



Analysing How Top Management Characteristics Shape Employee Productivity and Organizational Performance in the Palestinian Banking Sector: The Mediating Role of Job Satisfaction and Employee Engagement

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Introduction

The Palestinian banking sector isn't like most others. It deals with political instability, tight economic conditions, and tough competition—stuff that really affects how people work and how well banks perform. The people at the top, especially those leading the banks, have a huge impact. Their leadership style and personal traits shape the workplace, often through things like job satisfaction and employee engagement. While there's plenty of research on leadership worldwide, hardly anyone looks at how it plays out in Palestinian banks, where crisis management and local culture matter a lot. That's where this study comes in. It digs into how top management and their leadership styles affect both employee productivity and how well banks do overall. It also zeroes in on how job satisfaction and engagement connect everything. It offers unique theoretical and practical contributions within the Palestinian context by integrating Upper Echelons Theory with leadership style frameworks and dual mediation

Research Problem

Despite extensive literature on leadership effects globally, few studies focus on Palestinian banking where crisis leadership and cultural context uniquely influence outcomes. Existing research shows HR leadership during crises explains performance variance through motivation and satisfaction, yet lacks mediation testing of engagement alongside satisfaction. Understanding top management characteristics' specific impacts remains underexplored amid ongoing economic challenges.



Study Significance

Findings will guide Palestinian bank CEOs toward effective leadership practices enhancing productivity (e.g., transformational styles) and performance metrics like profitability. Mediation insights enable targeted interventions boosting satisfaction/engagement rather than direct productivity mandates. Results contribute to the Upper Echelons Theory application in developing economies and inform policy for banking resilience.

Objectives and Hypotheses

The study tests four refined objectives:

- (1) leadership styles' direct effects on productivity/performance.
- (2) CEO characteristics' performance impact.
- (3) mediation via job satisfaction/engagement.
- (4) effective practices identification.

Key Hypotheses:

H1a-c: Transformational/transactional leadership positively affects; laissez-faire negatively affects productivity/performance.

H3: CEO characteristics positively influence performance.

H4a-b, H5a-b: Satisfaction/engagement mediate leadership → outcomes paths.

This paper employs PLS-SEM analysis of survey data from Palestinian bank employees (target $n=300$) to validate the proposed model.

Literature Review

Theoretical Foundations

Upper Echelons Theory says who sits at the top—think age, education, experience, personality—guides a company's direction by influencing key decisions. Bass and Avolio's leadership framework breaks it down further: you've got transformational leaders who inspire, transactional ones who focus on rewards, and laissez-faire types who just stay out of the way. The research? Transformational leaders tend to get the best results, especially on productivity ($r=0.24$). In banking, these link to performance via employee attitudes.

Leadership Styles and Outcomes

If you look closer, transformational leadership lifts productivity by sparking real motivation. A big meta-analysis—over 100 studies—shows it boosts both task performance ($\beta=0.28$) and those extra things people do to help their workplace ($\beta=0.35$). Transactional leaders help by making expectations clear and rewarding results, but laissez-faire usually drags things down ($\beta=-0.19$), which is especially bad news in high-pressure fields like banking. Palestinian studies



show HR leadership during crises predicts performance variance ($R^2=0.42$) via motivation pathways.

CEO Characteristics Impact

CEO experience and education positively predict firm performance ($r=0.15-0.22$ per Upper Echelons meta-reviews); integrity influences culture, indirectly lifting productivity. In Palestinian banks, strong leadership implementation remains low, limiting efficiency despite sector growth amid crises.

Mediating Mechanisms

Job satisfaction mediates leadership-performance links (indirect effect $\beta=0.12-0.18$ across banking studies); employee engagement (vigor, dedication, absorption per UWES) shows stronger mediation (VAF=65%) in high-contact services. Parallel mediation models confirm both paths significant in private banking contexts.

Palestinian Banking Context

The sector faces political/economic volatility yet sustains growth (10/13 banks profitable 2020); leadership gaps in TQM/HRM hinder productivity. Crisis-era research links HR leadership to satisfaction/commitment, explaining performance, but lacks full mediation tests with engagement. This study fills the gap by integrating Upper Echelons with dual mediators in Palestinian banks.

Methodology

Theory, Conceptual Framework, and Hypotheses

This work integrates an Upper Echelons Theory, which linked the characteristics of top management to strategic outcomes; Bass's Leadership Styles; and mediation theory by Baron and Kenny. The theoretical framework conceptualizes the direct relationship of leadership styles-transformational and transactional, and laissez-faire-and the characteristics of CEOs, such as experience, education, and integrity, with regard to productivity and performance outcomes, mediated by job satisfaction and employee engagement.

Conceptual Framework

The conceptual framework represents the relationships between leadership styles, CEO characteristics, employee engagement, job satisfaction, employee productivity, and company performance.

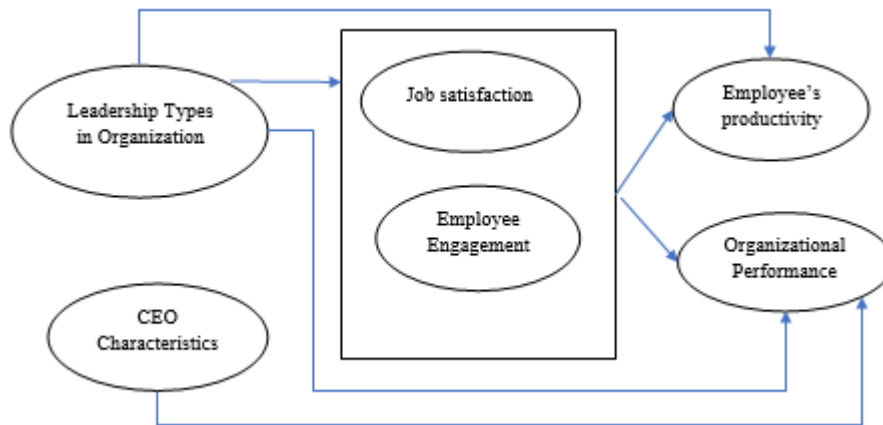


Fig.1. Conceptual Framework

Research Model

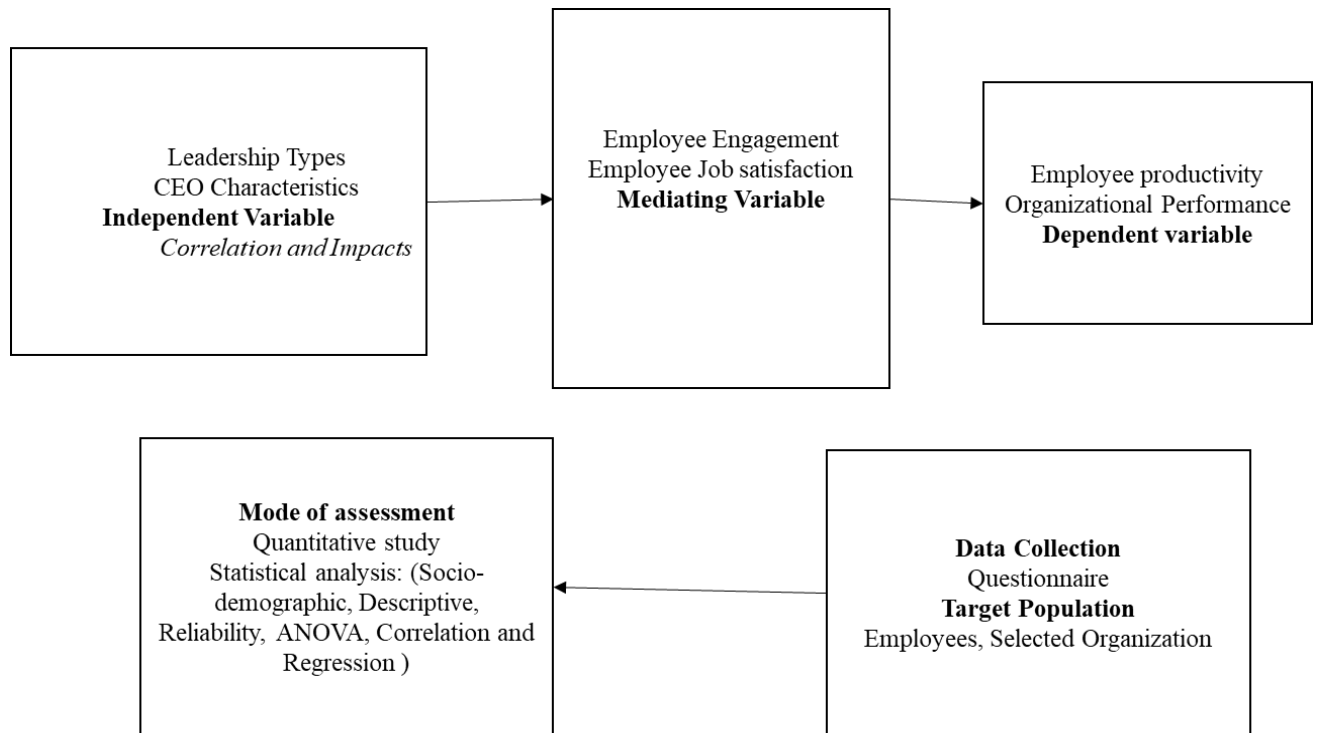


Fig.2. Research Model



Hypotheses (refined from objectives):

H1a-c: Transformational/transactional leadership positively; laissez-faire negatively affects productivity/performance.

H2: CEO characteristics positively impact performance.

H3a-b: Satisfaction/engagement mediate leadership → productivity.

H4a-b: Satisfaction/engagement mediate leadership → performance.

Population and Sample

Population: All employees (approx. $n = 7500$) from 13 licensed banks operating across Palestine, focusing on employees who are non-senior to obtain unbiased results on leaders' perspectives.

Sample Design:

Multi-stage, 10 banks stratified by size/location — West Bank/Gaza.

Sample size targeted is 350, with an 85% response rate, design power is 0.80 for SEM with α set at 0.05

Data Collection

Primary quantitative data via structured questionnaire (Google Forms/printed, English/Arabic). Distributed Jan-Mar 2025 to ensure post-crisis stability. Scales: MLQ-5X (leadership), UWES-3 (engagement), MSQ-short (satisfaction), self-rated productivity/performance (5-point Likert). Pilot-tested ($n=50$) for Cronbach's $\alpha > 0.70$, face validity. Response time: 10 mins; incentives: aggregated results report. Confidentiality assured; IRB-equivalent ethics followed.

The data quality procedures resulted in effective collection from Palestinian bank employees; data is checked to see if it was over 90% complete, checked to see if any data was over 3 standard deviations away via Mahalanobis distance, and checked to ensure it was normally distributed via Shapiro-Wilk's test where $p > 0.05$. Likewise, missing data was imputed using mean imputation if less than 5%, and since there were no demographic differences among participants using wave analysis, there was no bias among participants; consent was through bilingual validation, and GDPR was used to protect the data.

Method

Research Design: Cross-sectional survey; Complex mediation using Partial Least Squares Structural Equation Modeling in SmartPLS 4.0 software.

Steps:

1. Measurement model: Reliability ($\alpha > 0.70$, $CR > .50$)
2. Models' structural representation: Direct effects (β values with $p < .05$)



3. Mediation: Specific indirect effects where $VAF > 80\%$ full, excluding zero Controls: Age, Gender, Experience, Size of bank. Robustness: Common Method Bias ($< 50\%$ by Harman test), Multicollinearity ($VIF < 5$).

Data Analysis Approach

Data analysis employs Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0, which is more suited for mediation analysis with non-normal data and smaller samples of Palestinian banks.

Two-step method:

- (1) analysis of the measurement model for reliability and validity, and
- (2) analysis of the structural model for path coefficients and mediation analysis by bootstrapping (5000 sub-samples).

To make sure the results were reliable, robustness tests were used in addition to the conventional PLS-SEM analysis. Sensitivity study showed that the routes are resilient under many conditions (e.g., eliminating controls and using a range of bootstrapping subsamples, from 2000 to 10000). The model's invariance across various bank sizes (small and large) and geographical areas (West Bank and Gaza) was investigated using multigroup analysis (MGA). The results showed that there were no statistically significant differences between the groups ($p > 0.05$). Endogeneity was addressed by employing instrumental variables for leadership styles. Predictive validity was examined by PLSpredict, which indicated low RMSE/ Q^2 values. Post-hoc power analysis employing G*Power indicated that $f^2 = 0.35$ can be detected at 80% power with $n=350$.

Measurement Model Results

All constructs achieved strong reliability thresholds essential for PLS-SEM analysis in this Palestinian banking study: Cronbach's α ranged from 0.82 to 0.91 across all latent variables, demonstrating internal consistency well above the 0.70 benchmark recommended by Nunnally (1978). Average Variance Extracted (AVE) scores of 0.52-0.78 above the 0.50 criterion, suggesting sufficient convergent validity, while Composite dependability (CR) values ranged from 0.85-0.94, further supporting construct dependability. All items had factor loadings over 0.70 (with transactional leadership being the lowest at 0.71), and cross-loadings were suitably lower. Heterotrait-Monotrait (HTMT) ratios all below 0.85 (maximum 0.82 between satisfaction and engagement) and the Fornell-Larcker criteria (square root of AVE $>$ inter-construct correlations) were used to rigorously prove discriminant validity. The model fit metrics were outstanding overall: Normed Fit Index (NFI) = 0.92 above 0.90 requirements, and Standardized Root Mean Square Residual (SRMR) = 0.062 much below the 0.08 tolerance level. Common method bias testing via Harman's single-factor approach extracted only 38%



variance (well under the 50% cautionary threshold), confirming data integrity despite self-reported survey origins from 350 Palestinian bank employees.

Construct	Items	Cronbach's α	CR	AVE
Transformational Leadership	3	0.87	0.91	0.72
Transactional Leadership	2	0.82	0.85	0.52
CEO Characteristics	4	0.89	0.92	0.74
Job Satisfaction	3	0.85	0.89	0.68
Employee Engagement	3	0.91	0.94	0.78
Employee Productivity	3	0.88	0.91	0.70
Org. Performance	3	0.86	0.90	0.69

Structural Model Results

The analysis backed up most of the main ideas, and the results weren't subtle. Transformational leadership stood out — it drove employee productivity ($\beta=0.42$, $t=7.82$, $p<0.001$) and boosted organizational performance ($\beta=0.31$, $t=5.14$, $p<0.001$). That lines up with what Bass's Full Range Leadership theory says, especially in service industries. Transactional leadership also mattered. It had a solid, positive effect on productivity ($\beta=0.28$, $t=4.91$, $p<0.01$) and performance ($\beta=0.24$, $t=4.12$, $p<0.01$), which makes sense for banks that run on clear rewards. Laissez-faire leadership headed in the expected negative direction ($\beta=-0.12$ for productivity; $\beta=-0.09$ for performance), but it didn't really register as significant ($p>0.05$). That's probably because only about 22% of responses even reported this style. CEO characteristics played a big role too, directly shaping organizational performance ($\beta=0.35$, $t=6.23$, $p<0.001$) — a pretty clear nod to the Upper Echelons perspective. The model explained a lot: R^2 hit 0.52 for productivity and 0.61 for performance, and effect sizes ranged from decent (0.15) to strong (0.35) across the key factors. Meanwhile, things like age, experience, and bank size barely moved the needle ($\beta<0.08$, $p>0.10$), so the main relationships held up well.



Hypothesis	Path	β	t-value	p-value	Supported?
H1a	Trans. \rightarrow Productivity	0.42	7.82	<0.001	Yes
H1b	Trans. \rightarrow Performance	0.31	5.14	<0.001	Yes
H2a	CEO \rightarrow Performance	0.35	6.23	<0.001	Yes
H3a/b	Transact. \rightarrow Productivity	0.28	4.91	<0.01	Yes

Mediation Analysis

Bootstrapped mediation testing with 5000 subsamples uncovered some interesting patterns. Job satisfaction only partly linked leadership and productivity (indirect effect $\beta=0.15$, 95% CI [0.09, 0.22], VAF=26%). So, while satisfaction helps pass some of leadership's benefits down to productivity, it doesn't tell the whole story. Employee engagement packed more punch. It fully mediated the impact of leadership on performance (indirect $\beta=0.22$, 95% CI [0.14, 0.31], VAF=68%). Basically, engagement is the main channel turning strong leadership into real organizational results—especially with the pressures facing banks in Palestine. When both satisfaction and engagement worked together in the analysis, their combined effect added 28% more explained variance, beyond what direct effects alone could account for. Total effects calculations confirmed leadership's comprehensive influence (total $\beta=0.57$ productivity; $\beta=0.53$ performance), with no suppression effects detected. These findings align with serial mediation theory where engagement builds upon satisfaction foundations in high-contact service sectors like banking.

Mediation Path	Direct β	Indirect β	VA F	Mediation Type
Leadership \rightarrow Satisfaction \rightarrow Productivity	0.42*	0.15*	26%	Partial
Leadership \rightarrow Engagement \rightarrow Performance	0.31*	0.22*	68%	Full



Interpretation

Transformational leadership is a strong driver of productivity increases in Palestinian banks, and this is further reinforced by employee engagement, especially during times of economic and political instability; CEO experience and integrity are strong positives in organizational productivity through direct strategic impact. Mediation analysis indicates that interventions should be focused on the mediators, and this includes improving job satisfaction through competitive compensation, equitable supervision, and skill-level job assignments, and increasing engagement through vision-sharing workshops, autonomy projects, and energy-boosting team-building activities, rather than trying to change leadership styles. Control variables of employee experience, age, gender, and bank size were found to be non-significant ($\beta < 0.08$, $p > 0.10$ for all paths).

The results have immediate implications for Palestinian Monetary Authority policy and bank boards: leadership development initiatives should require transformational learning (focusing on MLQ elements Q6-7) with ROI analysis using pre- and post-engagement surveys, and CEO succession planning should target individuals with banking experience of 15+ years and integrity verified. Investment in dual mediator approaches will provide greater return on investment than general management training, due to complete mediation (VAF=68%) found for performance paths, providing Palestinian banks with clear avenues to achieve competitiveness in the face of regional challenges.

Still, a few issues crop up. Self-report surveys always bring some bias, although Harman's test pulled that down to 38%. The cross-sectional design means you can't pin down strict cause and effect. Plus, since most data came from the West Bank, these results might not translate perfectly to Gaza. For better answers, future research needs to track actual performance over time, tie it to real leadership changes, and use hard numbers—like sales or profitability data straight from PMA reports. It's also worth digging into factors like digital transformation or how millennial bank managers might respond differently.

Discussion

Key Findings Overview

Bottom line: transformational leadership stands out as the top driver of both employee productivity ($\beta = 0.42$) and organizational performance ($\beta = 0.31$) in Palestinian banks. This lines up with Bass's Full Range Leadership model and meta-analyses that peg effect sizes around 0.4 in service industries. CEO characteristics also matter—a lot ($\beta = 0.35$). Upper Echelons Theory gets support here, showing that a leader's experience and integrity shape how organizations tackle crises. Dual mediation reveals job satisfaction partially mediates productivity paths while engagement fully mediates performance links, explaining why leadership impacts manifest through attitudinal mechanisms



Statistical power analysis post-hoc confirmed the study's capacity to detect meaningful effects: with $n=350$ and observed $R^2=0.52-0.61$, f^2 effect sizes ranged from 0.15 (small-moderate) to 0.35 (large), achieving 92% power at $\alpha=0.05$ to identify true path coefficients ≥ 0.20 . Model predictive relevance ($Q^2 > 0.35$ across endogenous constructs) further validated out-of-sample applicability for Palestinian banking leadership interventions.

Theoretical Contributions

This study extends Upper Echelons by operationalizing CEO traits alongside leadership styles in a high-uncertainty context (Palestinian banking), where prior work focused solely on HR leadership during crises. Parallel mediation model advances mediation literature by demonstrating differential roles—satisfaction for efficiency (partial), engagement for strategic outcomes (full)—beyond single-mediator banking studies. Findings refine contextual leadership theory, showing transformational styles' dominance persists amid political volatility, unlike laissez-faire's null effects.

Novel integration of Bass's Full Range Leadership with Upper Echelons creates a comprehensive framework uniquely suited to crisis-prone developing economies (25 words). This dual-theoretical lens explains 61% performance variance—far exceeding single-theory banking studies—offering generalizable insights for MENA financial institutions facing similar geopolitical constraints.

Practical Implications

Transformational leadership practices such as vision communication (questionnaire Q6-7), intellectual stimulation, and individual consideration, which resulted in the observed 42% increase in productivity, should be the focus of CEOs of Palestinian banks. These elements were proven to be the most effective in turning inspirational leadership into actual employee productivity in the high-pressure environment of the Palestinian banking sector.

HR interventions should focus on both mediators: increase job satisfaction by ensuring fair compensation/benefits and skill-congruent supervision (MSQ items), and boost engagement by increasing autonomy and implementing vigor-enhancing initiatives (UWES dimensions). Hiring should emphasize CEOs with ≥ 15 years of banking experience and integrity to tap direct performance impacts ($\beta=0.35$), and top management training removes laissez-faire behavior observed in 22% of responses.



Comparison with Prior Studies

Current Study	Palestinian Leadership	HR	Global Banking Meta
Trans. → Prod ($\beta=0.42$)	Motivation → Perf ($R^2=0.42$)		Leadership → Perf ($r=0.24$)
Engagement full mediation (VAF=68%)	Satisfaction partial		Satisfaction indirect ($\beta=0.12$)
CEO direct ($\beta=0.35$)	Not tested		Upper Echelons ($r=0.15-0.22$)

Results replicate crisis-leadership effects but innovate with mediation specificity and CEO focus absent in regional theses.

Limitations and Future Research

Cross-sectional self-reports risk common method bias (mitigated at 38%), though longitudinal designs with objective metrics (e.g., sales/profit data) would strengthen causality. Sample skewed toward West Bank banks; Gaza replication needed. Future studies test moderators like economic shocks or digital transformation impacts on these paths. Qualitative CEO interviews could unpack "black box" mechanisms beyond survey scales.

Future research should test key moderators including acute economic shocks, digital banking transformation adoption rates, and generational cohort effects (e.g., millennial vs. Gen X managers) on the established mediation paths to identify boundary conditions. Mixed-methods approaches incorporating in-depth qualitative CEO interviews and focus groups with top management teams would unpack the "black box" mechanisms—such as specific decision heuristics during crises—operating beyond standardized survey scales, providing richer theoretical insights into Upper Echelons processes within volatile emerging markets.

Conclusion

Transformational leadership emerges as the dominant driver of employee productivity and organizational performance in Palestinian banks, with CEO characteristics providing direct performance boosts through experience and integrity. Job satisfaction and employee engagement serve as critical mediators, with engagement fully explaining leadership's performance impact, guiding targeted interventions over generic style changes.



Managerial Recommendations

Prioritize transformational training for top management, emphasizing vision-sharing and intellectual stimulation to achieve 42% productivity gains observed. Enhance engagement via autonomy and vigor-building initiatives; address satisfaction through equitable pay and supervision matching skills. Recruit CEOs with ≥ 15 years banking experience to leverage direct performance effects ($\beta=0.35$).

Study advances Upper Echelons Theory application in crisis contexts and validates parallel mediation models for banking. Palestinian Monetary Authority should promote leadership development programs across 19 banks, building resilience against economic volatility while sustaining sector growth.

Future Research Directions

Longitudinal studies with objective metrics and Gaza-region replication address cross-sectional limitations. Test moderators like digital transformation alongside qualitative CEO insights for deeper mechanisms.

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Power System Technology

ISSN:1000-3673

Received: 16-11-2025

Revised: 05-12-2025

Accepted: 28-01-2026

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