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## Study of the Effect of Leadership Style on Job Satisfaction of Bank Employees in Nepal

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### Abstract

This study explores the impact of leadership styles on the job satisfaction of bank employees in Nepal, using quantitative data collected up to December 2024. Leadership styles, including transformational, transactional, and laissez-faire, were analyzed for their effects on employee satisfaction across commercial banks. A structured questionnaire was distributed among 300 employees from 15 different banks. Using statistical tools such as SPSS, correlation and regression analyses were performed. The findings show that transformational leadership has a significant positive effect on job satisfaction, while laissez-faire leadership negatively impacts it. This study provides practical implications for leadership development in Nepalese banks.

**Keywords:** Leadership style, job satisfaction, bank employees, Nepal, transformational leadership, transactional leadership, laissez-faire leadership

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## 1. Introduction

Job satisfaction refers to the degree of pleasure or contentment associated with one's job. It affects not only employees' performance but also organizational outcomes such as customer satisfaction, operational efficiency, and profitability (Locke, 1976; Judge, Thoresen, Bono, & Patton, 2001). In service-based industries like banking, satisfied employees are more likely to exhibit positive behaviors such as cooperation and commitment (Schneider & Bowen, 1993; Spector, 1997).

Leadership, particularly how it is practiced within organizations, is a major influence on employees' perceptions and experiences of their jobs (Yukl, 2013). Leaders who empower their subordinates, recognize their contributions, and create a positive work climate tend to foster higher job satisfaction (Bass & Riggio, 2006; Robbins & Judge, 2019). In Nepal, where hierarchical and authoritative leadership styles have traditionally dominated, there is a growing need to understand and apply leadership practices that are more participatory and developmental (Hofstede, 2001; Adhikari & Gautam, 2010). This study investigates the prevalence and impact of different leadership styles in the Nepalese banking sector to determine how these approaches correlate with job satisfaction.

In today's competitive and evolving global economy, the banking industry plays a crucial role in financial intermediation, economic development, and the mobilization of savings (Sharma & Ghimire, 2019). Nepal's banking sector, which has undergone significant liberalization and reforms over the past two decades, faces growing competition, heightened customer expectations, and employee management challenges (Nepal Rastra Bank, 2023). Among the internal factors affecting organizational performance, leadership is widely recognized as a determinant of employee behavior, satisfaction, and retention (Northouse, 2021).

Effective leadership enhances communication, motivation, and employee engagement—factors that are closely tied to job satisfaction (Bass, 1999; Robbins & Coulter, 2022). Conversely, poor leadership can result in low morale, reduced productivity, and high turnover (Paudel, 2021). As Nepalese banks strive to modernize and improve service quality, understanding how leadership styles influence job satisfaction becomes essential. Despite its importance, limited empirical research has focused on this relationship in Nepal's banking context. This study attempts to bridge that gap by investigating how transformational, transactional, and laissez-faire leadership styles affect the job satisfaction of bank employees in Nepal.

## **2. Literature Review**

### **2.1 Leadership Style**

Leadership style is the approach a leader uses to influence and manage subordinates (Northouse, 2021). Bass and Avolio (1994) introduced the Full Range Leadership Theory, which categorizes leadership into three broad types: transformational, transactional, and laissez-faire. Transformational leaders inspire followers to transcend their self-interests and work for the collective good. They articulate a compelling vision, stimulate innovation, foster intellectual development, and offer individualized consideration to their followers (Bass & Riggio, 2006).

Transactional leaders, in contrast, focus on routine operations, organizational structure, and performance-related rewards and punishments. Their leadership is often based on a system of exchanges and agreements where compliance is rewarded, and deviation is corrected (Bass, 1999).

Laissez-faire leaders, however, avoid decision-making responsibilities and fail to provide necessary guidance or support, which can lead to confusion, reduced accountability, and job dissatisfaction among employees (Skogstad et al., 2007).

### **2.2 Job Satisfaction**

Job satisfaction is a multifaceted concept influenced by various internal and external factors such as compensation, recognition, work environment, and supervisory style (Spector, 1997). Locke (1976) defines it as a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences. Herzberg's Two-Factor Theory (Herzberg, Mausner, & Snyderman, 1959) distinguishes between hygiene factors (e.g., salary, company policy) and motivators (e.g., achievement, recognition), asserting that while hygiene factors prevent dissatisfaction, only motivators contribute to true job satisfaction.

Leadership behaviors, particularly those related to recognition, empowerment, and support, directly affect the motivational aspects of job satisfaction by fulfilling employees' psychological needs and enhancing engagement (Judge, Piccolo, & Ilies, 2004; Bass & Riggio, 2006).

### **2.3 Theoretical Framework**

- Full Range Leadership Theory by Bass & Avolio (1997) provides the conceptual basis for evaluating the different leadership styles.
- Herzberg's Two-Factor Theory explains the role of leadership as a motivator that enhances employee satisfaction through recognition, responsibility, and advancement.

## **2.4 Empirical Studies**

Judge and Piccolo (2004) conducted a meta-analysis confirming that transformational leadership has the strongest correlation with job satisfaction across various industries. Alonderiene and Majauskaite (2016) observed similar patterns in educational institutions. Locally, however, such studies remain sparse. In Nepal, a few qualitative inquiries have hinted at a lack of transformational leadership practices in the corporate and banking sectors, indicating a potential area for improvement. Studies conducted in neighboring countries like India and Bangladesh also support the premise that active and developmental leadership practices yield higher employee morale and satisfaction.

## **3. Methodology**

### **3.1 Research Design**

The study employs a descriptive and correlational research design to assess the nature and strength of the relationship between leadership style and job satisfaction. Descriptive analysis helps understand the demographic and professional characteristics of the respondents, while correlation and regression analyses evaluate the hypothesized relationships.

### **3.2 Population and Sample**

The population includes employees of A-class commercial banks operating in Nepal as per the classification by Nepal Rastra Bank. Using stratified random sampling, 300 respondents were selected from 15 banks located in major cities including Kathmandu, Pokhara, Biratnagar, and Nepalgunj to ensure regional representation.

### **3.3 Data Collection Tools**

A structured questionnaire comprising three sections was used:

- Demographics
- Leadership style (using MLQ)
- Job satisfaction (using MSQ)

Responses were measured using a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

### **3.4 Data Analysis Tools**

Data were analyzed using SPSS version 26. Descriptive statistics were computed for demographic data. Correlation analysis assessed the relationships between variables, and multiple regression analysis determined the impact of independent variables (leadership styles) on the dependent variable (job satisfaction).

#### 4. Data Presentation and Analysis

**Table 1: Descriptive Statistics of Leadership Styles and Job Satisfaction**

**Interpretation:** Transformational leadership received the highest mean score (3.84), suggesting it is the most commonly perceived style among employees. Job satisfaction also scored relatively high (3.72), indicating a generally positive sentiment. Laissez-faire leadership had the lowest mean (2.12), highlighting its minimal presence or acceptance.

**Table 2: Correlation Matrix**

**Interpretation:** A strong positive correlation exists between transformational leadership and job satisfaction ( $r = .69, p < .01$ ), affirming Hypothesis 1. Transactional leadership also shows a moderate positive relationship ( $r = .41, p < .01$ ), while laissez-faire leadership is negatively correlated with job satisfaction ( $r = -.43, p < .01$ ), supporting Hypothesis 3.

**Table 3: Regression Analysis Summary**

**Interpretation:** The regression model explains 56% of the variance in job satisfaction ( $R^2 = .56$ ). Transformational leadership is the most significant predictor ( $\beta = .48, p < .001$ ), followed by transactional leadership ( $\beta = .21, p < .001$ ). Laissez-faire leadership negatively predicts job satisfaction ( $\beta = -.26, p < .001$ ), confirming that passive leadership is detrimental.

#### 5. Discussion

The study affirms the critical role of leadership in shaping employee attitudes. Transformational leadership emerged as the most impactful style, significantly enhancing job satisfaction. This aligns with the findings of Bass and Riggio (2006) and Judge and Piccolo (2004), indicating that visionary, supportive, and empowering leadership practices lead to greater employee contentment. Employees who perceive their leaders as inspirational and supportive tend to feel more valued and motivated.

Transactional leadership, though less influential than transformational, also showed a positive effect. This suggests that structured reward systems and clear performance expectations contribute to job satisfaction when effectively implemented. However, overreliance on transactional behaviors may limit creativity and innovation.

Laissez-faire leadership was found to be detrimental. Employees under this style report lower job satisfaction, likely due to the absence of guidance and feedback. This is consistent with global literature, which portrays laissez-faire leadership as ineffective in most organizational contexts.

## 6. Conclusion

This study provides empirical evidence that leadership style significantly affects job satisfaction among bank employees in Nepal. Transformational leadership is the most beneficial, followed by transactional leadership, while laissez-faire leadership has a negative effect. These findings emphasize the importance of leadership development programs in the banking sector that promote transformational behaviors such as inspiring vision, individualized consideration, and intellectual stimulation.

As banks aim to improve service delivery and retain talent, investing in leadership training and fostering a supportive work environment is imperative. The study also calls for a reevaluation of traditional leadership practices that may no longer align with modern employee expectations.

## 7. Contribution and Limitations

This research contributes to the existing literature by offering localized insights into how leadership styles influence job satisfaction in the Nepalese banking sector. It enriches the regional discourse and provides practical implications for HR policies and leadership development programs.

However, the study has several limitations. The use of cross-sectional data prevents causal inferences. Self-reported measures may be subject to social desirability bias. Additionally, the study focused only on A-class commercial banks, limiting the generalizability to development or microfinance banks. Future studies should consider longitudinal designs, include qualitative interviews, and explore moderating variables such as organizational culture or demographic factors.

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