

Effect of Leadership Styles on Employee Productivity in Nepalese Commercial Banks

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Abstract

Different leadership styles can significantly affect organizational outcomes and employee well-being. There are many distinct leadership philosophies, and a leader may choose to implement a certain style depending on their inclinations, the circumstances, and the demands of their group. The aim of this study was to investigate the impact of different leadership styles on employee productivity in the banking sector. The study employed a descriptive and causal comparative research design. This quantitative research aimed to establish the relationships between dependent and independent variables. The population consisted of employees from Nepalese commercial banks, with 384 complete responses gathered through a judgmental sampling method from initial 390 questionnaires distributed. The findings shows the transformational leadership, transactional leadership, charismatic leadership and laissez-faire leadership are all positive and statistically significant on the employee productivity. The consistency in the positive effects of transformational charismatic leadership and laissez-faire leadership across different contexts suggests that these styles may be universally beneficial, although the degree of impact may vary depending on the organizational environment and culture. Transactional leadership, while effective, may need to be complemented with other styles, especially transformational and charismatic, to achieve optimal outcomes.

Keywords: *Charismatic Leadership, Employee Productivity, Laissez-Faire Leadership, Transformational Leadership, Transactional Leadership*

Background

The process of influencing and guiding an organization group's activities to achieve objectives through communication is known as leadership. Assuming a significant degree of risk and responsibility is another aspect of leadership (Mills, 2005). In a similar vein, leadership is the act of persuading people to do actions that will lead to the achievement of a goal (Kwarteng et al., 2024). Etemesi (2012) asserted that attentive listening, taking the time to comprehend, and being ready for anything unexpected are all necessary components of effective leadership.

There are many distinct leadership philosophies, and a leader may choose to implement a certain style depending on their inclinations, the circumstances, and the demands of their group. According to Arifuddin et al. (2023), leadership is the process by which a single person persuades a group of others to pursue a shared objective. The manner in which that procedure is executed is known as the leadership style. The achievement and carrying out of tasks is performance. Performance is the degree to which a company meets a certain set of goals that are specific to its mission.

According to Khath and Tan (2023), leadership is the continuous process of establishing and maintaining a relationship between those who want to lead and those who are ready to follow. Similarly, organizations that are able to integrate people, processes, and organizational performance are seeing an increase in the importance of intangible assets like motivation, skill and competence, leadership styles, and organizational culture (Alfes et al., 2013).

According to Yas et al. (2023), leadership is the foundation of every organization as it decides whether it will succeed or fail. Without leadership, companies advance too slowly, stagnate, and lose their direction, according to Mills (2005). People who lack leadership tend to view the world differently and gravitate toward divergent solutions, which leads to rapid degeneracies and conflicts. Leaders help businesses become less

unclear and uncertain, which in turn helps employees work together to accomplish corporate goals and point them in the same direction.

Employee disengagement has a detrimental impact on several company domains, including customer service, profit, productivity, and workplace performance. Determining the circumstances under which certain employees are totally involved while others are not is the main issue (Wildermuth & Pauken, 2008). This study is required due to the growing competitiveness in the banking industry, the growing concern for employee motivation to deliver customer-driven services, the emphasis on customer retention and service, and the continual cooperation between managers (leaders) and staff in the banking industry. Employee attitudes would be directly impacted by the manager's leadership style. The general and particular issues in establishing links between staff productivity and leadership styles at Nepalese commercial banks were covered in this study. There aren't many reviews of the literature on Nepal's banking sector. Research on the aspects of leadership style in the private banking industry of Nepal is lacking. Additionally, not enough international empirical research has been done on the aspects of leadership style in the global financial services industry. As of right now, there isn't a published empirical study that breaks down the components of leadership style or looks at the connection between it and worker productivity in Nepalese banks' private sectors. From a Nepalese standpoint, employee policies have been developed, but not enough study has been done on leadership styles. In light of these research gaps, especially in the context of Nepal, this study suggests a methodology for analyzing the demographic traits of employees of commercial banks as well as for calculating employee productivity by factoring in perceived risk and leadership style. A number of difficulties drives this research project. Among the research problems are: Which types of leadership style are adopted by Nepalese commercial banks? Which leadership style plays a significant role in employee productivity of Nepalese commercial banks? Is there any relationship between leadership style and employee productivity in Nepalese commercial banks?

This main purpose of this study was to investigate how leadership styles related with the employees productivity, as well as how leadership styles affects their level of productivity. The fact that the sample was limited to Nepalese commercial banks may have an impact on how broadly the results may be applied. The format used for reporting was another drawback. The nature of the closed-ended questionnaire prevented respondents from selecting more than one response to characterize a productivity trait or leadership behavior. The study's other weakness was the possibility of external factors interfering with the co-relationship between the variables, such as shifts in the volume of labor, recent employee complaints, employee weariness, or other unforeseen occurrences involving people and business. Here are a few of the restrictions:

Literature review

The reviews of various studies present a comprehensive analysis of the impact of leadership styles on employee performance across different industries and regions Saasongu (2015), Anjali and Anand (2015) explored various leadership styles, including transactional, transformational, autocratic, democratic, and participative, and their impact on organizational performance. These studies highlighted the positive effects of transformational and participative leadership styles, while autocratic leadership was found effective only in the short term. Sofi (2015) confirmed the dominance and effectiveness of transformational leadership in financial institutions in Jammu and Kashmir, India.

Orabi (2016) emphasized the potential of transformational leadership to enhance organizational performance by fostering a positive work environment and encouraging knowledge sharing. Fokam (2016) found that transformational leadership significantly positively affects the performance of SMEs in Cameroon, while Pandey (2016) showed that employee engagement positively correlates with work satisfaction, perceptions of fairness, and productivity in Nepalese banks. Dalluay and Jalagat (2016) demonstrated a positive link between leadership styles and employee satisfaction and performance in

small-scale enterprises in the Philippines, suggesting the importance of optimizing leadership styles.

Basit et al. (2017) and Gyawali (2017) focused on different leadership styles' effects on employee performance. Also, found that democratic and laissez-faire styles positively impact performance, while authoritarian leadership harms it. This study in Nepalese banks highlighted the positive relationship between employee engagement and job satisfaction. Nazir et al. (2018) examined the combined impact of leadership styles and organizational culture on performance in service sector companies in Oman. The study revealed that corporate culture significantly mediates the relationship between leadership styles and organizational performance.

Arifuddin et al. (2023) analyzed the effect of work motivation and leadership style on employee performance at a regional financial management agency in Sidenreng Rappang Regency. They concluded that motivation and leadership style positively affect employee performance, with motivation having the most substantial influence. The study concluded that transformational, democratic, and servant leadership styles positively affect employee performance, while transactional and bureaucratic styles have minimal effects. Yas et al. (2023) investigated the role of strategic leadership styles transformational, transactional, and charismatic in municipalities in Dubai, Abu Dhabi, and Ajman. They found that transformational leadership, supported by knowledge sharing, significantly enhances employee performance. The study suggested a combination of these leadership styles for optimal outcomes. Khath and Tan (2023) explored the influence of leadership styles on employee performance through motivation in Phnom Penh, Cambodia, focusing on five leadership styles: transformational, transactional, democratic, bureaucratic, and servant.

Studies by Admit and Fujie (2024) conducted a study to investigate the relationships between leadership styles, employee commitment, work motivation, and employee performance. Using a correlational research design, they collected data through

questionnaires and analyzed the results with regression models and ANOVA. The study found that job satisfaction could be accurately predicted 64% of the time based on the model used. The ANOVA results indicated that both employee commitment and work motivation significantly impact employee performance, with statistical findings showing a strong correlation.

Research framework

The relationship between employee productivity and leadership styles has outlined in the theoretical framework. A leader's behavior that persuades others to focus their energies on achieving certain objectives has known as their leadership style. Four types of leadership are independent variables in this research: charismatic leadership, transactional leadership, transformational leadership, and laissez-faire leadership. Idealized influence behavioral and ascribed, inspiring motivation, intellectual stimulation, and customized consideration were among the transformational traits. Charismatic leadership may be explained by the two traits of transformational leadership: idealized influence behavior and idealized influence attribute. Contingent reward, management by exception active, and management by exception passive were examples of transactional features. The dependent variable, employee productivity, is a confluence of attitudes and actions related to the workplace and the company. Several literatures were studied to determine the independent and dependent variables. The first review of the relevant literature served as the foundation for the schematic diagram shown in Figure 1.

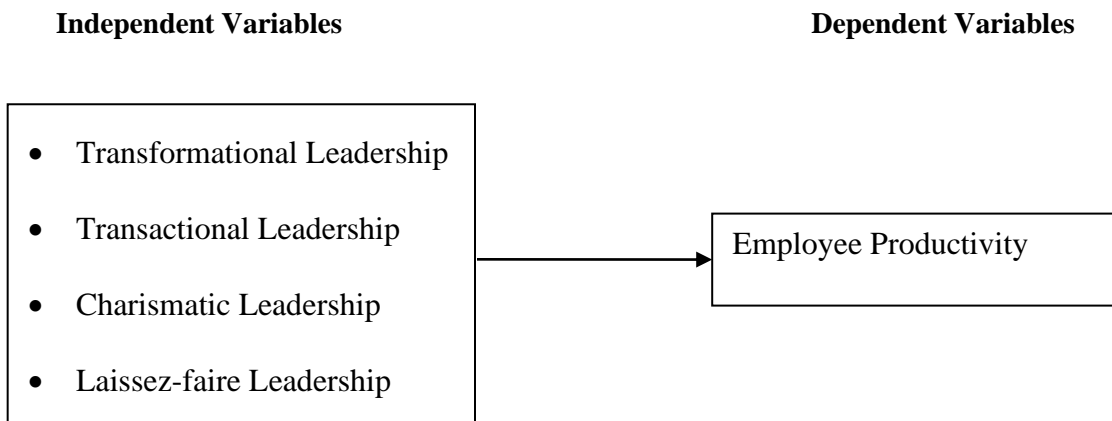


Figure 1 Research framework

Source: Shrestha (2016)

Transformational leadership

Transformational leaders are passionate, enthusiastic, and possess strong communication skills. They are able to articulate a compelling vision that resonates with their followers, creating a sense of excitement and productivity to achieving common goals. These leaders empower their followers by providing them with autonomy and trust, allowing them to take ownership of their work and develop their skills and abilities (Wildermuth & Pauken, 2008).

H1: There is a significant effect of Transformational Leadership on Employee Productivity in Nepalese commercial banks.

Transactional leadership

Transactional leaders rely on a system of rewards and punishments to motivate their followers and ensure that tasks are completed as expected. Transactional leadership is effective in situations that require specific tasks to be accomplished efficiently, and it can be particularly valuable in environments where adherence to rules and procedures is crucial. However, it may not be as effective in fostering creativity, innovation, and

employee empowerment, as it primarily focuses on maintaining existing systems and processes (Saasongu, 2015).

H2: There is a significant effect of Transactional Leadership on Employee Productivity in Nepalese commercial banks.

Charismatic leadership

Charismatic leaders possess strong communication skills, a compelling presence, and the ability to articulate a clear and compelling vision that resonates with followers. One of the key aspects of charismatic leadership is the leader's ability to create a strong emotional connection with their followers. They are often seen as role models and possess the power to inspire trust, admiration, and loyalty. Charismatic leaders have a compelling vision for the future and are able to communicate it effectively, arousing enthusiasm and productivity among their followers (Yas et al., 2023).

H3: There is a significant effect of Charismatic Leadership on Employee Productivity in Nepalese commercial banks.

Laissez-faire leadership

Laissez-faire leadership is a style where leaders adopt a hands-off approach and allow employees to make decisions and perform their tasks independently. In this leadership style, leaders provide minimal guidance, supervision, and feedback, giving employees a high degree of autonomy and freedom to execute their work. Laissez-faire leaders trust their team members to be self-motivated, skilled, and capable of managing their responsibilities without constant intervention. They believe in empowering employees to take ownership of their work and make decisions based on their expertise and judgment (Obiwuru et al., 2011).

H4: There is a significant effect of Laissez-faire Leadership on Employee Productivity in Nepalese commercial banks.

Employee productivity

Employee productivity refers to the efficiency and output level of individual employees or groups within a given timeframe. It signifies how effectively workers utilize their time, skills, and resources to accomplish tasks, produce goods, or achieve organizational objectives. For businesses and organizations, employee productivity is crucial as it directly impacts overall performance and profitability. Measuring productivity can be done through various metrics like output per hour, revenue per employee, and customer satisfaction. Striking a balance between encouraging productivity and maintaining employee well-being is essential for sustained organizational success (Khath & Tan, 2023).

Research Methodology

The study employed a descriptive and causal comparative research design to explore the perspectives of employees in Nepalese commercial banks on various leadership styles and their influence on worker productivity. This quantitative research aimed to establish the relationships between dependent and independent variables by collecting specific information from bank personnel in the Nepalese commercial banks. The population consisted of employees from Nepalese commercial banks, with 384 complete responses gathered through a judgmental sampling method from initial 390 questionnaires distributed. The study aimed to generalize the findings to the broader population of bank employees, focusing on the frequent interactions between managers and staff.

The degree of association between two variables may be ascertained through the use of correlation and regression analysis. When the values of other variables are known, it is therefore a statistical value of one variable. The known variable is referred to as the independent variable, and the unknown variables that need to be forecasted are known as the dependent variables.

Linear Regression Model

$$EMP = \alpha_1 + \beta_1 TRF + \beta_2 TRN + \beta_3 CHR + \beta_4 LFR + e_i$$

Where,

α_1 = Constant Intercept of the Regression and β_1 and β_2 are the coefficient of regression, EMP = Employee Productivity (Dependent variable), TRF = Transformational Leadership, TRN = Transactional Leadership, CHR = Charismatic Leadership, LFR = Laissez-faire Leadership, e_i = Error term

Validity and reliability

This study indicates that the Cronbach's alpha for each variable is above 0.70, suggesting that the data are reliable. According to Churchill et al. (1991), a rating exceeding 0.70 signifies a high level of reliability, while a rating above 0.80 is considered good, assuming other validity indicators are also strong. However, the reliability rating should not fall below 0.70.

Analysis and Results

The descriptive analysis of data collected from 384 respondents via questionnaires. It uses statistical metrics such as mean, standard deviation, and frequency to explain the data. The mean and standard deviation are presented in a table. Bank workers responded to survey items on a five-point Likert scale, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

Table 1 *Descriptive Statistics*

	Minimum	Maximum	Mean	Std. Deviation
Employee Productivity	1.17	5.00	3.4422	.70021
Transformational Leadership	1.17	4.83	3.4289	.65120
Transactional Leadership	1.33	4.83	3.5667	.76217
Charismatic Leadership	1.00	5.00	3.4989	.73185

Laissez-faire Leadership	1.33	4.83	3.5656	.68593
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Note: From Researcher Calculation

Table 1 presents the descriptive statistics for various leadership styles and employee productivity. Employee productivity has a mean of 3.4422 with a standard deviation of 0.70021. Transformational leadership has a mean of 3.4289 and a standard deviation of 0.65120. Transactional leadership scores slightly higher with a mean of 3.5667 and a standard deviation of 0.76217. Charismatic leadership has a mean of 3.4989 and a standard deviation of 0.73185, while laissez-faire leadership has a mean of 3.5656 and a standard deviation of 0.68593. These statistics provide an overview of the central tendencies and variability in the data for each variable.

Table 2 Correlation analysis

	Employee Productivity	Transformational Leadership	Transactional Leadership	Charismatic Leadership	Laissez-faire Leadership
Employee Productivity	1				
Transformational Leadership	.614**	1			
Transactional Leadership	.514**	.680**	1		
Charismatic Leadership	.548**	.672**	.680**	1	
Laissez-faire Leadership	.410**	.635**	.509**	.591**	1

** . Correlation is significant at the 0.01 level (2-tailed).

Note: From Researcher Calculation

Table 2 displays the correlations between employee productivity (EMP) and four leadership styles: transformational (TRF), transactional (TRN), charismatic (CHR), and laissez-faire (LFR). The correlation coefficients indicate the direction and strength of these relationships. There is a moderately strong positive correlation of 0.614 between EMP and TRF, significant at the 0.01 level, suggesting that transformative leadership is positively associated with employee productivity. The correlation between EMP and TRN is 0.514, also indicating a moderate positive relationship, with statistical significance. Similarly, EMP and CHR have a positive correlation of 0.548, signifying a moderate positive association. Lastly, EMP and LFR show a positive correlation of 0.410, with the relationship also being statistically significant.

Table 2 *Regression analysis*

Variables	B	Std. Error	t	Sig.
(Constant)	.310	.134	2.316	.021
Transformational Leadership	.459	.108	4.233	.000
Transactional Leadership	.321	.043	7.381	.000
Charismatic Leadership	.123	.034	3.582	.000
Laissez-faire Leadership	.424	.056	7.522	.000
Adj. R ²	.78			
F-value	25.733			
P-value	.000			

Table 3 presents the results of a regression analysis examining the impact of various leadership styles on employee productivity. The coefficients (B) for transformational leadership, transactional leadership, charismatic leadership and laissez-faire leadership are all positive and statistically significant on the employee productivity, as indicated by their p-values (Sig.) being less than 0.05. The adjusted R² value of 0.78 suggests that approximately 78% of the variance in employee productivity can be explained by these leadership styles. The F-value of 25.733 and the corresponding p-value of 0.000 indicate that the overall regression model is statistically significant.

Conclusion and Discussion

The analysis of data from 384 respondents provides valuable insights into the impact of different leadership styles on employee productivity in the banking sector. Descriptive statistics revealed that employee productivity, along with various leadership styles (transformational, transactional, charismatic, and laissez-faire), generally scored in the mid-range on a five-point Likert scale. Among these, transformational leadership, transactional leadership, charismatic leadership and laissez-faire leadership displayed stronger positive associations with employee productivity. The correlation analysis demonstrated significant positive relationships between employee productivity and the three primary leadership styles: transformational ($r = 0.614$), transactional ($r = 0.514$), and charismatic ($r = 0.548$). These results suggest that as the effectiveness of these leadership styles increases, so does employee productivity. Conversely, the laissez-faire leadership style, although positively correlated ($r = 0.410$), showed a weaker relationship with employee productivity compared to the other styles. The regression analysis further supports these findings, showing that transformational, transactional, charismatic leadership and laissez-faire leadership styles all positively and significantly influence employee productivity. The coefficients for these styles are statistically significant, with transformational leadership ($B = 0.321$), transactional leadership ($B = 0.123$), charismatic leadership and laissez-faire leadership ($B = 0.424$) all contributing positively to

productivity. The model's adjusted R^2 value of 0.78 indicates that these leadership styles explain approximately 78% of the variance in employee productivity, highlighting the substantial impact of leadership on employee performance. The F-value of 25.733 and the p-value of 0.000 confirm the overall significance of the regression model.

In conclusion, the study underscores the critical role of transformational, transactional, charismatic leadership and laissez-faire leadership styles in enhancing employee productivity. These findings suggest that organizations should focus on fostering these leadership qualities to improve employee performance and achieve organizational goals. Laissez-faire leadership, while still relevant, appears to have a less pronounced effect on productivity, indicating that a more proactive leadership approach may be more effective in driving employee performance.

The current study also shows a positive and significant impact of transformational leadership on employee productivity, reinforcing the notion that leaders who inspire, motivate, and intellectually stimulate their employees can significantly boost productivity. Studies such as those by Orabi (2016), Nazir et al. (2018), and Yas et al. (2023) have similarly emphasized the positive impact of transformational leadership on organizational performance and employee motivation. While transactional leadership is sometimes seen as less impactful compared to transformational leadership, the regression analysis and several reviewed studies indicate that it still positively affects employee productivity. For example, Widayanti and Putranto (2015) and Iqbal et al. (2015) also found positive associations between transactional leadership and employee performance, although the effect may not be as pronounced as that of transformational leadership. The significant impact of charismatic leadership on employee productivity, as observed in the regression analysis, aligns with the findings of Yas et al. (2023), which identified charismatic leadership as a valuable component of strategic leadership. Charismatic leaders, known for their ability to inspire and energize employees, play a crucial role in enhancing productivity and achieving organizational goals.

From the above discussion, these are the implication:

- Organizations that prioritize leadership development programs focusing on transformational leadership can foster environments where employees are inspired, motivated, and intellectually engaged, leading to improved productivity and performance.
- Cultivating charismatic qualities in leaders, such as being approachable and engaging, can positively influence employee motivation and performance, enhancing organizational outcomes.
- While transactional leadership is important for maintaining structure, organizations should balance it with transformational and charismatic leadership to maximize both productivity and job satisfaction.
- The weaker impact of laissez-faire leadership on productivity suggests that organizations may benefit from shifting towards more active leadership styles that offer clearer guidance and support to employees.
- Implementing ongoing leadership development programs ensures that leadership styles evolve and adapt, consistently aligning with organizational goals and enhancing employee performance over time.

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