

Leadership and Employee Loyalty in Nepalese Commercial Banks

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Abstract

Purpose-This study aims to examine the relationship between leadership styles and employee loyalty in Nepalese commercial banks, emphasizing the strategic importance of human capital for organizational sustainability. It explores how different leadership behaviors influence employees' commitment and long-term attachment to their organizations.

Design/Methodology/Approach-A quantitative research design was used to investigate the impact of leadership styles on employee loyalty. Data were collected through structured questionnaires from a purposive sample of 210 employees working in various functional roles and hierarchical levels across various branches of commercial banks functioning within Kathmandu Valley. Statistical analysis was conducted to examine the relationship between different leadership styles and employee loyalty.

Findings-Results indicate that transformational leadership significantly enhances employee loyalty. Leaders who articulate a shared vision, encourage innovation, and provide individualized support foster stronger emotional bonds and commitment. Additionally, ethical and fair leadership behaviors, emphasizing employee well-being, also play a crucial role in promoting loyalty and retention.

Implications-The study offers practical and valuable insights for human resource professionals and bank executives to design effective leadership development programs that emphasize transformational and ethical leadership. Such initiatives can foster employee engagement, reduce turnover, and promote workforce stability within the highly competitive banking environment of Nepal.

Originality/Value-This study contributes to the limited empirical literature on leadership and employee loyalty in the Nepalese banking sector. It provides evidence-based insights on how specific leadership behaviors can influence employee attitudes to emerging economies.

Keywords: leadership, employee loyalty, transformational leadership, servant leadership, Nepalese Commercial Banks

JEL Classification: M12, M14, D23

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1. Introduction

Commercial banks play a crucial role in Nepalese economy, serving as essential intermediaries that facilitate financial transactions, mobilize savings, and offer credit facilities to individuals, businesses, and government entities. In a developing economy such as Nepal, these roles are essential for fostering financial inclusion, economic growth, and poverty reduction (Shah, 2024). The efficiency and longevity of these institutions are directly related to the competence and stability of their human resources, as the banking industry modernizes and grows more competitive as a result of liberalization policies and technology developments (Joshi, 2024).

Among the various factors influencing bank performance, employee loyalty emerges as a critical determinant of organizational success. It reflects employees' psychological attachment and commitment to their organization, which is demonstrated through reduced turnover intentions, enhanced discretionary effort, and stronger alignment with organizational goals (Meyer & Allen, 1997). In the banking sector, employee loyalty holds particular significance, as loyal employees contribute to consistent service quality, positive customer interactions, and an enhanced organizational reputation all of which directly promote customer satisfaction and retention (Gandhi et al., 2018). Conversely, high employee turnover can disrupt service continuity, increase recruitment and training costs, and erode institutional knowledge, ultimately undermining overall performance (Hom & Griffeth, 1995). Conversely, loyal employees are generally more motivated, exhibit higher job performance, and willingly go beyond formal job requirements, thereby enhancing overall service effectiveness (Gautam et al., 2023). To foster such loyalty, leaders should prioritize strategies that promote employee retention, such as providing promotion opportunities, offering comprehensive training programs, and ensuring fair compensation practices (Shakya, 2024). Factors like career development opportunities, continuous training, job security, and effective performance management are strong predictors of employee engagement, which in turn is closely linked to organizational commitment and loyalty (Kharel et al., 2024). This is particularly vital in the context of Nepalese commercial banks, where customer trust and personalized banking relationships hold high value due to the nation's collectivist cultural orientation and the strong role of social capital (Nepal Rastra Bank, 2022).

Leadership is widely recognized as a critical determinant of employee attitudes, motivation, and loyalty within organizations (Northouse, 2022). Effective leaders not only guide organizational strategies and allocate resources efficiently but also shape the overall workplace climate and employee experiences, thereby influencing their commitment and intention to remain with the organization (Avolio & Bass, 2004). By fostering a supportive work environment, leadership promotes higher levels of motivation, engagement, and loyalty which fulfills employees' psychological and professional needs (Bass & Riggio, 2006; Kahn, 1990; Deci & Ryan, 2000). Leaders who emphasize open communication, provide recognition, and empower their subordinates foster a sense of belonging and appreciation, which in turn significantly enhances employee loyalty (Zanabazar et al., 2023). Transformational leaders inspire employees by articulating a clear organizational vision and genuinely supporting their personal and professional development, thereby strengthening employees' emotional commitment to the organization (Vu et al., 2025). Similarly, ethical leadership enhances employee loyalty by fostering fairness, transparency, and trust within the workplace, which encourages employees to align with the organization's long-term objectives (Yanik, 2018). Effective leadership practices such as providing promotion opportunities,

offering training programs, and ensuring fair compensation play a vital role in reinforcing employee commitment and retention (Shakya, 2024). Evidence from Nepalese commercial banks further indicates that transformational, transactional, and ethical leadership styles have a significant positive impact on employee job satisfaction which is closely associated with loyalty and employee satisfaction (Lama et al., 2024). Leaders who prioritize professional development and career advancement opportunities enhance employees' perceptions of organizational support, thereby diminishing turnover intentions (Dewi & Nurhayati, 2021). When employees perceive that their leaders are genuinely invested in their growth and success, they reciprocate through greater loyalty, job satisfaction, and discretionary effort (Mwesigwa et al., 2020). Moreover, servant leadership, emphasizes prioritizing employees' needs, contributes to a supportive organizational culture that strengthens both employee engagement and loyalty (Liden et al., 2020).

The Nepalese banking sector operates in a rapidly changing environment shaped by dynamic market conditions, technological advancements, and increasing customer expectations (Kandel et al., 2024). In response to these evolving challenges, many commercial banks in Nepal face workforce-related issues such as employee dissatisfaction, low engagement, and high turnover rates. These factors undermine their ability to maintain a competitive advantage and consistently to deliver high-quality banking services (Ghimire, 2024). In this context, leadership emerges as a critical factor in addressing workforce challenges and enhancing employee loyalty. Although leadership has long been recognized as a key determinant of employee attitudes, motivation, and retention, research in the Nepalese context remains limited and fragmented. Previous studies in Nepal have largely focused on leadership in relation to job satisfaction and organizational commitment but they have not sufficiently examined how different leadership styles particularly transformational, transactional, democratic, and servant leadership collectively influence employee loyalty. Moreover, most existing studies focus on general organizational or educational settings, neglecting the distinctive dynamics of the banking sector, where employee loyalty is critical due to high work pressure and intense competition. Therefore, this study aims to address this gap by investigating the impact of diverse leadership styles on employee loyalty within Nepalese commercial banks.

2. Literature Review and Hypotheses Development

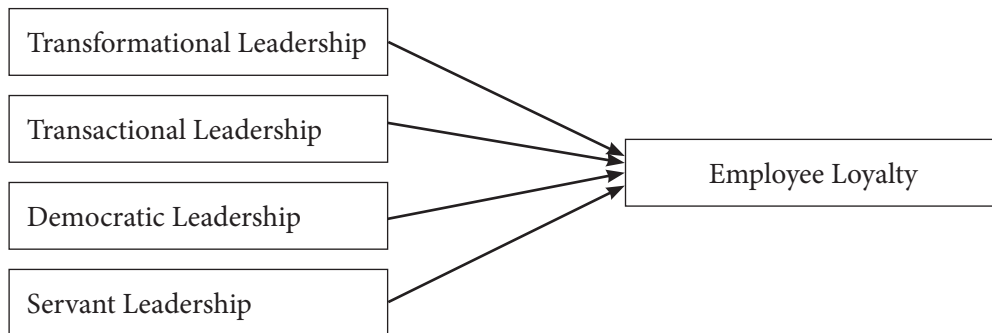
Leadership is a cornerstone of organizational success, shaping employee behavior and fostering commitment in the workplace. It affects how employees perceive their roles, engage with tasks, and align with organizational values (Northouse, 2022). Over the years, various leadership styles such as transformational, transactional, servant, and democratic leadership have been examined for their impact on employee satisfaction and retention (Thanh & Quang, 2022; Liden et al., 2020; Mengmeng et al., 2024). While differing in approach, these styles consistently underscore the critical role of leadership in cultivating a motivated and loyal workforce (Sharma, 2024).

Trait Theory suggests that effective leaders possess inherent qualities like intelligence, confidence, and charisma, which can inspire loyalty and commitment among followers (Stogdill, 1948). However, the limitations of focusing solely on traits led to Behavioral Theories, which emphasize leaders' actions rather than inherent characteristics. Studies from Ohio State and Michigan highlighted task-oriented and relationship-oriented behaviors, showing that leaders who balance achieving organizational goals with fostering positive relationships can enhance employee loyalty (Judge et al., 2004). Contingency Theories, including Fiedler's Contingency Model (1967) and Hersey and Blanchard's Situational Leadership

Theory (1977), further argue that the impact of leadership on employees' commitment depends on the fit between leadership style and situational factors, suggesting that adaptive leadership can strengthen employee loyalty in different contexts. Contemporary models, particularly Transformational and Transactional Leadership, emphasize motivating employees, providing individualized support, and recognizing contributions, all of which are closely linked to fostering long-term loyalty and engagement (Bass & Avolio, 1994). Based on this theoretical discussion, a framework has been developed to examine the relationship between leadership styles and employee loyalty.

Figure 1

Theoretical Framework



Source: Paracha et al., (2012)

2.1 Transformational Leadership and Employee Loyalty

Transformational leadership is widely recognized as a leadership style that is characterized by the ability of leaders to inspire, motivate, and stimulate employees showing individualized consideration for their needs and aspirations (Bass & Riggio, 2006). Leaders who practice this style communicate a clear and compelling vision, build trust, and promote creativity within the workplace, which in turn enhances employee engagement, job satisfaction, and organizational commitment (Breevaart et al. 2014; Northouse, 2022). Moreover, transformational leadership strengthens employee loyalty by nurturing emotional connections, a shared sense of purpose, and a deeper feeling of belonging within the organization (Radi et al., 2022).

Transformational leadership plays a crucial role in minimizing employee turnover intentions and fostering innovation, particularly in dynamic and service-driven sectors such as banking (Vu et al., 2025; Amlan et al., 2025). Within the Nepalese context, where commercial banks often struggle with low employee engagement and high turnover rates, this leadership style becomes vital in cultivating a motivated and resilient workforce (Lama et al., 2024). Wardana et al. (2024) examined the influence of leadership on employee loyalty within the hospitality sector. Their findings reveal that the leaders who inspire, motivate, and support their employees foster deeper engagement, which in turn strengthens employees' emotional attachment and commitment to the organization. In a similar vein, Jiatong et al. (2022) reported that transformational leadership positively affects employees' affective commitment reflecting a strong emotional connection and alignment with organizational objectives which ultimately leads to reduced turnover intentions. These findings underscore the multifaceted role of transformational

leadership in not only motivating employees but also in creating a work environment that encourages sustained organizational commitment and retention. Based on the above evidence, the following hypothesis has been proposed:

H1: Transformational leadership has positive and significant impacts on employee loyalty.

2.2 Transactional Leadership and Employee Loyalty

Transactional leadership, defined by its focus on contingent rewards and structured task management, continues to play an important role in influencing employee loyalty, particularly within highly organized work environments. Leaders adopting this approach prioritize clear role assignments, close performance supervision, and reward systems tied to specific outcomes, which help sustain discipline and ensure the achievement of organizational objectives. Youngsam et al. (2019) observed that transactional leadership enhances employee loyalty by offering clarity in job responsibilities and consistent recognition for performance, thereby minimizing the role of ambiguity and increasing job satisfaction. Likewise, Ran et al. (2024) demonstrated that transactional leadership is supported by equitable reward mechanisms which contributes to stronger organizational commitment among employees. Moreover, Ahmed et al. (2021) found that transactional leadership fosters employee loyalty by reinforcing expected behaviors and linking rewards directly to measurable achievements.

Ghimire (2024) reported that employees in Nepalese commercial banks demonstrated stronger loyalty and lower turnover intentions when their leaders adopted transactional practices, such as setting clear performance expectations and offering appropriate rewards. Likewise, Chalise and Paudel (2023) emphasized that transactional leadership enhances employee commitment in Nepalese banks by ensuring transparent policy implementation and fair reward distribution. Furthermore, the employees in the Nepalese banking sector frequently encounter job-related stress and market uncertainties, the structured and reward-driven framework of transactional leadership offers a sense of stability and fairness, which in turn fosters greater employee retention (Gupta, 2025). Overall, the above evidences support to develop the following hypothesis:

H2: Transactional leadership has positive and significant impacts on employee loyalty.

2.3 Democratic Leadership and Employee Loyalty

Democratic leadership, characterized by participative decision-making, transparent communication, and collaborative problem-solving, has been shown to enhance employee loyalty by fostering a sense of inclusion and accountability among employees (Somech, 2006; Chen & Silverthorne, 2005). Zanabazar et al. (2023) found that such leadership practices enhance employee loyalty by encouraging active involvement in decision-making and recognizing individual contributions, which strengthens emotional commitment to the organization. Similarly, Cheng et al. (2025) revealed that democratic leadership fosters organizational commitment through increased psychological empowerment and employee voice, which are key mediators in the loyalty-building process. Furthermore, Muhammad et al. (2025) reported that democratic leadership minimizes turnover by cultivating an inclusive and supportive workplace environment that promotes employee growth and well-being.

Shrestha et al. (2025) found that involving employees in decision-making and maintaining open communication in commercial banks significantly enhanced loyalty and reduced turnover intentions in Nepalese banking. Similarly, Sapkota et al. (2024) reported that democratic leadership fosters employee satisfaction and loyalty by promoting transparency, trust, and professional growth. Furthermore, Khanal (2024) observed that democratic leadership enhanced employee morale and loyalty by empowering employees and encouraging their involvement in organizational problem-solving. Collectively, these findings indicate that democratic leadership nurtures a positive organizational culture that enhances employee loyalty and retention. Based on these evidences, the following hypothesis has been proposed:

H3: Democratic leadership has positive and significant impact on employee loyalty.

2.4 Servant Leadership and Employee Loyalty

Servant leadership focuses on employees' needs, building trust, and supporting both personal and professional growth. Eva et al. (2019) noted that servant leaders strengthen employee commitment and satisfaction by actively listening, demonstrating empathy, and fostering long-term development. Similarly, Yang et al. (2019) found that servant leadership enhances employee loyalty by fostering psychological safety and emotional commitment. Additionally, Omanwar and Agrawal (2022) discovered that servant leadership in Indian hospitals reduces turnover intentions among front-line employees by strengthening their identification with the organization. Moreover, Nazarian et al. (2024) highlighted that servant leadership builds trust, which enhances organizational commitment and job satisfaction. In the similar vein, Alajhar and Salam (2022) observed that servant leadership promotes innovative behavior, which in turn enhances overall employee performance and loyalty. Supporting this, Aboramadan et al. (2024) found that servant leadership positively impacts on work engagement and affective commitment among employees.

In Nepalese organizational settings, servant leadership is increasingly acknowledged for its constructive influence on employee loyalty and its contribution to fostering a deeper sense of organizational commitment. Khadayat et al. (2024) found that servant leadership enhanced employee loyalty by cultivating a supportive and people-oriented organizational culture. Similarly, Gautam and Paudel (2023) demonstrated that servant leadership significantly reduces burnout among Nepalese nurses during the COVID-19 pandemic and contributes to employee well-being and loyalty. Furthermore, Shrestha et al. (2025) revealed that servant leadership significantly boosts employee loyalty and engagement by prioritizing employees' needs, offering support for their personal and professional growth, and fostering a trusting and inclusive work environment. Moreover, Bhandari and Subedi (2024) revealed that servant leadership strengthens employee commitment and trust in leadership, which in turn fosters greater employee loyalty. On the basis of above evidences, the following hypothesis has been proposed:

H4: Servant leadership has positive and significant impacts on employee loyalty.

3. Research Methods

This study employed a combination of descriptive and causal-comparative research designs to achieve its objectives. The descriptive design was used to present the demographic characteristics of the respondents and causal-comparative design aimed to explore potential cause-and-effect relationships

between leadership styles and employee loyalty. The target population comprised all the employees working in various positions across Nepalese commercial banks within the Kathmandu valley. A total of 210 respondents from diverse functional roles were selected, a sample size sufficient to conduct meaningful statistical analyses such as correlation and regression while capturing varied perspectives across organizational levels. Operational and mid-level employees were specifically chosen, as they directly experience leadership behaviors and can most accurately reflect the impact of leadership styles on employee loyalty (Yukl, 2013; Avolio & Bass, 2004). A total of 210 employees representing various functional roles were selected as the sample of the study. The sample size is considered sufficient because it allows for reliable and robust statistical analysis, including techniques such as correlation and regression. Operational and mid-level employees were specifically targeted because they directly experience leadership behaviors and are most likely to reflect how leadership styles influence employee loyalty (Yukl, 2013; Avolio & Bass, 2004). The convenience sampling method was employed in this study primarily due to practical considerations of accessibility, time, and available resources. Employees of Nepalese commercial banks are spread across numerous branches and departments, making random or stratified sampling difficult and time-consuming. Using convenience sampling, the researcher was able to efficiently access operational and mid-level employees who were readily available and willing to participate in the data collection process.

This study is based on primary data collected through a structured questionnaire incorporating a 5-point Likert scale to measure participants' perceptions. The questionnaire was disseminated through a combination of personal visits, email, and social media platforms to enhance accessibility and encourage maximum participation from respondents. A total of 300 questionnaires were distributed, of which 225 were returned, yielding a response rate of 75% regarded as high and reflective of strong data quality in social science research (Babbie, 2016). Finally, 210 responses were used for data analysis, 15 were removed due to multiple non-responses. For the descriptive analysis, statistical tools including mean, standard deviation, and correlation coefficients were employed to summarize the characteristics and to examine the relationships among the study variables. Multiple regression analysis was used to examine how different leadership styles affect employee loyalty among operational and mid-level employees in Nepalese commercial banks. The following regression model was formulated to test the proposed hypotheses:

$$\text{Employee Loyalty (Y)} = \beta_0 + \beta_1 \text{ TL} + \beta_2 \text{ TSL} + \beta_3 \text{ DL} + \beta_4 \text{ SL} + e_i$$

Where,

TL = Transformational Leadership

TSL = Transactional Leadership

DL = Democratic Leadership

SL = Servant Leadership

$\beta_1, \beta_2, \beta_3$ and β_4 = coefficient of explanatory variables

β_0 = The intercept (constant term) and

e_i = error term

To ensure the reliability of the measurement scales, Cronbach's alpha analysis was applied. This method helps determine whether the items grouped under each construct are internally consistent and reliable. The analysis revealed that all constructs have alpha values above the accepted benchmark of

0.7, confirming that the items consistently represent their respective dimensions (Cronbach, 1951). All five variables meet the reliability threshold, with Cronbach's Alpha values ranging from 0.852 to 0.912, indicating their consistency. The Cronbach's alpha values are presented in Table 1.

Table 1*Reliability Analysis*

Variables	Cronbach's Alpha	No. of items	Remarks
Employee Loyalty	0.912	7	Reliable
Transformational Leadership	0.905	5	Reliable
Transactional Leadership	0.882	5	Reliable
Democratic Leadership	0.865	5	Reliable
Servant Leadership	0.852	5	Reliable

4. Results**4.1 Demographic Profile of the Respondents**

The study examines the impact of leadership style on employee loyalty within Nepalese commercial banks. The sample comprised 210 employees, and their demographic characteristics are summarized in Table 2. Of the total respondents, 62.85% were male and 37.15% were female. In terms of marital status, 75.24% were married and 24.76% were unmarried. In terms of age, 11.42% of participants were under 30, 37.14% were between 31 and 40, 39.05% were between 41 and 50, and 12.39% were above 50 years. Regarding educational qualifications, 59.52% held a bachelor's degree and 40.48% had an above bachelor degree. With respect to job positions, 54.29% of respondents were working at operational level and 45.71% held managerial level positions. Concerning work experience, 26.67% had up to five years of experience, 42.39% had between five to ten years, and 27.14% had more than ten years of professional experience.

Table 2*Demographic Profile of the Respondents*

Variables	Frequency	Percent
N	210	
Gender		
Male	132	62.85
Female	78	37.15
Marital Status		
Married	158	75.24
Unmarried	52	24.76
Age		
Below 30	24	11.42
31-40	78	37.14
41-50	82	39.05
Above 50	26	12.39.

Academic Qualification

Bachelor	125	59.52
Above Bachelor	85	40.48

Job Position

Operational Level	114	54.29
Manager Level	96	45.71

Experience

Up to 5 Years	64	26.67
5-10 Years	89	42.39
Above 10 Years	57	27.14

Source: Field survey, 2025

4.2 Descriptive Statistics and Pearson Correlation

The table 3 illustrates the mean, standard deviations, and Pearson correlation coefficients among different leadership styles i.e. transformational leadership, transactional leadership, democratic leadership, and servant Leadership and their relationship with employee loyalty. Among these, transformational leadership has the highest mean ($M = 4.32$, $SD = 0.43$), indicating that employees view transformational leaders most favorably. This leadership style also shows the strongest positive correlation with employee loyalty ($r = 0.75$, $p < 0.01$), suggesting that leaders who inspire, intellectually stimulate, and give individualized attention to their subordinates are most effective in fostering emotional attachment, commitment, and loyalty among employees.

Transactional leadership ($M = 4.12$, $SD = 0.52$) also demonstrated a significant positive relationship with employee loyalty ($r = 0.58$, $p < 0.01$). This can be explained by the way that transactional leaders establish clear expectations, monitor performance, and provide rewards based on results, which creates a sense of fairness and predictability for employees. Such a structured approach reduces ambiguity about roles and responsibilities, enhancing employees' confidence in organizational processes. Although transactional leadership may lack the inspirational and visionary qualities of transformational leadership, it still strengthens loyalty by ensuring accountability, reinforcing organizational norms, and providing tangible recognition for performance, which together motivate employees to remain committed to the organization.

Democratic leadership ($M = 3.85$, $SD = 0.75$) and servant leadership ($M = 3.65$, $SD = 0.72$) have moderate but weaker correlations with employee loyalty ($r = 0.46$, $p < 0.05$ and $r = 0.44$, $p < 0.01$, respectively). Democratic leadership promotes employee involvement in decision-making, which may enhance job satisfaction and empowerment, but it might lack the strong motivational drive present in transformational leadership. Servant leaders focus on meeting employees' needs and promoting their growth, which builds trust and psychological safety; however, the lower mean and weaker correlation may indicate that this style is less recognized in practice, or that it is perceived as passive in results-driven

environments. In summary, the results highlight that transformational leadership is the most effective in building employee loyalty, likely due to its ability to combine inspiration, personal development, and a shared vision.

Table 3

Descriptive Analysis and Correlation Coefficients

	Mean	SD	TL	TSL	DL	SL	EL
TL	4.32	0.43	1				
TSL	4.12	0.52	0.380**	1			
DL	3.85	0.75	0.390**	.553**	1		
SL	3.65	0.72	0.099**	0.06	0.107	1	
EL	3.96	0.67	0.75**	0.58**	0.46*	0.44**	1

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

Source: Field survey, 2025

Where: TL- Transformational leadership, TSL- Transactional leadership, DL- Democratic leadership, SL- Servant leadership, EL- Employee loyalty

4.3 Test of Hypotheses

The influence of various leadership styles on employee loyalty was examined using multiple regression analysis. Specifically, the study analyzed the effects of Transformational Leadership (TL), Transactional Leadership (TSL), Democratic Leadership (DL), and Servant Leadership (SL) on Employee Loyalty (EL). To ensure the validity of the regression model, multicollinearity was assessed using the Variance Inflation Factor (VIF), a standard diagnostic measure. According to Kutner et al. (2004), VIF values exceeding 10 indicate the presence of serious multicollinearity, which can undermine the reliability of the regression coefficients by introducing redundancy among the predictor variables. In this study, all VIF values were found to be well below the critical threshold of 10, confirming that multicollinearity is not a significant issue. Thus, the regression results can be interpreted with confidence regarding the distinct contribution of each leadership style to employee loyalty.

The multiple linear regression analysis was conducted to examine the effect of four leadership styles i.e. transformational leadership, transactional leadership, democratic leadership, and servant leadership on employee loyalty. Table 4 presents the regression coefficients, t-statistics, p-values, and Variance Inflation Factor (VIF) values, providing a comprehensive understanding of the relationship between the independent and dependent variables. The overall model was found to be statistically significant, as indicated by the F-value of 4.351 and a p-value less than 0.001. This confirms that the set of independent variables collectively have a significant influence on employee loyalty. The ($R^2 = 0.421$) indicates that the model explains 42.1% of the variation in employee loyalty of the leadership styles in the study which play a significant role in shaping employee loyalty. The adjusted R^2 of 0.356 accounts for the number of predictors, providing a more accurate measure of the model's explanatory power. These values suggest

a moderately strong model fit, meaning that while leadership styles are important contributors, other factors beyond the model may also affect employee loyalty.

Table 4

Regression Results

Predictors	Coefficients	t-statistic	p-value	VIF
Constant	1.723	3.581	0.000	
TL	0.411	3.340	0.000	1.343
TSL	0.371	3.035	0.000	1.420
DL	0.214	2.402	0.002	1.440
SL	0.114	2.028	0.005	1.022
R ² = 0.421 Adj.R ² = 0.356, F-value = 4.351, F(sig) = 0.000				

Source: Field survey, 2025

Among the leadership styles, Transformational Leadership ($\beta = 0.411$, $t = 3.340$, $p < 0.001$) emerged as the most influential predictor, suggesting that leaders who provide vision, inspiration, and intellectual stimulation significantly enhance employees' emotional commitment and loyalty to the organization. Transactional Leadership also showed a significant positive impact ($\beta = 0.371$, $t = 3.035$, $p < 0.001$), indicating that leaders who focus on structured roles, rewards, and performance expectations contribute positively to employee loyalty. Democratic Leadership ($\beta = 0.214$, $t = 2.402$, $p = 0.002$) was also found to significantly influence employee loyalty, reflecting that participative decision-making and inclusive leadership practices foster a sense of belonging and trust among employees. Lastly, Servant Leadership ($\beta = 0.114$, $t = 2.028$, $p = 0.005$) had a statistically significant but relatively smaller effect, implying that leaders who prioritize employee well-being and personal growth can also promote loyalty.

Furthermore, all predictors had VIF values well below the acceptable threshold value of 5 (ranging from 1.022 to 1.440), indicating no multicollinearity issues and confirming the reliability of the regression estimates. Overall, the results underscore the critical role that various leadership styles play in shaping employee loyalty, with transformational and transactional leadership styles having the strongest influence. These findings provide valuable insights for organizational leaders and HR practitioners seeking to develop leadership approaches that effectively enhance employee retention and organizational commitment.

The hypotheses of this study were formulated to examine the individual and collective effects of various leadership styles on employee loyalty. The hypotheses were proposed with the assumption that each leadership style i.e. transformational, transactional, democratic, and servant leadership has a significant and positive effect on employee loyalty. The regression analysis provided statistical evidence to test these hypotheses. For transformational leadership, the result showed a significant positive influence on employee loyalty ($\beta = 0.411$, $t = 3.340$, $p < 0.001$), leading to the acceptance of the proposed hypothesis. Similarly, transactional leadership also had a significant impact ($\beta = 0.371$, $t = 3.035$, $p < 0.001$), confirming its positive role in enhancing employee loyalty. Democratic leadership showed a moderate

but statistically significant effect ($\beta = 0.214$, $t = 2.402$, $p = 0.002$), and servant leadership also contributed positively, with a smaller effect size ($\beta = 0.114$, $t = 2.028$, $p = 0.005$) on employee loyalty. All these results support the acceptance of the proposed hypotheses. Table 5 given below provides the summary of hypothesis testing results.

Table 5*Summary of Hypotheses Results*

Hypotheses	Statements	P Value	Results
H1	Transformational leadership has positive and significant impact on employee loyalty	0.000	Supported
H2	Transactional leadership has positive and significant impact on employee loyalty	0.000	Supported
H3	Democratic leadership has positive and significant impact on employee loyalty	0.002	Supported
H4	Servant leadership has positive and significant impact on employee loyalty	0.005	Supported

Discussion

This study examined the impact of different leadership styles on employee loyalty within Nepalese commercial banks. The findings indicate that transformational, transactional, democratic, and servant leadership all have a positive and significant effect on employee loyalty, highlighting the critical role leaders play in shaping employee commitment and retention. Each style contributes uniquely: transformational leaders foster emotional attachment through vision and inspiration; transactional leaders build trust and predictability through structured guidance and performance-based rewards; democratic leaders enhance loyalty by promoting participation and inclusion; and servant leaders focus on employee well-being and interpersonal relationships, which can strengthen organizational commitment.

This is consistent with the study of Bass and Avolio (1994) and Avolio et al. (2004), who found that transformational leaders motivate and inspire followers in ways that enhance their emotional connection to the organization. Similarly, Yang et al. (2019) emphasized that the positive effect of transactional leadership enhances employee loyalty by providing clear expectations and performance-based rewards which foster trust and loyalty. Democratic leadership also influences employee loyalty as Gastil (1994), which suggests that shared decision-making enhances employees' sense of belonging and commitment. These similarities indicate that leadership styles that are empowering, transparent, and supportive are universally valued across various organizational settings. However, the study also revealed that servant leadership was statistically significant, its effect on employee loyalty was weaker than other leadership styles. This divergence from the findings of Eva et al. (2019) and Liden et al. (2020), which identified servant leadership as highly effective, may be influenced by contextual factors unique to Nepalese organizations. The organizational culture in Nepalese banks tends to be highly hierarchical, which can restrict leaders from fully practicing servant leadership behaviors such as empowering employees, encouraging participation, and providing individualized support.

Overall, the study demonstrates that leadership styles are key determinants of employee loyalty, but their effectiveness can vary depending on organizational context, cultural norms, and implementation practices. These insights have both theoretical and practical implications, emphasizing the need for leaders to adapt their approaches to the specific cultural and organizational environment to foster employee commitment effectively.

Conclusion

This study demonstrates that transformational, transactional, democratic, and servant leadership styles each have a significant positive effect on employee loyalty in Nepalese commercial banks. Transformational and transactional leadership showed particularly strong influences, highlighting the importance of motivating employees through vision, inspiration, clear expectations, and structured rewards. Democratic and servant leadership also contributed meaningfully by fostering inclusion, participation, and employee well-being. These findings suggest that a balanced and context-sensitive approach, integrating multiple leadership styles, is most effective for addressing diverse employee needs and organizational goals.

Practically, the study emphasizes the need for bank management to develop leaders who can inspire employees, maintain fair and structured processes, encourage participation in decision-making, and prioritize employee welfare. Implementing such leadership practices can help reduce turnover, strengthen employee commitment, and improve organizational performance in the competitive Nepalese banking sector.

Theoretically, this study contributes to leadership research by providing empirical evidence from the Nepalese commercial banking sector, a context that has been largely underrepresented in existing literature. The study supports the integration of multiple leadership styles rather than reliance on a single style, emphasizing the need to understand leadership effectiveness within specific cultural and organizational settings. This highlights the need to account for cultural, organizational, and contextual factors in evaluating leadership effectiveness, as strategies that are successful in one setting may not produce the same results in a different environment.

Future research can explore potential moderators such as organizational culture, employee expectations, and individual differences, as well as mediators like job satisfaction or organizational trust, to gain deeper insights into how leadership styles influence employee loyalty. Recognizing these contextual and methodological factors can further refine leadership development strategies and enhance practical and theoretical understanding.

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APPENDIX A: QUESTIONNAIRE SURVEY

Dear Respondents,

We cordially request you to participate in our research on Leadership and Employee Loyalty in Nepalese Commercial Banks. Your participation in this research is entirely voluntary. The findings will not identify individuals, and all information obtained from the survey will be used only in aggregate form in compliance with research ethics. We would be grateful if you could spare a moment of your valuable time to complete the following questionnaire.

Authors

Part I: Please tick the appropriate bracket

Gender: Male ☐ Female ☐

Marital Status: Married ☐ Unmarried ☐

Age: Below 30 Year ☐ 31-40 Year ☐ 41-50 Year ☐ Above 50 Year ☐

Academic Qualification: Bachelor ☐ Above Bachelor ☐

Job Position: operational Level ☐ Manager Level ☐

Job Experience: Up to 5 Years ☐ 5-10 Years ☐ Above 10 Years ☐

Part II: Questionnaire on Independent Variable Transformational Leadership (TL)

Please respond to the questions below using 1-5 scale. (1- Strongly Disagree, 2-Disagree, 3- Neutral, 4 – Agree and 5 - Strongly Agree)

Code	Items	1	2	3	4	5
TL1	My manager is a role model for employees in the bank.					
TL2	My manager talks optimistically about the future of our bank.					
TL3	My manager encourages new ways of looking at problems.					
TL4	My manager values my ideas and suggestions.					
TL5	My manager treats me as an individual rather than just a member of the team.					

Part III: Questionnaire on Independent Variable Transactional Leadership (TSL)

Using 1-5 scale, please respond to the questions below:

Code	Items	1	2	3	4	5
TSL1	My manager rewards employees for good performance.					
TSL2	My manager regularly reviews work processes to avoid problems.					
TSL3	My manager takes corrective action when employees fail to meet expectations.					
TSL4	My manager sets clear standards for my job performance.					
TSL5	My manager focuses on maintaining order and discipline within the team.					

Part IV: Questionnaire on Independent Variable Democratic Leadership (DL)

Using 1-5 scale, please respond to the questions below:

Code	Items	1	2	3	4	5
DL1	My manager encourages employees to participate in decision-making processes.					
DL2	My manager promotes open discussion before making important decisions.					
DL3	My manager supports employee autonomy in completing their tasks.					
DL4	My manager regularly asks for feedback on management practices.					
DL5	My manager treats all team members fairly and equally in decision-making.					

Part V: Questionnaire on Independent Variable Servant Leadership (SL)

Using 1-5 scale, please respond to the questions below:

Code	Items	1	2	3	4	5
SL1	My manager provides opportunities for my personal and professional growth.					
SL2	My manager listens with empathy when I share my problems.					
SL3	My manager puts employees' needs above his/her own.					
SL4	My manager emphasizes ethical behavior and long-term stakeholder value.					
SL5	My manager leads by serving rather than commanding.					

Part VI: Questionnaire on Dependent Variable Employee Loyalty (EL)

Using 1-5 scale, please respond to the questions below:

Code	Items	1	2	3	4	5
EL1	I feel a strong sense of belonging to my bank.					
EL2	I feel emotionally attached to this bank.					
EL3	I intend to continue working at this bank for the foreseeable future.					
EL4	I rarely think about looking for a job at another organization.					
EL5	I actively support my bank's mission and goals.					
EL6	I feel an obligation to remain with this bank.					
EL7	I stay with this bank because I believe it is the right thing to do.					

Thank you for your participation!