

## TRANSACTIONAL LEADERSHIP STYLES AND JOB SATISFACTION IN NEPALESE FINANCIAL INSTITUTIONS

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### ABSTRACT

*The objective of this study is to analyze the transactional leadership styles and its effect in satisfaction at job in financial institutions in Nepal. Management –by- exception (Passive), Contingent rewards and management – by- exception (Active) under transactional leadership has been taken as independent variables whereas job satisfaction as dependent variable. Using descriptive research design, 399 samples has been taken from employee working in 15 financial institutions of Nepal adopting stratified random sampling technique. This study utilizes mean, standard deviation, correlation and regression as statistical technique to analyze the data. The result indicated that all the variables under study found significant positive correlation and the regression analysis shows under the independent variables of transactional leadership styles, management – by- exception (Active), contingent reward, and management –by- exception (Passive) found having significant positive impact on employee job satisfaction in financial institutions. The study concludes that transactional leadership is important leadership style to enhance the employees' job satisfaction in financial institutions.*

**KEYWORDS:** Leadership Style, Transactional Leadership, Contingent Rewards, Nepalese Financial Institutions.

## 1. INTRODUCTION

Leadership style has a significant impact on followers' job satisfaction. The leader's qualities often determine their specific style, which refers to the patterns of interaction and behavior exhibited by the principal or director. In this study, the term leadership style encompasses nine dimensions, and the questionnaire used covers these dimensions (Amin et al., 2013). Leadership style represents a balance between managerial behaviors and attitudes (Durbin, 2009). The perceived levels of participation and self-efficacy among employees are directly impacted by managerial leadership actions. The objective of the present study is to expand knowledge of how leadership may choose and develop managers who can better engage staff, which will improve organizational performance. As a result, this industry needs qualified leaders who can successfully accomplish the objectives of both businesses and workers. The link between leadership styles and their impact on work satisfaction in Nepal's banking industry is not well understood. To the best of the researchers' knowledge, no national study has been done on this subject.

Managing Job satisfaction “levels within the organization is a concern for leaders. By allocating time and investing money, leaders can conduct employee surveys as a benchmark for involvement”. Disseminating the outcomes of the engagement surveys and implementing measures for enhancement is a constructive initiative for leaders. Leaders who understand employees' engagement levels may create successful strategies and action plans. Increasing Job satisfaction levels is difficult and complex (Rizi et al, 2013). Four predominant leadership styles include transformational, charismatic, transactional and laissez-faire (Bass, 2006). Transformational leaders have such characteristics as enhancing commitment, articulating vision, and inspiring others (Piccolo & Colquitt, 2006). “Charismatic shows charisma and inspiring vision to influence followers. Transactional leaders focus on rewards or punishments to gain compliance (Kafle, & Bhusal, 2019). Laissez-faire leaders have non leader characteristics”.

Timothy et al. (2011) did a study to find out how different leadership styles affect how well an organization does its job. Their research showed that the transactional leadership style worked better for getting small businesses to do well. Ejere et al. (2010) did a study to examine how transactional and transformational leadership styles affected how well organizations did their jobs. It was proposed that a mix of both leadership styles should be used, depending on the situation and the type of work that employees or followers are doing. Lu et al. (2007) talked on how different types of leadership might affect how happy employees are, especially in Nepal's financial institutions. As competition in the banking sector grows and managers (leaders) and employees need to work together more often, this study aims to find out which leadership style is more important for employee job satisfaction in Nepalese financial institutions. The goal of this project is to answer the following research questions:

1. To access the transactional leadership styles adopted by Nepalese financial institutions.
2. To analyze the association among transactional leadership styles and employee Job satisfaction in financial institutions in Nepal.
3. To analyze the effects of transformational leadership styles on job satisfaction in financial institutions in Nepal.

## **2. REVIEW OF LITRATURE AND HYPOTHESIS DEVELOPMENT**

Transactional leaders encourage followers to achieve expected degree of performance. Leaders build up self-confidence about meeting the desired performance stage. There are two components which are occupied by transactional leaders. Transactional leaders rely on “contingent rewards and management by exception” to maintain control and ensure that tasks are completed according to established standards. They emphasize the exchange relationship between leaders and followers, offering rewards for performance and intervening only when necessary to correct deviations (Bodla et al., 2010).

Management by Exception (active) takes the notice of not obeying rules and regulations and takes the action for correction. The leader fallows “their followers to work on the mission and doesn’t interfere unless goals aren’t being achieved in a proper time and at the reasonable cost”. “Passive Avoidant leadership is characterized as non leadership or the absence of leadership”. A Passive Avoidant leader “abandon their liability, delays decisions, gives no feedback and offers less attention to assist subordinates to fulfill their needs” (Amin et al., 2013). Passive Avoidant leaders exhibit these two types of behaviour: Management by Exception (Passive) and Laissez-faire.

These “leaders wait for issues to come up before fixing the problems”. With transactional leadership being applied to the lower-level needs and being more managerial in style, it is a foundation for transformational leadership which applies to higher-level needs (Odumeru, & Ogbonna, 2013). Laissez-faire is defined as the absence of leadership neither transactional nor transactional. They avoid involvement into making decisions and avoid using their authority. This is considered the most passive component and the least effective form of leader behaviour (Kumar et al., 2022).

The behavioral component encompasses individuals' activities about their employment. Such behaviors may encompass tardiness, extended hours, or feigning illness to evade work (Ahmed et al., 2010). Understanding the relationship between “leadership styles and job satisfaction” is crucial in the context of financial institutions. While research specifically focusing on Nepalese financial institutions is limited, existing studies highlight the importance of “transformational and transactional leadership styles in enhancing job satisfaction”.

On the other hand, transactional leaders focus on contingent rewards and performance monitoring to ensure job satisfaction (Bass & Avolio, 1994). Leadership style has a significant impact on employee job satisfaction, which in turn affects individual and organizational outcomes. “Transactional leadership, characterized by contingent rewards, management-by-exception, and active/passive leadership behaviors, has been studied extensively in relation to job satisfaction. The findings regarding the impact of transactional leadership on job satisfaction are mixed”. For instance, a study by Wang et al. (2011) conducted in a Chinese manufacturing company revealed a positive relationship between transactional leadership and job satisfaction. In contrast, a study by Piccolo and Colquitt (2006) found a weak correlation between transactional leadership and job satisfaction across a sample of U.S. Army soldiers.

In the Nepalese context, a study by Kafle and Bhusal (2019) found a positive relationship between transactional leadership and job satisfaction among employees in the education sector.

Similarly, a global study by Judge and Piccolo (2004) indicated a positive correlation between transactional leadership and job satisfaction across different industries.

Timothy et al. (2011) examined the impact of various leadership styles on the performance of small-scale enterprises, emphasizing the effectiveness of the transactional leadership style in enhancing performance outcomes. Leadership effectiveness and employee job satisfaction are critical components recognized as essential for achieving organizational success. Many leaders fail to grasp the profound impact their leadership style has on employee performance and satisfaction. Leaders exert influence over interpersonal and material rewards and punishments, which significantly shape employee behavior and impact performance, motivation, and attitude.

While the focus of this review is on Nepalese financial institutions, global research provides valuable insights. Amin et al. (2013) conducted a study in Pakistan and found a relationship between principals/directors' leadership styles and faculty job satisfaction in a public university. The transactional leadership style considerably impacts job satisfaction and ought to be used in Nepali commercial banks (Chalise & Paudel, 2023). This empirical review “aims to examine the relationship between leadership styles and job satisfaction, focusing on studies conducted in both Nepalese and global contexts”. By exploring the findings from various empirical studies, we will gain insights into the impact of different leadership styles on job satisfaction.

H1: There is a significant effect of contingent rewards on job satisfaction in financial institutions in Nepal.

H2: There is a significant effect of Management – by- Exception (Active) on job satisfaction in financial institutions in Nepal

H3: There is a significant effect of Management –by- Exception (Passive) on satisfaction level of job of employee in financial institutions in Nepal.

### **3. METHODS**

This study uses a descriptive research design and a survey method to look at the link between leadership style and job satisfaction in Nepalese financial institutions. The descriptive design was used to describe the demographics of the respondents, while the explanatory design made it possible to look into the cause-and-effect linkages between dependent and independent variables. The sample was made up of all the workers at financial institutions in Nepal. Randomly 200 questionnaires were distributed to staff at 15 financial institutions, including junior, officer, managerial, and executive levels and got 399 useable responses, which is an 80.5% response rate. A minimum sample size of 200 is needed to make generalizations MacCallum et al. (1999), and the responses that were collected were thought to be enough. A structured questionnaire that was in line with the study's goals was used to collect primary data. Cronbach's Alpha was calculated for each variable, and all of them had values more than 0.70, which means that they had acceptable to good internal consistency. SPSS and Microsoft Excel was used to process, code, and analyze the Pearson correlation analysis was adopted to look at the links between leadership styles and Job satisfaction levels. This study utilizes linear regression to analyze the linear connection between a dependent variable and one or more independent variables. The technique presupposes a linear correlation between the predictors and the

outcome variable. This research identifies work satisfaction as the dependent variable, with transactional leadership styles as the independent factors.

The following linear regression equation shows this relationship.

$$JS = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

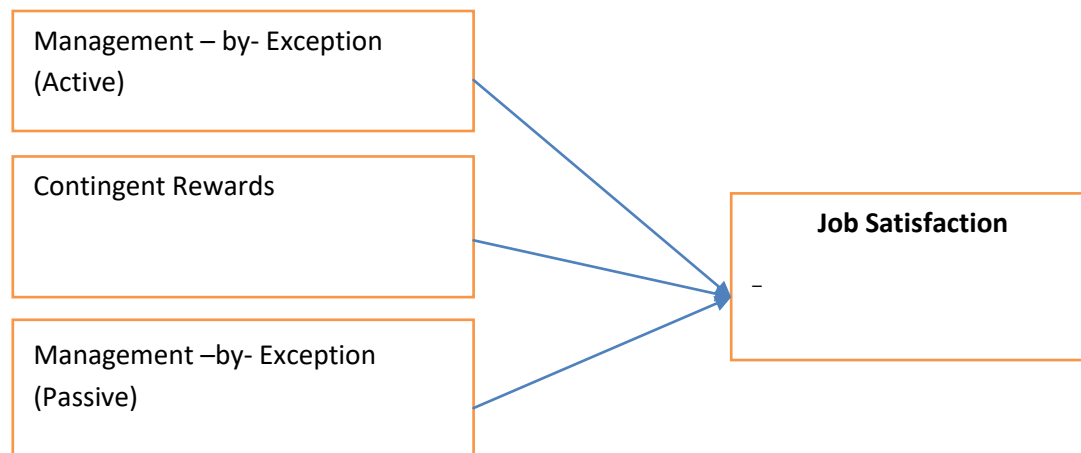
JS = Job Satisfaction (dependent variable),  $X_1$  = Contingent Rewards,  $X_2$  = Management by exception Active,  $X_3$  = Management by exception passive,  $\beta_0$  = Intercept,  $\beta_1$  to  $\beta_4$  = Regression coefficients for each predictor and  $\varepsilon$  = Error term

Each coefficient ( $\beta$ ) is tested for statistical significance at the 0.05 confidence level to determine whether the associated leadership component has a meaningful impact on job satisfaction.

### Research Framework and Hypothesis

This study was designed to examine the extent of impact of transformational leadership on Job satisfaction in Nepalese financial institutions. The expected relationship is presented in figure 1.

**Figure 1 Research Framework**



## 4. RESULTS AND DISCUSSIONS

### 4.1 Demographic Analysis

The 399 people who answered the survey from Nepalese commercial banks show that the workforce is both experienced and diversified. The demographic characteristics are presented in Table 1.

**Table 1 Demographic Characteristics of the Respondents**

Demographic Variable	Category	Frequency	Percentage (%)
Age	Below 25 Years	113	28.30
	25–40 Years	236	59.10
	Above 40 Years	50	12.50
	Total	399	100.00
Gender	Male	194	48.60
	Female	205	51.40
	Total	399	100.00
Academic Qualification	SLC	68	17.00
	Intermediate	183	45.90
	Bachelors	53	13.30
	Masters and above	95	23.80
	Total	399	100.00
Employment Position	Junior	118	29.60
	Officer	188	47.10
	Managerial	40	10.00
	Executive	53	13.30
	Total	399	100.00
Work Experience (Years)	Below 5 Years	59	14.80
	5–10 Years	82	20.60
	11–25 Years	99	24.80
	Above 25 Years	159	39.80
	Total	399	100.00

The majority of workers (59.1%) are between the ages of 25 and 40, which means that most of them are in their most productive years at work. At the same time, 28.3% are under 25 and 12.5% are over 40, which shows that there is a good mix of experience and youth. There are almost as many women as men in the industry (51.4% to 48.6%), which shows that the sector is becoming more inclusive of all genders. Most of the employees (45.9%) have Intermediate credentials, followed by those with Master's degrees or above (23.8%). Also, 17% have finished SLC and 13.3% have a Bachelor's degree, which shows that the jobs have a wide range of academic backgrounds. In terms of job roles, over half (47.1%) are officers, 29.6% are in lower-level jobs, and the rest are managers (10%) or executives (13.3%), which shows a conventional organizational structure. Based on the information on work experience, 39.8% of the workers have worked for more than 25 years, 24.8% have worked for 11 to 25 years, 20.6% have worked for 5 to 10 years, and 14.8% have worked for less than 5 years. This shows that the company has a strong base of experienced workers and is always hiring new ones. This mix of people shows that these organizations need to use leadership practices that work for a workforce that is gender-diverse, academically varied, and intergenerational in order to get the best results and keep their employees happy.



## 4.2 Correlation Analysis

The correlation research looked at the direction and strength of the link between leadership styles and work satisfaction, with a focus on commercial banks in Nepal. Table 2 shows the Pearson correlation coefficients between the different dependent and independent variables. These show how closely they are related in a straight line.

**Table: 2 Correlation Analysis**

		C_R	M_EA	M_EP	J_S
C_R	Pearson Correlation	1	.729**	.591**	.740**
M_EA	Pearson Correlation		1	.811**	.812**
M_EP	Pearson Correlation			1	.761**
J_S	Pearson Correlation				1

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

The correlation matrix shows that there are strong and statistically significant links between different leadership styles and work satisfaction. There is a high positive association between Contingent Rewards (C\_R) and Management-by-Exception (Active) [M\_EA] ( $r = .729$ ) and Management-by-Exception (Passive) [M\_EP] ( $r = .591$ ). There is an even larger link between Contingent Rewards and Job Satisfaction (J\_S) ( $r = .740$ ), all significant at the 0.01 level. This means that when contingent rewards are used correctly, job satisfaction, active monitoring, and passive supervision in management all tend to go up. There is a strong link between M\_EA and M\_EP ( $r = .811$ ) and J\_S ( $r = .812$ ), which means that active management is quite similar to both passive approaches and greater levels of satisfaction. Lastly, M\_EP has a high positive association with J\_S ( $r = .761$ ), which means that even less active kinds of monitoring may have a big effect on how happy employees are. All of these results show how leadership styles are linked and how they affect how employees feel about their jobs.

## Regression Analysis

**Table: 3 Transactional Leadership and its determinants**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	5.405	.759		7.119	.000
	C_R	1.495	.178	.317	8.413	.000
	M_EA	.877	.135	.337	6.489	.000
	M_EP	1.565	.230	.300	6.801	.000

a. Dependent Variable: Job\_Satisfaction

**R Square= .737, F=368.883 Sig. = .000**

The regression analysis indicates that transactional leadership strongly affects employee job satisfaction in Nepalese financial institutions, based on factors like contingent rewards (C\_R), active management-by-exception (M\_EA), and passive management-by-exception (M\_EP). The standardized beta coefficients for all three variables are positive and significant: .317 for C\_R, .337 for M\_EA, and .300 for M\_EP.

Results indicated that M\_EA has the highest influence on job satisfaction, followed by C\_R and M\_EP, respectively. The value of R-squared with 0.737 denotes that all those variables can account for approximately 73.7% of the variations in job satisfaction at Nepalese financial institutions. The study model is statistically significant ( $F = 368.883$ ,  $p < .001$ ), indicating a significant correlation between employee satisfaction and transactional leadership qualities that pose in Nepalese institutions. These results set out the importance of active leadership and organized rewards in maintaining employee satisfaction in the workplace.

## 5. DISCUSSION

Transactional leadership style is the dominant leadership styles for job satisfaction in most of the financial institutions. Specifically, the variables "idealized influence," "intellectual stimulation," and "Individualized Consideration" show a clear inclination towards agreement. Furthermore, the components of transformational leadership, specifically individualized consideration and intellectual stimulation, exhibited positive correlations with employee job satisfaction. These findings are consistent with prior research conducted by Bass and Avolio (1994), (Eagly, & Karau, 2002) validating and supporting previous conclusions in various contexts. Further, the findings of this study support and reinforce previous research conducted by Cachay, (2019) which indicated a positive correlation between employee job satisfaction and the leadership styles demonstrated by the leader. Bass and Avolio (1997) also suggested correlations among the transformational and transactional sub-scales, with inspiration motivation demonstrating the highest positive correlation. Leaders who exhibit this type of leadership style give consideration to their followers by encouraging and coaching them to develop appropriate working behavior, fostering trust and faith in the leader's decisions and actions (Sulamuthu, & Yusof, 2018).

## 6. CONCLUSION AND IMPLICATIONS

Job satisfaction has a positive and substantial correlation with "Contingent Reward, Management by Exception Active, and Management by Exception Passive". The study concludes that a higher adoption of the transactional leadership style is positively correlated with increased employee job satisfaction in Nepalese financial institutions. The results make it clear that transactional leadership styles, like dependent pay and active and passive management-by-exception are very important for Nepalese financial institutions to keep their workers happy. When managers monitor workers, provide timely feedback, and reward them based on clear goals, the workplace becomes more responsible, driven, and trustworthy. The structure of many banks and other financial institutions in Nepal, characterized by groups and rules, aligns well with this style of leadership. People in these institutions prefer having clear responsibilities and receiving praise for their hard work.

Nepalese banks and other financial institutions have to deal with strict rules and competitive markets. This implies that immediate action is necessary to address the significant effects. Adding ideas about transactional leadership to programs that teach leaders how to lead can help



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managers keep their workers interested in their jobs. HR rules that make pay plans public and clarify managers' duties would be even better. People who work with this method are happy at work, and it may even help the company do better by fostering a culture of fairness, stability, and response.

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