



# Examining the Effects of Multiple Leadership Styles on Organizational Performance Through Employee Engagement in Nepal

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## Abstract

This study examines how four leadership styles, transformational, ethical, strategic, and transactional affect organisational performance in Nepalese organisations, with employee engagement as a mediator. Using a quantitative, cross-sectional design, data were collected from 374 employees and managers in organisations located in Biratnagar, Itahari, and Dharan. Stratified random sampling ensured representation across public sector institutions, private firms, and non-governmental organisations. Structural equation modelling (SEM) was conducted using SPSS 26.0 and AMOS 26.0, following a two-step analytical approach. The measurement model confirmed satisfactory reliability and convergent validity for all the constructs. The structural model revealed that transformational ( $\beta = .312, p < .001$ ), ethical ( $\beta = .248, p < .001$ ), strategic ( $\beta = .289, p < .001$ ), and transactional ( $\beta = .198, p < .001$ ) leadership styles positively predicted organizational performance. Employee engagement partially mediated all four of these relationships. Transformational leadership produced the largest indirect effect through engagement ( $\beta = .134$ ), followed by ethical ( $\beta = .106$ ), strategic ( $\beta = .091$ ), and transactional leadership ( $\beta = .075$ ), respectively. The leadership styles jointly explained 51.2% of the variance in employee engagement and 63.4% of the variance in organizational performance. These findings extend the emerging-economy leadership literature to the South Asian federal context and offer actionable

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guidance for organisational leaders, human resource practitioners, and policymakers in Nepal.

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## Introduction

Leadership style is widely recognised as a primary determinant of organisational performance. In different sectors, the way senior leaders guide, motivate, and direct employees shapes how organisational resources are deployed, strategic priorities are pursued, and how effectively organisations achieve their objectives (Bass, 1985; Avolio & Bass, 2004; Yukl, 2013). Decades of empirical research have established that transformational, ethical, strategic, and transactional leadership each produces distinct patterns of organisational outcomes through different motivational and behavioural mechanisms (Burns, 1978; Brown et al., 2005; Samimi et al., 2022; Owotemu et al., 2024). Identifying which leadership approaches generate the strongest performance returns and through which mechanisms remains a question with both theoretical and practical consequences.

However, the generalisation of leadership performance relationships across national and institutional contexts remains unclear. Most foundational research on leadership has taken place in developed economies, with organizational structure, governance, and cultural orientations varying significantly from those in emerging economies (Kebede et al., 2024). The leadership performance relationship is context-specific and influenced by the institutional context, cultural norms, and macroeconomic factors in each context. Empirical studies conducted in Nigeria (Owotemu et al., 2024), Ethiopia (Kebede et al., 2024), and in the context of SMEs in South Asia (Khan & Lee, 2025) show that leadership influences organisational outcomes in varying manners across the contexts of emerging economies, highlighting the need to avoid generalising findings from studies in other contexts and investigate the specific context under study.

Nepal is a fascinating and under-researched region for leadership and organisational studies. The federalisation of the country under the Constitution of 2015 brought a change in the administration and public governance from the country level to seven provinces, which, in turn, placed additional demands on the organisation of public institutions at the provincial and local levels (Ministry of Finance, Nepal, 2023). Koshi Province is in the eastern part of Nepal and is an important economic corridor of the country, connecting the industrial and industrialising part of the country with its border with India. It is home to major urban centres such as Biratnagar, Itahari, and Dharan. These cities provide a large proportion of public institutions, manufacturing businesses, and increasing numbers of business enterprises, and are therefore relevant and strategic

for studying the connection between leadership and the outcomes of organisational performance.

Nepal's organisational landscape faces persistent challenges that render leadership effectiveness consequential and difficult to achieve. Governance weaknesses, limited managerial training, and a historically hierarchical cultural orientation shaped by traditional social structures and collectivist norms constrain the adoption of modern leadership practices (Kebede et al., 2024). The country's economic recovery following the COVID-19 pandemic, during which GDP contracted by 1.8% in the fiscal year 2019–2020 (Asian Development Bank, 2023), has placed additional pressure on organisations to improve performance while maintaining employee morale. Nepal's distinct socio-organisational context, including its federal transition, remittance-dependent economy (World Bank, 2023), and evolving public sector governance, necessitates a context-specific investigation into how leadership styles influence organisational outcomes in Nepal.

Among the leadership approaches with documented relevance to emerging economy performance contexts, four warrant a simultaneous examination. Transformational leadership has attracted extensive empirical support in diverse national settings (Bass, 1985; Avolio & Bass, 2004). Ethical leadership has gained increasing attention as a driver of trust, accountability, and institutional integrity (Brown et al., 2005). Strategic leadership has been recognised as critical to the long-term organisational direction in emerging economies (Samimi et al., 2022; Kebede et al., 2024). Transactional leadership, which emphasises reward-contingent performance, is a practical mechanism for maintaining operational efficiency (Bass, 1985; Owotemu et al., 2024). These four styles have rarely been examined simultaneously within a single structural model in the South Asian economy context, leaving important comparative and cumulative questions unanswered.

The mediating role of employee engagement provides a theoretical mechanism for connecting leadership styles to organisational outcomes. Social exchange theory (Blau, 1964) predicts that employees who perceive strong, supportive leadership reciprocate with heightened commitment and effort, thereby creating a motivational link between leader behaviour and organisational results. Kahn's (1990) foundational work established that engaged employees bring greater cognitive, emotional, and physical resources to their work roles, directly influencing performance outcomes. Thus, employee engagement represents a theoretically grounded and empirically measurable mechanism through which leadership generates organisational performance, and its role as a simultaneous mediator across four distinct leadership styles remains incompletely tested in the existing literature. The purpose of this study is to investigate the predictive effect of transformational, ethical, strategic and transactional leadership styles on

organizational performance. A major part of this question is to look at the structural mechanism of this relationship. In particular, this study investigates whether employee engagement has a significant mediating role in the relationship between these specific leadership behaviors and performance. Ultimately, the research seeks to identify the most significant effect of different leadership styles on organizational performance through the process of employee engagement. The study extends the leadership literature to a South Asian emerging economy setting and offers actionable insights for organisational leaders, human resource practitioners, and policymakers in Nepal.

This study is based on two theoretical perspectives. Upper echelon theory (Hambrick & Mason, 1984) holds that the values, capabilities, and orientations of senior leaders determine strategic choices and ultimately shape organisational outcomes. The theory grounds the expectation that distinct leadership styles should produce measurable differences in organisational performance. Samimi et al. (2022) extended this logic by identifying the specific functions—strategic decision-making, stakeholder engagement, information management, and human resource activities—through which senior leaders influence their organisations.

Social exchange theory (Blau, 1964) provides a mechanism through which employee engagement mediates the leadership performance relationship. Leaders who demonstrate inspirational behaviour, ethical conduct, and strategic clarity create conditions that employees reciprocate through commitment, effort, and engagement (Kahn, 1990). These reciprocal dynamics transform leader behaviour into organisational outcomes by first activating employee engagement as the proximate driver of performance.

### **Transformational Leadership and Organizational Performance**

Transformational leadership refers to the manner in which leaders motivate followers to exceed their own self-interest to achieve a vision or mission that creates a sense of innovation and intrinsic motivation (Burns, 1978; Bass, 1985). Avolio and Bass (2004) defined this construct in four dimensions: idealised influence, inspirational motivation, intellectual stimulation, and individualised consideration (IC). Transformational leaders enhance the performance of their organisations by helping employees see the link between their work and the organisation's purpose, fostering employees' creative problem-solving, and developing a shared commitment among employees (Yukl, 2013). In the public sector context of Nigeria, Owotemu et al. (2024) determined that transformational leadership explains a significant amount of variance in organisational management outcomes, including efficiency and productivity indices. Other factors that were found to be direct contributors to sustainable development outcomes in SMEs in Pakistan, India, and Taiwan were transformational leadership qualities, vision, inspiration, and moral conduct of SME owners, as identified by Khan

and Lee (2025). Transformational leadership provides direction and motivational energy that can spark performance improvement in organisations that often face institutional uncertainty and resource scarcity in emerging economy settings such as Nepal (Kebede et al., 2024). Based on this, the following hypothesis was formulated:

H1: Transformational leadership positively predicts organizational performance.

### **Ethical Leadership and Organizational Performance**

Ethical leadership consists of personal conduct and interpersonal relationships that are normatively appropriate and fostered by followers (Brown et al., 2005). Ethical leaders create trust-based relationships with employees, set an example of integrity in decision-making, and hold followers responsible for common standards. This behaviour can be quantified in terms of organisational performance and is reflected by a decrease in unethical behaviour, organisational reputation, and stakeholder relations. Brown et al. (2005) showed that workers under the influence of ethical leaders demonstrate greater organisational citizenship behaviour, satisfaction, and effectiveness which, in turn, leads to increased organisational performance. Ethical leadership is a part of strategic leadership that may create adverse implications if it is not developed in organisations' culture and stakeholder engagement in emerging economy institutions (Kebede et al., 2024). Ethical leaders set the elements of trust grounded in good governance and accountability which is a known issue in the public sector in Nepal (World Bank, 2023). Hence, the following hypothesis is proposed:

H2: Ethical leadership positively predicts organizational performance.

### **Strategic Leadership and Organizational Performance**

Strategic leadership refers to the functions performed by senior leaders that shape an organisation's long-term direction and competitive position (Samimi et al., 2022). These functions include setting strategic directions, managing information, making high-stakes decisions, engaging stakeholders, and developing human capital. Ireland and Hitt (2005) define strategic leadership as the capacity to anticipate, envision, maintain flexibility, and empower others to implement strategic changes. Finkelstein et al. (2009) further demonstrated that strategic leaders who align organisational vision with operational capabilities consistently outperform those who do not. Kebede et al. (2024) showed that Ethiopian higher education institutions rated institutional innovativeness and information management, core strategic leadership functions identified in 65% and 20% of the reviewed literature, respectively, most positively, whereas strategic control and priority management were rated less favourably. Hitt et al. (2010) argued that strategic leadership is the principal challenge confronting organisations in the 21st century, particularly those operating in dynamic and resource-constrained environments. Nepal's organisations, navigating the transition to federal

governance structures and macroeconomic volatility, require strategic leadership competencies to sustain their performance (Ministry of Finance, Nepal, 2023).

Accordingly, the following hypothesis was developed:

H3: Strategic leadership positively predicts organizational performance.

### **Transactional Leadership and Organizational Performance**

Transactional leadership operates through contingent rewards and management-by-exception, establishing clear performance expectations and linking rewards to the demonstrated outcomes (Bass, 1985; Avolio & Bass, 2004). While transactional leadership lacks the inspirational quality of transformational approaches, it maintains operational discipline and ensures that the baseline performance standards are met. In environments where procedural compliance, resource management, and accountability are priorities, common features of Nepal's public sector, transactional leadership provides structural reinforcement for consistent performance. Owotemu et al. (2024) found that transactional leadership is a stabilising force in organisational performance in Nigeria, particularly in settings that demand process adherence and structured accountability. The transactional approach produces positive performance outcomes in role-defined organisational environments through its contingent reward mechanism (Avolio & Bass, 2004). Therefore, the following hypothesis is proposed:

H4: Transactional leadership positively affects organizational performance.

### **Employee Engagement as Mediator**

Employee engagement captures the degree to which employees invest their cognitive, emotional, and physical energy into their work roles (Kahn, 1990; Schaufeli et al., 2002). Engaged employees exhibit sustained motivation, organisational identification, and discretionary effort, all of which directly support organisational performance. Social exchange theory (Blau, 1964) predicts that leader behaviours serving employees' psychological needs activate reciprocal engagement, which then translates into performance contributions. Transformational leaders enhance engagement by providing inspirational meaning and individualised support (Bass, 1985). Ethical leaders build trust and psychological safety, conditions under which employees fully invest in their work (Brown et al., 2005). Strategic leaders channel engagement by articulating the organisational direction and enabling employees to see how their contributions are linked to broader objectives (Samimi et al., 2022). Transactional leaders sustain engagement through clear performance contracts and recognition systems (Avolio & Bass, 2004). In each case, leadership style is expected to operate through engagement as the proximate mechanism driving performance. Accordingly, the following hypotheses were formulated:

H5: Employee engagement mediates the relationship between transformational leadership and organizational performance.

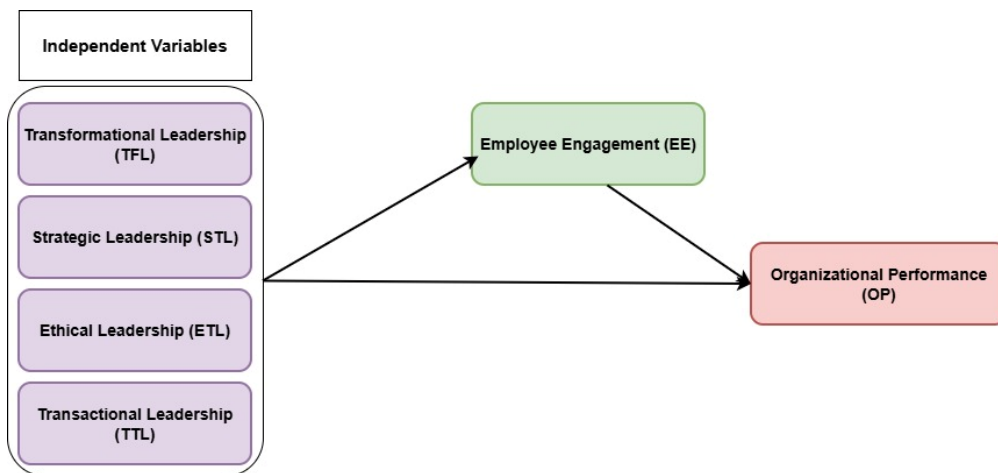
H6: Employee engagement mediates the relationship between ethical leadership and organizational performance.

H7: Employee engagement mediates the relationship between strategic leadership and employee performance.

H8: Employee engagement mediates the relationship between transactional leadership and organizational performance.

**Figure 1**

*Proposed conceptual model.*



## Methods and Materials

This study employs a quantitative cross-sectional research design to explore the direct and mediated relationships among four types of leadership models and organizational performance. The design is similar to traditional leadership-performance research (Owotemu et al., 2024; Khan & Lee, 2025) and is appropriate for testing hypotheses using structural equation modelling. This study was conducted in three main urban centres in the Koshi Province: Biratnagar, Itahari, and Dharan. The province's largest city is Biratnagar, which is also a well-developed industrial city with a mix of manufacturing companies and trading businesses, as well as government offices, and represented 42.0% of the sample. Itahari is a fast-expanding commercial hub and accounted for 32.4% of the respondents. Dharan, an educational and service centre, contributed 25.7% of the sample. The results from these cities are geographically distributed, improving the representativeness of the results for the study area.

The target population included managers and employees from three organisational sectors: public, private, and non-governmental/international non-governmental organisations (NGOs/INGOs). The sample size was determined to be  $n \geq 300$  based on the guidelines for SEM analysis (five to ten observations per estimated parameter, as suggested by Hair et al., 2019). Stratified random sampling was used to ensure proportional representation across cities and sectors. Data were gathered using a structured, self-administered questionnaire that was sent out from January to March 2026. The questionnaire was distributed through the human resource departments and electronically via Google Forms. A total of 450 questionnaires were sent out, of which 391 were returned. The data were screened for incomplete responses and multivariate outliers in SPSS using Mahalanobis distance ( $D^2$ ), and 374 valid responses were obtained, resulting in an 83.1% usable response rate.

All constructs were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Scale items were adapted from validated instruments in the extant literature to suit the Nepali organisational context. Table 1 presents a summary of each construct, the number of items used, and the source of the instruments.

**Table 1**

*Measurement Instruments*

| <b>Construct</b>                  | <b>Scale / Items (Sample Item)</b>  | <b>Items</b> | <b>Source</b>                            |
|-----------------------------------|---|--------------|--|
| Transformational Leadership (TFL) | Adapted from the Multifactor Leadership Questionnaire. Sample item: "My supervisor inspires me to achieve beyond normal expectations."              | 6            | Avolio & Bass (2004); Bass (1985)        |
| Ethical Leadership (ETL)          | Adapted from Ethical Leadership Scale. Sample item: "My supervisor makes fair and balanced decisions."  | 5            | Brown et al. (2005)                      |
| Strategic Leadership (STL)        | Adapted from validated strategic leadership instruments. Sample item: "Leaders in my organization clearly articulate a long-term strategic vision." | 6            | Samimi et al. (2022); Hitt et al. (2010) |

| Construct                       | Scale / Items (Sample Item)  | Items | Source   |
|---------------------------------|--|-------|--|
| Transactional Leadership (TTL)  | Adapted from the Multifactor Leadership Questionnaire.<br>Sample item: “My supervisor provides recognition and rewards for meeting performance standards.” | 5     | Avolio & Bass (2004)                             |
| Employee Engagement (EE)        | Adapted from the Utrecht Work Engagement Scale (UWES).<br>Sample item: “At my job, I feel full of energy.”   | 5     | Schaufeli et al. (2002)                          |
| Organizational Performance (OP) | Adapted from validated organisational performance instruments. Sample item: “My organization consistently achieves its financial objectives.”              | 6     | Delaney & Huselid (1996); Kaplan & Norton (1992) |

*Note. All items were measured on a five-point Likert scale (1 = strongly disagree to 5 = strongly agree).*

Because the data were collected from a single source at a single point in time, common method bias (CMB) was a potential concern (Podsakoff et al., 2003). Several procedural remedies were adopted: predictor and criterion measures were separated by unrelated filler items, anonymity was assured to all participants, and items were worded in a non-leading language. Harman’s single-factor test was conducted as a statistical check. The first unrotated factor in an exploratory factor analysis accounted for 23.7% of the total variance, substantially below the 50% threshold (Podsakoff & Organ, 1986), indicating that CMB was not a critical threat to the validity of the findings.

Data were analysed using SPSS 26.0 for descriptive statistics and CMB testing, and AMOS 26.0 for confirmatory factor analysis (CFA) and SEM. The two-step analytical procedure recommended by Anderson and Gerbing (1988) was used. In Step 1, the CFA assessed the measurement model. Internal consistency was evaluated using Cronbach’s alpha ( $\alpha \geq .70$ ) and composite reliability ( $CR \geq .70$ ; Hair et al., 2019). Convergent validity was assessed using the average variance extracted ( $AVE \geq .50$ ). Discriminant validity was assessed using the Fornell and Larcker (1981) criterion and the heterotrait–monotrait (HTMT) ratio with a threshold of 0.85 (Henseler et al., 2015). In Step 2, the structural model tests the hypotheses. Mediation hypotheses were evaluated using bootstrapping with 5,000 resamples and 95% bias-corrected confidence intervals (Preacher and Hayes, 2008).

## Results and Discussion

### Demographic Profile

Table 2 presents the demographic profiles of the 374 respondents. The sample was distributed across Biratnagar (n = 157, 42.0%), Itahari (n = 121, 32.4%), and Dharan (n = 96, 25.7%) cities. Male respondents constituted 57.8% (n = 216) and female respondents 42.2% (n = 158) of the sample population. Regarding age, 38.5% fell in the 31–40-year age bracket. Educational attainment was predominantly at the bachelor's (45.2%) and master's (37.7%) levels, respectively. The largest sectoral group was public sector employees (48.4%), followed by private sector (38.2%) and NGO/INGO employees (13.4%). Work experience of five–ten years was the most common category (34.2%).

**Table 2**

*Demographic Profile of Respondents (N = 374)*

| Variable           | n   | %    |
|--------------------|-----|------|
| <b>City</b>        |     |      |
| Biratnagar         | 157 | 42.0 |
| Itahari            | 121 | 32.4 |
| Dharan             | 96  | 25.7 |
| <b>Gender</b>      |     |      |
| Male               | 216 | 57.8 |
| Female             | 158 | 42.2 |
| <b>Age (years)</b> |     |      |
| 20–30              | 107 | 28.6 |
| 31–40              | 144 | 38.5 |
| 41–50              | 86  | 23.0 |
| 51 and above       | 37  | 9.9  |
| <b>Education</b>   |     |      |
| Below Bachelor     | 44  | 11.8 |
| Bachelor's         | 169 | 45.2 |
| Master's           | 141 | 37.7 |
| Doctoral           | 20  | 5.3  |
| <b>Sector</b>      |     |      |

| Variable                  | n   | %    |
|---------------------------|-----|------|
| Public                    | 181 | 48.4 |
| Private                   | 143 | 38.2 |
| NGO/INGO                  | 50  | 13.4 |
| <b>Experience (years)</b> |     |      |
| Less than 5               | 109 | 29.1 |
| 5–10                      | 128 | 34.2 |
| 11–15                     | 84  | 22.5 |
| More than 15              | 53  | 14.2 |

### Measurement Model

Table 3 presents the results of the confirmatory factor analysis. All standardised factor loadings ranged from .781 to .857, exceeding the recommended threshold of .70 (Hair et al., 2019). Cronbach’s alpha ranged from .862 (transactional leadership) to .896 (organisational performance), and composite reliability ranged from .897 to .924, all exceeding .70. The AVE values ranged from .634 (transactional leadership) to .712 (organisational performance), all exceeding the .50 threshold (Fornell & Larcker, 1981). These results confirm satisfactory internal consistency and convergent validity for all six constructs. CFA model fit was acceptable:  $\chi^2(df = 283) = 623.47$ ,  $\chi^2/df = 2.20$ , CFI = .956, TLI = .944, RMSEA = .057 (90% CI: .049–.064), SRMR = .053 (Table 6).

**Table 3**

*Measurement Model: Factor Loadings, Reliability, and Convergent Validity*

| Construct / Item                                       | Loading | $\alpha$ | CR    | AVE   |
|--|---------|----------|-------|-------|
| <b>Transformational Leadership (TFL)</b>               |         | 0.887    | 0.912 | 0.674 |
| TFL1: Inspires achievement beyond expectations         | 0.782   |          |       |       |
| TFL2: Articulates a clear and compelling vision        | 0.811   |          |       |       |
| TFL3: Encourages creative thinking and problem-solving | 0.796   |          |       |       |
| TFL4: Demonstrates confidence in employee abilities    | 0.834   |          |       |       |
| TFL5: Fosters collective mission among employees       | 0.852   |          |       |       |

| <b>Construct / Item</b>  | <b>Loading</b> | <b><math>\alpha</math></b> | <b>CR</b> | <b>AVE</b> |
|--|----------------|----------------------------|-----------|------------|
| TFL6: Displays genuine enthusiasm about organisational work    | 0.841          |                            |           |            |
| <b>Ethical Leadership (ETL)</b>                                |                | 0.873                      | 0.904     | 0.658      |
| ETL1: Conducts personal life in an ethical manner              | 0.793          |                            |           |            |
| ETL2: Listens to and acts on employee concerns                 | 0.814          |                            |           |            |
| ETL3: Disciplines violations of ethical standards              | 0.801          |                            |           |            |
| ETL4: Makes fair and balanced decisions                        | 0.820          |                            |           |            |
| ETL5: Can be trusted by employees                              | 0.811          |                            |           |            |
| <b>Strategic Leadership (STL)</b>                              |                | 0.891                      | 0.921     | 0.701      |
| STL1: Articulates long-term strategic vision                   | 0.821          |                            |           |            |
| STL2: Prioritises decisions for long-term competitiveness      | 0.843          |                            |           |            |
| STL3: Manages organisational change and adaptation effectively | 0.836          |                            |           |            |
| STL4: Fosters innovation in strategic planning                 | 0.857          |                            |           |            |
| STL5: Engages stakeholders in setting strategic direction      | 0.841          |                            |           |            |
| STL6: Monitors and evaluates strategic outcomes systematically | 0.838          |                            |           |            |
| <b>Transactional Leadership (TTL)</b>                          |                | 0.862                      | 0.897     | 0.634      |
| TTL1: Sets clear performance expectations                      | 0.781          |                            |           |            |
| TTL2: Provides recognition for meeting performance standards   | 0.804          |                            |           |            |
| TTL3: Monitors performance against established standards       | 0.797          |                            |           |            |
| TTL4: Takes corrective action when performance falls short     | 0.786          |                            |           |            |

| Construct / Item  | Loading | $\alpha$ | CR    | AVE   |
|---|---------|----------|-------|-------|
| TTL5: Maintains accountability by tracking progress closely       | 0.793   |          |       |       |
| <b>Employee Engagement (EE)</b>                                   |         | 0.879    | 0.908 | 0.668 |
| EE1: Feels full of energy at work                                 | 0.803   |          |       |       |
| EE2: Is enthusiastic about the work                               | 0.821   |          |       |       |
| EE3: Is immersed in work and time flies                           | 0.814   |          |       |       |
| EE4: Work provides a feeling of pride and accomplishment          | 0.826   |          |       |       |
| EE5: Feels strong attachment to the work and organisation         | 0.813   |          |       |       |
| <b>Organizational Performance (OP)</b>                            |         | 0.896    | 0.924 | 0.712 |
| OP1: Consistently achieves financial objectives                   | 0.831   |          |       |       |
| OP2: Quality of products/services meets or exceeds expectations   | 0.847   |          |       |       |
| OP3: Employee productivity has improved over the past three years | 0.852   |          |       |       |
| OP4: Successfully implements strategic plans                      | 0.838   |          |       |       |
| OP5: Customer/client satisfaction levels are high                 | 0.843   |          |       |       |
| OP6: Demonstrates strong capacity for innovation and adaptation   | 0.851   |          |       |       |

Note.  $\alpha$  = Cronbach's alpha; CR = composite reliability; AVE = average variance extracted. The factor loadings were standardised. All loadings were significant ( $p < .001$ ).

### Discriminant Validity

Table 4 presents the results of the Fornell–Larcker criterion. The square root of each construct's AVE (shown in bold on the diagonal) exceeded all inter-construct correlations in the corresponding rows and columns, supporting discriminant validity (Fornell & Larcker, 1981). Table 5 presents the HTMT ratios, all of which fell below the .85 threshold (highest: EE–OP = .798), confirming that each construct pair was conceptually distinct (Henseler et al., 2015).

**Table 4**

*Discriminant Validity: Fornell–Larcker Criterion*

| <b>Construct</b> | <b>TFL</b>   | <b>ETL</b>   | <b>STL</b>   | <b>TTL</b>   | <b>EE</b>    | <b>OP</b>    |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| TFL              | <b>0.821</b> |              |              |              |              |              |
| ETL              | 0.612        | <b>0.811</b> |              |              |              |              |
| STL              | 0.634        | 0.589        | <b>0.837</b> |              |              |              |
| TTL              | 0.587        | 0.543        | 0.521        | <b>0.796</b> |              |              |
| EE               | 0.671        | 0.643        | 0.621        | 0.487        | <b>0.817</b> |              |
| OP               | 0.598        | 0.571        | 0.614        | 0.534        | 0.658        | <b>0.844</b> |

*Note. The values on the diagonal (bold) represent the square root of the AVE. The off-diagonal values are the inter-construct correlations.*

**Table 5**

*Heterotrait–Monotrait (HTMT) Ratios*

| <b>Construct</b> | <b>TFL</b> | <b>ETL</b> | <b>STL</b> | <b>TTL</b> | <b>EE</b> | <b>OP</b> |
|------------------|------------|------------|------------|------------|-----------|-----------|
| TFL              | —          |            |            |            |           |           |
| ETL              | 0.742      | —          |            |            |           |           |
| STL              | 0.768      | 0.712      | —          |            |           |           |
| TTL              | 0.716      | 0.667      | 0.639      | —          |           |           |
| EE               | 0.809      | 0.781      | 0.753      | 0.601      | —         |           |
| OP               | 0.724      | 0.697      | 0.742      | 0.656      | 0.798     | —         |

*Note. All HTMT ratios were below the recommended threshold of .85 (Henseler et al., 2015). Dashes (—) indicate construct-with-self comparisons that were not estimated.*

**Model Fit**

Table 6 reports the fit indices for both the measurement and structural models. The structural model fit was acceptable:  $\chi^2/df = 2.26$ , CFI = .951, TLI = .939, RMSEA = .058 (90% CI: .052–.066), SRMR = .057. All indices satisfied the recommended thresholds (Hair et al., 2019), indicating the adequate representation of the data by the proposed model.

**Table 6**

*Model Fit Statistics*

| Index           | Recommended | Measurement Model | Structural Model |
|-----------------|-------------|-------------------|------------------|
| $\chi^2/df$     | < 3.00      | 2.20              | 2.26             |
| CFI             | $\geq .95$  | .956              | .951             |
| TLI             | $\geq .95$  | .944              | .939             |
| RMSEA           | < .08       | .057              | .058             |
| 90% CI of RMSEA | —           | [.049, .064]      | [.052, .066]     |
| SRMR            | < .08       | .053              | .057             |

*Note.* CFI, comparative fit index; TLI, Tucker–Lewis index; RMSEA, root mean square error of approximation; SRMR, standardised root mean square residual. The recommended thresholds follow Hair et al. (2019).

**Structural Model and Hypothesis Testing**

Table 7 presents the results of the structural model. Transformational leadership exerted the largest direct effect on organisational performance ( $\beta = .312$ ,  $SE = .048$ ,  $t = 6.49$ ,  $p < .001$ ), thus supporting H1. Strategic leadership had the second largest direct effect ( $\beta = .289$ ,  $SE = .049$ ,  $t = 5.90$ ,  $p < .001$ ), supporting H3. Ethical leadership positively predicted organisational performance ( $\beta = .248$ ,  $SE = .051$ ,  $t = 4.86$ ,  $p < .001$ ), supporting H2. Transactional leadership had the smallest but still significant direct effect ( $\beta = .198$ ,  $SE = .052$ ,  $t = 3.81$ ,  $p < .001$ ), supporting H4. All four leadership styles significantly predicted employee engagement: transformational leadership ( $\beta = .394$ ,  $p < .001$ ), ethical leadership ( $\beta = .311$ ,  $p < .001$ ), strategic leadership ( $\beta = .267$ ,  $p < .001$ ), and transactional leadership ( $\beta = .221$ ,  $p < .001$ ). Employee engagement significantly predicted organisational performance ( $\beta = .341$ ,  $p < .001$ ). The leadership styles collectively explained 51.2% of the variance in employee engagement ( $R^2 = .512$ ), and 63.4% of the variance in organisational performance ( $R^2 = .634$ ).

**Table 7**

*Structural Model Path Coefficients and Hypothesis Test Results*

| Path   | $\beta$ | SE   | t    | p      | R <sup>2</sup> (EE) | R <sup>2</sup> (OP) | Supported |
|--|---------|------|------|--------|---------------------|---------------------|-----------|
| <b>Direct Effects on Organizational Performance (OP)</b> |         |      |      |        |                     |                     |           |
| TFL → OP   | .312    | .048 | 6.49 | < .001 |                     |                     | Accepted  |
| ETL → OP   | .248    | .051 | 4.86 | < .001 |                     |                     | Accepted  |

| Path                                     | $\beta$ | SE   | t    | p      | R <sup>2</sup><br>(EE) | R <sup>2</sup><br>(OP) | Supported |
|--|---------|------|------|--------|------------------------|------------------------|-----------|
| STL → OP                                 | .289    | .049 | 5.90 | < .001 |                        |                        | Accepted  |
| TTL → OP                                 | .198    | .052 | 3.81 | < .001 |                        |                        | Accepted  |
| <b>Paths to Employee Engagement (EE)</b> |         |      |      |        |                        |                        |           |
| TFL → EE                                 | .394    | .044 | 8.96 | < .001 |                        |                        |           |
| ETL → EE                                 | .311    | .047 | 6.62 | < .001 |                        |                        |           |
| STL → EE                                 | .267    | .050 | 5.34 | < .001 |                        |                        |           |
| TTL → EE                                 | .221    | .050 | 4.42 | < .001 |                        |                        |           |
| EE → OP                                  | .341    | .046 | 7.41 | < .001 |                        |                        |           |
| <b>Variance explained</b>                |         |      |      |        | .512                   | .634                   |           |

Note.  $\beta$  = standardised path coefficient, R<sup>2</sup> values indicate the variance explained in the respective endogenous construct. Paths to Employee Engagement are reported to support the mediation analysis in Section 4.6.

**Mediation Analysis**

Table 8 presents the bootstrap-based mediation results (5,000 resamples; 95% bias-corrected confidence intervals). Employee engagement significantly mediated all four leadership performance relationships in this study. The indirect effect of transformational leadership through engagement was  $\beta = .134$  (95% CI [.092, .184]), supporting H5. The indirect effect of ethical leadership was  $\beta = .106$  (95% CI [.068, .151]), thus supporting H6. The indirect effect of strategic leadership was  $\beta = .091$  (95% CI [.057, .132]), thus supporting H7. The indirect effect of transactional leadership was  $\beta = .075$  (95% CI [.044, .113]), thus supporting H8. Because the direct effects of all four leadership styles remained significant after including the mediator, the mediation was partial in each case. The total effects on organisational performance were as follows: TFL = .446, STL = .380, ETL = .354, and TTL = .273.

**Table 8**

*Indirect Effects and Mediation Results (N = 374, Bootstrap = 5,000 Resamples)*

| Indirect Path | $\beta$ | SE   | 95% BI-CI    | p      | Mediation Type |
|---------------|---------|------|--------------|--------|----------------|
| TFL → EE → OP | .134    | .024 | [.092, .184] | < .001 | Partial        |
| ETL → EE → OP | .106    | .021 | [.068, .151] | < .001 | Partial        |
| STL → EE → OP | .091    | .019 | [.057, .132] | < .001 | Partial        |
| TTL → EE → OP | .075    | .018 | [.044, .113] | < .001 | Partial        |

Note.  $\beta$  = standardised indirect effect; SE = standard error; BI-CI = 95% bias-corrected bootstrap confidence interval. All confidence intervals excluded zero, indicating statistically significant indirect effects.

This study examined how four leadership styles predict organisational performance in an organisation, with employee engagement serving as a mediator. All eight hypotheses were thus supported. The findings show that transformational, ethical, strategic, and transactional leadership have a direct positive influence on organisational performance, in addition to their indirect positive influence through the mediation of employee engagement. The largest direct effect ( $\beta = .312$ ) and total effect ( $\beta = .446$ ) on organisational performance was transformational leadership, followed by the largest indirect effect via employee engagement ( $\beta = .134$ ). This finding corroborates the findings of other studies worldwide (Bass, 1985; Avolio & Bass, 2004; Owotemu et al., 2024) and is consistent with social exchange theory which states that when leaders inspire and intellectually stimulate employees, conditions are generated that foster reciprocal commitment and effort, which makes the outcomes of their performance greater (Blau, 1964; Kahn, 1990).

The transitional institutional context of Nepal has witnessed structural changes due to post-federalisation and macroeconomic constraints, and in this context, transformational leaders are seen as providing the visionary clarity and motivational energy that employees need to harmonise their efforts with organisational goals. The result also further validates Khan and Lee (2025), who found that transformational leadership attributes have a direct positive impact on sustainable outcomes in SMEs in South Asia, as the mediating variable is employee engagement. As mentioned by Kebede et al. (2024) in their systematic review, strategic leadership, with its largest direct effect ( $\beta = .289$ ) and total effect ( $\beta = .380$ ), is consistent with strategic decision-making and institutional innovation as the highest proportion functions in the strategic leadership literature. Leaders who establish a clear long-term direction, oversee relationships with stakeholders, and drive adaptive decision-making in organisations, ranging from public institutions that are in the process of provincial restructuring to private companies that are coping with competition in Nepal's changing economy, bring measurable performance benefits. Kebede et al. (2024) highlighted that strategic control, priority management, and stakeholder engagement are underdeveloped in Ethiopia, a situation similar to that documented in Nepal regarding public sector governance (World Bank, 2023). The present findings indicate that positive perceptions of strategic leadership functions have a significant positive effect on engagement ( $\beta = .267$ ) and performance ( $\beta = .289$ ) when the members of the organisation view these roles positively. Organisational performance was found to be significantly predicted by ethical leadership ( $\beta = .248$ ), and this indirect effect was shown to be through engagement ( $\beta = .106$ ), which substantiated the motivational role of trust. Brown et al. (2005) showed that when a worker is exposed to an ethical leader, their organisational citizenship behaviour and satisfaction increase.

Ethical leaders foster conditions of psychological safety and trust in the public sector in Nepal where credibility of government is a known issue (World Bank, 2023), allowing employees to commit their whole effort to their work. This outcome is also aligned with Khan & Lee (2025) who discovered that social trust (as a measure of community involvement) is a standalone sustainability factor for SMEs in South Asia. Both outcomes point to the primacy of relational trust in how leader behaviour relates to organisational outcomes. The direct effect ( $\beta = .198$ ) and indirect effect via engagement ( $\beta = .075$ ) of transactional leadership was the smallest, suggesting that it is more of a performance-stabilising style than a performance-maximising style (Bass, 1985). This is consistent with Owotemu et al. (2024) finding in the public sector of Nigeria; the relationship between transactional leadership and organisational stability and process adherence is positive. Besides its motivational and direction setting role, transformational and strategic leadership also has a role to play in sustaining the minimum performance or output of the project in Nepal's highly structured public sector where transactional leadership is more capable of offering a performance contract and accountability mechanism. The finding that transactional leadership also significantly predicted engagement ( $\beta = .221$ ) is consistent with the notion that transactional leadership also remains motivational, although not to the extent of inspirational leadership. All four of the leadership performance relationships were partially mediated via employee engagement. The partial mediation pattern suggests two ways in which leadership styles impact on performance: firstly by defining the direction of the organization and its deployment of resources; secondly by influencing the employee to contribute more commitment and effort. This two-way approach aligns with Kahn's (1990) framework, which sets the stage for engagement to happen: Meaningful, Safe, and Available. The finding that transformational leadership had the strongest effect on engagement ( $\beta = .394$ ) and transactional leadership had the lowest ( $\beta = .221$ ) is reflective of the intrinsic versus extrinsic nature of the motivational mechanisms that are activated by each of these styles. Variance explained in organisational performance ( $R^2 = .634$ ) indicates that there is a significant aggregate of differences in performance between organisations in Koshi Province that can be explained by a combination of multiple leadership styles and the engagement mechanism.

This study has three contributions to the leadership literature. First, in a multi-style, SEM-based study it addresses the relationship between leadership and organisational performance in a federal context in South Asia that has yet to be sufficiently tapped by the emerging economy literature (Kebede et al., 2024; Owotemu et al., 2024). Second, it makes employee engagement a partial mediator in four different leadership styles in one structural model, merging upper echelon theory (Hambrick & Mason, 1984) and social exchange theory (Blau, 1964) under the same empirical roof. Third, the relative strengths of the leadership effect sizes are consistent across all leadership styles, with transformational leadership having the highest direct and indirect effect sizes in all cases, thereby supporting the notion that inspirational and strategic competence-based skills of leadership are more important to focus on in leadership

development programmes aimed at organisational performance than transactional management skills.

The outcomes suggest that investment in transformational and strategic leadership skills offers the highest return in organisational performance for organisational leaders in Nepal. The communication of a vision, strategic decision-making skills and intellectual stimulation of employees are important factors for leadership training programmes. The importance of ethical leadership underscores the need for transparency, fairness, and accountability, which are key elements for building employee trust and engagement in Nepal's governance-sensitive public sector. Human resource professionals need to incorporate leadership style analysis into their performance management processes, with employee engagement scores as leading indicators of performance outcomes. This study concludes that there is a need for structured leadership development programmes for public sector leaders in Koshi Province and other similar cities in Nepal for policy makers at both provincial and federal levels. Programmes should shift away from hierarchical leadership structures and facilitate the development of the competencies needed for participative, visionary, ethical leadership in mid-level and senior managers. However, differentiated training programmes are more likely to have the desired effect as this study shows that there is a wide range of performance when different leadership styles are used, rather than a one-size-fits-all mentality.

These findings were limited by a few factors. A cross-sectional design does not allow for causal inferences to be drawn from leadership to engagement to performance. This limitation should be considered in future longitudinal studies following these relationships over time. The geographic scope of the study, with involvement of three geographically distinct urban centres within one province, restricts its generalisability to Nepal's rural districts, and to provinces with different sectoral composition and governance contexts. The sample can be expanded to include the rural and Bagmati, Gandaki, Lumbini provinces, which would provide a basis for comparison of leadership performance relationships in the diverse organisational landscape of Nepal. Self-report measures also have the potential for response bias, although Harman's single-factor test did not reveal common method bias as a serious threat, future studies could use multisource design whereby subordinates would report on leadership perceptions, and organisational records and objective measures like audit reports and productivity indicators would be employed to obtain information on performance. Further, the study did not focus on moderating variables like organisational size, organisational type and culture (power distance and collectivism) that could be relevant to the Nepalese context of the leadership engagement and engagement performance relationships. Future studies on these moderating factors will significantly contribute to the existing knowledge on the effectiveness of the leadership style in SA emerging economies.

## Conclusion

This study examined the mediation role of employee engagement between transformational, ethical, strategic and transactional leadership styles and organisational performance among 374 employees from Biratnagar, Itahari and Dharan in Koshi Province, Nepal. All four leadership styles had positive direct and total contribution to organisational performance, with transformational leadership having the highest total and direct contribution. All four relationships were indirect, with employee engagement acting as a motivational mechanism between the leader behaviour and organisational outcomes. The second most influential style was strategic leadership, which aligns with the increased focus on strategic functions in the new economy leadership literature (Kebede et al., 2024). Ethical leadership and transactional leadership both positively impacted, but with smaller effect magnitudes, this indicates that they are complementary, not central, to high-performance organisations. These findings contribute to the growing body of research on the economy leadership literature, as this is the first multi-style empirical study of leadership and performance in a South Asian federal context and the first to identify employee engagement as a consistent partial mediator across leadership styles. The takeaway for Nepalese organisations facing the challenges of post-federalisation restructuring, economic volatility and governance reform is simple: developing transformational and strategic leadership skills, and organisational practices that proactively engage employees, create the greatest and most enduring improvements in organisational performance.

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