



**SAINT MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
SCHOOL OF BUSINESS**

**EFFECT OF LEADERSHIP STYLE ON
ORGANIZATIONAL PERFORMANCE: THE CASE OF
SELECTED ETHIOPIAN BANKS**

BY

YOSEPH MOGES

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ADDIS ABABA, ETHIOPIA

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The Case of Selected Ethiopian Banks**

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Yoseph Moges

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APPROVED BY BOARD OF EXAMINERS

Dean, School of Business

Signature

Advisor

Signature

External Examiner

Signature

Internal Examiner

Signature

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Abstract

This study has investigated the effects of leadership style on organizational performance in the case of Ethiopian Banks. The main objective of the study was to investigate the effect of both transactional and transformational leadership styles on banks performance in the Ethiopian context. Transformational leadership behaviors relevant in the study were idealized influence, inspirational motivation, intellectual stimulation and individual consideration and Transactional leadership behaviors considered relevant were constructive/contingent reward management by exception active (MEA) and management by exception passive (MEP). The study adopted a panel data design, and employed evaluative quantitative analysis method. Analysis was based on primary data generated through structured questioner which was developed by adapting the multifactor leadership questionnaire (MLQ) and time series data collected from national bank of Ethiopia's financial audited report. Random effect regression model (LM model) was specified, estimated and evaluated. The result showed that both transformational and transactional leadership styles had significant positive effect on the performance of banks in Ethiopian context. The study concluded that both transformational and transactional leadership styles were more appropriate in inducing performance in banks and, therefore, recommended to practice the combination of both transformational and transactional leadership styles according to the work situation.

Keywords: *Leadership Style, transformational leadership style, transactional leadership style, Organizational Performance*

Acronyms

CBB	Construction and Business Bank
CBE	Commercial Bank of Ethiopia
CR	Contingent Reward
DBE	Development Bank of Ethiopia
IC	Individualized Consideration
II	Idealized Influence
IM	Inspirational Motivation
IS	Intellectual Stimulation
LF	Laissez-faire
MBEA	Management-by-Exception (Active)
MBEP	Management-by-Exception (Passive)
MLQ	Multifactor Leadership questionnaire
NBE	National Bank of Ethiopia
SMSE	Small and Medium Scale Enterprise
ROA	Return on Asset
TFLS	Transformational Leadership Style
TRLS	Transactional Leadership Style

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CHAPTER ONE

INTRODUCTION

This chapter introduces about the whole study; it presents the study and organizational back ground in the way of giving clear understanding of the grounded problems in Ethiopian banking sector, define the question that the study tries to answer and sets the objectives to be accomplished, discusses significance the study has, limits the scope or focus area of the study, state limitation and challenges encountered to the researcher and finally, presents how the whole paper is organized.

1.1. Background of the Study

Extensive globalization and competition made twenty first century's business environment more complex than ever before. The economic environment is becoming turbulent and volatile due to high globalization and competition (Parry 2003); which imposes high demand for new, flexible, adaptive and innovative organization in exchange for old, static, permanent and traditional. This changing scenario made the service sector including banking industry to go through revolutionary events; raising the need for effective leader who is with capability of adjusting an organization for ongoing and/or upcoming changes.

The ever dynamic business environment and excessive competition again demands business to opt and adapt new strategies to remain in business (Bass & Avoilo, 1999). According to the authors, improving marketing techniques and ensuring the presence of effective leadership are the two important strategies to be employed to remain in the business. The bank can be competent and remain in business by using these strategies: boasting liquidity by marketing financial service for both existing as well as potential customer, by outsourcing prospective borrower and effectively and efficiently mobilizing and using them for the attainment of its goal through ensuring effective leadership.

Thus, ensuring the effective leadership is becoming a critical issue for the success of modern business organization and the focus on it is increasing recently as the challenge

of running business is gigantic. So far, several theories had emerged and paved the way for the coming of modern leadership styles that can be understood in the organizational context. Transformational and transactional are the two recent leadership styles that researchers have been suggesting for organizational success in different circumstances.

The banking industry is the most important financial institution in Ethiopia, dominating most of financial activities. Ethiopia is a country with long history of modern use of money that can be traced back to 2000 years (1000 BC), in the Axumite era, though the modern banking system has started only 100 years back in 1905 with the establishment of Abyssinian Bank (Geda, 2006). The emergency of new banks has increased after the liberalization of financial sector that took place after the reform of 1992. According to the National Bank of Ethiopia (2015), the number of banks has increased to 19 that there were only nine banks before 2000. Out of the total of 19 banks operating in the country, 16 of them are owned by private sector, while the remaining three are owned by public.

Though, liberalization has changed many situations in the banking sector, the growth in number and capacity has been limited as the service has not reached to the majority of the people and; all are owned and by Ethiopian nationals (Aychile, 2008). Moreover, the sector is not well developed and less integrated with global financial market and the market is not competitive (ILO, 2009). Less infrastructure development: technology, service delivery, less capital, and ineffective management system are discernible features in Ethiopian banking sector.

This paper focuses on the leadership that is seen as one of the most important strategist for the business (Bass & Avoilo, 1999) to face the challenge of dynamic and competent environment. To this end, the paper investigates the nature and extent of relationship between leadership styles and the banks performance in Ethiopian context.

1.2. Operational Definitions of Terms

Leader- in this study refers the person who is appointed by the organization or owner to follow up the entire or sub activities of the organization as well as the subordinates.

Leadership Style - refers to a pattern of behavior and actions that leaders use to achieve the desired outcomes.

Transformational Leadership Style – refers to the behavior of leader that is associated with the process of influencing fellow subordinates through creating change in current conditions and organizational performance as a whole (Jandaghi, et al, 2009)

Transactional Leadership Style - refers to the behavior of leaders that is associated with the process of exchanging one thing for another (Ristow, 1997)

Organizational Performance - is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objective and results. In the case of this study, it is the financial indicator which expressed in terms of return on asset (ROA).

1.3. Statement of the Problem

Compared to others, the financial sector in Sub Saharan Africa is lagging behind (Kefela 2008). Ethiopia is no exception to it. The less infrastructure facilities (technology, service delivery, less capital) and ineffective management system have been the main reason among others that makes Ethiopian banking industry to remain closed for foreign investors and continue to operate in unique business environment even from its neighboring East African countries like Kenya, Tanzania, and Uganda. The least development of social and economy signifies the malfunctioning of banking sector in the country. However, Kefele (2008), points out that the loose in management system within individual banks is the cause for all problems in the banking sector (Kefela,2008).

Banks in Ethiopia sticks to traditional ways of doing things. Engaging on daily routine work is the common duties of both managers and employees. Most of managers are spending their time on routine duties like attendance and dress code monitoring, writing related rules and regulations that urges the following of punishment for any deviation happened against the outlined rule. This high focuses on irregularities, mistakes, exceptions, and deviations are consuming much time of mangers and making them to be less effective on prediction about the future and relating the work at hand with the

articulated vision of the bank. Moreover, wide gap is observed in understanding of the vision and the mission of the bank among the workers. There are only few managers that clearly communicate what the vision is and confident in attainment of it.

On the other hand, employees are complaining as their individualistic and communal need is not well considered and less room is given for their say. This discourages employees to feel belongingness to the bank which in turn leads to less productivity. Their voice is continued to be ignored and no room is being given for their say. They are not participating in the decision process that all policies and big decisions revealed to them after it is made at the top. There is visible bridge between managers and employees that no free discussion is possible and most employees are not comfortable to share what they think. These show the seriousness of leadership malfunctioning in Ethiopian banking industry.

Ensuring the presence of effective leadership is one the critical strategies suggested by Bass & Avoilo (1999) to increase the performance and remain in business. The leadership style drives the ability of an organization, to successfully implement business strategies, to gain a competitive advantage and optimize human capital (Teshome, 2011).

The dependency of organizational performance on the leadership effectiveness has been demonstrated by several studies (Chung-Wen Young 2008; Teshome, 2011; Cole 2009; Wang et al 2011; Muejohn et al 2012,). Even though some studies support the superiority of transformational leadership style over transactional leadership style, the other claim the superiority of transactional leadership style over transformational leadership style for better organizational performance; some still suggests the combination of both leadership styles with various degrees according to the situation. In line with this, the study has examined the effect of leadership styles (i.e. transformational and transactional leadership) on organizational performance in case of selected Ethiopia banks

1.4. Research Questions

From the fact of an existing gap in assessing the relationship between the leadership style and the bank's performance, the researcher addressed the following questions:

RQ1: To What extent does Idealized influence affect ROA?

RQ2: To What extent does Inspirational Motivation affect ROA?

RQ3: What is the nature of influence of Intellectual stimulation on ROA?

RQ4: What is the nature of influence of Individualized consideration on ROA?

RQ5: What relation does Contingent reward has with ROA ?

RQ6: What relation does management by exception –active has with ROA?

RQ7: How does Management-by-exception (Passive) affect ROA?

1.5. Objective of the Study

1.5.1. The Main Objective

The main objective of the paper was to investigate the nature and extent of effect of leadership styles on the bank's performance.

1.5.2. The Specific Objectives

The specific objectives of the paper were:

- To investigate the nature and extent of effect of Idealized Influence on ROA
- To investigate the nature and extent of effect of Inspirational Motivation on ROA
- To examine the nature and extent of Intellectual stimulation on return on ROA
- To examine the nature and extent of Individualized consideration on ROA
- To identify the nature and extent of Contingent reward on ROA
- To identify the nature and extent of Management-by-exception (Active) on ROA
- To examine the nature and extent of Management-by-exception (Passive) on ROA

1.6. Scope of the Study

This paper focuses on assessing the effect of leadership styles: Transformational Leadership style (Idealized Influence, Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration) and Transactional leadership Style (Contingent Reward, Management-by-Exception - Active and Management-by-Exception –Passive)

on the performance of selected banks in Ethiopia. Out of 19 operating banks in the country, six of them (three public and three private) were included in the study. The three private banks were United Bank, NIB International Bank and Wogagen Bank and; three public banks were Business and Construction Bank, Commercial Bank of Ethiopia and Development Bank of Ethiopia. The data including both five years time series and cross sectional was gathered from selected banks by using Multifactor Leadership Questioner (MLQ) and self-developed data gathering device and arranged in panel way before analyzing using the descriptive and inferential statistics

1.7. Limitation

Some constraints such as time and lack of sufficient fund hindered the need to include a large sample size. In order to get a stronger picture of the issues in the different organizations the researcher would have liked to involve a larger number of respondents. But due to the time frame limitations provided by the study program this was not possible. The shortage of up-to-date reference materials and research works, specifically to the Ethiopian context, were also the limitation of the study.

Another barrier the researcher came across in the process of data collection was refusal by management of some banks to formally permit the distribution of the questionnaire for unconvincing reasons such as lack of time to fill the questionnaire, fear of sensitivity of the questionnaire contents if its results present to public, etc. Although there were a great number of participants who were willing to fill the questionnaire, there were some employees who would not volunteer to be part of the study for unknown reasons. Unfortunately non-returned questionnaires were also a limitation for this study.

1.8. Significance of the Study

Banking industry is an integral part of the whole economy where economic and social aspect of the people takes parts. Rasidah and Mohd(2011) pointed out that banks are the critical part of financial system that play a pivotal role in contributing to a country's economic development .The development and improvement of the industry facilitate the economic development of the country as investment fund mobilizing by deposit; saving,

transfer service and efficient resource allocation are there. The resource will optimally be allocated for faster growth of national economy with effective and efficient banking service. Therefore, improving or advancing banking services is crucial for the country to develop.

This research paper has significance on giving insight about how to enhance the bank performance in Ethiopia by suggesting effective kinds of leadership style. The paper has also an importance by filling the gap by testing empirical results, which is done in other countries on the Ethiopian banking context. To this end, the paper identified the nature and extent of leadership styles effects on banks performance in the Ethiopian case and thereby gave insight about how to use effective leadership style. Moreover, it paved the ways for future study on related areas.

1.9. Organization of the Study

This paper is organized under five chapters. The chapter one introduces the background of the study, statement of the problem, scope of the study, significance of the study and objective of the study. The second chapter focuses on reviewing both theoretical and empirical literatures on leadership styles and bank performance. The chapter three concerned with presenting the research methodology on how the researcher does his entire research work from data collection to analyzing. The fourth chapter devoted to discuss the results of the analysis and give interpretation; finally, the fifth chapter presents summary, conclusions, and recommendations based on the findings.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Under this chapter the theoretical and empirical evidences focusing on the leadership styles effect on organizational performance are presented. Accordingly, the first section, 2.1 elaborates the concept of leadership. The second section 2.2 presents theoretical review on leadership styles section 2.3 discusses the recently adopted leadership styles: transformational and transactional. Section 2.4 presents banks overview and the bank's performance measurements. Finally Section 2.5 Presents the empirical evidences which, is the findings of other studies on the relationship between leadership styles and organizational performance.

2.1. Concept of Leadership

Leaderships differ in effectiveness in terms of consequences of their actions towards internal and external stakeholders and can be of many facets. Today, flexibility in resource utilization and promotion of continuous learning is essential for an organization to cope up itself with ever-changing business environment: technology, economic, social, political and legal conditions and internal processes (James & Collins, 2008; Leavy&Mckiernan, 2009). These day's leadership tasks demand leaders in organizations to respond for change properly.

The leadership in this study refers the person who is appointed by the organization or owner to follow up the entire or sub activities of the organization as well as the subordinates. A leader is the kind of person (with leadership qualities) who has the appropriate knowledge and skill to lead a group to achieve its ends willingly (Neil Thomas, 2004). Leadership defines as a relationship through which one person influences the behavior of other people. Thus, the behavioral relation between leader and follower determine the type of leadership style that the leader is practicing.

2.2. Theories of Leadership Style

Through time, several thinkers have come out with their ideas about what kind and how it should be of the organizational leadership styles. They all contributed their own parts for the development and enrichment of leadership thought and they stirred up many in order to adore their idea. Several theories emerged and adhered because of their dominant assumption and explanation and again were criticized and led the way for the development of another theory because of their dearth. There are several leadership style theories of which the major ones are discussed here.

2.2.1. Great Men Theory

The scholar and researchers began to study on leaders late ninth and early twentieth century focusing on the great leaders raised in history: Moses, Jesus, Mohammed, Abraham Lincoln, Winston Churchill and the like. The belief of the great man theory was that the great leaders raises when there is a great need and according to the theory leaders born with innate, unexplainable talents that make them super performer, more than average people. The theory affirms that the great leaders are heroes who shaped the world by their personal charisma, intelligence, wisdom or use of political skill.(Carlyle, T. 1841).

2.2.2. Trait Theory

On the foot step of the great man theory the trait theory is emerged in the second quarter of twentieth century by studying the specific quality that the great leaders possessed. As that one of the great men, the trait theory state that the leaders are born and not made, it belief as leaders are blessed inborn with the gene (DNA) that has got some sufficient combination of trait that enable them to lead. The theory was based on the psychological and physical attributes that the leaders have acquired. There are various researches made to identify the basic qualities of leaders (Stogdill, 1974) and Stogdill himself identified different traits and skills of leaders that he considered as the main once in the leadership.

2.2.3. Behavioral Theory

The behavioral theory assumes that leaders are not born but made. The study of leadership emphasizes what the leaders do rather than what personality they have. It extensively discussed theory X and theory Y, two opposite dimensional characteristics of. Theory X assumes average people dislike work and taking responsibly and are not motivated for the objective achievement therefore, the coercive, authoritarian, dictator leadership is required for those people; on the other hand, the Theory Y assumes that the average people are self-motivated, self-controlled, and willing to take responsibility therefore coaching, consulting, participative leadership style is required. The behavioral theory assumes that the strategy of the leadership is influenced by the leaders' assumption about human nature.

However, theory failed to take into account the contextual factor that can affect the leader effectiveness and failed to establish the causal relationship from two independent dimensions of leadership quality. Both trait and behavioral theory oversimplified determinates of successful leadership. (Stephen M., Jennifer D., Nahrgang W.P., Wellman, Humphrey, 2011)

2.2.4. Contingency Theory

The inconsistent and inclusive result of behaviorist theory in determining effective leader leads for the development of contingency theory. In late 1960'5 Fred Fiedler came with contingency model states that no single leadership style is best in every circumstance. The effectiveness of leader depends on the interaction with the situational variables: the internal and external environment of the organization, the task, and the subordinate, leader and leader authority. Different circumstances require different behaviors. Routine or highly repetitive environment require directive leadership behavior, while dynamic work environment will be more successful with flexible and participative leadership behavior. Thus, to be effective, the leader has to change his/ her behavior in the way that it suit given circumstance. However, the theory is criticized for its inconsistency of result and confusion of measurement instruments. (Zaccaroa, Rittmana ,Marksb, 2001)

2.2.5. Situational Theory

The deficiency of contingency theory in showing consistent result and clear measurement instruments led researchers to seek for another approach. Paul Hersey and Kenneth Blanchard (1967, 1993) have developed situational theory as leadership theory model in attempt of enriching some gaps in pervious theory. Situational theory assumes more flexibility of leadership style for different situation than the contingency theory does. In Hersey/Blanchard model, the level of maturity of subordinates as determining the leader behavior is introduced. This shows that the leadership style needs continuous change from more autocratic into more democratic, as the level of maturity of subordinate increases.

2.3. The Recent Development

The limitation and problems in the so far described theories of leadership are: inconsistency of results and lack of clarity in measurement tools, which calls scholars to search for other approaches that can get rid of the ambiguity in previous theories and describes the behavior of contemporary leadership undoubtedly. In the recent years the powerful transformational, transactional and laissez-faire theory become popular and started to be conceptualized in organizational terms. The researchers become focused in the terms of organization on contrary to that of political and social terms which, the previous theorists base their origin as they themselves were from sociology, psychology and/ other science back ground.

2.3.1. Transformational Leadership Style

There are various theories of leadership that evolved through time from other leadership theories, but none of them have found better to solve the contemporary business stake. The current global and technological advancement has universalized the existence and inevitability of changes in business environment. The contemporary business environment is under complex and unpredictable changes. There have been unpredicted changes in business environment: in socio-economic, politics, technology and organizations where the old theory which based merely on performance rewards linkage remain less to manage these big events and changes (Shibru&Darshan, 2011). These changes and events stimulated several practitioners and academicians to search for other leadership style, which is compactable with ongoing business environment. In the same way dynamic age urged the managers around the world to realize the importance of making significant change in their leadership style in order to be competent and survive in an increasingly competitive business environment (Kotter in 1990 as pointed out by Ristow, 1997).

The new paradigm shift in the leadership style theory emerged as the answer to the call of modern business organization (Bass 1994 and Akar 2010). The leadership theory that focused more on influencing individual for extraordinary performance than the previous approach that focused on performance- reward linkage was realized by the work of Burns in 1978. James MacGregor Burns introduced the concept of new leadership style that is transformational leadership in his book of leadership published in 1978 (covey, 2007). Burn's focus was the political leadership that he had been conducted his study on, though; the concept has organizational significance as well. He asserted that transformational leaders, who have completed influence over changes, draw changes into the contemporary organization, as they are the source of change. Paul Hersey, Kenneth Blanchard and Johnson Dewey have also defined transformational leadership as an informed influence process in individuals or groups to create discontinuous changes in current conditions and organizational performance as a whole (Jandaghi, et al 2009). Again, based on but not fully consistent with, the prior work of Burns (1978) and House (1976) Bass in mid of 1980 with more emphasize on the need of follower rather than that

of the need of leaders, Bass states that the Transformation leadership could be apply for the situation were no positive outcome is exist (Akar, 2010).

As its name indicates, the transformational leadership style involves changes and transformation of an individual as well as an organization, and thereby transforms organizational pillars to be ready and capable enough to walk in a new way and achieve higher level of idealized performance. Transformational leadership is the process of changing or transforming individuals to accept changes and improvements, or, in other words, it is the ability of making people to want change, improvement and getting their readiness to be led (John Hall, et all 2012). The transformational leaders are changing agents that they stir up changes and improvements in an organization by motivating managers, employees and members of organizations (Jandaghi, et all 2009 and Amir Sadeghi, et all 2012). They often come with the new ideas and prospective to change the way organization doing its business. Burns argued and was the first to assert as the true leadership involves changing people beside its creation of change and achievement of organizational goals. Moreover, the word and behavior of transformational leaders do change societies as well.

A disciple of Burns, Bernard Bass defined transformational leadership in terms of influence of leaders on the followers. By conforming the individuals value and idea as well as inspiring them to think about various problems using modern methods, the transformational leaders create extra ordinary motivation. When transformational leadership style exists the followers get motivated and induced to perform tasks in an extraordinary manner which, originally was thought as not possible (Shibru&Darshan, 2011). While developing the transformational leadership theory, Burns was influenced by the Human Need Theory of Abraham Maslow's. The Human Need Theory suggests that the performance of people in the work place is determined by the extent that their need is satisfied. Therefore, Burns argue that true transformational leadership involves identifying the higher order need that is self-esteem and self-actualization and enables the followers to satisfy that need (Covey, 2007).

According to Bass there are three ways that transformations of followers involve. These are increasing of awareness on the importance and value of tasks, drawing their focus of attention on organization or team goals prior to the interest of their own and triggering of their need of like self-esteem and self-actualization. Basically, the leader's task is conscious raising "The leader's fundamental act is to induce people to be aware or conscious of what they feel [...] to feel their true needs so strongly, to define their values so meaningfully, that they can be moved to purposeful action" (Covey 2007, transformational leadership, PP 5).

The transformational leadership draw better and clear picture about the future, and define its vision for employees more effectively in the way that the employee accept as an interesting fact (Jandaghi, et al , 2009). The followers get inspired and motivated by the word and action of their leaders and show respect, dignity and loyalty towards them. Through their charismatic effect the transformational leaders instills confidence and commitment to vision in followers where, followers strive for the achievement of organizational goal with full confidence and self-denial act. There are four major components of transformational leadership style (4I's): Idealized influence, Inspirational Motivation, Intellectual Stimulation and Individual Consideration, though some authors make them five dividing idealized influence in to two: attributes and behavior. These are components make up the transformational leaders and make them to realize idealized result.(Ristow 1997, Shibu&Darshan, 2011, Amir Sadeghi 2012).

Idealized Influence

Idealized influence is one of the components of transformational leadership style that the leaders employee to get superior results. It is a components where being a role model of a leader can be perceived by followers so as it inspires them (Moss &Ritossa, 2007). The followers can identify their role model easily and try to imitate as they admire, respect, and trust them.(Bass et al, 2003). This is achieved by the fact that they share risks with their followers and, importantly, they are consistent, rather than arbitrary. Leaders with idealized characteristics are the role models that they walk first on the way they talk about (Avolio: 2005).

Again, the transformational leader with an idealized influence are highly disciplined who do not use power for their own personal gain; they display high standards of moral and ethical conduct (Ristow, 1997). The idealized influence also relates to charisma which, for long has been held as a mystical gift that people possess. It is true that there is more to being a leader than being a charismatic person. The transformational leaders instill confidence, commitment and vision in followers. According to Akar 2010, immense possibilities can happen when charisma spreads throughout an organization that is focused on a shared vision or mission.

Inspirational Motivation

Inspirational Motivation is a component of transformational leadership style that describes the degree that the leader states attractive and encouraging vision to followers. Transformational leaders motivate and inspire those around them by providing meaning and challenge to their followers' work. They also focus strongly on team spirit. Followers are included in developing inspiring future visions and the leaders are effective communicators.

The transformational leaders communicate their expectations clearly with their followers. They also display commitment to goals and the shared vision. These leaders talk optimistically about the future and what needs to be done to achieve the vision. (Ristow, 1997)

Intellectual Stimulation

Intellectual stimulation is a component of the transformational leadership that refers to the degree in which the leaders stimulate their followers to be innovative and creative. Transformational leaders stimulate their followers to be innovative and creative by questioning assumptions, reframing problems, and approaching old situations in new ways.

They encourage creativity through the use of reasoning and evidence rather than unsupported opinion to solve such problems (Avolio *et al*, 1991:6). The transformational

leader encourages the development of a culture of continuous questioning and thus continuous learning (Ristow, 1997)

Individualized Consideration

Individualized Consideration is a component of the transformational leadership style that explains the degree in which the leader pays attention to the need of individual employee. Transformational leaders pay attention to the individual employee and his or her needs rather than treating all followers alike and having the same needs. Time is spent teaching and coaching others in an effort to develop their strengths and promote self-development, by acting as coaches and mentors. The transformational leaders make sure that the employee has sufficient help and the resources necessary to complete the tasks at hand (Ristow, 1997)

2.3.2. Transactional leadership Style

As the name implies, transactional leadership is a style of leadership that focuses on exchanging one thing for another. Avolio *et al* (1991:2) sum this up by showing that transactional leaders define and communicate the work that followers must do, how it will be done and the rewards followers will receive for successfully completing the stated objectives. In other words, the leader rewards or disciplines the follower depending on the adequacy of the follower's performance (Ristow, 1997).

Tichy and Devanna (1986) show how transactional leaders were suited to the more stable era of expanding markets and little competition that characterized the business environment before 1980. This is in contrast to the dynamic environment that Kotter (1990) and Maree (1997) suggest characterizes the contemporary business environment. In a stable environment, the transactional manager makes few changes. They manage what they find and leave things much as they found them when they move on (Howell and Bass, 1993).

Bass (1985) distinguishes two leadership factors within transactional leadership, namely contingent reward and management-by-exception.

Contingent Reward refers to situations in which the leader gives compensation to employees when they perform according to contract or expectation. The leader will assign or get agreement on what needs to be done. The leader then promises rewards, or actually rewards others, in exchange for satisfactorily carrying out the assignment. Bass and Avolio (1994) contend that *contingent reward* has been found to be reasonably effective as a style of leadership. It is, however, not as effective as the transformational leadership factors, which will be discussed in the next section, in motivating others to achieve higher levels of development and performance.

Management-by-Exception explains the degree in which a leader watches followers closely for mistakes or role violations (Northouse, 2007).

Passive management-by-exception is used by leaders who only interfere in the employees work if they do not meet the desired goals. The leader waits passively for deviances, mistakes, and errors to happen and then take corrective action (Judge & Piccolo, 2004; Bass & Avolio, 1994). This type of leader avoids describing agreements, explaining expectations and standards to be achieved by subordinates, but will intervene after particular problems become apparent (**Amir Sadeghi, et al 2012**).

Active management-by-exception refers intervening in people's work when they are not putting forth the effort expected of them (Pruijn and Boucher, 1994:75). Leaders will arrange actively to monitor deviances from standards, mistakes and errors in the follower's assignments and will take corrective action as necessary.

Bass and Avolio (1994) demonstrate that although management-by-exception is necessary in some situations, it is generally ineffective as it is a prescription for mediocrity. Managers who rely heavily on *passive management-by-exception*, usually only attempt to sort problems out when they become chronic, which in many instances is too late. Those who employ *active management-by-exception* on a regular basis tend to focus too heavily on mistakes and in this way demotivate the workforce.

2.4. Overview of Ethiopian Banking Sector

Ethiopia has long history of modern use of money that can be traced backed to 2000 years (1000 BC), in the Axumit era, though the modernbanking system hasstarted only 100 years back in 1905 with the establishment of Abyssinian Bank (AlemayehuGeda, 2007). Again,the growth in number and capacity has been limited so that the servicehas not reached to the majority of the people and all are owned and by Ethiopian nationals. (GebeyawAychile, 2008). According to National Bank of Ethiopia, currently there are nineteen banks under operation of which three of them are state owned and the remaining sixteen are owned by private.

Table 2.2: Existing Banks in Ethiopia

Ser. No	Bank Name	Year Est.
1.	Development Bank of Ethiopia	1909
2.	Commercial Bank of Ethiopia	1963
3.	Construction and Business Bank	1983
4.	Awash International Bank	1994
5.	Bank of Abyssinia	1996
6.	Wegagen Bank	1997
7.	United Bank	1998
8.	Nib International Bank	1999
9.	Dashen Bank	2003
10.	Cooperative Bank of Oromia	2005
11.	Lion International Bank	2006
12.	Oromia International Bank	2008
13.	Bunna International Bank	2009
14.	Zemen Bank	2009
15.	Abay Bank S.C.	2010
16.	Berhan International Bank	2010
17.	Addis International Bank	2011
18.	Dehub Global Bank	2012
19.	Enat Bank	2013

Source: www.nbe.gov.et

The business environmental situation of the Ethiopian banks is also different from other foreign countries including the neighboring countries like Kenya, Tanzania, and Uganda, since the foreign investors are not yet allowed to participate (Kozo Kiyota and others, 2007). Despite, the WTO and IMF push to open the banking sector for international investors, the government reserved from doing as the sector is not yet developed in terms of technological use, management of services and capital position. Thus, it is the domestic competition that currently worries the banks, as profitability, winning loyal customers, acquiring substantial market share, and updating in advance technological use are becoming the critical issue for the banks to remain in the business.

2.3.1. Measurement of Bank's Performance

The problem of banking and financial system soundness has become more important in all countries over the recent years. Thus, banks' performance monitoring, analysis and control needs special analysis in respect to their operation and performance results from the viewpoint of different audiences, like investors/owners, regulators, customers/clients, and management themselves. To measure banks' creditworthiness and risk exposures is a complicated issue and it is not easy to interpret banks' accounting data. Moreover, the performance classification varies according to researchers' interests, showing that some studies used failed/non-failed classification as against vulnerable/resistant classification and again while some use ex post analysis, others prefer ex ante analysis (Olugbenga and Olankunle, 1998).

Evaluation of bank performance traditionally includes the four performance measures: ROA, efficiency ratio, net interest margin, and return on equity (McCune, 2007) [cited in by Cole, 2009]. Return on total assets (ROA) is known to measure the effectiveness of managerial performance and one of the most frequently used financial ratios by financial analysts. ROA measures the ability of bank management to generate income after all financial and non-financial costs and expenses for owners. Changes in ROA are usually the cause of the most important changes in banks' performance and need a more detailed analysis (Cole, 2009). The ROA figures can be tracked from a financial statement of individual banks or the audit financial report of National bank of Ethiopia.

2.5. Empirical Literature

So far, several research studies have demonstrated the existence of links between leadership and performance (Young 2008; Cole 2009; Wang, et al, 2011;,Indown A. et al 2011; Teshome 2011 and Muejohn, et al 2012,). Some of the researcher studies have found out the superiority of transformational leadership style over transactional leadership styles (Yang et al 2008 &Teshome 2011), while the research study for others reveled the superiority of transactional Leadership style over Transformational and in organizational performance (Idown A. et al 2011, Muenjohn N. et al 2012).

The research study done by Ahmad Fadhly Arham and Muenjohn had attempted to identify the impact of leadership style on the organizational performance in case of Malaysian Small and Medium Scale Enterprise (SMSE). In the study, the organizational performance was measured in terms of growth and profitability after collected by self-developed data collecting instruments. The study tested a casual modeling, examining the various relationships among leadership behaviors organizational performance and based on the test, the result of the study revealed that the behavior that associated with transactional leadership seem to have more impact on organizational performance than transformational leadership. The transactional leadership, which focuses on providing direction and motivates employees in the way of instituting goals by clarifying and task requirements, has seen a significant leadership behavior to promote organizational growth in the study. According to the authors, the relatively small firm size could be the main reason for the result as it demands a close follow up monitoring style of leadership (Management-by-exception Active) and a focus on the exchange of rewards for efforts (Contingent reward).

In the same way, Obiwuru Timothy C. and others have investigated the effect of leadership styles on organizational performance in the cases of small scale enterprises in Ikosi-Ketu Council Development Area Of Lagos State, Nigeria 2011. The study investigated transformational and transactional leadership styles effect on the organizational performance. The organizational performance is expressed in terms in terms of effectiveness, extra effort and satisfaction in case of transformational leadership style and in terms of productivity and loyalty/commitment in terms of transactional

leadership style. The study followed a survey design, and employed evaluative quantitative analysis method. OLS multiple regression models were specified, estimated and evaluated. The result showed that while transactional leadership style had significant positive effect on performance, transformational leadership style had positive but insignificant effect on performance. The study concluded the appropriateness of transactional leadership style to induce performance in case of small-scale enterprise over transformational leadership style.

The research studies that favor the transformational leadership styles over transactional and Laissez-faire Chung-Wen Yang (Dr) examines the impact of leadership style along with the entrepreneurship orientation on small and medium business performance in Taiwan. The study considered growth and financial performance as the performance measurement of the business. The study found that in a comparison of three different leadership styles (N=406), the mean for transformational leadership (M=3.00) is higher than the mean for transactional leadership (M=2.68) and for passive-avoidant leadership (M=1.37). Thus, according to the study, transformational leadership is significantly more correlated to the business performance than transactional leadership and passive-avoidant leadership.

A test of Transformational and Transactional Leadership Styles on Employees' Satisfaction and Performance in the UAE Banking Sector is done by Raed Awamleh et al, (2005). The paper has examined the effects of both transformational and transactional leadership styles of bank managers/supervisors on employees' satisfaction and self-perceived performance by collecting data from employees working in national and international banks operating in the UAE. After running a multiple regression the study found out that transformational leadership style is related to job satisfaction and to self-perceived performance. Thus, the results confirmed that in order to elicit higher levels of satisfaction and performance among bank employees, managers/supervisors need to demonstrate transformational leadership attributes.

The other study, on the leadership styles impact on employee commitment in Ethiopian context is done by Teshome, 2011. The study had investigated the relationship between

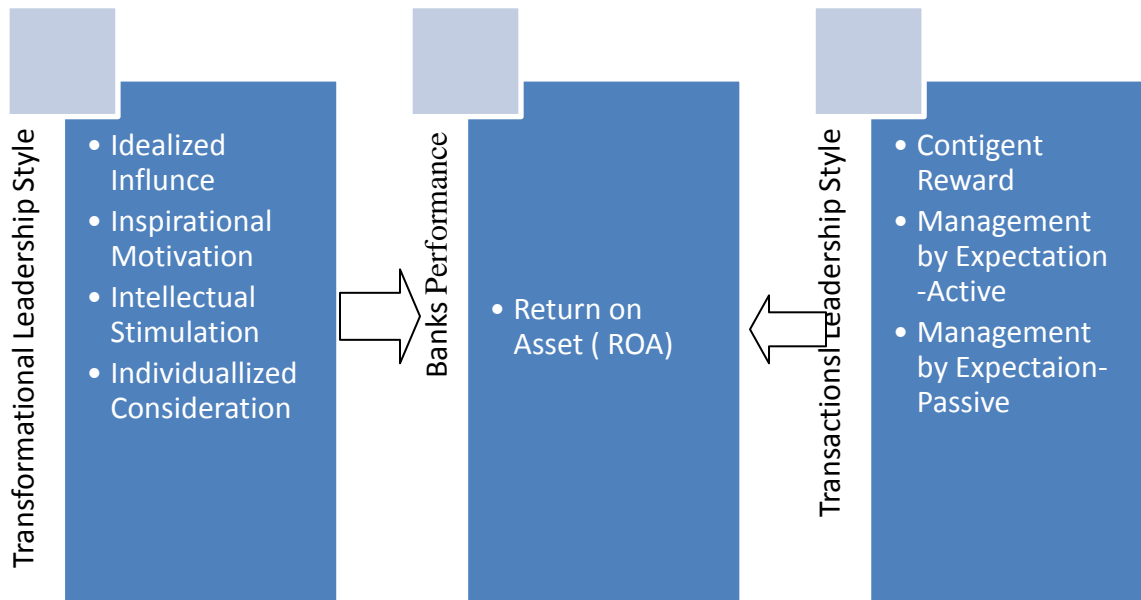
leadership styles (transactional, transformational, and laissez-faire) and employee commitments (affective, continuance, and normative commitment) in PHEIs at AAC. Teshome included a total 115 participants in the research including 95 academic staff and 20 leaders. He used two separate instruments, namely multifactor Leadership questionnaire (MLQ) and organizational commitment questionnaire (OCQ), to measure leadership styles and employees' organizational commitment respectively. The findings of the study revealed that transformational leadership style has significant and positive correlations with affective and continuance employee commitments while transactional leadership style has significant and positive correlation with only normative commitment.

The other study, which has exact similarity with this study, is done by the Deborah Cole, in 2009, in pursuing of her doctoral degree. The study was to investigate the existence of relationship between leadership style and bank performance among minority owned depository institutions. Cole has used return on asset (ROA) as the banks performance measurement while using the same multifactor leadership questioner (MLQ) to assess the leadership styles. Eighteen hypotheses were used predicted the outcome of the relationship between the leadership traits and ROA. Nine directional alternative hypotheses were used to predict a change, difference, or relationship among variables and predict the outcome of the difference in the relationship of the variables. However, the results tothe study did not allow for a statistically significant correlation between the ROA and all the null hypotheses were accepted that the study concluded as there was no correlation between the ROA and the Multifactor Leadership Questionnaire (MLQ) trait scores for the hypotheses. The author has specified the short of sample size as the limitation factor in order to detect weak and moderate correlation even though it is adequate to detect strong correlation and suggested the larger sample size as the way in the future study.

2.6. Conceptual Frame Work

Based on the related literature of both theoretical and empirical studies the following conceptual work was developed.

Fig .1: Self Developed Conceptual Frame Work Based on the Related Literature Reviewed



CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter discusses the research design and methodology. The chapter is organized in six sections. The first section 3.1 discusses the research design. Sources of data are presented in section 3.2. Population and sampling techniques; and data gathering tools are presented in section 3.3 and 3.4 respectively. In section 3.5 methods of data analysis, is presented. Lastly, ethical consideration is presented in section 3.6.

3.1. Research Design

The purpose of this study is to investigate the effect of leadership styles on banks performance in Ethiopian context. To this end, the researcher has employed causal type of research and used the panel design to examine the amount of effect that leadership style could exert on the banks performance. The causal research type uses to assess the nature of relationship and its extent between independent and the depended variables. The leadership styles: transformational and transactional are the independent variables while, bank performance measuring variable in this case, return on asset (ROA) is depended variable. On the other hand, the panel data gives the advantageous that either time series or cross sectional does not controllers individual heterogeneity, reduce collinearity variables and track trends in the data (Baltagi 2005).The research method employed in the study was quantitative, used to describe trends or tendency between variables. The quantitative research method was appropriate for this research because the nature and extent of relationship between the variables was calculated, measured, and explained statistically (Cole, 2009).

3.2. Data Sources

The study has used both primary and secondary sources. The two leadership styles data was gathered from primary sources directly from leaders that includes CEOs (Presidents, V/Presidents), Department level managers, and team leaders/ division heads; and their subordinate employees. On the other hand, the secondary data was collected on banks

performance measurement, ROA directly from annual report of individual banks and from audit financial report of National Bank of Ethiopia (NBE).

3.3. Population and Sampling Techniques

There are 19 banks that are operating in the country, out of which three of them are public owned while; the remaining sixteen are owned by private (NBE). However, the banks that are started their operation after recent five years were excluded since; they did not qualify for five years' time series data of dependent variable. As a result three banks that were owned by private were dropped and the target population became the leaders (CEOs, department level managers, and the team leaders or division managers) and their subordinate staffs of the rest 16 banks. From the target of 16 banks in two clusters (public and private), eight of them were stratified: all three public owned and five privately owned banks using convenience and simple random sampling technique in respective manner.

Thus, considering the same organizational structure and functional departments in all banks, a sample of 25 staffs that was 5 leaders and 20 subordinate employees with 20: 80 ratio were drawn from each stratum using simple random sampling. Since little research was there on the same topic, the determination of sample size was held based on researcher's specific factors such as time and budget, due to existence of little work on the same topic.

To sum up, a combination of cluster, purposive, stratified and simple random sampling techniques was used to select samples. This was to ensure that target groups within a population are adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

3.4. Data Gathering Tools

In the study, Multifactor Leadership Questionnaire (MLQ Form 5X) that is a validated form (instrument) that contains eight subscales and 40 items (Avolio & Bass, 2004) was adapted for collection of leadership styles representing questions. "The primary purpose

of the questionnaire was to evaluate the frequency or degree to which the leader conducts certain behaviors or exhibits certain attributes.” [as cited in Cole, 2009 p. 65]. The Multifactor Leadership Questionnaire was selected as it was found to be appropriate as compared with other leadership behavior measuring instruments such as Managerial Grid, Situational Leadership Questionnaire, and Least Preferred Coworker (LPC). These instruments lack to focus in the subscales differences and fail to entertain each subscale separately even though; they are good in measuring transformational and transactional leadership behaviors.

Two kinds of questionnaires having the same items but in different form of inquiring were developed separately for leaders and their subordinates. Participants were asked to rate the scale that consists 5 points, ranging from 0 to 4, as how they “”perceive that their leaders are the exhibiting or acting in accordance with the specific behavior explained in questions. The points are labeled as

0 = not at all, 1 = once in a while, 2 = sometimes, 3 = fairly often, 4 = frequently, if not always.

3.4.1. Validity

The multifactor Leadership Questioner was one of the most extensively used instrument by several researchers to assess individual and organizational success and to evaluate the leadership in different fields. Avolio& Bass (2004) pointed out as the instrument was used extensively in field and laboratory research to study transformational, transactional, and passive/avoidant leadership style. Again thy stated as the instrument has been in use for over two decades evaluating the leadership effectiveness in military, government, education, religion, and other areas. The MLQ was adopted by Walumbwa et al. (2004) and Gupta and Krishnan (2004) [cited by Ccole, 2009 pp 66] ‘for determination of role of collective efficacy in the relations between transformational leadership and work outcomes’ and ‘to assist in providing an understanding of transformational leadership behaviors shown by leaders vary depending on the follower’s socialization method’ respectively. Again Cole (2009) herself used the MLQ while assessing the relationship

between leadership style and bank performance among minority-owned depository institutions.

3.4.2. Reliability

The questions require 10 +2 education to complete and timeframe of 15minutes. This version of the MLQ has been updated to account for previous concerns and criticisms of the instrument (Cole 2009). Authors of this particular questionnaire have over 20 years of experience invalidating evidence for the MLQ and through that experience they have developed a strong foundation for what contributes to the success of such an instrument (Avolio&Bass, 2004). The MLQ (5X-Short Form), which is a validated instrument that contains 35items, was used for the research.

3.5. Method of Data Analysis

This quantitative research was analyzed by using statistical tools after the collection of data was made. The relevant data was coded, summarized and then transferred to STATA software to be analyzed and presented. Both descriptive and inferential analyses were conducted by using STATA version 12 used to facilitate the analysis. 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 their perceptions. Subsequently, the researcher employed Random Effect Model (LM) to investigate the extent of relationship between independent variables and dependent variables.

3.5.1. Description of Variables

According to Creswell (2009), the variables need to be specified in quantitative researches so that it is clear to readers what groups are receiving the experimental treatment and what outcomes are being measured. Therefore, before selection or specification of model both dependent and independent variables were described here in brief.

Dependent Variable

The dependent variable in the study was return on asset (ROA) which is one of widely accepted by most financial analysts to measure bank's performance (Cole ,2009). As Ayale (2012), pointed out, the following authors also used ROA as a measure of bank profitability (Yuqi Li (2006), Abebaw and Depaack (2011), Berger (1995), IndranarainRamlall (2009), Imad *et al.* (2011), Tobias and Themba (2011), Belayneh (2011), and Athanasoglou *et al.* (2008)). The ROA reflects the ability of a bank's management to generate profits from the bank's assets. It shows the profits earned per Birr of assets and indicates how effectively the bank's assets are managed to generate revenues, although it might be biased due to off-balance-sheet activities (Ayale, 2012).

ROA can be calculated as: $Return\ on\ Asset\ (ROA) = \frac{Net\ Profit\ After\ Tax}{Average\ Total\ Assets}$.

Ayale (2012) points out that ROA is probably the most important single ratio in comparing the efficiency and operating performance of banks as it indicates the returns generated from the assets that bank owns.

Independent Variables

The independent variables in this study were the leadership styles (transformational and, transactional) that are presented here under the table with their respective subscales or components.

Table 3.1: Independent Variables

Transformational Leadership Style	Idealized Influence	II
	Inspirational Motivation	IM
	Intellectual Stimulation	IS
	Individualized Consideration	IC
	Contingent Reward	CR
Transactional leadership Style	Management-by-Exception (Active)	MBEA
	Management-by-Exception (Passive)	MBEP

3.5.2. Functional Relationship

The functional relationship between independent and dependent variable was explained based on the ground fact in literatures and the perceived relationship was presented as follows

$$ROA_{TFLS} = f(IL,IM,IS,IC)$$

$$ROA_{TSLs} = f(CR,MBEA,MBEP)$$

Where: ROA_{TFLS} Bank performance with transformational leadership style

ROA_{TSLs} Bank performance with transactional leadership style

3.5.3. Models Specification

The model selection was carried out using the model selection procedure for panel data. The selection process was started firstly by running pooled panel data (OLS) regression, then fixed effect model and the random effect model. F- test and B-P ML- test were used for fixed effect model and random effect model respectively.

Table 3.2.: Best Model Selection Procedure

Fixed effect (F test)	Random Effect (B-P LM test)	Selected Model
Ho is not rejected (No fixed effect)	Ho is not rejected (no random effect)	Pooled OLS
Ho is rejected (fixed effect)	Ho is not rejected (no random effect)	Fixed effect model
Ho is not rejected (nofixed effect)	Ho is rejected (random effect)	Random effect model
Ho is rejected (fixed effect)	Ho is rejected (random effect)	Choose a fixed effect model if the null hypothesis of Hausman test is rejected; otherwise, fit a random effect model

Source: Hun Myoung Park, 2011

After going through all pooled OLS, fixed effect and random effect regression, the random effect model was found to fit for the analysis of panel data at hand. Based on this the random effect model (ML model) for the study variables was specified as

$$ROA_{it} = \beta_1 TFSL_{it} + \beta_2 TRSL_{it} + \varepsilon_{it} + u_i$$

$$ROA_{it} = \beta_1 II_{it} + \beta_2 IM_{it} + \beta_3 IS_{it} + \beta_4 IC_{it} + \beta_5 CR_{it} + \beta_6 MEA_{it} + \beta_7 MEP_{it} + \varepsilon_{it} + u_i$$

Where;

ROA_{it} = return on asset of bank's of individual respondent I at time t

$TFSL_{it}$ = transformational leadership style of bank's of individual respondent I at time t

$TRSL_{it}$ = transactional leadership style of bank's of individual respondent I at time t

II_{it} = Idealized Influence of bank's of individual respondent I at time t

IM_{it} = Inspirational Motivation of bank's of individual respondent I at time t

IS_{it} = Intellectual stimulation of bank's of individual respondent I at time t

IC_{it} = Individualized consideration of bank's of individual respondent I at time t

CR_{it} = contingent reward of bank's of individual respondent I at time t

MEA_{it} = management by expectation- active of bank's of individual respondent I at time t

MEP_{it} = management by exception -passive of bank's of individual respondent I at time t

$\beta_1, \beta_2,$ and β_3 are coefficients β_i ($i= 1, 2, 3,$) > 0 while, ε_{it} is error terms and u_i is individual effect (cross sectional or time specific effect)

3.6. Ethical Consideration

Up on the collection of data the respondents were informed as it is voluntarily to participate in filling the MLQ and were advised not to write their name. The researcher used to give the code that represents the bank which was to have control over the

questionnaires and was only known to the researcher. Again, the respondents were informed as the information that they had given would be used only for academic purpose and would be kept strictly confidential.

The researcher was in accordance with the research ethics: adhere the rights of respondents and agree with the general research code and ethics in protecting the right of the participants, beneficence, and justice.

CHAPTER FOUR

DISCUSSION AND ANALYSIS

This chapter deals with the results of study which include descriptive statistics of variables, correlation results for dependent and explanatory variables, diagnosis test for the regression models, and regression analysis. Several key findings are emerged that shed light on leadership styles and its association with Banks performance which is measured in terms of Return on Asset (ROA). Beside the main findings, the demographic character of participants is also discussed using the statistical tools such as frequency distribution and percentages.

4.1. Demographic Characteristics of the Respondents

After dropping two banks (Dashen and Awash International Bank) a total sample of 114 banking staffs were obtained with the responding rate 76 % out of which, around 21 % were management staff and the 79 % were the employee of different level that participated in the study from various departments and positions of six banks. Again, out of the total, the share of female participants was 20 percent and the 80 percent were the male respondents. The larger percent of the respondents, 65 %, were the staff of the banks that stayed for more than five years in the given organizations that they have good experience about their organization than the fresh employee. Almost all or 97 percent of the participants were above first degree holders and again about 94 percent of respondents were officers/expert and above which indicate that the respondents understand the questioner very well.

Table 4.1: The Summary of participants Demographic Characteristics

	Variables	Frequency	Valid Percent
Gender	Male	87	81
	Female	21	19
Job Title	Clerical	5	5
	Junior expert	2	2
	Expert	54	52
	Senior expert	22	21
	Team leader / Division head	20	19
Work Experience on Current Organization	Less than five years	38	35
	5 years and less than 10years	47	43
	10 years and less than 15 years	14	13
	15 years and less than 20 years	7	6
	20 years and above	4	4
Educational Level	College Diploma	2	2
	University Degree	82	72
	Master	29	25
	PhD	1	1

Source: Own Survey, 2015

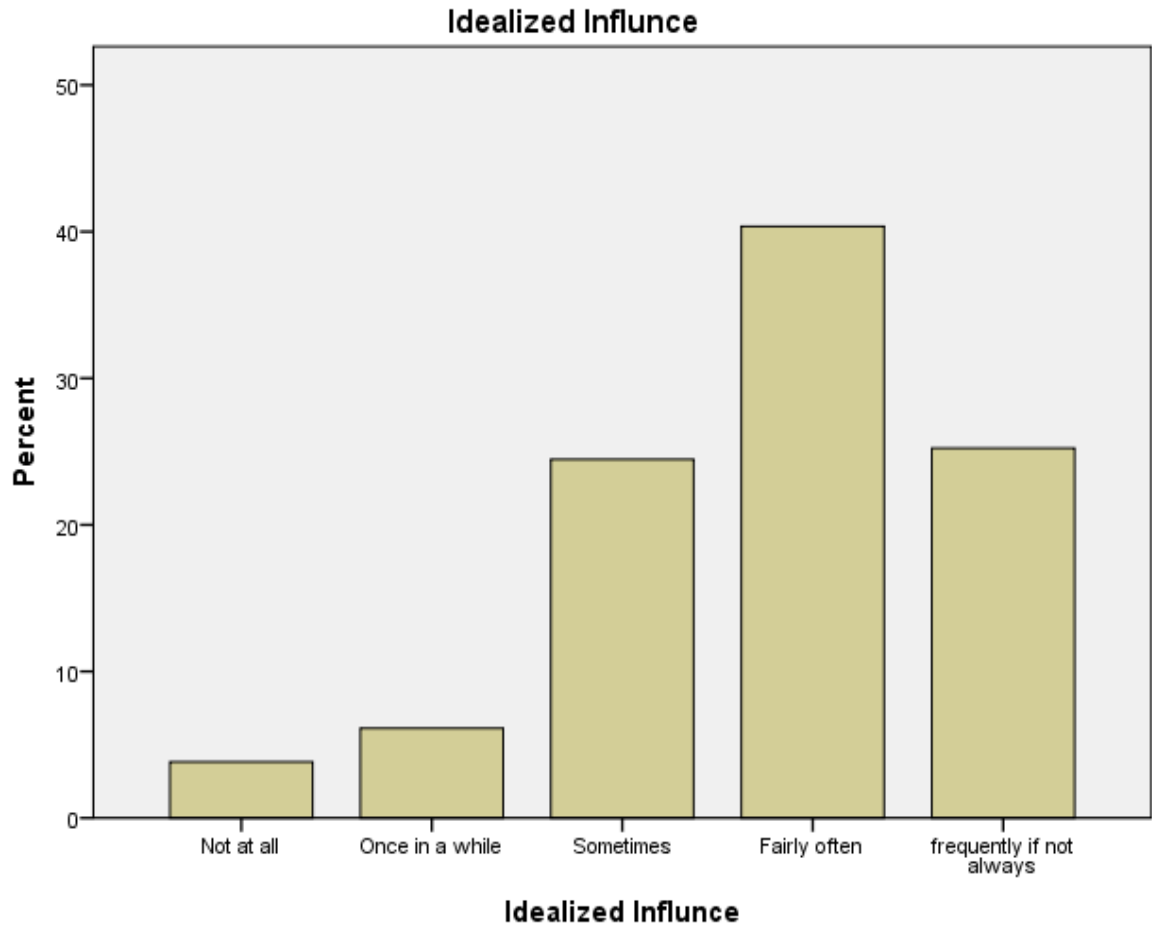
4.2. Statistical Summary for Multifactor Questioner (MLQ) Responses

The frequency and percentage were used to summarize the respond for MLQ containing five items for each sub scales of transformational and transactional leadership styles. The summary of statistical result containing the percentage of respondents are presented in subsequent order below for all subscales: idealized influence, inspirational motivation, intellectual stimulation and individual consideration of the transformational leadership style and; contingent reward, management by exception- active and management by exception- passive of the transactional leadership style.

Idealized Influence

The idealized influence that involves the influence of leader on the fellow subordinates by getting their respect, loyalty, trust and confidence is one of highly rated behavioral component of the transformational leadership style. More than 65 percent of the respondents answered as the items under idealized influence such as installing pride, walking first, taking risks and in response getting admiration, respect, loyalty, and confidence from their fellow subordinates are highly prevailed characteristics of the leader in their work place. Though, nearly quarter of the respondents says this kind of leader's characteristics prevailed sometimes and the other 6 percent and 4 percent of the participant respond as the prevalence of the characteristics is once in a while and not at all respectively. Thus, idealized influence is perceived by most as it is most highly prevailing transformational leadership style's behavioral component.

Fig. 2: Respondents Opinion on Idealized Influence Items

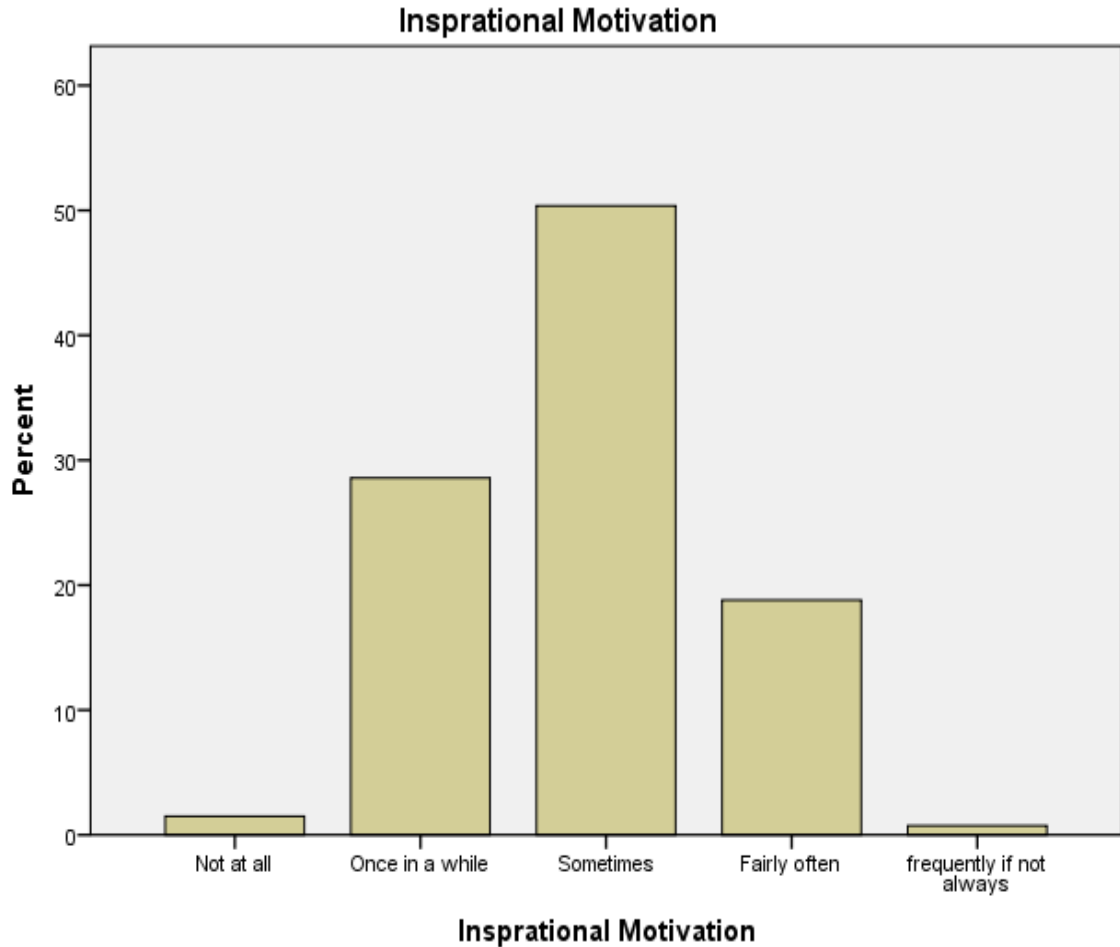


Source: Own Survey, 2015

Inspirational Motivation

The majority of responses, 50 % for the inspirational motivation items such as inspiring and motivating employees, talking optimistically about the future, communicating effectively, stating vision clearly has fallen under sometimes category, 19 percent fairly often and only one percent frequently² if not always; the remaining 29 percent and 2 percent answered as once in a while and not at all respectively. Thus, majority perceived as this kind of transformational leadership subscale prevail only some times in their work place.

Fig. 3: Respondents Opinion on Inspirational Motivation Items

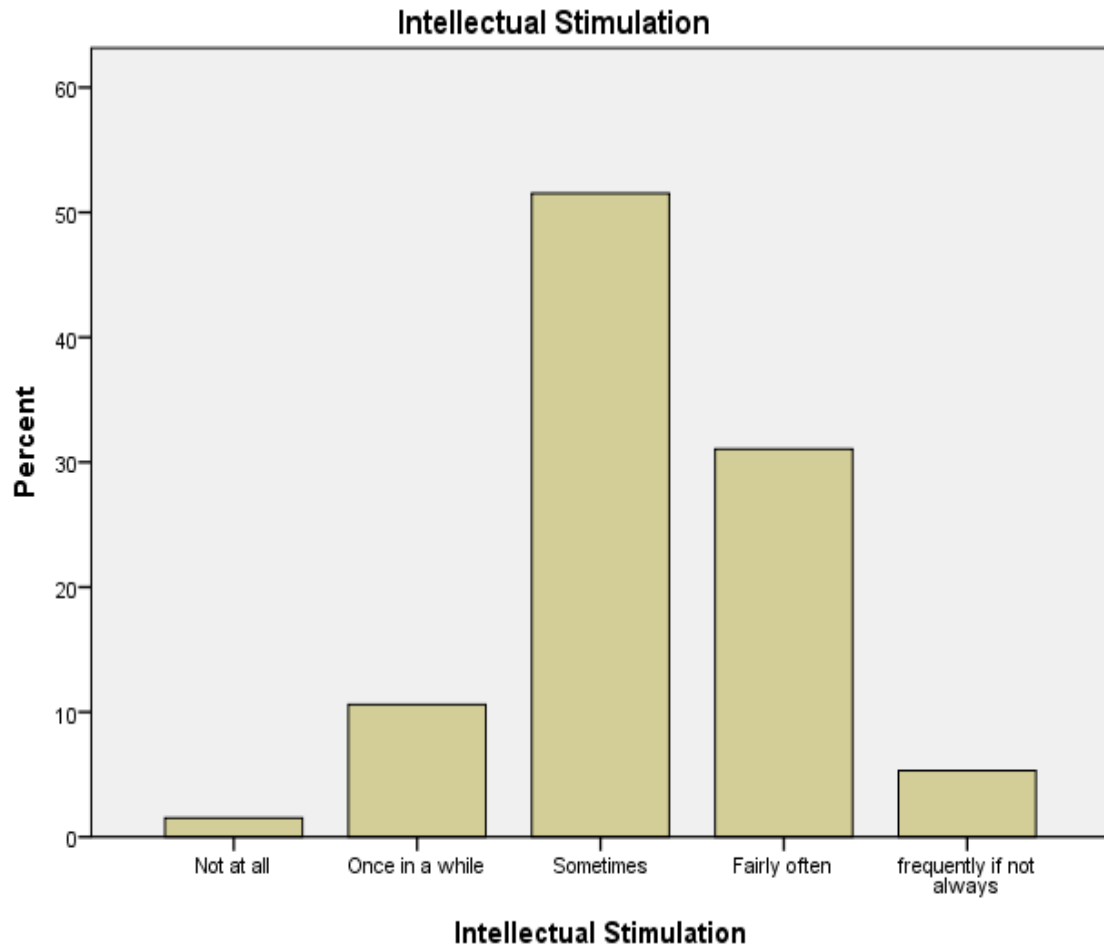


Source: Own Survey, 2015

Intellectual Stimulation

More than half of the respondent answered that the intellectual stimulation items such as looking things from different perspectives, integrating different ideas, consistent questioning of work method, challenging employees thinking, and proposing new way other than traditional one reflected sometimes, around 31 percent answered fairly often, 5 percent answered frequently if not always and 11 percent and 2 percent answered once in a while and not at all respectively. Implies that the majority of respondents perceived the prevalence of intellectual stimulation only sometimes though, there are some who perceived as it prevails fairly often.

Fig. 4: Respondents Opinion on Intellectual Stimulation Items

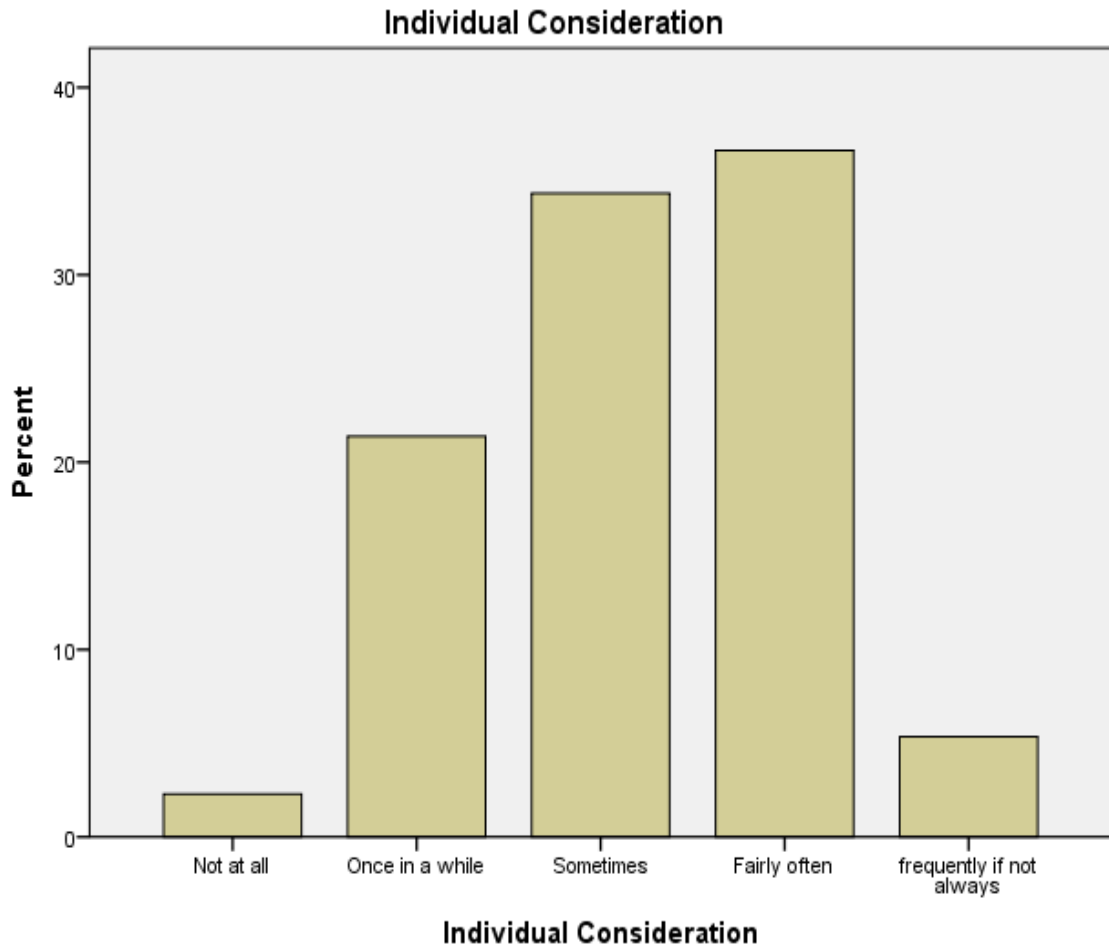


Source: Own Survey, 2015

Individualized Consideration

Concerning individualized considerations questions such as treating one as an individual rather than a member of group, spending time teaching and coaching others, giving personal attention for who seem rejected, helping others to grow and develop one's own capabilities, delegating responsibilities; 6 percent answered frequently if not always, 37 percent of the respondent answered fairly often, 35 percent answered some times, 21 percent answered once in a while, and the remaining 2 percent answered not at all. It indicates that the existence of individual consideration component behavior of the transformational leadership style is perceived fairly often by majority of the respondents.

Fig. 5: Respondents Opinion on Individualized Consideration Items

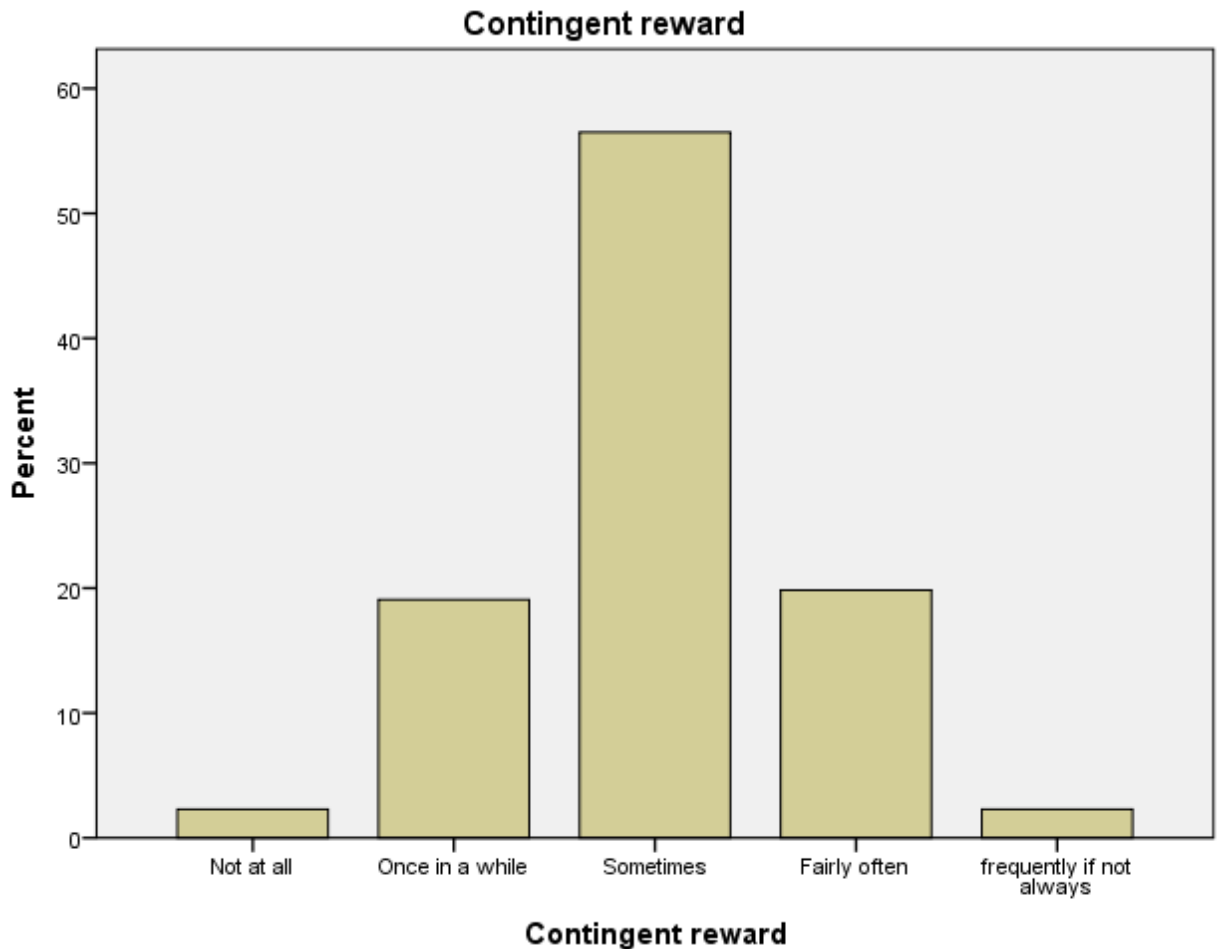


Source: Own Survey, 2015

Contingent Reward

The majority of respondent 57 percent answered sometimes for the contingent reward items including assistance provision in exchange for ones effort; recognition/ rewards when one reach desired goals. 20 percent answered fairly often, 2 percent answered frequently if not always while the remaining 19 percent and 2 percent answered once in awhile and not at all respectively. Thus, the majority of respondents perceived the existence of contingent reward behavior of the leadership only sometimes.

Fig. 6: Respondents Opinion on Contingent Reward Items

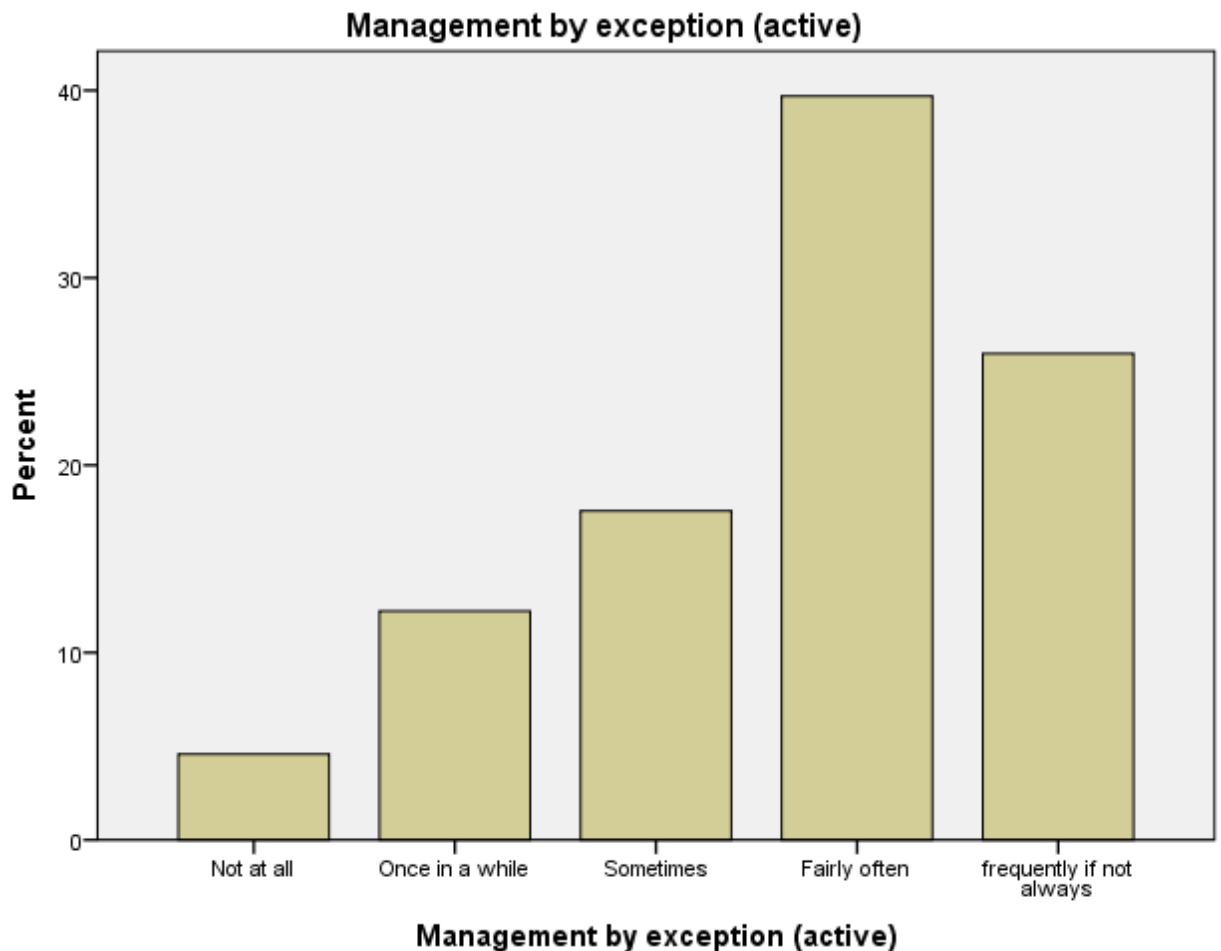


Source: Own Survey, 2015

Management by Exception- Active

The majority of respondents 40 percent said fairly often for management by exception active items that involve telling the work standards, focusing attention on irregularities, mistakes, exceptions and deviations from standards; predicting problems before happening; 26 percent said frequently if not always; 18 percent said sometimes; and the remaining 12 percent and 4 percent said once in awhile and not at all respectively. The management by exception behavior of the transactional leadership style's component is perceived as it is prevailing fairly often in the work place by majority of respondents.

Fig. 7: Respondents Opinion on Management by Expectation- Active Items

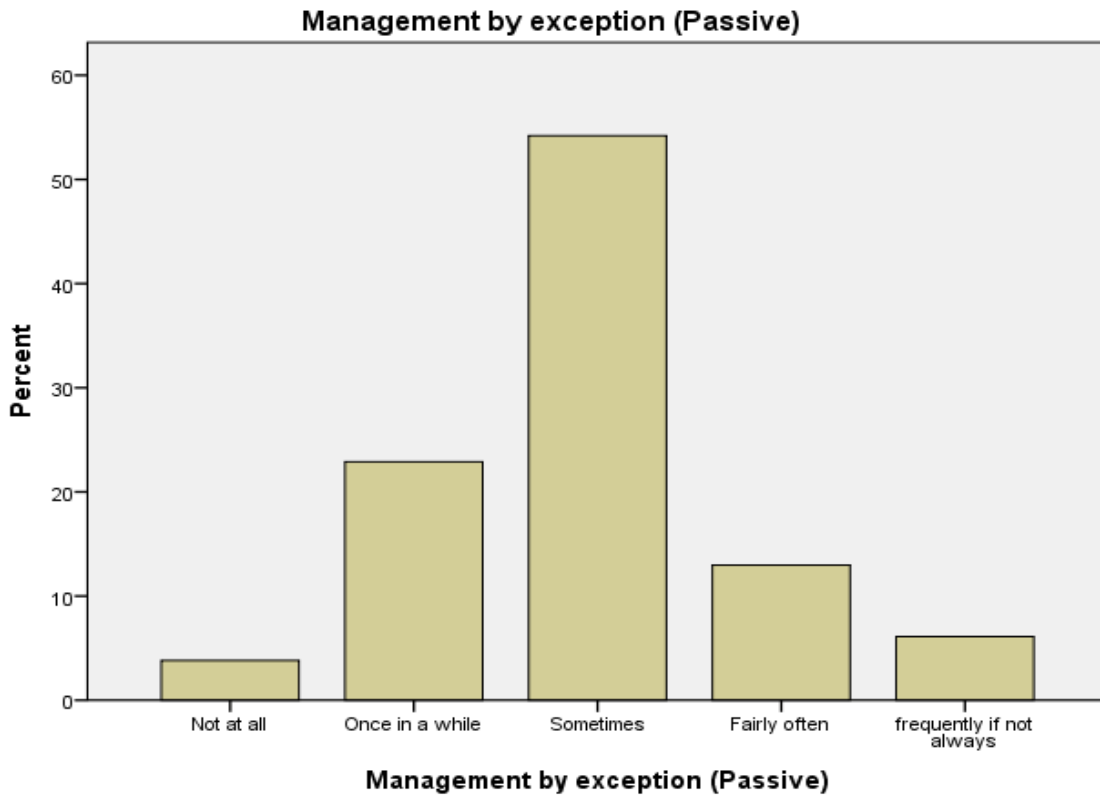


Source: Own Survey, 2015

Management by Exception- Passive

Lastly the majority of respondents, 54 percent, answered sometimes for the management by exception passive items questions such as not explaining expectations and standards to be achieved, waiting for things to go wrong before taking corrective action, waiting passively mistakes and errors to occur; 13 percent answered fairly often for these questions, 6 percent answered frequently if not always; while the remaining 23 percent and 4 percent answered once in a while and not at all respectively. This indicates that the existence of management by exception passive behavior of the transactional leadership perceived only some times by the majority of respondents.

Fig.8: Respondents Opinion on Management by Expectation- Passive Items



Source: Own Survey, 2015

4.3. Descriptive Statistics for Leadership Styles

The descriptive statistics was used as a way to examine the mean, standard deviation and other information which are not apparent in the raw data. It was needed to determine the prevailing or dominant leadership style in the sector. Table 4.2 below contains descriptive

data (mean and standard deviations) for the five transformational leadership subscales and three transactional leadership subscales as indicated by the respondents. In all cases, the distribution of scores for the sample contained reasonable variance and normality for use in subsequent analyses.

Table 4.2: Mean and Standard Deviations of Leadership Styles

Variable	II	IM	IS	IC	TRFL	CR	EMA	EMP	TRSL	Mean	Std. Dev.	Min	Max	Observations
II overall										2.831579	.9631447	0	4	N = 570
II between										.9658153	0	4	n = 114	
II within										.0374963	2.031579	3.031579	T = 5	
IM overall										1.903509	.7495669	0	4	N = 570
IM between										.7522156	0	4	n = 114	
IM within										0	1.903509	1.903509	T = 5	
IS overall										2.289474	.792359	0	4	N = 570
IS between										.7951588	0	4	n = 114	
IS within										0	2.289474	2.289474	T = 5	
IC overall										2.219298	.9065159	0	4	N = 570
IC between										.9097191	0	4	n = 114	
IC within										0	2.219298	2.219298	T = 5	
TRFL overall										2.287719	.7438252	0	4	N = 570
TRFL between										.7455046	0	4	n = 114	
TRFL within										.0374963	1.487719	2.487719	T = 5	
CR overall										2.008772	.7898256	0	4	N = 570
CR between										.7926165	0	4	n = 114	
CR within										0	2.008772	2.008772	T = 5	
EMA overall										2.666667	1.098542	0	4	N = 570
EMA between										1.102424	0	4	n = 114	
EMA within										0	2.666667	2.666667	T = 5	
EMP overall										1.894737	.831798	0	4	N = 570
EMP between										.8347372	0	4	n = 114	
EMP within										0	1.894737	1.894737	T = 5	
TRSL overall										2.140351	.7484864	0	4	N = 570
TRSL between										.7511312	0	4	n = 114	
TRSL within										0	2.140351	2.140351	T = 5	

Source: Own Survey, 2015

4.3.1. Respondents Perception to Leadership Styles

The observation for leadership styles variables becomes 114 after dropping the observation from Awash International bank and Dashen Bank because of small number of observation obtained from two banks. The five years observation of each bank is taken for dependent variable. Thus turning both time series (dependent variable) and cross sectional (independent) the total observation of arranged panel data become 570 (114 X 5). The observation for independent variables is aggregate of both leaders and followers responses because here the purpose is to determine the prevailing or dominating style of leadership in the banking sector as perceived by both parties.

The mean values for each of the transformational leadership subscales are calculated between 1.90 to 2.83 and having the standard deviation value of below 1; whereas the mean for those of transactional leadership ranges from 1.89 to 2.67 and standard deviation of nearly 1. From the leadership subscales, idealized influence has the highest mean score of 2.83 followed by Contingent reward ($m = 2.67$) and Management by exception (active) has highest standard deviation, which is 1.10 followed by Idealized Influence which scored 0.96. The mean score for Management by exception (passive) is the lowest of all which is 1.89.

In a comparison of two leadership styles ($N = 570$), the mean for transformational leadership ($M = 2.29$) is higher than the mean for transactional leadership ($M = 2.14$) The results are similar to the results of a study ($N = 27,285$) by Avolio and Bass (2004) in which the mean for transformational leadership ($M = 2.85$) was higher than the mean for transactional leadership ($M = 2.27$). However, slight difference is observed in terms of score for each type of leadership style. The mean score for both transformational and transactional leadership styles are found to be less than the mean for both type of leadership style found by Avolio & Bass.

The overall scores of data for the transformational subscales are, in some cases, slightly less than what Bass & Avolio (1997) [as cited in Bass *et al.*, 2003] consider “ideal” levels for effective leadership. The suggested scores for the most effective leaders include a mean of 3.0 or higher for idealized influence, inspirational motivation, intellectual

stimulation, and individualized consideration. In the study only idealized influence has a mean score of 2.83 which is slight approximate to the suggested mean of 3.0. This implies that it is the idealized influence behavior of leadership style is prevailing most as compared to other leadership styles subscales.

In the study, the mean score for the contingent reward subscale of transactional leadership style is found to be 2.01 which is almost in accordance with the suggestions of some authors[as cited in Teshome, 2011] that is the mean score of 2.0. The score for management-by-exception (active) in this study is 2.67; which is much higher than the suggested range of 1.0 and 2.0. In the same way, the suggested scores for management-by-exception (passive) is 1.0 but mean scores in this study has higher score, 1.89.

The aforementioned pattern of scores for this study suggests there is no ideal level of transformational leadership behaviors. These behaviors include instilling pride, inspiring a shared vision, talking optimistically, encouraging creativity, and placing much importance in coaching or training. On the contrary, the mean score of contingent reward implies that some of the leaders are performing beyond expected average job of recognizing accomplishments and clarifying expectations. This is also similar for the management- by exception (active) mean, which entails that leaders are giving work standards, directions and guidance. Furthermore, the mean score of management-by-exception (passive) responses indicate that leaders are tended not to take corrective action or make decisions as soon as problems occur. As the results of this study indicate, respondents perceived the prevailing leadership style to be slightly more transformational ($M = 2.29$) than to that of transactional ($M = 2.14$). Therefore, this supports the finding by Trottier *et al.* (2008) that shows transformational leadership variables are slightly more important in terms of their overarching concept of leadership effectiveness in followers' perceptions of importance.

4.3.2. Comparison for the MLQ (leaders and Employees) Responses

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 4.3, the mean scores for employees' responses on each of the transformational leadership subscales are ranged from 1.97 to 2.88 with the standard deviation values from 0.77 to 0.96 whereas for those of leaders has mean scores ranged from 1.67 to 2.67 with standard deviation values from 0.60 to 0.95. If we consider the mean and standard deviation scores of the transformational leadership scales taken as a whole for both groups, employees' group has 2.32 and 0.75 respectively whereas leaders' group has 2.17 and 0.69 respectively.

Table 4.3: Comparison of Employees and Leaders Perception for Leadership Behavior

Variables	Participants	N	Mean	Std. Deviation	Std. Error of Mean
Idealized Influence	Employees	450	2.88	0.96	0.0454
	Leaders	120	2.67	0.95	0.0864
Inspirational Motivation	Employees	450	1.97	0.77	0.0360
	Leaders	120	1.67	0.63	0.0571
Intellectual Stimulation	Employees	450	2.33	0.83	0.0392
	Leaders	120	2.12	0.60	0.0550
Individual Consideration	Employees	450	2.26	0.93	0.0437
	Leaders	120	2.08	0.82	0.0744
Transformational Leadership Style	Employees	450	2.32	0.75	0.0356
	Leaders	120	2.17	0.69	0.630
Contingent reward	Employees	450	1.98	0.83	0.0391
	Leaders	120	2.13	0.68	0.0550
Management by exception (active)	Employees	450	2.77	1.10	0.0517
	Leaders	120	2.29	1.02	0.0935
Management by exception (Passive)	Employees	450	1.96	0.83	0.0391
	Leaders	120	1.67	0.81	0.0732
Transactional leadership style	Employees	450	2.18	0.77	0.0362
	Leaders	120	2.00	0.65	0.0592

Source: Own Survey, 2015

On the other hand, the mean and standard deviation scores for each of transactional leadership subscales ranges from 1.96 to 2.77 mean and standard deviation of 0.83 to 1.10 for employees' responses while it ranges from 1.67 to 2.29 mean and 0.65 to 1.02 standard deviation values for leaders' responses. When taken as a whole, the leaders'

responses on the transactional leadership scale presents lesser mean with slightly the same standard deviation to that of employees' response.

The current study indicates that both employees and leaders response for all of the transformational leadership subscales has less mean score than that of Bass & Avolio (1997) suggested one for the most effective leaders ($m \geq 3.0$). In the case of contingent reward, the mean score for leaders ($m = 2.13$) is slightly higher than the suggested mean score of 2.0 compared with employees mean score ($m = 1.98$) which indicates slightly less mean than the suggested one. On the other hand, the mean scores of both employees and leaders for management-by-exception (active) are found within and above, respectively, the suggested ranges of 1.0 and 2.0. While, the mean scores of both employees and leaders' response for management-by-exception (passive) is found above the suggested ranges of 1.0 and 0.0.

As the whole values of the mean implies for all leadership subscales with an exception of contingent reward, the employees' responses has higher mean scores than to those of leaders' responses. The values of standard deviation on all leadership subscales indicate higher standard deviation scores for employees' responses than to the leaders' responses.

The variations in both cases can be triggered to different reasons. In particular, the difference in mean values may be due to the difference in the size of the two samples or due to the considerable difference between perceptions of both groups about leadership styles. Likewise, the differences in the values of the standard deviations show that there is more difference in variability for the scores of employees' responses than to those of the leaders. This is an indication of major differences between leadership behaviors which are being practiced and behaviors which are being perceived by the employees.

When we consider the standard error mean, the results indicate that employees' responses have smaller standard error mean than that of the leaders almost in all variables. The great difference in the size of the two samples (employees = 90, leaders = 24) could be considered as a possible reason. Another reason may be as the standard error depends on

both the standard deviation of the samples and the sample size. Berenson *et al.* (2002) explain that as the size of the sample increases the standard error decreases. Thus, it is obvious that as the sample size increases, the higher the possibility will be that the samples mean is not too far from the population mean.

The analysis results of the T-test for equality of mean scores are presented in the Table 4.4 below. This test measures whether the difference is significant or not between the mean scores of the two samples (employees and leaders) for Multifactor Leadership Questionnaire (MLQ).

Confidence Interval of the Difference is 95% (i.e., $p \leq 0.05$).

Table 4.4: T-test results for equality of mean scores by the two samples on MLQ

Test for equality of mean		T	Df	Sig.
Idealized Influence	With Equal Variances	2.1174	568	0.0347
	With Unequal Variances	2.1394	191	0.0337
Inspirational Motivation	With Equal Variances	3.9451	568	0.0001
	With Unequal Variances	4.4343	226	0.0000
Intellectual Stimulation	With Equal Variances	2.5717	568	0.0104
	With Unequal Variances	3.0871	255	0.0022
Individual Consideration	With Equal Variances	1.8531	568	0.0644
	With Unequal Variances	1.9950	210	0.0473
Transformational Leadership Style	With Equal Variances	2.0118	568	0.0447
	With Unequal Variances	2.1193	203	0.0353
Contingent reward	With Equal Variances	-1.8179	568	0.0696
	With Unequal Variances	-2.1818	255	0.0300
Management by exception (active)	With Equal Variances	4.2719	568	0.0000
	With Unequal Variances	4.4461	199	0.0000
Management by exception (Passive)	With Equal Variances	3.4119	568	0.0007
	With Unequal Variances	3.4781	194	0.0006
Transactional leadership style	With Equal Variances	2.3207	568	0.0207
	With Unequal Variances	2.5615	219	0.0111

Source: Own Survey, 2015

The finding points out significant differences between the two samples on all dimensions of leadership with an exception to transformational leadership sub scale of individual consideration and the transactional leadership subscale of contingent reward. 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. Correlation Analysis

In this section the correlation between variables of transformational and transactional leadership styles: idealized influence, inspirational motivation, and intellectual stimulation, individual, contingent reward, management by expectation- active, management by exception – passive and return on asset have been presented and analyzed. A correlation matrix used to ensure the correlation between explanatory variables. Cooper & Schindler (2009) suggested that a correlation coefficient above 0.8 between explanatory variables should be corrected for because it is a sign for multicollinearity problem. Mashotra (2007) argued that the correlation coefficient can be 0.75. Lastly, Hair *et al.* (2006) argued that also correlation coefficient below 0.9 may not cause serious multicollinearity problem. In the study the correlation result for all variables are below 0.8 which shows the absence of multicollinearity problem.

Concerning the correlation between bank performance measuring variable, ROA, and; leadership styles: idealized influence, inspirational motivation, intellectual stimulation, individualized consideration, contingent reward, management by exception –active and management by expectation- passive; only inspirational motivation, the component of transformational leadership style has shown negative correlation, while correlation result for all of other variables found to be positive though it is weak.

Table 4.5: Correlation Analysis for Study Variables

```

. corr ROA II IM IS IC CR EMA EMP
      |      ROA      II      IM      IS      IC      CR      EMA      EMP
-----+-----
ROA |  1.0000
    II |  0.0979  1.0000
    IM | -0.0592  0.5217  1.0000
    IS |  0.1536  0.3831  0.3561  1.0000
    IC |  0.1843  0.7090  0.4126  0.4743  1.0000
    CR |  0.1174  0.3519  0.3127  0.4415  0.4497  1.0000
    EMA |  0.0673  0.7494  0.3884  0.2805  0.6103  0.3585  1.0000
    EMP |  0.0617  0.3124  0.1449  0.3017  0.4758  0.3973  0.3951  1.0000

```

4.5. Econometric Results

Before running the regression all data cleaning and appropriateness checking process are made in order to get best result out of panel data analysis.

4.5.1. The Goodness of the Model

All possible regression are carried out and compared in order to choose the best fit model. The regression process was begun with pooled OLS and then goes through fixed effect model and random effect model. After undertaking the best model selection procedures the researcher has chosen the random effect model which was appropriate for the analysis of data at hand compared with others.

4.5.2. Regression Results and Interpretation

ML random effect model is used to estimate the magnitude, sign and significance of each coefficient. It is the model uses to estimate the panel data with significant individual effect. The estimation results are tabulated in table 4.6 and the following explanations

refers this table. In model two major leadership styles variable: transformational leadership style and transactional leadership style are explained. The regression result for both transformational, transactional leadership styles tells that two of the leadership styles have positive effect on ROA. The result for both transformational and transactional leadership styles has shown the existence of positive and statistical significant effect on ROA, 1 % precision level.

Table 4.6: Random Effect Regression Model

```

Random-effects ML regression           Number of obs   =       560

Group variable: ID                    Number of groups =       112

Random effects u_i ~ Gaussian        Obs per group: min =         5

avg =          5.0

max =          5

                                         Wald chi2(2)    =       698.98

Log likelihood = -707.84081           Prob> chi2      =       0.0000

-----+-----
ROA |      Coef.   Std. Err.      z    P>|z|    [95% Conf. Interval]
-----+-----
      TRFL |   .5759495   .1706008    3.38  0.001    .2415781   .9103209
      TRSL |   .6737859   .1795902    3.75  0.000    .3217957   1.025776
-----+-----

      /sigma_u |   1.120382   .0799526                .974143   1.288574
      /sigma_e |   .6495976   .0217029                .6084234   .6935581

rho |   .7484088   .0300327                .6861185   .8034763
-----+-----

Likelihood-ratio test of sigma_u=0:  chibar2(01) = 463.02 Prob>=chibar2 = 0.000

```

On the other hand, Prais-Winsten regression, which is believed to give robust result in the case of assumed heteroscedasticity and autocorrelation, was used while regressing the transformational and transactional leadership styles traits on return on asset. According to the regression except for the transformational leadership traits of inspirational and motivation, the result for all traits of the two leadership styles found to have positive relationship with the return on asset. Idealized influence and intellectual stimulation traits of the transformational leadership style; and contingent reward and management by expectation- active of the transactional leadership traits exhibited positive and significant effect on return on asset. On the other hand, individualized consideration and management by exception - passive the respective trait of transformational and transactional leadership styles are found to exhibit positive but insignificant effect on return on asset. The effect for inspirational motivation on return on asset is negative and insignificant.

Table 4.7: Prais-Winsten Regression Model

```

xtpcse ROA II IM IS IC CR EMA EMP, noconstant correlation(psarl) rhotype(dw)

Prais-Winsten regression, correlated panels corrected standard errors (PCSEs)

Group variable:  ID                               Number of obs   =       545
Time variable:  Year                             Number of groups =       109
Panels:         correlated (balanced)           Obs per group: min =       5
Autocorrelation: panel-specific AR(1)         avg =           5
max =          5

Estimated covariances      =       5995          R-squared         =       0.8452
Estimated autocorrelations =       109          Wald chi2(7)      = 122674.49
Estimated coefficients     =       7            Prob> chi2        =       0.0000
-----

                |           Panel-corrected
ROA |           Coef.   Std. Err.      z    P>|z|    [95% Conf. Interval]
-----+-----
    II |    .1302524    .0444879     2.93  0.003    .0430577    .217447
    IM |   -.0295655    .1678045    -0.18  0.860   -.3584562    .2993252
    IS |    .5346111    .0516374    10.35  0.000    .4334035    .6358186
    IC |    .0462451    .0783852     0.59  0.555   -.107387    .1998772
    CR |    .1831698    .0737294     2.48  0.013    .0386629    .3276767
    EMA |    .1489262    .066297     2.25  0.025    .0189865    .2788659
    EMP |    .1767739    .100989     1.75  0.080   -.0211609    .3747087
-----

rhos =  .8613399  .9853312  .692315  .9543986  .8848933  ...  .6389199

```

4.6. Finding and Discussion

In this causal research, two leadership behavioral variables are used to measure their relation and significance effect on bank's performance which is measured in terms of ROA. The regression displayed interesting results which align with the theories and facts that are stated by other studies.

The null hypotheses for two of main leadership styles: transformational and transactional are rejected that both leadership styles are found to have positive relationship with banks performance. The transformational leadership style is the most contemporary leadership style that is believed to fit for the current ever changing business environment (Bass 1994, Akar 2010, Jandaghietall 2009, Sadeghi, et al 2012). This kind of behavior of leadership brings changes and improvement in the working environment and stir ups the employees to perform more (Jandaghi, et al 2009 and Amir Sadeghi, et al 2012). The finding of this study is also in favor of these facts as it has shown the existence of significant positive relationship between transformational leadership style and banks performance. Practically, Chung-Wen and et al (2005), found the same result towards the relationship that transformational leadership style has.

On the other hand, the regression result for transactional leadership styles also turns positive and significant. The result is in line with the findings of Idown N.A.et al, (2011); and Muenjohn N. et al, (2012) where, they found out the existence of positive and strong relation between transactional leadership style organizational performance However, it differ from the findings of Chung-Wen and et al (2005), that agrees on the existence of positive but insignificant effect on organizational performance as compared to transformational leadership styles. The reward in exchange for the extra effort, recognition of the work are common in Ethiopian banking sector: bonus, promotion, salary increment takes place when banks get profit that employee are committed and perform well to be rewarded.

In general, the findings of the study are found to be consistent with previous studies that claim the existence of relationship between leadership styles: transformational and transactional; and organizational performance (Young 2008; Cole 2009; et al2011;

Indowu A. et al 2011; Teshome, 2011; and Muejohn et al, 2012,). Thus, both of leadership styles: transformational that brings changes in working environment by inspiring and motivating employees for changes, creation, innovation, to go beyond from what they actually think they can; and transactional that reward employees and make recognition in exchange for the work they perform, giving close directions and guidance have positive and significant effect in promoting the performance of the bank.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter summarizes the major findings of the study; draws conclusions based on the findings and forward recommendations for the concerned bodies.

5.1. Summary and Conclusions

The main objective of the study was to examine the extent of relationship between leadership styles and organizational performance in case of banks in Ethiopia.

To this end, both secondary and primary data were collected from selected sample and both statistical and econometric regression analysis were made. The primary data about the leadership styles was collected from leader and their subordinates using the multifactor questioner while, the dependent variable, ROA, was obtained from individual sampled banks` annual reports and from audited financial report of national bank of Ethiopia. The analysis is based on time series and cross sectional data that take the panel data analysis procedures in opposition to purely time series or cross sectional data analysis. In descriptive analysis, mean and standard deviation value for independent variables were used to determine the perception of the respondents toward the behavior or style of leadership in the bank, while the result of regression analysis has shown the extent of relationship between leadership styles and banks performance which, is measured in terms of ROA. The major findings of the study results from both descriptive and regression analysis are summarized as follows:

Descriptive analysis results revealed that the respondent perceived the leaders in the respective bank as they are not exhibiting a single leadership style always but the combination of two leadership styles in some incidence. With the mean score of 2.30, transformational leadership style is somewhat leaders are used to exhibit a little more than transactional and styles. According to the respondents` perceptions, idealized influence is relatively most exhibited component of transformational leadership style

followed by intellectual stimulation and individual consideration, while inspirational motivation is the least exhibited component of transformational leadership style with the mean score of only 1.90. On the other hand, management by exception – active has been perceived as relatively more exhibited component of transactional leadership style as compared with contingent reward and management by exception-passive.

The random effect regression was carried out to examine how and to what extent each type of leadership style relate to banks performance, which, is measured in terms, ROA. The result for two of leadership styles: transformational and transactional revealed the existence of positive relationship with ROA. Both transformational and transactional leadership styles are found to have strong positive effect on the ROA. Thus, the result for both transformational and transactional leadership styles are consistent with others studies.

Strong and positive relation for transformational leadership shows that the leadership style that involves changes and transformation of an organization as well as of individual performer fits for today business that is operating in dynamic environment. Transformational leaders instills confidence, build trusts, encourage creativity and innovation, motivate and inspire workers to achieve organizational goal; and make employee to perform what they thought is impossible. This kind of leadership style makes employee to handle and overcome the problems and challenges that is arising from current dynamic environment of individual bank and there by maintain the profitability of bank.

On the other hand, the existence of positive and strong relation of transactional leadership style on the ROA implies the reward and recognitions that leaders make for fellow subordinates up on accomplishment of the given task has strong effect on the performance. The reward or compensation for the work performed; in bank cases bonus, salary increment can increase the performance of an individual there by the banks. Again, employees need to know what their managers/leaders them to do, in which standards and thereby want to get close assistance especially when they are new for the task.

Thus, based on the findings it can be concluded that both transformational and transactional leadership styles have positive and significant effect on banks performance. Except for inspirational and motivational traits of transformational leadership styles, the null hypotheses for all transformational and transactional leadership styles traits are rejected. The effect of inspirational motivation on bank preference is negative though it is weak. The other transformational leadership style traits; idealized influence and intellectual stimulation have positive and strong effect, while the individual consideration has positive but weak effect on banks performance. On the other hand, the contingent reward and management by expectations – active have positive and significant effect on banks performance, while management by exception – passive trait of transactional leadership style has positive but weak effect on banks performance.

Finally, this study concludes that both transformational and transactional leadership styles have positive and significant effect on bank performance that exhibiting or not exhibiting of both transformational and transactional leadership behaviors leads, respectively, to an increase or decrease on banks performance in Ethiopia.

5.2. Recommendations

This study has found out that the behaviors that associated with transformational and transactional leadership have more effect on organizational performance. In the context of Ethiopian banking sector, transformational leadership which focuses on change and transformation of organization and individual performer and, the transactional leadership which involves reward and recognition in exchange for the work done and close assistant and guidance are more relevant.

Based on the resulted findings of the study, the researcher forwarded the following Recommendations for the bank leaders, stakeholders and for future researchers.

5.2.1. Recommendations for Bank Leaders

The bank leaders in Ethiopia are recommended to exhibit the combination of both transformational transactional leadership behaviors according to the ongoing work environment circumstances. The leaders of banks should focus on playing a role model

by taking first step of what they talk about and keep consistent in their action in way that getting trust and loyalty from employees and in instilling confidence, commitment and vision in employees. In this way leaders can get employee's work commitment or improvement in their performance by assuring the psychological attachment of employees to the organization. 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 individual or group of employees.

On the other hand the leaders in the bank should give attention to close guidance and close follow up or supervision to the employees when the employee seem new for the work at the hand. 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.

5.2.2. Recommendations for Banks Stakeholders

Stakeholders in the industry should consider taking banking in a non-traditional direction by placing more emphasis on understanding leadership style and its effects on improving results. The leadership style is learnable that the stakeholders of the bank should consider the need to present training to leaders on leadership styles as a means to increase performance results. The stake holders might also consider holding national conferences on innovative leadership models used to support the vision of the banking industry and seminars might be warranted to show financial leaders how to apply leadership models to everyday activities and develop strategies that might goes with contemporary banking environment.

5.2.3. Recommendations for Future Research

In future research, it would be interesting to assess causal relationships by taking more cross sectional data in different time using longitudinal design (e.g. observations or

interviews) to determine if the findings tested are likely to be sustained. Further research should also involve a larger sample size from survey covering whole population of the banks in Ethiopia. Future studies can also benefit by including leadership styles and other variables such as organizational culture and other environmental factors in determining the banks performance.

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Appendices – I

Multifactor Leadership Questionnaire (MLQ)- Adapted

Form I – Leaders

Dear respected respondent,

I am graduating class MBA student of 2015 at Saint Mary's University College. This questionnaire is designed to assess the leadership style of your organization. The purpose of this questionnaire is academic that will be used in master thesis. Completion of this information is voluntary; whatever information you give me is strictly confidential and could be used for academic purpose only.

Filling this questionnaire may take no more than 10-15 minutes. I would like to take this opportunity to thank you for your precious time and valuable opinion.

There is a rating scale ranging from **0 to 4** that you are required to rate by using [✓] sign on the one that best reflects your perception. The rating scales reflect the frequency that each statement fits you. It ranges from **0** that doesn't fit you at all to **4** which fits you frequently or always. Here are the exact meanings of each rating scale

Rating Scale	Meaning
0	Not at all
1	Once in a while
2	Sometimes
3	Fairly Often
4	Frequently, if not always

Therefore, you are required to judge how frequently each statement fits you.

The word "others" may mean your peers, clients, direct reports, supervisors, and/or all of these individuals. If you are unsure or do not know the answer, leave the answer blank.

Ser no.	Description	0	1	2	3	4
1	I call attention to what others can get for what they accomplish					
2	I make others proud to be associated with me					
3	I talk optimistically about the future					
4	I tell others the standards they have to know to carry out their work.					
5	I Propose new ways of looking at how to handle the given tasks					
6	I spend time teaching and coaching others					
7	I delay responding to urgent questions					
8	I wait for things to go wrong before taking action					
9	I provide others with assistance in exchange for their efforts.					
10	I take risks for the interest of team or organizational benefit					
11	I talk enthusiastically about what needs to be done to improve performance					
12	I focus attention on irregularities, mistakes, exceptions, and deviations from standards					
13	I get others to rethink ideas that they had never questioned before					
14	I Treat others as an individual rather than just as a member of a group					
15	I am indifferent about the need of others					
16	I demonstrate that problems must become chronic before I take action					
17	I provide recognition/rewards when others reach their goals.					
18	I act in the way that build others' admiration and respect for me					
19	I communicate the vision of the bank with fluency and confidence					
20	I Predict problem before it happens					
21	I give ear to others' ideas even if different from mine					
22	I give personal attention to others who seem rejected					

23	I avoid taking initiative role						
24	I Wait passively for deviances from standards, mistakes and errors to occur and only then takes corrective action						
25	I tell others what to do if they want to be rewarded for their work.						
26	I consider Moral and ethical issues when making decisions						
27	I Inspire and motivate others to reach ambitious goals that may have previously seemed unreachable						
28	I take corrective actions before behavior makes severe difficulties						
29	I Bring together and integrate a diverse range of perspectives						
30	I Help others to develop and grow their own capabilities						
31	I avoid getting involved when important issue arise						
32	I Avoid making agreements or explain expectations and standards to be achieved						
33	I establish methods for monitoring individual performance and providing feedback						
34	I lead others after assuring their readiness to be lead						
35	I articulate vision in the way that inspire and motivate others						
36	I Intervene in others work when they are not putting forth the effort expected of them						
37	I consider challenges and problems of work environment as an opportunity						
38	I delegate tasks to other						
39	I avoid making decision or taking positions						
40	I interfere only when desired goal is not met						

Form II - Subordinates

Dear respected respondent,

I am graduating class MBA student of 2015 at Saint Mary's University College. This questionnaire is designed to assess the leadership style of your organization. There are two sections: Demographic Information and Leader Opinion Survey. The purpose of this questionnaire is academic that will be used in master thesis. Completion of this information is voluntary; whatever information you give me is strictly confidential and could be used for academic purpose only.

Filling this questionnaire may take no more than 10-15 minutes. I would like to take this opportunity to thank you for your precious time and valuable opinion.

There is a rating scale ranging from **0 to 4** that you are required to rate by using '✓' sign on the one that best reflects your perception about your leader. The rating scales reflect the frequency that each statement fits your perception. It ranges from **0** that doesn't fit you at all to **4** which fits you frequently or always. Here are the exact meanings of each rating scale

Rating scale	Meaning
0	Not at all
1	Once in a while
2	Sometimes
3	Fairly Often
4	Frequently, if not always

Therefore, you are required to judge how frequently each statement fits you.

The word "leader" may mean your immediate manger that you report your work or the one who supervises you. If you are unsure or do not know the answer, leave the answer blank.

Ser no.	Description	0	1	2	3	4
1	Calls attention to what I can get for what I accomplish					
2	Makes me proud for being associating with him/her					
3	Talks optimistically about the future					
4	Tells me the standards I have to know to carry out my work.					
5	Proposes new ways of looking at how to handle the tasks					
6	Spends time teaching and coaching me					
7	Delay responding to urgent questions					
8	Waits for things to go wrong before taking action					
9	Provides me with assistance in exchange for my efforts.					
10	Scarifies his/her interests for the benefit of Others					
11	Talks enthusiastically about what needs to be done to improve performance					
12	Focus attention on irregularities, mistakes, exceptions, and deviations from standards					
13	Makes me to rethink ideas that I had never questioned before					
14	Treats me as an individual rather than just as a group member					
15	Indifferent about the need of mine					
16	Demonstrates that problems must become chronic before he/she takes action.					
17	Provides me recognition/rewards when I reach my goal					
18	Acts in the way that builds my admiration and respect for him/her.					
19	Communicates the vision of the bank with fluency and confidence					
20	Predicts problem before it happens					
21	Gives ear to my ideas even if different from mine					
22	Gives personal attention for those seem rejected					
23	Avoids taking initiative role					
24	Waits passively for deviances from standards, mistakes and errors to occur and only then takes corrective action					
25	Tells me what to do if I want to be rewarded for my work.					
26	Considers Moral and ethical issues when making decisions					
27	Inspires and motivate me to reach ambitious goals that may have previously seemed unreachable					

28	Takes corrective actions before behavior makes severe difficulties					
29	Brings together and integrate a diverse range of perspectives					
30	Helps others to develop and grow their own capabilities					
31	Avoids getting involved when important issue arise					
32	Avoids making agreements or explaining expectations					
33	Establishes methods for monitoring my performance and providing feedback					
34	leads me after assuring my readiness to be lead by him/her					
35	Articulates vision in the way that inspire and motivate others					
36	Intervenes when I am not putting forth the effort expected of them					
37	Considers challenges and problems of as an opportunities					
38	Delegates me his/her authority and responsibility					
39	Avoids making decision or taking positions					
40	Interferes only when desired goal is not met					

Part II: Demographic Information

1. Sex Male

Female

2. Age Under 25 26 to 35 36 to 45 46 to 65

3. Marital status Married Single Other (Specify)

4. Job Title/Position: _____

5. Number of years you served:

In current organization [years] _____

On current Position [years] _____

7. What is your highest level of Education?

Some College, no degree Master's degree

Bachelor's degree Doctorate Degree

Other, specify _____

Appendices – II

Model Selection Procedures

Pooled OLS Model

```
regress ROA TRFL TRSL LF
```

Source	SS	df	MS	Number of obs =	550
<hr style="border-top: 1px dashed black;"/>					
Model	10.0203424	3	3.34011413	F(3, 546) =	3.31
Residual	551.405395	546	1.00989999	Prob> F =	0.0200
<hr style="border-top: 1px dashed black;"/>					
Total	561.425737	549	1.0226334	R-squared =	0.0178
<hr style="border-top: 1px dashed black;"/>					
				Adj R-squared =	0.0125
				Root MSE =	1.0049

ROA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
<hr style="border-top: 1px dashed black;"/>						
TRFL	-.1485783	.0799965	-1.86	0.064	-.3057169	.0085602
TRSL	.1006494	.0823744	1.22	0.222	-.0611602	.262459
LF	.1636129	.071485	2.29	0.022	.0231936	.3040322
_cons	2.783681	.1623202	17.15	0.000	2.464833	3.10253

Fixed Effect Model

```
. xtreg ROA TRFL TRSL LF, fe
```

note: TRSL omitted because of collinearity

note: LF omitted because of collinearity

Fixed-effects (within) regression

Number of obs = 550

Group variable: ID

Number of groups = 110

R-sq: within = 0.0000

Obs per group: min = 5

between = 0.0001

avg = 5.0

overall = 0.0001

max = 5

F(1,439) = 0.00

corr(u_i, Xb) = -0.0519

Prob> F = 0.9454

```

-----
---
ROA |      Coef.   Std. Err.      t    P>|t|      [95% Conf. Interval]
-----+-----
      TRFL |           .05   .7292648     0.07   0.945    -1.383284    1.483284
      TRSL |           0   (omitted)
      LF |           0   (omitted)
     _cons |   2.883036   1.669585     1.73   0.085    -.3983368    6.16441
-----+-----

sigma_u|   .83020142
sigma_e|   .65227424
rho |   .61831598   (fraction of variance due to u_i)
-----

F test that all u_i=0:      F(109, 439) =      8.08      Prob> F = 0.0000

```

Random Effect Model

```
. xtreg ROA TRFL TRSL LF, noconstantml
```

```

Iteration 0:   log likelihood = -690.75373
Iteration 1:   log likelihood = -690.68261
Iteration 2:   log likelihood = -690.68254

Random-effects ML regression              Number of obs   =       550
Group variable: ID                       Number of groups =       110
Random effects u_i ~ Gaussian            Obs per group: min =         5

avg =           5.0
max =           5

Wald chi2(3)      =       773.71

```

Log likelihood = -690.68254 Prob> chi2 = 0.0000

ROA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
TRFL	.3644199	.1751414	2.08	0.037	.021149	.7076907
TRSL	.3372964	.1960726	1.72	0.085	-.0469989	.7215917
LF	.6027471	.1626907	3.70	0.000	.2838793	.9216149
/sigma_u	1.057359	.0767583			.9171279	1.219031
/sigma_e	.6516705	.0219683			.610005	.6961819
rho	.7247168	.0323649			.6579588	.784337

Likelihood-ratio test of sigma_u=0: chibar2(01)= 417.87 Prob>=chibar2 = 0.000

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **SHOAJEMAL (Assistant Professor)**. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

YosephMoges

St. Mary's University, Addis Ababa

June , 2015

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor

St. Mary's University, Addis Ababa

Signature

June, 2015