



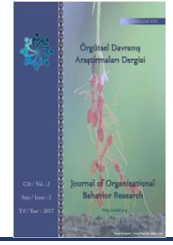
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THE IMPACT OF TRANSFORMATIONAL LEADERSHIP ON EMPLOYEE PERFORMANCE IN THE VIETNAMESE BANKING INDUSTRY

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ABSTRACT

The investigation into how a leader's leadership style shapes employee performance remains a perennial interest for scholars and administrators alike. This study delved into the intricacies of this relationship within the context of Vietnamese commercial banks, aiming to assess how a leader's style influences subordinates' work performance, with a focus on the moderating effect of psychological capital. Employing a Structural Equation Modeling (SEM) framework and gathering primary data via a survey administered to banking industry personnel, the analysis unveiled compelling insights. The results revealed that transformational leadership not only directly impacts employee performance but also exerts an indirect positive influence through shaping corporate culture. Furthermore, the study highlighted the pivotal role of positive psychological capital in amplifying the effect of leadership styles on employee performance. Armed with these findings, bank leaders are empowered to make informed decisions regarding leadership approaches and corporate culture, thereby enhancing overall workforce efficiency and organizational effectiveness.

Keywords: Transformational leadership, Organizational culture, Psychological capital, Employee performance, SEM.

INTRODUCTION

Employee work efficiency is always a topic that any business leader is interested in because the business results of business depend largely on the work efficiency of each employee (Alhamami *et al.*, 2020). The work efficiency of each employee is proven to depend on leadership style. Leaders through the right Leadership Style can enhance the performance of their subordinates and retain talented employees longer in the organization. Good leaders motivate employees and motivated employees not only improve performance in an organization but also go beyond job requirements, thereby enhancing the overall performance of the organization and bringing more profitability (Nawoseing'ollan & Roussel, 2017). The study focuses on evaluating the impact of transformational leadership because this leadership style is of interest to many researchers and has been proven to have a positive effect on employee work performance (Top *et al.*, 2020). Transformational leadership has a strong positive impact on employee outcomes (Saira *et al.*, 2021). Leadership that pursues a transformational style allows employees to have a degree of autonomy to perform their work, thus their performance is better than other Leadership Styles (Top *et al.*, 2020; Ravet-Brown *et al.*, 2023). Not only does it directly affect organizational performance, but transformational leadership also affects corporate culture - an

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intermediary factor that has been proven to also affect employee work efficiency (Virgiawan *et al.*, 2021). Many businesses have known how to use organizational culture as an effective tool to influence employee motivation, thereby leading to improved employee work efficiency. In addition, a factor proven to have a moderating role of psychological capital in Baig *et al.* (2021) study on the relationship between transformational leadership and work performance also lays the foundation for expanding research models. However, through the review process, the author has not found research evaluating the direct and indirect impact through the mediating variable of corporate culture of transformational leadership on employee work performance. and the moderating role of psychological capital.

The banking industry plays the role of the "backbone" of the economy, especially in developing countries like Vietnam, but the number of studies on the impact of transformational leadership on employee performance is still quite modest. A bank is a financial and banking service business unit. Financial service products, besides having the characteristics of services, also have their characteristics including safety, security, and effective support for the capital circulation process in the economy (Ennew *et al.*, 2013). Because they are mainly associated with transactions related to money, the supply and use processes take place simultaneously, so employees have a very important influence on banks during their operations. According to internal marketing theory, employees are considered internal customers, playing an important role in the process of providing services to customers and directly affecting the bank's operations (Ennew *et al.*, 2013). However, some banks are not properly aware of the impact of Leadership Style in general and transformational leadership in particular on employee work performance, leading to ineffective operations (Trung & Trang, 2022). Banking industry employees in the process of providing services are often under a lot of pressure not only from customers using the service but also from the leaders themselves. At the same time, positive psychological capital characteristics of employees are expected to increase the role of leadership and corporate culture in increasing employee work efficiency.

In such a practical and scientific context, the article was conducted to evaluate the direct and indirect influence through corporate culture of the factor of transformational leadership on employee work performance as well as such as the moderating role of psychological capital in the above relationship in the banking industry. The results from the research are the basis for bank leaders to make appropriate decisions to improve the work efficiency of their subordinates.

Literature Review

Relevant Concepts

Transformational Leadership

Leadership style is the approach that a leader takes in providing guidance, implementing plans, and motivating employees (Makambe & Moeng, 2020). Transformational leadership is a type of leadership where the leader conveys inspiration, can achieve group success by encouraging the intelligence of subordinates, and supports individuals (Top *et al.*, 2020; Baig *et al.*, 2021). Leaders adopting this style aim to generate positive commitment and enthusiasm, in contrast to involuntary compliance or lukewarm (Top *et al.*, 2020).

The four main behaviors of transformational leadership include idealized influence, individualized consideration, intellectual stimulation, and inspirational motivation (Bass, 1998). Firstly, idealized influence is a leadership characteristic that reflects understanding, practical



behavior, and consistency in every decision-making process, making employees proud, respected, and trusting. Through this, employees comprehend high ethical standards and conduct themselves appropriately without coercion. Idealized influence is a crucial factor in transformational leadership (Bass, 1998; Top *et al.*, 2020). Secondly, transformational leadership inspires employees by providing support, and motivating them, thereby fostering optimism and high effort from employees to pursue new career heights. Thirdly, transformational leadership stimulates the intelligence of employees by encouraging them to find effective problem-solving approaches. Through this, employees are trained to become creative and innovative, being open to new, breakthrough ideas, thus motivating continuous self-development. Lastly, the characteristic reflecting the ability to influence the human mind based on individual consideration is a personal consideration. Leaders are willing to understand the individual differences of employees, consistently listen, communicate, and train employees based on their needs and desires. Leaders following this approach often rely more on intrinsic motivation than external motivation. Through these characteristics, superiors excel in transforming employees into leaders and influencing subordinates to contribute to the organization's benefits (Nyakundi *et al.*, 2021).

Employee Performance

Employee performance is defined as the execution and completion of tasks assigned or undertaken by an individual (Rivaldo & Nabella, 2023). Paais and Pattiruhu (2020) utilized "employee performance" to gauge the extent to which individuals successfully execute their assigned responsibilities within the organizational framework. This term specifically encapsulates the evaluation of the competence and efficiency with which employees carry out their designated tasks, providing valuable insights into the overall performance of the workforce. Sürücü *et al.* (2022) notes that employee job performance reflects both goals and the means to achieve them, representing professional effectiveness or organizational achievement expectations. Therefore, enhancing employee performance significantly contributes to the organization's development.

Psychological Capital

Psychological capital is the essence of an individual, representing the positive psychological state of personal development (Avey *et al.*, 2009). Psychological capital is a high-level core structure described by four different factors: self-efficacy, optimism, hope, and resilience (Avey *et al.*, 2009). Self-confidence denotes the capacity for self-assurance and trust in individual capabilities. Individuals with elevated self-confidence consistently confront challenges positively, displaying flexibility in problem-solving endeavors. Optimism manifests as a positive mindset and a belief in the future. Those with high levels of optimism tend to perceive challenging situations as opportunities for learning and development, facilitating adaptability in the face of adversity. Resilience signifies the ability to sustain goals and efforts despite encountering challenges. Individuals characterized by high resilience tenaciously uphold commitments and shape long-term objectives, navigating through difficulties on their journey. Hope embodies an optimistic outlook and faith in the potential for positive change in the future. Individuals with high levels of hope construct goal-oriented plans, concentrating on constructive solutions. The conservation of resources theory posits that individuals' resources are



limited (Darvishmotevali & Ali, 2020; Lei *et al.*, 2020). Therefore, resources are allocated to meet individuals' needs, and these allocated resources result in different outcomes.

Research Overview and Research Hypotheses

Impact of Transformational Leadership on Employee Performance

Some theories such as Path - Goal theory (House & Mitchell, 1974), the job performance theory of Campbell (1990), and Borman and Motowidlo's (1993) all emphasize the role of leadership style in employees' job performance. Based on the characteristics of a leader adopting a transformational style, subordinates are likely to achieve more than outlined in their plans (Top *et al.*, 2020; Baig *et al.*, 2021; Magasi, 2021). Leaders, through enthusiasm, optimism, inspiration, and introducing innovative problem-solving approaches, contribute to helping employees resolve issues swiftly (Bass, 1998; Top *et al.*, 2020; Sürücü *et al.*, 2022). Superiors act as trainers or advisors, supporting employees in reaching their full potential and providing opportunities for learning to enhance their development (Aldoseri & Almaamari, 2020). These leaders are often effective in guiding employees to achieve organizational goals, enhancing individual and team capabilities and increasing satisfaction and organizational awareness.

Some researches indicates that transformational leadership improved employee productivity, positive effects on employee job performance (Kishen *et al.*, 2020; Baig *et al.*, 2021; Sürücü *et al.*, 2022). Baig *et al.* (2021) argue that the transformational leadership involves inspiring and motivating employees to work diligently toward organizational goals, contributing to organizational success. According to Kishen *et al.* (2020) study, transformational psychological capital has a direct and indirect positive impact on employee job performance through job satisfaction, indicating that leaders inspiring and stimulating their employees leads to higher dedication and better performance. Moreover, in challenging situations, transformational leadership proves effective for employees. Sürücü *et al.* (2022) study demonstrated that transformational psychological capital positively influences employee performance, with self-confidence playing an intermediary role in this relationship. Based on theoretical foundations and a review of previous research, this article expects a positive impact of transformational leadership on employee job performance.

Research Hypothesis H1: Transformational leadership has a direct positive impact on employee performance.

Leadership style not only directly influences but also operates through corporate culture (Pangarso *et al.*, 2021). Corporate culture is the collective beliefs of members within an organization, learned from internal problem-solving and dealing with the external environment (Schein, 2010). Leaders with transformational leadership shape the corporate culture, impacting everyone (Lasrado & Kassem, 2021). Transformational leadership can even alter organizational culture to reflect a new vision (Budur, 2020; Virgiawan *et al.*, 2021; Qalati *et al.*, 2022). Several works examining the impact of leadership styles on corporate culture have emphasized the crucial role and relationship between leadership and corporate culture. According to Cherian *et al.* (2021), transformational leadership influences corporate culture, thereby affecting business performance. Corporate culture also plays a positive role in employee job performance (Mohsen *et al.*, 2020; Kenedi *et al.*, 2022; Opoku *et al.*, 2022). The research results of Suong and Huong (2021) showed that corporate culture distinctly influences workers' job performance. Abdullahi *et al.* (2021), Iskanto (2023), Widyaningrum and Amalia, (2023) identified a positive and clear



relationship between corporate culture and employee performance. The intermediary role of corporate culture has also been proven in some experimental studies. Diana *et al.* (2021) supported the intermediary role of corporate culture in the relationship between human resource management and performance.

Research Hypothesis H2a: transformational leadership has a positive impact on corporate culture.

Research Hypothesis H2b: Corporate culture is a positively influencing factor on Employee Job Performance.

The Moderating Role of Psychological Capital in the Impact of Transformational Leadership on Employee Job Performance

The attributes of psychological capital contribute to enhancing employees' motivation to achieve set goals (Fontes & Dello Russo, 2021). Research by Luthans and Youssef-Morgan (2017), Lei *et al.* (2020), Karimi *et al.* (2023) demonstrates a positive relationship between performance and positive psychological capital. This close relationship indicates that the four positive capabilities of hope, resilience, optimism, and confidence within psychological capital can facilitate motivation, goal attainment, and overall better performance. In the context of transformational leadership, employees experience greater satisfaction due to the leader's ethical values and empowerment. Transformational leaders assist subordinates in setting goals, and they instill trust in subordinates to achieve their objectives. Baig *et al.* (2021) illustrate that psychological capital plays a moderating role in the relationship between leadership styles, including transformational leadership, and employee performance.

Research Hypothesis H3: Psychological capital moderates the impact of transformational leadership on employee job performance.

Based on theoretical foundations, literature review, notably works by Diana *et al.* (2021), Nyakundi *et al.* (2021), and Baig *et al.* (2021), the article proposes the research model as follows as shown in **Figure 1**:

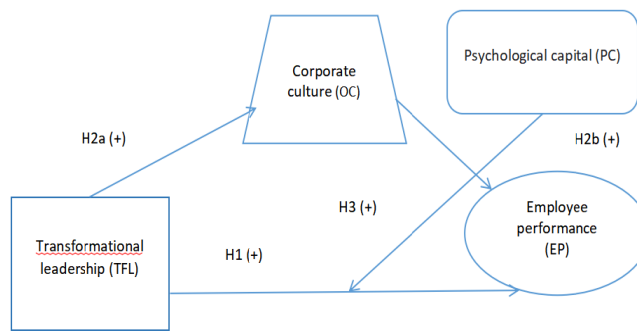


Figure 1. Proposed research model

Source: Author's recommendation

MATERIALS AND METHODS

Variable Measurement

Transformational Leadership (TFL) is measured by four components: Individualized Consideration (IC), consisting of five observed variables; and the remaining variables, Idealized

Influence (II), Inspirational Motivation (IM), Intellectual Stimulation (IS), measured by four observed variables for each factor. Organizational culture has various measurement scales, among which, the scale proposed by Cameron and Quinn (2006) is widely used in service industry studies. It ensures the measurement and evaluation of strengths and weaknesses in the current organizational culture, indicating the cultural gap compared to the organization's future expectations based on four component factors: Adhocracy Culture (AC), Clan Culture (CC), Hierarchy Culture (HC), Market Culture (MC). Especially in the banking sector, the OC model is suitable for the characteristics of the banking industry, which demands employee collaboration and control to limit risks in service delivery (Minh, 2015). Additionally, the banking industry is undergoing a digital transformation, requiring innovation and continuous learning from employees. Each component of organizational culture is measured by 6 variables, according to Cameron and Quinn (2006). Psychological capital is measured through 4 components with 12 measurement variables inherited from Costa and Neves (2017). Employee job performance is measured through 4 observed variables, based on the research by Rego *et al.* (2007).

Data and Research Method

The study employed a random sampling method to survey employees in the banking sector who held employment contracts lasting more than 1 year in Ho Chi Minh City. The surveys were distributed to the human resources departments of various branches and transaction offices of banks within the city. A total of 835 surveys were collected, out of which 780 were deemed valid, yielding a response rate of 93.4%. The validity of responses was ensured by targeting employees with appropriate knowledge levels, thereby enhancing their ability to provide relevant answers to the survey questionnaire. The detailed statistical analysis of the data, presented in **Table 1**, illustrates that the research sample maintains diversity in terms of gender, age, educational background, and work experience.



Table 1. Demographic information

	Frequency	Percent
Gender		
Male	354	45%
Female	426	55%
Total	780	100%
Age (years)		
20–30	198	25%
31–40	276	35%
41–50	199	26%
51 or greater	107	14%
Total	780	100%
Education		
Intermediate	56	7%
Bachelor's	423	54%
Master's or higher	301	39%
Total	780	100%

Experience (years)		
<1	26	3%
1-5	320	41%
6-10	289	37%
>11	145	19%
Total	780	100%

Source: Author's research results

Using SPSS and AMOS tools, the article performed descriptive statistical analysis, calculated Cronbach's Alpha coefficient, conducted exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and structural equation modeling (SEM) regression analysis to test the research hypotheses.

RESULTS AND DISCUSSION

Results of Testing the Scale

Testing the scale of each factor, shown in **Table 2**, shows that all scales are reliable when the total Cronbach's Alpha coefficient is in the range from 0.808 to 0.909. In addition, no observed variables are eliminated when the variable-total correlation coefficient is greater than 0.5.

Table 2. Summary table of Cronbach's Alpha, and CFA analysis results

No.	Factor	Component	No. Of items	C α	AVE	CR
1	Transformational leadership	Idealized Influence (II)	4	0.905	0.898	0.747
2		Inspirational Motivation (IM)	4	0.875	0.920	0.758
3		Intellectual Stimulation (IS)	4	0.939	0.923	0.767
4		Individualized Consideration (IC)	5	0.894	0.903	0.710
5	Organizational Culture (OC)	Adhocracy Culture (AC)	6	0.850	0.903	0.854
6		Clan Culture (CC)	6	0.876	0.910	0.828
7		Hierarchy Culture (HC)	6	0.904	0.907	0.711
8		Market Culture (MC)	6	0.876	0.923	0.750
9	Employee Performance (EP)	Employee Performance (EP)	5	0.808	0.910	0.716
10	Psychological capital (PC)	Hope (HO)	3	0.903	0.897	0.7687
11		Efficacy (EF)	3	0.921	0.866	0.784
12		Resilience (RE)	3	0.875	0.903	0.758
13		Optimism (OP)	3	0.909	0.807	0.786

C α : Cronbach's Alpha, AVE: Average Variance Extracted, CR: Composite Reliability

Source: Author's research results

Research EFA analysis using the Principal Axis Factoring method with Promax rotation to create a Pattern Matrix for CFA and SEM regression testing. The results of the EFA analysis are as follows: (1) KMO test value gives value 0.860 > 0.5; (2) Bartlett's test for Sig value. = 0.000 < 0.05; (3) the value of total variance extracted is 70.081%; The Eigenvalue coefficient values of the extracted factors are all greater than 1; (5) all variables have factor loadings greater than 0.5 in the Pattern Matrix. Thus, in other words, from the initially observed variables through

EFA analysis, all 13 factors were extracted, consistent with the initial expectation of the number of variables used in the research.

Based on the 13 variables identified through Exploratory Factor Analysis (EFA), the study conducted Confirmatory Factor Analysis (CFA). The CFA model evaluation indices are as follows: (1) Chi-square/df = 1.818 < 5; (2) GFI = 0.908 > 0.9; (3) CFI = 0.964 > 0.9; (4) TLI = 0.961 > 0.9; (5) RMSEA = 0.038 < 0.05. The test statistics indicate the adequacy of the CFA model in the study. **Figure 2** shows the results of the CFA model with latent variables including TFL, OC, and PC.

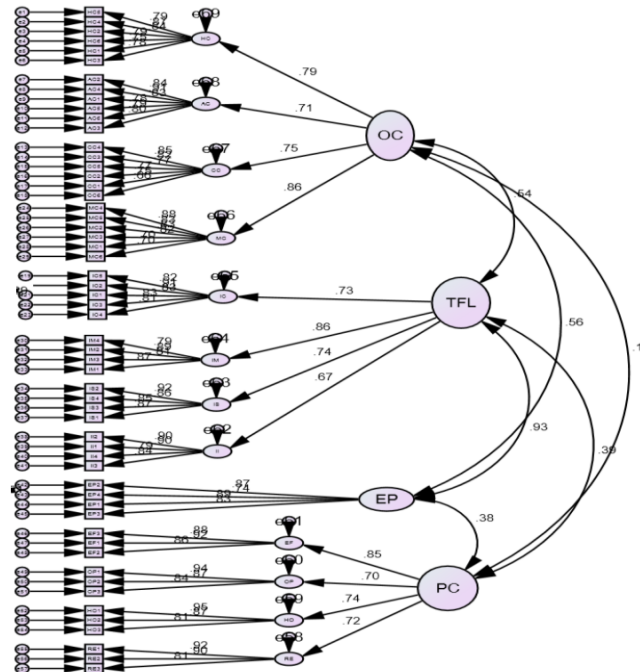


Figure 2. Result CFA model
Source: Author's research results

Table 3 shows that the Average Variance Extracted (AVE) of the variables is greater than 0.5, and the Composite Reliability (CR) is consistently greater than 0.7, indicating convergence and high reliability of the variables. The values on the main diagonal in the Fornell-Larcker analysis represent the square root of the extracted variance (AVE), which is greater than the values in the same row and column. This finding demonstrates that the variables have distinctive values.

Table 3. Results of exploratory factor analysis

	CR	AVE	MSV	MaxR(H)	PC	OC	TFL	EP
PC	0.841	0.572	0.172	0.853	0.756			
OC	0.864	0.614	0.297	0.876	0.202	0.784		
TFL	0.837	0.722	0.674	0.844	0.415	0.545	0.850	
EP	0.914	0.726	0.674	0.919	0.358	0.53	0.821	0.852

Source: Author's research results



The transformational leadership TFL is conceptualized as a latent variable, encompassing various dimensions contributing to organizational dynamics. Among these dimensions (**Figure 2**), inspirational motivation emerges as the most influential factor, holding a substantial weight with a robust regression coefficient of 0.81. This result emphasizes the crucial role of leaders in inspiring and motivating their followers through a compelling vision and fostering a shared sense of purpose. Additionally, individual consideration (IC) and intellectual stimulation (IS) contribute significantly, with regression coefficients of 0.75 and 0.76, respectively. These aspects underscore the importance of leaders cultivating personal connections and encouraging team intellectual growth. Conversely, idealized behavior II has the lowest contribution, with a regression coefficient of 0.68. While still impactful, this factor signifies that the leaders' embodiment of idealized behaviors holds a slightly diminished weight within the overall transformational leadership model. The nuanced interplay of these dimensions highlights the complex and multifaceted nature of the transformational leadership paradigm.

Figure 2 indicates that within the components of the organizational culture, the coefficient of market culture (0.87) is the most substantial contributor to the second-tier structure of the organizational culture framework. The preeminent role of market culture within the organizational framework of the bank manifests as a pivotal and salient factor, exerting a substantial influence on the intricate dynamics of its corporate ethos. The ascendancy of market culture indicates the institution's unwavering commitment to competitive orientations, where the relentless pursuit of market dominance, profitability, and strategic agility assume paramount significance. This cultural paradigm is inherently characterized by an inherent proclivity towards market-driven values, where decisive and profit-centric actions are prioritized. The pronounced impact of market culture permeates various facets of organizational behavior, encompassing decision-making processes, resource allocation strategies, and overall adaptability to the rapidly evolving financial landscape. The prevailing market culture encapsulates the ethos of a dynamic, results-oriented milieu, aligning the institution with the imperatives of contemporary financial paradigms and fortifying its competitive standing within the banking sector. The Hierarchy Culture (HC's) coefficient (0.79) also significantly contributes to the organizational culture, albeit to a lesser extent than the market one, emphasizing robust adherence to established banking procedures. The significance of the control culture underscores the organization's awareness of the imperative to maintain meticulous standards, ensuring operational efficiency and compliance within the intricate framework of complex banking procedures. During the ongoing digital transformation phase within Vietnam's banking sector, it is noteworthy that creative culture AC assumes the least substantial role among organizational culture factors when its effect is only 0.72. The contemporary banking landscape, characterized by a paradigm shift towards digitalization, underscores the paradoxical representation of a creative ethos within the organizational framework. This apparent discrepancy delineates a nuanced interplay between the industry's imperative to adapt to technological advancements and the prevailing organizational culture, wherein the conventional emphasis on control and collaboration eclipses the fostering of a creative milieu. While prioritizing efficiency and adaptability, the strategic orientation towards digital transformation undervalues the inherent innovative potential within the organizational culture of Vietnamese banks. This observation prompts a deeper exploration of the cultural dynamics



within these financial institutions, revealing a potential incongruence between the exigencies of digital evolution and the cultivation of a creative culture.

Results of Research Hypotheses Testing

The study assessed the impact of Transformational Leadership (TFL) on employee job performance through a Structural Equation Modeling (SEM) approach. Using AMOS software, the results of the SEM structural model evaluation and regression include (1) Chi-square/degrees of freedom of 2.368 < 3; (2) TLI = 0.915 > 0.9, (3) CFI = 0.920 > 0.9, and GFI = 0.829 > 0.8, and RMSEA = 0.054 < 0.08. These indices indicate that the model fits well with the actual data. Bootstrap testing was performed to ensure the robustness of the research results. The p-value of CR in the bootstrap test table is greater than 0.05, meaning that the difference between the estimates in the original sample and the bootstrap test sample is not statistically significant. In other words, the regression results of the SEM model in the study are robust.

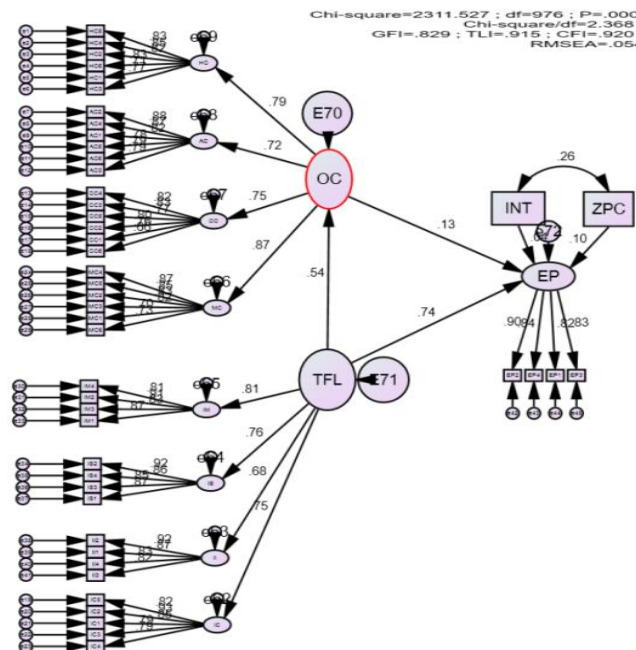


Figure 3. Research Standardized SEM model

Source: Author's research results

Figure 3 and Table 4 reveal that TFL pushes subordinates to advance job efficiency, directly reflected through the regression coefficient of transformational leadership reflected through the measurement variable TFL, reaching 0.740 with a significance level of 1%. The statistical outcomes underscore the significant impact of transformational leadership on enhancing staffers' performance. The core elements of charisma, inspiration, personal attention, and intellectual stimulation, as integral components of this leadership style, contribute to a notable improvement in work performance. Charismatic leaders inspire trust and enthusiasm, fostering a positive work environment—the ability to inspire and motivate individuals towards a shared vision results in increased dedication and effort. Personal attention, another critical aspect, ensures that employees feel valued and supported, boosting morale and commitment. Intellectual



stimulation encourages creative thinking and problem-solving, ultimately enhancing the quality of work. This result is consistent with previous experimental studies by foreign scholars such as Baig *et al.* (2021), and in Vietnam by Trung and Trang (2022). Thus, hypothesis 01 about the positive direct impact of transformational leadership on employee work performance is accepted.

Table 4. Regression Coefficients of Factors in the SEM Model

Hypothesis	Relationship	Unstandardized Estimate				Standardized Estimate		Result
		Coef	S.E.	C.R.	P	Coef		
H1	EP <--- TFL	1.050	0.072	14.654	0.000	0.740	Approved	
H2a	OC <--- TFL	0.610	0.056	10.968	0.000	0.540	Approved	
H2b	EP <--- OC	0.161	0.047	3.393	0.000	0.130	Approved	
H3	EP <--- INT	0.018	0.013	1.358	0.007	0.036	Approved	

Source: Research results by the author

In addition to the direct impact, transformational leadership is also a factor that positively influences employee work performance through the mediating role of corporate culture. The regression coefficient of TFL on OC is 0.540 at the 1% significance level. In other words, research hypothesis 02 about the impact of transformational leadership on corporate culture is supported by the research results. Paais and Pattiruhu (2020) advocate for the role of leadership style in shaping and developing an organization's corporate culture. An effective leader is a character who creates and implements changes in corporate culture to create an environment that motivates employees to develop. Based on the promotion of corporate culture development, OC contributes to improving employee work efficiency with a regression coefficient of 0.161 at the 1% significance level. This result is reinforced by previous studies by Suong and Huong (2021), In addition to having a direct impact, transformational leadership is also a factor that positively influences employee work performance through corporate culture's mediating role. The regression coefficient of TFL on OC is 0.540 at the 1% significance level. In other words, the research results support research hypothesis 02 about the impact of transformational leadership on corporate culture. Nwakoby *et al.* (2019) shows the important role of corporate culture in motivating and encouraging employees to increase work efficiency. Thus, transformational leadership not only directly affects employee work performance but also indirectly through the mediating role of corporate culture.

The research results presented in **Table 4** vividly depict the existence and significance of the moderating role of psychological capital in the relationship between transformational leadership and employee performance. The interaction variable "INT" in **Figure 3** is calculated between two standardized variables of transformational leadership and psychological capital (ZPC) to clarify the role of the moderating variable of psychological capital. Psychological capital, measured through factors such as hope, resilience, optimism, and confidence, maintains a crucial role in interacting with transformational leadership. Path analysis results show that the relationship from INT to EP is statistically significant due to $P = 0.007 < 0.05$, thus, PC has a role in moderating the impact from TFL to EP. The regression coefficient of 0.036 has a positive sign, which shows that the higher the psychological capital, the more positive the impact of transformational leadership on employee performance. Examining the standardized regression



coefficients in the model reveals that each component of psychological capital positively contributes to explaining employee performance under the influence of transformational leadership. This implies that employees with higher levels of psychological capital undergo a positive adaptation process to transformational leadership, thereby enhancing their work performance. The moderating role of psychological capital implies that the impact of transformational leadership on employee performance is contingent on the varying levels of psychological capital that employees possess. A high level of psychological capital may amplify the positive effects of transformational leadership, fostering a work environment where employees feel empowered, motivated, and resilient in the face of challenges. On the other hand, a lower level of psychological capital may hinder the full realization of the benefits of transformational leadership, potentially limiting the extent to which employees translate inspirational leadership into enhanced performance. This makes employees with high psychological capital a valuable resource, providing support and stimulation for the development of their capabilities under the guidance of transformational leaders. This aspect is critical for understanding how psychological factors influence and interact within the work environment, ultimately optimizing employee performance and development.

CONCLUSION

This article was written to assess transformational leadership's impact on employees' work effectiveness at commercial banks in Vietnam. The paper utilized data from 780 subordinates with at least one year of labor contracts, combined with the structural model analysis method. Our findings demonstrate that transformational leadership enormously enhances employees' performance, both directly and indirectly, through the influence of organizational culture. Therefore, leaders in the banking industry should consider pursuing the leadership style to enrich the performance of inferiors. Transformational directors must clearly define a realistic vision and mission, understand the bank's task, and ensure decision-making consistency. Through that, administrators can create charisma and achieve the admiration of their inferiors. The understanding, prestige, and consistency in the actions of presiders, combined with the dedication to helping staff, will be the basis for inspiring subordinates, encouraging them to be optimistic, and putting in tremendous exertion. Transformational management enables associates to successfully unravel hardships by stimulating and extending their potential through gratitude and communication, without interfering in employee decisions. In particular, transformational supervisors must understand their employees' differences in order to listen and support them sufficiently to heighten each individual's strengths.

In addition, organizational culture significantly influences employee performance, statistically and economically. Transformational leaders are pivotal in fostering cultural upgrades within the banking sector. These visionary leaders inspire and motivate their teams to embrace positive changes and innovative practices, transcending traditional banking norms. By instilling a shared vision of progress and excellence, transformational leaders encourage a cultural shift that prioritizes adaptability, collaboration, and customer-centric approaches. They emphasize continuous learning, empowering employees to contribute to the organization's growth and development. Through effective communication and modeling desirable behaviors, transformational leaders create an environment that values transparency, integrity, and



accountability. In the rapidly evolving financial landscape, these leaders act as catalysts for cultural upgrades, steering banks toward a more agile, customer-focused, and resilient future. In addition to the culture of competition, cooperation, and control, bank leaders in Vietnam need to pay more attention to the element of creative culture in organizational culture because this element still contributes little to the organizational culture while banks are in the digital transformation phase, which requires a working environment that stimulates employees' breakthrough creativity in the process of providing financial services.

Moreover, the investigation recommends that leaders who want to enrich their staffers' efficiency should emphasize their subordinates' positive psychology. When led by a transformational executive, employees with positive psychology will become more efficient. Banks should assess combining employee psychological capital development into their human resources management programs. Training programs must focus on advancing self-belief, conveying optimism and hope, and motivating employees to be resilient in overwhelming tribulations. Through optimistic capital, combined with guidance from transformational leaders, subordinates' performance will be enhanced, contributing to attaining the purposes set by the institution.

The study adds a piece of research assessing the impact of transformational leadership on employee implementation in the banking industry with sampling using a non-probability method, which is also a limitation of the study. In addition, the research only focused on transformational leadership without further evaluating the influence of different leadership styles in the research model. These gaps will open up further research directions in the future.

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ETHICS STATEMENT: This study adhered to ethical guidelines and principles in research. Informed consent was obtained from all individual participants included in the study. Confidentiality and anonymity were strictly maintained throughout the research process.

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