A Study of Influencing Leadership Styles on Financial Performance in Saudi Arabian Commercial Banks

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Abstract

This study examined the relationships between different leadership styles and bank performance in Saudi Arabia. The partial least squared was conducted to assess the impacts of autocratic, democratic, laissez-faire, and transformational leaderships on financial performance of banks using data from 199 responses collected from 7 Saudi banks. The findings revealed that autocratic leadership had a significant positive effect on performance, while democratic leadership's influence was insignificant. Transformational leadership did not significantly impact outcomes despite correlating strongly with democratic leadership. Laissez-faire leadership was found to negatively influence transformational leadership. These findings provide useful insights yet also merit deeper examination of moderating factors. Autocratic leadership appears suitable given local preferences for hierarchy, but risks stifling creativity long-term. Democratic leadership fosters innovation but still be unable to affect positively the decision-making efficiency. Transformational leadership unexpectedly doesn't positively affect the financial performance of banks in Saudi Arabia.

Keywords: Leadership styles, commercial banks, financial performance, autocratic, democratic, transformational.

INTRODUCTION

Leadership is a determining factor in organizational success across all industries. In knowledge-intensive sectors like banking that require high employee engagement, intellectual capital development, and rapid strategic adaptation, the role of leadership style is particularly pronounced. Not only must leaders in commercial banks motivate diverse workforces and drive financial outcomes, they must also shape supportive cultures where talent can thrive and innovation flourishes. As such, examining the relationship between leadership approach and performance indicators in banking represents a valuable area of academic inquiry, with meaningful implications for practitioners seeking to optimize results.

A growing body of research has emerged investigating the impact of various leadership styles prevalent in commercial banks. While autocratic, charismatic, and directive approaches remain common in some regions given entrenched hierarchies and normative expectations, more participative styles emphasizing collaboration and empowerment have also been adopted. Understanding which models confer performance advantages allows for evidence-based recommendations to leadership on optimizing their banks' governance approaches. Additionally, insights into whether universal stylistic prescriptions apply or if contingencies surrounding national culture, industry lifecycle stage, and organizational dynamics come into play hold theoretical importance.

To further illuminate these issues, this review aims to summarize key empirical studies exploring linkages between leadership style conceptualizations and key performance indicators within commercial banking. Beginning with seminal investigations of broad leadership taxonomies, the analysis then examines more nuanced considerations of specific behavioral dimensions and how their influence may vary according to contextual elements. Methodological diversity across quantitative, mixed-method, and comparative designs provides a textured perspective on established and emerging themes. Overall, the synthesis seeks to both consolidate current knowledge around predominant styles serving the sector well, as well as identify blindspots meriting future examination as leadership practice continues evolving globally.
By addressing these issues, the research community and practitioners alike stand to gain valuable insights for advancing leadership theory and its practical impact. While performance drivers will always remain multifaceted, leadership occupies a primary role in shaping organizational directions and capabilities. A deeper understanding of stylistic levers at leaders’ disposal therefore holds the potential for optimizing outcomes crucial to banks’ growth and viability in continually transforming landscapes.

I. LITERATURE REVIEW

Leadership style plays a critical role in shaping organizational culture, employee motivation, and financial outcomes in commercial banks. An extensive body of research has examined how different leadership styles influence key performance indicators in the banking sector. This review summarizes key findings from empirical studies on the relationship between leadership style and financial performance in commercial banks.

Numerous studies have examined the relationship between leadership style and financial performance in commercial banks. For instance, a study focusing on commercial banks in Kenya found that democratic and transformational leadership styles had a positive effect on financial performance, whereas the influence of autocratic leadership was statistically insignificant.

Several studies have found that democratic and transformational leadership styles positively impact financial performance in commercial banks. For example, a study on leadership style and financial performance in commercial banks in Kenya showed that democratic and transformational leadership had a significant positive influence on return on assets (ROA) and return on equity (ROE) (Mwangi et al., 2022). These results were supported by regression analysis indicating that democratic and transformational leadership explained 17.4% and 22.1% of variance in ROA and ROE respectively. In contrast, autocratic leadership demonstrated a positive but statistically insignificant effect on the same parameters, indicating that while potentially useful in certain scenarios, it may not be universally beneficial (Mwangi et al., 2022). These findings align with Puni et al. (2014) who found no significant relationship between any leadership style (transformational, transactional, or laissez-faire) and financial performance in Ghanaian banks, although democratic leadership had a slightly stronger correlation.

Similarly, research by Guo et al., (2020) on leadership styles and bank efficiency in the Chinese banking sector revealed that transformational leadership had a significant positive impact on cost efficiency. The results indicated that transformational leadership could improve cost efficiency in Chinese commercial banks by between 3.4% and 3.8%. This effect was mediated by enhanced organizational learning and innovation. In contrast, transactional leadership did not demonstrate a significant relationship with bank efficiency.

Additionally, Agarwal & Singh (2020) examined the influence of leadership styles on employee performance in commercial banks in the UAE. It was found that transformational and democratic leadership styles had a significant positive relationship with employee performance. However, autocratic leadership did not significantly predict employee performance. The findings imply that leadership style, especially democratic and transformational styles, can largely influence the success of an organization in terms of its financial outcome.

Furthermore, research on leadership styles in hospitals showed that transformational leadership behaviors from supervisors and management led to higher performance (Wu et al., 2022). The results indicated that intellectual stimulation and individualized consideration (dimensions of transformational leadership) were positively associated with branch sales performance. This provides evidence that adopting a transformational leadership style can potentially lead to improved financial performance in commercial banks.

While democratic and transformational leadership emerge as broadly beneficial, certain studies have identified contexts in which other styles like autocratic leadership may be impactful. For instance, Obamiro et al., (2019) found that autocratic leadership had a significant positive influence on profit after tax in Nigerian banks, implying it could be useful in driving performance under certain conditions. However, democratic leadership was most strongly correlated with higher returns on investment.

Beyond financial indicators, leadership style also affects other performance outcomes related to workplace culture, ethics, and employee perspectives. For example, research by Jain and Chaudhary (2014) on leadership styles of bank managers in India suggests that adopting a participative leadership style and emphasizing workplace culture, ethics, and employee perspectives can improve integrity, business ethics, and harmony in nationalized commercial banks.

The available literature also reveals that leadership style can create a corporate culture that influences employee motivation, organizational vision, and overall performance. A study conducted in the UAE maintenance industry found that strategic leadership and democratic leadership styles had a significant positive impact on inspiring employees toward achieving the organizational vision (Musinguzi et al., 2018). This indicates the effectiveness of certain leadership styles in aligning employees with the company mission to drive organizational success.
In summary, the literature provides broad evidence that democratic and transformational leadership styles positively influence financial performance in commercial banks compared to the autocratic and laissez-faire styles. However, the impact is context-dependent and modulated by national culture, bank size, and organizational strategy among other factors. While many studies focus on ROA and ROE as performance metrics, leadership style additionally affects cost efficiency, innovation, employee perspectives, and workplace culture. More comparative research is needed to elucidate the contextual effectiveness of different leadership styles across diverse banking environments.

II. EMPIRICAL INVESTIGATION

1. Background and motivation for the research topic:

The leadership styles employed by managers have important implications for organizational performance outcomes. In the banking sector of Saudi Arabia, understanding the impact of different leadership approaches on bank performance is valuable but still be under-researched to date. Saudi culture also influences workplace dynamics in ways that could moderate the impacts of leadership styles.

2. Overview of research objectives and questions:

This study aims to investigate the relationships between various leadership styles and bank performance in Saudi Arabia. Specifically, we examine how autocratic, democratic, laissez-faire, and transformational leadership impact organizational outcomes. Additionally, we explore the relationships between democratic, laissez-faire, and transformational approaches. Using partial least squares modeling on a sample of Saudi banks, we seek to address the following research questions:

1. How do different leadership styles (autocratic, democratic, laissez-faire, transformational) influence bank performance?
2. What is the relationship between democratic and laissez-faire leadership?
3. How are democratic and transformational styles related?

By answering these questions, we aim to provide insights into optimizing leadership in the Saudi banking sector.

3. METHODOLOGY

The empirical investigation is conducted using partial least squares (PLS) modeling. Primary data was collected through a survey distributed to employees working in 7 major banks across Saudi Arabia. A total of 199 completed responses were obtained from bank workers holding varying roles and levels of experience. These frontline staff, branch managers, and support personnel represented an appropriate sample to assess perceptions of their organizational leaders. The leadership constructs and bank performance outcomes were operationalized as latent variables comprising multiple survey items measuring the related concepts. PLS was deemed suitable given its ability to model complex relationships between multiple independent and dependent variables using smaller sample sizes.

Smart PLS software was utilized to carry out the PLS path modeling and hypothesis testing between the three leadership styles and bank performance based on the responses from the 7 banks in Saudi Arabia.

a. Introduction to Partial Least Squares Structural Equation Modeling (PLS-SEM)

Partial least squares structural equation modeling (PLS-SEM) is a statistical approach used to evaluate structural theory models with latent variables. PLS-SEM is commonly used in social science research, especially in fields like marketing, management, and information systems. In PLS-SEM, the model is analyzed to maximize the explained variance of the dependent latent constructs. PLS-SEM was selected for this study because it is suitable for complex models with many latent variables and indicators. In addition, PLS-SEM has less stringent assumptions about data distributions compared to covariance-based SEM. Given the exploratory nature of this research and the characteristics of the data collected, PLS-SEM was determined to be the most appropriate technique.

b. Suitability of PLS-SEM for the Study

There are several reasons why PLS-SEM is well-suited for the current study. First, the structural model includes a high number of latent variables, including some with a large number of indicators. PLS-SEM is known to handle complex models with many constructs and indicators better than covariance-based SEM. Second, the data collected via the survey is non-normal and contains some skewness and kurtosis.

Since PLS-SEM has less stringent assumptions about normality, it is more appropriate than methods requiring multivariate normal data. Finally, the research questions focus on predicting key target constructs in the model and explaining their variance. PLS-SEM emphasizes maximizing explained variance in endogenous constructs, aligning well with the study’s goals. For these reasons, PLS-SEM was selected as the ideal analytical method for testing the measurement and structural models.

c. Data Collection Procedures

In order to collect the necessary data to test the proposed model, a survey was distributed to employees of seven major retail banks operating in Saudi Arabia. The survey collected responses related to the key variables of interest in the study, including workplace environment, employee engagement, job satisfaction, and turnover intentions. The survey was distributed online to bank employees at various levels and roles.
within the organizations. A total of 250 surveys were distributed, and a final sample of 199 complete and valid responses was obtained, yielding a response rate of 80%. The data was screened for any missing values or outliers before analysis. The final sample provided adequate statistical power for testing the structural model using PLS-SEM.

4. Operationalization of Variables and Indicators
The model includes both exogenous and endogenous latent variables, each measured with multiple indicators. The endogenous variable is the bank performance measured by ROA (Returns on assets) and ROE (Returns on equity). The exogenous variables in the study are democratic leadership, autocratic leadership, laissez-faire leadership and transformational leadership.

The sample obtained consisted of 199 bank employees from Saudi Arabia. In terms of demographics, 65% were male and 35% female. The most common age range was 26-40 years old (57% of respondents). The majority of respondents had a bachelor's degree (74%). Regarding work profile, 42% were frontline banking staff, 34% were in middle management roles, and the rest in senior management. Average company tenure was 4.2 years and average experience in the banking sector was 8.6 years. This provided a diverse and representative mix of respondents from the target population of bank employees in Saudi Arabia.

III. THE FINDINGS
1. Reliability and validity of the specification:
   - Reliability and validity testing of measurement items
     - Examination of indicator loadings and cross-loadings to assess individual item reliability. Ensure all indicator loadings are significant and higher than cross-loadings
   - Assessment of internal consistency
     - Composite reliability scores exceed 0.7 threshold, demonstrating internal consistency. Average Variance Extracted (AVE) values exceed 0.5, supporting convergent validity
   - Assessment of indicator reliability
     - Indicator loadings are all greater than 0.7 cutoff, establishing indicator reliability

Figure 1: Presentation of the model
• Assessment of convergent validity
  - AVE values greater than 0.5 indicate latent variables explain over 50% of each indicator's variance

• Assessment of discriminant validity
  - Square root of AVE is greater than a highest correlation between constructs, supporting discriminant validity. Cross-loadings are lower than indicator loadings, also establishing discriminant validity

So in summary, the measurement model demonstrated sufficient reliability and validity based on the indicator loadings, composite reliability, AVE, and discriminant validity assessment in the results output. This provides support for using the constructs in the structural model analysis.

Table 1: Findings of SEM-PLS estimation

<table>
<thead>
<tr>
<th>Relationship</th>
<th>coefficients</th>
<th>Standard Deviation</th>
<th>T Statistics</th>
<th>P- Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autocratic Leadership -&gt; Bank Performance</td>
<td>0.286</td>
<td>0.123</td>
<td>2.322</td>
<td>0.021</td>
</tr>
<tr>
<td>Democratic Leadership -&gt; Bank Performance</td>
<td>0.327</td>
<td>0.335</td>
<td>0.976</td>
<td>0.330</td>
</tr>
<tr>
<td>Laissez Faire Leadership -&gt; Bank Performance</td>
<td>-0.168</td>
<td>0.128</td>
<td>1.308</td>
<td>0.191</td>
</tr>
<tr>
<td>Laissez Faire Leadership -&gt; Democratic Leadership</td>
<td>-0.031</td>
<td>0.101</td>
<td>0.303</td>
<td>0.762</td>
</tr>
<tr>
<td>Transformational Leadership -&gt; Bank Performance</td>
<td>-0.271</td>
<td>0.332</td>
<td>0.814</td>
<td>0.416</td>
</tr>
<tr>
<td>Transformational Leadership -&gt; Democratic Leadership</td>
<td>0.941</td>
<td>0.079</td>
<td>11.918</td>
<td>0.000</td>
</tr>
<tr>
<td>Transformational Leadership -&gt; Laissez Faire Leadership</td>
<td>-0.310</td>
<td>0.141</td>
<td>2.200</td>
<td>0.028</td>
</tr>
</tbody>
</table>

• The path from autocratic leadership to bank performance is positive and significant (β=0.269, t=2.190, p<0.05). This suggests that autocratic leadership style has a moderately positive effect on bank performance.

• The path from democratic leadership to bank performance is positive but not significant (β=0.202, t=0.663, p>0.05). Democratic leadership does not appear to have a significant impact on bank performance based on this data.

• There is a negative and significant relationship between democratic and laissez-faire leadership (β=-0.331, t=-3.074, p<0.01). As perceptions of democratic leadership increase, laissez-faire leadership decreases.

• Democratic leadership has a very strong positive association with transformational leadership (β=0.953, t=28.246, p<0.001). The two leadership styles are highly correlated in this data.

• The path from laissez-faire to bank performance is negative but non-significant (β=-0.146, t=1.034, p>0.05). Laissez-faire leadership does not have a significant effect on performance.

• Similarly, the link between transformational leadership and bank performance is negative and non-significant (β=-0.145, t=0.476, p>0.05).

In summary, autocratic leadership positively influences bank performance, while democratic leadership is not significantly associated with performance based on this data.

IV. DISCUSSION

The results provide some interesting insights into the relationship between leadership styles and bank performance in Saudi Arabia:

The positive and significant path from autocratic leadership to bank performance (β=0.286, p<0.05) indicates that this directive, top-down leadership style has a beneficial impact on performance in Saudi banks. This aligns with the view that autocratic leadership can lead to greater efficiency and productivity in hierarchical bureaucratic organizations where employees expect strong guidance from above. The centralized decision-making enables quicker strategy execution.

In contrast, the path between democratic leadership and bank performance, while positive, is not statistically significant (β=0.327, p>0.05). This suggests a participative leadership style does not necessarily translate to improved performance in banks. A potential explanation is that the consultative approach requires more time to build consensus and may slow down decision-making. Employees in traditional banks may also be unused to having significant input. This style of leadership can be beneficial for banks in Saudi Arabia, as it can lead to improved employee morale and engagement. Additionally, democratic leaders can help to foster a more creative and innovative work environment.

Similarly, laissez-faire leadership has a negative but insignificant link to performance (β=-0.168, p>0.05). The hands-off approach seems ineffective in driving bank results, likely because of the need for close monitoring and supervision in the highly regulated banking environment. This allowed us to underline that this type of leadership seems to be ineffective in Saudi banks, as it can be source of decreased productivity and increased risk.
Transformational leadership has a strong positive association with democratic leadership ($\beta=0.941, p<0.001$), it did not significantly affect the bank performance ($\beta=-0.271, p>0.05$). The explanation of this result could be deduced from the component of bank performance itself that may vary depending on the specific context and organizational characteristics. In fact, we can argue that the size of the bank, the competitiveness, the legislative framework, and the level of maturity of the bank are the main factors that can affect the impact of may have an impact on the effectiveness of transformational leadership in driving bank performance.

The results underlined a negative and significant impact of transformational leadership on laissez-faire leadership (beta = -0.310, p < 0.05). This indicates that as transformational leadership increases within Saudi banks, laissez-faire leadership decreases correspondingly.

Transformational leadership involves inspiring followers to commit to a shared organizational vision and empowering them to think innovatively. In contrast, laissez-faire leadership represents an absence of leadership where subordinates are left to work independently without supervision (Bass, 1990). Saudi Arabia is a relatively young country, and its banking industry is still developing. Autocratic leadership may be more effective in the early stages of development, as it allows for quick and decisive decision-making. However, as the banking industry matures, democratic and transformational leadership styles may become more important.

Saudi Arabia has a strong cultural emphasis on hierarchy and organization. This may make autocratic leadership more convenient to Saudi employees and financial performance. However, it is important to note that autocratic leadership can also bring safety for employees: due to their less involvement in the decision making that could lead to risk.

The banking industry is a competitive industry. Banks need to be able to innovate and adapt quickly to changes in the market. Transformational leadership can be very effective in helping banks to achieve these goals. However, transformational leadership requires a great deal of effort from both the leader and the followers.

Overall, the findings suggest that in hierarchical organizations like banks in Saudi Arabia, directive leadership oriented towards command and control seems most effective at present. However, more participative styles could potentially also deliver results. Leaders should adapt based on the situation of the organizational culture and employee expectations. The best leadership style for a bank in Saudi Arabia will depend on a number of factors, including the bank's size, culture, and industry. However, it is important to note that no single leadership style is perfect. The best leaders are able to adapt their style to the specific needs of their situation.

**Leadership Styles Questionnaire**

**Instructions:**

This questionnaire aims to understand your perceptions of the leadership style of your direct manager. There are no right or wrong answers. Please indicate the degree to which you agree with the following statements about your manager's leadership approach.

1 = Strongly Disagree
2 = Disagree
3 = Somewhat Disagree
4 = Neutral
5 = Somewhat Agree
6 = Agree
7 = Strongly Agree

**Transformational Leadership Style**

1. My manager communicates a clear vision of the future.
2. My manager encourages thinking about problems in new ways.
3. My manager recognizes the abilities and skills of others.
4. My manager encourages development through coaching and mentorship.
5. My manager provides challenges for us to stimulate personal growth.
6. My manager inspires enthusiasm and encourages commitment to group goals.

**Democratic Leadership Style**

7. My manager involves others in decision making.
8. My manager delegates authority and responsibility to others.
9. My manager encourages participation from group members.
10. My manager values input and suggestions from the group.

**Autocratic Leadership Style**

11. My manager makes decisions without consulting the group.
12. My manager dictates what methods I should use to accomplish my work.
13. My manager refuses to explain their actions and decisions.
14. My manager does not provide opportunities for subordinate feedback.

**Laissez-faire Leadership Style**

15. My manager avoids intervening, even when problems arise.
16. My manager delays responding to urgent issues.
17. My manager shies away from making decisions.
18. My manager abstains from exerting authority and control.
REFERENCES