

Mediation Effect of Employee Motivation between Selected Leadership Styles and Employee Performance in Selected Financial Institutions in Mthatha, Eastern Cape

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ABSTRACT

This study aimed to mediate the effect of employee motivation on the relationship between selected leadership styles and employee performance in selected financial institutions in Mthatha, Eastern Cape. Using a quantitative approach, data were collected via self-administered online questionnaires and manual copies. A total of 155 respondents were given the questionnaires. Inferential analysis was conducted with Smart PLS and Structural Equation Modelling to assess multivariate causal relationships. Findings indicated that the selected leadership styles significantly positively correlated with employee motivation and performance. Partial Least Squares Structural Equation Modelling (PLS-SEM) implemented through SmartPLS offers robustness, particularly in studies with complex mediating relationships and relatively small sample sizes (Hair, 2014). SEM allows simultaneous estimation of measurement and structural models, which is particularly valuable in industrial psychology studies like this one. The study recommends that financial institutions continue to design and implement leadership development programs tailored to foster motivational leadership styles and improve employee motivation and performance. These styles have demonstrated a strong positive effect on employee motivation, significantly improving employee performance.

Keywords: Employee motivation, leadership, employee performance, financial institutions.

INTRODUCTION

Organisations need employees committed to their work to contribute to survival in the marketplace competition (Muhamad, Bakti, Febriyantor, Kraugusteeliana, & Ausat, 2023). Financial institutions in South Africa need people who work for themselves and the organisation's success. Yimam (2023). Leadership approaches are vital in making employees committed to their assigned work. However, leaders must use such leadership styles to motivate, direct, and inspire their teams to accomplish organisational goals (Bwalya, 2023). The word "leadership" has been used several times in various aspects of human endeavour, such as academics, politics, and business (Wijaya Mulya & Sakhiyya, 2021). However, leadership's meaning is broad and not limited to one human endeavour. Therefore, effective leadership and employee motivation are two factors that have been regarded as fundamental for organisational success. According to Udovita (2020), Leadership is a process of influence between leaders and subordinates where a leader attempts to influence the behaviour of subordinates

to achieve the organisational goals. Organisational success in achieving its goals and objectives depends on the organisation's leaders and their leadership styles.

Leadership styles refer to the approaches or methods leaders use to monitor, direct, and inspire their employees to achieve intended goals (Sartika, Herman, & Rasyid, 2023). According to Fithrotul & Hariyati (2024), Leadership styles refer to the behavioural approach leaders employ to influence, motivate, and direct their followers. Moreover, the term leadership style refers to how leaders implement plans and strategies to achieve given objectives, while accounting for stakeholder expectations and the well-being and soundness of their team. However, leadership styles increase employee engagement and motivation; as such, in order for employees to work towards accomplishing their duties, they need to be motivated (Rabiul, 2024). Employee motivation comes in various forms; as such, it can be financial or non-financial.

Employee motivation is crucial in keeping employees on track with their assigned tasks. According to Jam-jam & Mbukunma (2023), motivation is important in any organisation, whether small or large; people need to be motivated to fulfil their duties and meet organisational goals. Motivation drives employees to work hard to improve performance and fulfil their job responsibilities (Mbukanma & Strydom, 2022). Motivation is the process of stimulating people towards accomplishing organisational goals (Thanh & Quang, 2022). According to Jam-jam & Mbukanma (2023) and Thanh and Quang (2022), motivation is defined as the inducement and stimulation that motivate people to pursue mutual goals and objectives. However, leadership styles significantly influence employees' work performance, so this study employed four leadership styles: Transactional leadership, Transformational leadership, Laissez-faire, and Democratic leadership. This study investigated the mediating effect of employee motivation on the relationship between selected leadership styles and employee performance in selected financial institutions in Mthatha, Eastern Cape.

Problem Statement

Financial institutions offer various financial services, serving individual customers and businesses (Pazarbasioglu, Mora, Uttamchandani, Natarajan, Feyen & Saal, 2020). The leadership styles implemented by a leader in an organisation significantly influence the relationship between the leader and the employee, as well as the employee's efficiency and performance. However, in the banking industry's dynamic and highly competitive environment, effective leadership practices profoundly impact employee motivation and work performance (Al-bawaia, Eman, Alshurideh, Obeidat, & Masa'deh, 2022).

Scholars such as Nyakomitta (2021) have investigated the impact of leadership styles on employee performance and job satisfaction in private banks. They found that private banks lack an in-depth understanding of leadership approaches due to unprofessional leaders, which, in this regard hinders the bank's ability to optimise its leadership strategies, potentially compromising organisational productivity and employee well-being. Secondly, it is difficult for leaders to understand leadership styles that align with their organisation due to a lack of leadership skills. Therefore, the core problem addressed by the previous researchers is the absence of a detailed examination of various leadership styles. Little is known about the role of the selected leadership styles in employee motivation and work performance. This study seeks to close this gap by exploring to mediate the effect of employee motivation between selected leadership styles and employee performance in selected financial institutions in Mthatha, Eastern Cape.

Research Objectives

This study is grounded on the following research objectives:

- a) To examine the influence of selected leadership styles (transformational, transactional, democratic and laissez-faire) on employee performance in selected financial institutions in Mthatha, Eastern Cape.
- b) To assess the mediating role of employee motivation in the relationship between leadership styles and employee performance.

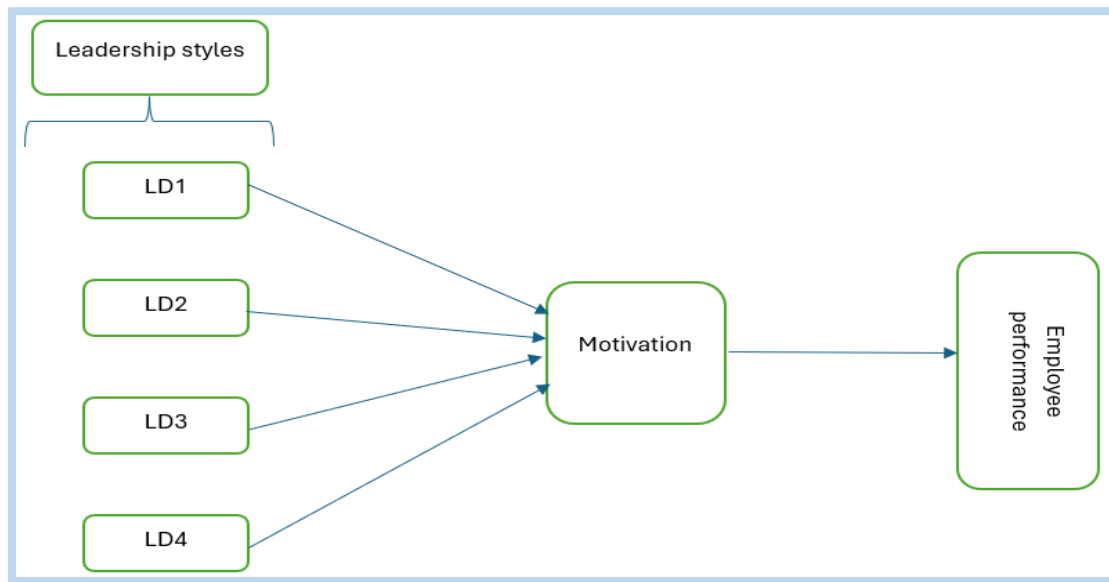


Figure 1: Conceptual model

Source: Authors own construction

REVIEW OF RELATED LITERATURE

The literature review overviews major writings and sources on a selected topic (Hiebl, 2023). According to Lim, Kumar, and Ali (2022), literature reviews as standalone pieces of work may help researchers deepen their understanding of prior work in their field, enabling them to more easily identify gaps in the literature and potential avenues for future research. A literature review helps share the findings from other studies with related interests to the current study and identifies gaps (Banha, Coelho & Flores, 2022). The literature review of this study is categorised based on the empirical literature. This study will discuss different leadership styles and present arguments from previous scholars.

Leadership styles

Leadership is critical to shaping organisational outcomes and has been extensively studied in the management literature. Effective leadership is integral to driving organisational success, as it significantly impacts employee morale, job satisfaction, job security, work-life quality, and overall performance. Leaders are crucial in steering their teams, companies, or communities toward achieving their goals.

Leadership is critical to managing and controlling employees and organisations (Setiawan, Cavaliere, Navarro, Wisetsri, Jirayus, Chauhan, Tabuena, & Rajan, 2021). However, the suitability of leadership styles in an organisation depends on the business sector in which they operate. Leadership styles have significant effects not only in small businesses but also in the world's largest corporations. In this study, four leadership styles are examined: transactional leadership, transformational leadership, laissez-faire leadership, and democratic leadership.

Transactional leadership

Transactional leadership is characterised by a leader's focus on interpersonal transactions involving exchanges based on agreement on target classification, work standards, job assignments, and awards (Lee, Yeh, Yu, & Lin, 2023). According to Wamalwa (2023), transactional leadership is a leadership style in which the leader identifies what employees must accomplish to achieve organisational goals and assists them in gaining confidence in their ability to complete the assignment. However, Aljumah (2023) defines transactional leadership as a style in which a leader motivates subordinates to work by offering rewards and resources to improve task performance. Transactional leadership is a leadership style in which leaders rely on rewards and punishments to improve employee performance. Amedahe (2021) stated that transactional leaders utilise rewards and punishments to motivate and direct their followers to accomplish organisational goals. Employees are rewarded for performing well, and punishment is applied if they miss deadlines. Transactional leaders influence work performance; their followers are motivated by their job. Previous studies, such as those by Kamal and Kesuma (2024), state that transactional leadership styles are more effective, as employees are rewarded for their performance, which

motivates them to achieve goals. Ahmad, Wong, Riaz & Iqbal (2024) argue that extrinsic motivation can motivate employees to do what they enjoy, but absenteeism can increase. Thus, this leadership style could be more effective if employees are rewarded for their performance.

Transformational leadership

Transformational leadership inspires and motivates individuals to accomplish a shared vision, driving significance, change and innovation (Amedahe, 2021). Transformational leaders focus on helping group members, supporting one another, and providing the support, guidance, and inspiration they need to work hard, perform well, and stay loyal to the group. According to Usman (2020), transformational leadership is a leadership style that aims to encourage, inspire, and motivate employees to innovate and drive the change necessary to shape an organisation's success. The primary goal of transformational leadership is to inspire growth, promote loyalty and instil confidence in group members. Previous research has examined the relationship between transactional and transformational leadership. However, Judson, Hailu, and Chhetri (2024) state that transformational leadership is more effective as leaders motivate individuals by sharing their vision. Thus, followers are expected to achieve organisational goals, and, as such, the goals and vision are clear to everyone. Argues that sharing a vision with employees does not guarantee that employees will accomplish organisational goals; however, Rivaldo (2021) suggests that employees need to be monitored to attain predetermined goals.

Laissez-faire leadership

Laissez-faire Leadership styles involve leaving all decisions to employees and not following up. However, the leaders exercise little control over the followers, giving the group complete freedom (Syahlan, Sobandi, & Santoso, 2024). The leader does not interfere with the employee's work and allows the employee to perform the task. The leader can give the employee the authority to make a personal decision about the work. Furthermore, previous studies such as Griep, Hansen, Kraak, Sherman, and Bankins (2025) state that the organisation believes employees may take the task seriously and complete it on time when they can design their work. Some researchers, Tingo & Mseti (2022), believe that giving employees the freedom to decide what work to do makes them more focused on attaining organisational goals. Although in this leadership style leaders do not follow up on the tasks they delegate to their employees, the tasks can still be completed on time, and decision-making can be improved. Thus, Pina e Cunha, Clegg, Rego, & Simpson (2024) state that this leadership may be seen as ineffective. However, it is more effective because it allows employees to make decisions without their leaders' supervision. Kamal and Kesuma (2024) state that laissez-faire is an ineffective leadership style; as such, leaders are not involved in decision-making and do not even follow up, leading to poor decisions and confusion between leaders and followers.

Democratic leadership

A democratic leadership style involves employees in decision-making, delegating authority, encouraging participation in deciding work methods and goals, and giving feedback (Jaafar, Zambri, & Fathil, 2021). However, this leadership style is the most effective, as it allows everyone to express their views (Rajoria, Sharma, Sharma, & Sumaiya, 2022). Furthermore, Hilton, Arkorful, and Martins (2021) state that there are many research studies on democratic leadership; as such, few researchers offer definitions, explaining that a democratic leader relies on group decision-making, active member involvement, honest praise, and criticism. However, Tingo and Mseti (2022) state that involving employees in work participation can improve decision-making and help the organisation achieve its goals. Previous studies have examined different leadership styles; however, democratic leadership has proven more effective than laissez-faire leadership. As such, this leadership style involves employees' input and encourages participation in decision-making (Hamze & Sadiq, 2025). Thus, this leadership style promotes collaboration between managers and employees and enables them to make sound decisions.

Employee Motivation

Employee motivation is considered a force that drives employees toward achieving the organisation's specific goals and objectives (Paais & Pattiruhu, 2020). However, motivating employees is the only way to get them to work hard. Nowadays, people must understand why they are working hard; individuals in an organisation are motivated differently. Employee motivation is the most important factor for all organisations to achieve success, whether public or private (Lencho, 2020). According to Hajjali, Kessi, Budiandriani, Prihatin, and Sufri (2022), motivation is defined as the stimulation and inspiration that induce employees to perform to their best capacity. Motivation is a psychological process that provides goals and direction for employee behaviour, an internal drive to

meet employee satisfaction, and internal processes and external forces related to organisational behaviour (Paais & Pattiruhu, 2020). Employee motivation can be categorised as financial motivation and non-financial motivation.

a) Financial Motivation

Financial motivation is providing monetary incentives to employees to motivate and reward them for better achievement (Nnubia, 2020). Obumneme and Ghapar (2024) note that many organisations use financial incentives to improve work performance, namely salary increases, cash allowances, bonuses, recognition awards, and retirement benefits. By giving employees a salary increase as part of motivation in order for employees to improve their work performance, a Bonus is another form of financial motivation, which is the extra reward that is added to the basic salary of an employee (Ifeoma, Chukwuebuka & Chidinna, 2023).

b) Non-financial motivation

According to Adil Albalush & Devesh (2023), non-financial motivation is the form of motivation that is not paid directly to an employee. Chi, Vu, Nguyen & Truong (2023) define non-financial motivation as factors that drive individuals to achieve their goals, perform well, and engage with their work, beyond financial rewards. Non-financial motivation typically costs the company little money. The following are some of the non-financial motivations used in the organisation: position promotion, recognition awards, training and development, and involvement in decision-making. However, small or large organisations use non-financial motivation to keep their employees motivated and to achieve their intended goals.

Employee motivation and Work Performance

According to Alshemmari (2023), motivating employees is crucial to ensuring they are on hand to fulfil their assigned duties. Employee motivation in the workplace remains a sensitive subject that determines the level of effort employees put into the organisation and their commitment to good performance (Ahmed, Islam, & Asheq, 2023). Employee motivation is a force that drives employees to achieve the organisation's specific goals and objectives. Organisations nowadays are continuously trying to develop and motivate their employees to help achieve enhanced performance. Employee performance is considered what the employee does and what he does not do. Work performance involves quality and quantity of output, presence at work, an accommodating and helpful nature and timeliness of output (Nugraha & Rusmiati, 2024). Work performance is influenced by motivation: when employees are motivated, they work with greater effort, and as a result, performance ultimately improves. However, Maryani, Entang and Tukiran (2021) define work performance as the quality and quantity of work accomplished by an individual or team in their assigned duties. Work performance is influenced by motivation; as such, employees in their organisation are motivated by financial incentives, such as salary increases, bonuses, and cash allowances, to improve work performance. However, some employees have an internal drive to complete their tasks and enhance their work performance.

METHODOLOGY

Research design and Research Method

The study focused on bank employees selected in the Eastern Cape province of South Africa. The study employed the positivist paradigm to test relationships among variables and to generate objective, reliable data (Chinyamurindi & Mashavira, 2024). Furthermore, the quantitative approach was adopted following the positivist paradigm. The quantitative approach has the advantages of objectivity, precision and the capacity to obtain results in larger populations (Chinyamurindi & Mashavira, 2024). A survey technique was used to collect data from the sample group.

A semi-structured questionnaire, adapted from previous standardised scales, was used to collect data from respondents. Section A of the instrument covered participants' demographic details, and Section B covered all the constructs under study. These constructs were measured using a five-point Likert scale. To collect data, the researchers used convenience sampling to get the responses from respondents. The study used an online survey to get information. A total of 180 respondents were given the questionnaires.

Data was analysed using descriptive statistics. Confirmatory factor analysis (CFA) was employed in the study. The Cronbach's alpha test was used for reliability testing. The average variance extracted (AVE) and cross-loadings were used to assess convergent and discriminant validity. Ethical guidelines were followed, and all respondents were requested to sign a consent form prior to participation. All respondents were informed about their rights prior to participating in the study.

RESULTS

The study aimed to mediate the effect of employee motivation between selected leadership styles and employee performance in selected financial institutions through two hypotheses using structural equation modelling (SEM).

Measurement of Reliability

Researchers need to ensure the measurement tools they use are trustworthy. However, there are two methods that measure reliability: Cronbach's alpha and the Composite reliability value. According to Ghazali and Fauzi (2025), Cronbach's alpha value and Composite reliability value should be greater than or equal to 0.7 (≥ 0.7) to be considered reliable. Reliability measurements are presented in Table 1. The reliability of the instruments used to measure the research variables was verified using Cronbach's alpha and Composite reliability, and Average variance extracted, which measures discriminant validity.

Table 1. Reliability Test

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
EM	0.905	0.908	0.929	0.724
EP	0.901	0.907	0.926	0.716
LD	0.884	0.895	0.915	0.684

Cronbach's Alpha (CA)

The reliability of the instruments in this study was assessed using Cronbach's alpha. According to Ghazali and Fauzi (2025), the value of Cronbach's alpha should be higher than 0.7 to be considered reliable. Based on Table 1, all the values on Cronbach's alpha meet the stated benchmark of > 0.7 .

Composite reliability

Compute composite reliability was employed in this study, using SmartPLS as the data analysis tool. According to Li, & Lay (2024), composite reliability values should be greater than 0.7 to be considered reliable. Composite reliability values below 0.7 are unreliable. However, the results show that all the variables on CR exceed the stated benchmark of 0.7. Thus, all the measurement instruments used in this study are considered reliable.

Measurement of Validity

In this study, discriminant validity was assessed using the Average variance extracted and the Fornell-Larcker criterion, as well as confirmatory factor analysis and the Heterotrait-Monotrait ratio of correlations. The table below shows the discriminant validity measured with variance extracted and Fornell-Lacker and also Heterotrait-Monotrait (HTMT).

Table 2. Fornell- Lacker Criteria

	EM	EP	LD
EM	0.851		
EP	0.614	0.846	
LD	0.654	0.671	0.827

According to Oksatana, Mujannah, & Fianto, (2025), the value of the Fornell-Lacker criterion between research variables should be greater than 0.5 to be accepted. However, based on the results in Table 2, all Fornell-Larcker criterion values exceed 0.5, indicating marginally acceptable discriminant validity and confirming the existence of discriminant validity.

Average Variance Extracted (AVE)

AVE represents the average amount of variance in the indicators of the latent variable that is described by the latent variable itself relative to the amount of variance due to measurement error. Researchers mostly use the

AVE to assess whether their measurement model adequately captures the variables they are interested in. However, Soe (2025) state that the AVE benchmark of 0.4 is marginally accepted, and 0.5 is extremely excellent. Based on the information in Table 1, all values meet the AVE benchmark, with extremely excellent values ranging from 0.684 to 0.7. When the AVE is too high, it suggests that the items measuring the variables are tightly related to each other and are good indicators of those variables. A low AVE suggests that the items may not capture the underlying construct very well and may be influenced more by measurement error or other factors.

Structural Equational Modelling

Structural equational modelling (SEM) is the most used statistical method for estimating and testing intricate correlations between constructs (Haji-Othman, Yusuff, & Hussain, 2024).

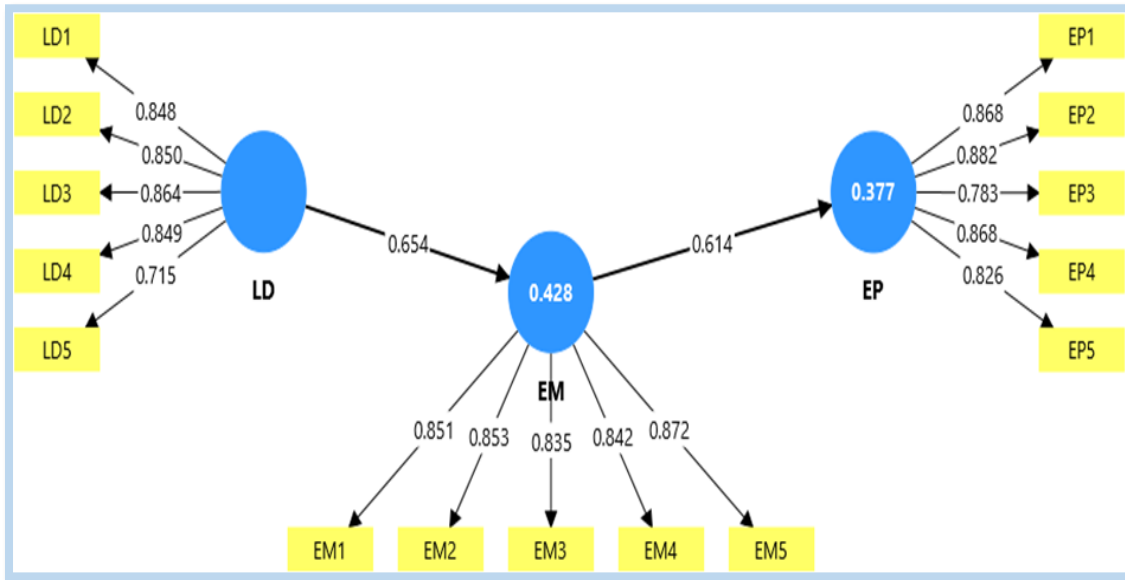


Figure 2: Structural equational Modelling

The figure above presents the two tested hypotheses, along with the path coefficients. The algorithm computes standardised coefficients between -1 and 1. Strong positive relationships are shown by path coefficients near +1, whereas strong negative relationships are indicated by path coefficients around -1.

Two hypotheses were tested: five leadership styles have a positive relationship of 0.654 with employee motivation, and employee motivation has a positive relationship of 0.614 with employee performance. In addition, various leadership styles should be taken into account by financial institutions as they motivate employees, resulting in an improvement in performance.

Path Analyses

In path analysis, researchers specify a theoretical model that represents the hypothesised relationships among constructs. These relationships are shown using arrows to indicate the direction of influence. The variables are typically represented as circles or rectangles, and the arrows between them show the proposed causal pathways. In this study, path analysis is used to test the relationship among Leadership styles and Employee motivation (H1) and Employee motivation and employee performance (H2).

Table 3. Path Analyses

Hypothesized relationship	Hypotheses	Path coefficient	t- statistics	P values	Outcome
LD -> EM	H1	0.654	11.648	0.000	Significant and supported
EM -> EP	H2	0.614	9.511	0.000	Significant and supported

Bootstrapping is needed to assess the hypothesis's significance. Lubis, Absah & Harahap (2025) suggested that for the proposed hypothesis to be considered significant and supported, the t-statistics should be larger than

1.96 and the p-value should be ≤ 0.05 . Therefore, two hypotheses were found to be significant and supported: H1 has a p-value of 0.000 and a t-statistic of 11.648, while H2 has a p-value of 0.000 and a t-statistic of 9.511.

DISCUSSIONS

The study investigates the mediating effect of employee motivation on the relationship between selected leadership styles and employee performance in selected financial institutions in Mthatha, Eastern Cape. Both alternative hypotheses, H1 and H2, suggest that there is a significant positive relationship between selected leadership styles and employee motivation, and H2 suggests that there is a significant positive relationship between employee motivation and employee performance. Sokolic, Croitoru, Florea, Robescu, and Cosac (2024) support the above hypotheses, arguing that leaders who adopt a more involved and supportive approach to employees can significantly improve organisational and employee performance by fostering a motivating, high-performing work environment.

Measuring Reliability and Validity

Reliability and validity of measurement instruments are central in empirical industrial psychology. As suggested by Ghazali & Fauzi (2025), Cronbach's alpha (CA) and Composite Reliability (CR) values should exceed 0.7 to be considered acceptable. In this study, all constructs, leadership styles, employee motivation, and employee performance recorded Cronbach's alpha values exceeding 0.88 and composite reliability values exceeding 0.90, indicating high internal consistency.

This aligns with previous studies in the literature review that emphasised that valid and reliable measurement of psychological constructs like motivation and leadership perception is a prerequisite for understanding employee behaviour. Furthermore, the AVE scores (ranging from 0.684 to 0.724) exceeded the 0.5 threshold suggested by Hair (2014), demonstrating strong convergent validity. Additionally, the Fornell-Larcker criterion values confirmed acceptable discriminant validity, supporting the idea that constructs are empirically distinct.

Leadership styles, employee motivation and employee performance in financial institutions

The SEM path analysis for this study affirmed that leadership styles significantly influence employee motivation (H1: $\beta = 0.654$, $t = 11.648$, $p < 0.001$), and employee motivation significantly predicts employee performance (H2: $\beta = 0.614$, $t = 9.511$, $p < 0.001$). These findings support existing literature asserting the central role of motivation as a mediator between leadership and performance outcomes (Hair, 2014). Also, these findings align with a study by Liu, Ali, Pan, & Xiao (2024), which suggests that selected leadership styles have a positive impact on employee performance and engagement.

Moreover, the findings support the Self-Determination Theory (SDT) (Deci & Ryan, 2000), which posits that employees increase their productivity and performance when their needs for autonomy, competence, and relatedness are satisfied, needs that are significantly shaped by leadership styles. This supports the theoretical justification for including multiple leadership styles in the model.

Lastly, the use of Partial Least Squares Structural Equation Modelling (PLS-SEM) as implemented through SmartPLS offers robustness, particularly in studies with complex mediating relationships and relatively small sample sizes (Hair, 2014). SEM allowed for the simultaneous estimation of measurement and structural models, which is particularly valuable in industrial psychology studies like this one.

CONCLUSION AND RECOMMENDATIONS

The main objective of this study was to investigate the mediating effect of employee motivation between selected leadership styles and employee performance in selected financial institutions in Mthatha, Eastern Cape. The conclusion is derived from the study's empirical findings. This study focused primarily on how leadership styles and employee motivation influence employee performance. The overall results showed that all the hypotheses were positive: H1 = 0.654, H2 = 0.614. Based on the results, leadership styles are positively related to employee motivation, as indicated by a path coefficient of 0.654. Employee motivation is strongly associated with employee performance, as indicated by a path coefficient of 0.614. Therefore, this study has succeeded in mitigating the identified problem by providing statistical evidence of the mediating effect of employee motivation on the relationship between selected leadership styles and employee performance in selected financial institutions. As such, it is recommended that financial institutions continue to design and implement leadership development programs tailored to foster motivational leadership styles and improve employee motivation and performance. These styles have demonstrated a strong positive effect on employee motivation, significantly improving

employee performance. Furthermore, this study recommends that managers in financial institutions develop leadership styles that motivate employees to improve performance.

Future direction of the Study

This study recommends that further studies be conducted on the following areas:

- Assessing the role of leadership styles, Employee Motivation towards employee optimal performance in selected municipalities in the Eastern Cape.
- The impact of organisational leadership style on the motivation of its employees in selected retailers in Mthatha, Eastern Cape.
- The effect of leadership styles on employee motivation in construction companies in Ngqeleni, Eastern Cape.

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Conflict of Interest or Disclosure Statement

There were no conflicts of interest or any further things to disclose in this study.

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