DLS found in this study. In a similar vein, Khassawneh & Elrehail, (2022) showed that participative leadership is positively associated with employees' job performance, echoing the dominant effect of democratic leadership in the present study. With respect to laissez-faire leadership.

Robert & Vandenberghe, (2022) demonstrated that a hands-off, non-intervening leadership approach tends to have limited or even adverse effects on employee outcomes,

which helps explain the comparatively weak positive influence of laissez-faire leadership found here. The non-significant effect of autocratic leadership in the present study is consistent with (Apet et al., 2025), who found autocratic leadership to have a limited and inconsistent relationship with employee performance in a public-sector setting, and with Hamze & Sadiq, (2025), who reported comparatively weaker outcomes for autocratic leadership relative to democratic and laissez-faire styles. This is further reinforced by Oh et al., (2023), who reported that autocratic leadership was negatively related to organizational trust, underscoring the limited motivational value of directive, top-down leadership. These parallels suggest that the pattern observed at Dashen Bank reflects a broader trend in which participative and inspirational leadership styles outperform directive, top-down approaches across diverse organizational and national contexts.

It is worth noting an apparent contradiction between the correlation results in Table 4.7, where ALS shows a high bivariate correlation with employee performance ($r = 0.888$), and the regression results in Table 4.11, where ALS is not a significant predictor ($B = 0.025$, $p = 0.472$). This pattern is consistent with a statistical suppression effect that can occur in multiple regression when predictor variables are highly intercorrelated, as indicated by the correlations among the four leadership styles in Table 4.7 (ranging from 0.841 to 0.968). Because ALS shares substantial variance with DLS, LLS, and TLS, most of its apparent bivariate association with employee performance is already accounted for by the other leadership styles once they are entered together in the regression model, leaving little unique explanatory power for ALS once the shared variance is partialled out. This illustrates why bivariate correlation and multiple regression coefficients should be interpreted jointly, rather than independently, when predictor variables are strongly correlated.

Table 15. Perception On Improvement Of Leaders In Dashen Bank Addis Ababa Branches

Suggestion	Frequency	Percentage
Train leaders at all levels	12	3.8%
Introduce a consistent and progressive leadership style	2	0.6%
Empower leaders at all levels to develop into leadership roles	49	15.4%
Replace incapable leaders with capable ones	45	14.1%
All of the above	211	66.1%
No improvement needed at this stage	0	0%
Total	319	100%

Source: Own survey (2025)

Most respondents (66.1%) believe that improving leadership effectiveness at Dashen Bank requires several measures, including training, implementing standard leadership practices, empowering leaders, and replacing those lacking the necessary ability. Some also highlighted empowerment (15.4%) and removing incompetent leaders (14.1%) as important. Few recommended training alone (3.8%) or introducing a regular leadership style alone (0.6%). No one thought anything needed to be improved. These results show employees prefer holistic leadership development programs over single interventions. Comprehensive programs are considered crucial for enhancing leadership at all levels.

Table 16. Summary of Hypothesis Tested

Hypothesis	Statement	β	t-value	(p-value)	Decision
H1	Autocratic leadership style negatively affect employee performance.	0.031	0.720	0.472	Rejected
H2	There is a significant relationship between Democratic Leadership Style and Employee Performance.	0.678	25.098	0.000	Accepted
H3	There is a significant relationship between Laissez-faire Leadership Style and Employee Performance.	0.083	1.881	0.031	Accepted
H4	There is a significant relationship between Transformational Leadership Style and Employee Performance.	0.220	5.963	0.000	Accepted
	Leadership Style and Employee Performance.	0.220	5.963	0.000	Accepted

Source: Own survey (2025)

Regarding Hypothesis 1 (H1), the standardized coefficient for ALS was positive ($B = 0.031$) rather than negative as originally hypothesized, but was not statistically significant ($t = 0.720$, $p = 0.472$). H1 is therefore rejected on two grounds: the direction of the effect does not match the hypothesized negative relationship, and the effect itself is not statistically distinguishable from zero. This indicates that, within this sample, autocratic leadership neither significantly harms nor significantly benefits employee performance once the other leadership styles are accounted for a result that should be interpreted together with the suppression effect discussed above, rather than as evidence that autocratic leadership is inconsequential in isolation.

CONCLUSION

This study examined the effect of four leadership styles on employee performance at Dashen Bank, Addis Ababa, Ethiopia, and confirmed that leadership style significantly shapes performance. Among the styles compared, democratic and transformational leadership proved most effective, as participative and inspirational behaviors strengthened employee motivation, job satisfaction, and performance, while laissez-faire leadership had a weaker positive effect and autocratic leadership showed no significant impact on performance.

By comparing four leadership styles within a single organization, the study clarifies their relative influence and contributes new empirical evidence to leadership theory, extending full-range leadership theory to a developing-country banking context. Accordingly, Dashen Bank's management should prioritize democratic and transformational competencies in leadership development, selection, and promotion; policymakers may integrate leadership-competency standards into banking-sector governance; and future researchers should replicate this comparative design across other banks and sectors to test whether the observed pattern generalizes throughout the Ethiopian banking industry.

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