

The Impact of Leadership Styles on Employee Loyalty and Engagement

Munkhdemberel Yondonrenchin, Altanchimeg Zanabazar, and Enkhtuya Baljinnyam

ABSTRACT

The behavior and characteristics of a managerial leader play a crucial role in fostering employee loyalty and enhancing engagement. Effective people-centered communication boosts employees' confidence and facilitates their ongoing development, while trust in management encourages open and transparent communication. As a result, employees feel a sense of pride in the organization and are motivated to demonstrate unwavering dedication to their work. To investigate the impact of leadership styles on employee loyalty and engagement, a survey was conducted by randomly selecting participants from the employees of two insurance companies. The survey involved 153 employees, and the statistical analyses involved factor analysis, reliability analysis, correlation analysis, and structural equation models (SEMs). Based on the analysis results, it was observed that among the study participants, the transformational leadership style exhibited a strong and positive impact on both employee loyalty and engagement. Similarly, the transactional leadership style demonstrated a moderate yet positive influence on employee loyalty and engagement. Furthermore, a strong positive relationship was identified between employee loyalty and engagement, indicating that higher levels of loyalty contribute significantly to increased employee engagement.

Keywords: employee loyalty, employee engagement, transactional leadership style, transformational leadership style.

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I. INTRODUCTION

In today's dynamic and fiercely competitive business environment, the importance of effective organizational leadership cannot be emphasized enough. Having the capacity and opportunity to exert influence over the skills and actions of an organization's executive officers, as well as the ability to guide and inspire employees, has become increasingly crucial. Effective leadership entails recognizing individual employees, anticipating their needs, and motivating them to achieve their best. Leadership serves as a pivotal factor in shaping employee attitudes, fostering loyalty, and driving engagement within an organization (Shuck & Herd, 2012; Popli & Rizvi, 2016).

The loyalty of employees is evident through their alignment with the organization's goals, heightened productivity, efficient operations, and dedication to delivering quality service to customers. Loyal employees leverage their knowledge and skills to contribute their utmost to the organization, resulting in a direct and positive impact on its overall operations and performance (Tomic *et al.*, 2018). Loyal employees demonstrate support for the organization's management, principles, and policies. Their commitment and dedication give the organization a distinct competitive advantage. By aligning themselves with the organization's values and objectives, loyal employees contribute to a cohesive and harmonious work environment, fostering innovation, productivity, and overall success

(Foster *et al.*, 2008). Leaders who prioritize and foster cohesive relationships by actively supporting the development of their employees enhance organizational accountability and loyalty, ultimately leading to tangible results. By investing in their employees' growth and providing opportunities for skill enhancement and advancement, these leaders create a culture of trust, empowerment, and engagement. This, in turn, inspires employees to take ownership of their work, fulfill their responsibilities, and deliver exceptional performance (Brashear *et al.*, 2006).

In the face of intensifying business competition, there is a growing need to maximize output while minimizing costs. Consequently, organizations must strive to engage the minds, thoughts, and hearts of every employee, motivating them to contribute their energy and effort toward the organization's goals and values on a daily basis. Recognizing this importance, many organizations have adopted the "Engaged Employee" policy as a key component of their human resource policies and activities. A rise in employee engagement brings forth various advantages, including enhanced productivity, optimized human resource input and output, heightened loyalty to the organization, and ultimately, a positive impact on the organization's success and profitability. Several factors influence employee engagement, such as career development opportunities, cultural differences, interpersonal relationships, employee recognition, and management leadership styles. Employee engagement encompasses the wholehearted commitment of

an employee to the organization and is manifested in the level of effort they invest in their work. It goes beyond mere compliance and reflects a deep connection and emotional investment in the organization's mission and goals (Buchanan & Huczynski, 2004; Richman, 2006; Shaw, 2005). In other words, an employee's work attitude, characterized by confidence and pride, is evident in their overall behavior and work performance. When employees exhibit active initiative and dedication, their commitment and enthusiasm contribute to their overall work performance. It is through such engaged employee participation that organizations achieve success.

Consequently, organizations are increasingly prioritizing the cultivation of passionate and engaged employees. Understanding the influence of management leadership on employee loyalty and engagement, as well as uncovering the interrelationships between them, has become a pressing area of study.

The purpose of this study is to examine the interconnectedness between leadership styles, employee loyalty, and engagement within the context of two companies operating in the insurance industry.

II. LITERATURE REVIEW

A. Leadership

Leaders who prioritize the development and well-being of their employees by fostering cohesive relationships and nurturing their talents and skills have a significant impact on increasing employee engagement and loyalty (Brashear *et al.*, 2006). The definition of leadership proposed by Rauch and Behling (1984), which defines it as "the process of influencing organized groups to achieve organizational goals," is widely recognized and accepted among researchers. Professor Bennis and Nanus (1985), esteemed influential thinkers in the realm of leadership, defined, 'A modern leader is an individual capable of mobilizing people, who create what previously seemed impossible with collective power and always achieves amazing results.' Leadership is the ability to influence others as well as the art of cultivating a shared sense of purpose and enthusiasm among individuals, driving them toward the accomplishment of organizational and group goals and objectives. The exceptional support, motivation, and encouragement provided by leaders play a pivotal role in fostering employee engagement and enabling them to perform at their peak, ultimately driving organizational success and yielding commendable outcomes (Bakker & Bal, 2010). In the 21st century, the most successful management and leadership approaches are widely recognized to be transformational and transactional leadership.

1) Transformational leadership style

James MacGregor Burns first introduced the concept of change in his book "Leadership", which laid as a foundational work of transformational leadership. Transformational leaders continuously enhance their leadership skills by passionately challenging and motivating their followers, propelling them toward achieving unparalleled levels of success (Bass & Riggio, 2006). These types of leaders are not limited to meeting the organization's goals, they prioritize the development of their employees, consistently surpassing

expectations in the process. Transformational leadership styles exhibit five distinct characteristics: recognition and praise, individualized influence, inspiration and motivation, consideration for all individuals, and spiritual support (Bass & Avolio, 1997). Transformational leadership holds a significant role in human resources as it serves to motivate employees, fostering increased loyalty and engagement among them (Akbari *et al.*, 2017).

2) Transactional leadership style

Transactional leadership is characterized by a relationship between the leader and subordinates that is primarily based on individual strengths and mutually beneficial exchanges (Winkler *et al.*, 2002). This type of leadership is defined as an approach that utilizes a combination of rewards and punishments to drive the achievement of organizational goals (Bass, 1997). In this approach, employees are rewarded based on their performance in fulfilling their responsibilities, while also avoiding punishment by adhering to the leader's requirements and expectations (Aarons, 2006). Situational rewards are granted to individuals who meet the goals and performance criteria established by the leader, thereby resulting in potential promotions (Akram *et al.*, 2006). Active and participatory management of problems in a timely manner entails assuming a leadership role, diagnosing and resolving issues, and consistently monitoring and evaluating the implementation of regulations (Gill, 2012).

B. Employee Loyalty

An individual's loyalty can be regarded as an expression of their affiliation with an organization or social group (Rosanas & Velilla, 2003), as well as their willingness to make sacrifices for the benefit of someone or something (Hajdin, 2005; Elegido, 2013). Loyalty is demonstrated through an individual's attitude, behavior, and psychological traits. Employee loyalty emerges from the alignment between the organization's responsibilities, the individual's psychological state, and the relationship between the individual and the organization within the psychological environment.

Employee loyalty manifests in their commitment to achieving organizational goals, enhancing productivity, working efficiently, and diligently striving to deliver quality service to customers. Employee loyalty can be considered a form of organizational citizenship behavior, whereby employees actively demonstrate their allegiance to promote the organization's interests and uphold its image in the external environment (Bettencourt *et al.*, 2001). Loyal employees are motivated to utilize their knowledge and skills to their fullest extent, contributing directly to the organization's operations and performance. Their dedication and commitment have a significant impact on driving organizational success (Tomic *et al.*, 2018). Employee loyalty and engagement play a crucial role in determining the success of an organization.

A loyal and passionate employee is essential for establishing positive and effective relationships with customers, partners, and stakeholders. Their commitment and dedication contribute to building trust and fostering long-term connections, ultimately benefiting the organization in various aspects.

C. Relationship between Leadership Style and Employee Loyalty

Studies examining the relationship between leadership styles and employee loyalty have revealed that fostering a favorable communication environment between management and employees is instrumental in ensuring employee loyalty. To achieve this, managers should prioritize honesty when interacting with their employees and maintain fairness in performance evaluations (Yahaya & Ebrahim, 2016).

Positive leadership change exerts a robust and positive influence on group trust, which in turn significantly impacts employee loyalty (Drescher *et al.*, 2014). According to scholars Lin and Hsiao (2014), there is a strong relationship between transformational leadership and employee loyalty. Trust, arising from positive communication, fosters cooperation built on effective communication. Consequently, it provides employees with the opportunity to exert influence in their respective areas of responsibility, leading to a substantial enhancement in their loyalty. It can be concluded that transformational leadership not only enhances employee loyalty but also contributes to the development of social capital (Al Qudah *et al.*, 2018).

Organizational transformational leadership has a significant impact on increasing the loyalty of the majority of employees toward their work. On the other hand, transactional leadership also plays a role in increasing employee loyalty, but its influence is relatively weaker compared to change leadership (Birasnav *et al.*, 2014).

D. Employee Engagement

Since the 1990s, employee engagement has emerged as a significant area of research in management, gaining recognition as a fundamental principle (Bedarkar & Pandita, 2014). In today's fiercely competitive market, employee engagement stands as one of the pivotal factors that determine an organization's ability to survive and thrive (Anitha, 2014). Employee engagement can be defined as the intrinsic motivation and wholehearted commitment of each employee to their role within the workplace. It involves the diligent and effective execution of tasks, along with an optimistic attitude that extends beyond assigned responsibilities, demonstrating genuine care for the organization (Kahn, 1992). Employee engagement is evident when individuals wholeheartedly dedicate themselves to their work and demonstrate a keen focus on the long-term goals of the organization (Ganesan *et al.*, 2017).

In the past, employee engagement has been extensively studied in relation to factors such as training and development, career growth opportunities, and workload. However, in recent times, employee engagement is being investigated in connection with factors such as management practices, salary and incentives, employee stability, and human resource selection. Research consistently reaffirms that employee engagement significantly influences the profitability and competitiveness of organizations (Karthikeyan *et al.*, 2013).

E. Relationship between Leadership Style and Employee Engagement

The leadership style employed by the management directly influences the level of employee participation and empowers

them to attain the goals established by the organization. The leadership style also plays a crucial role in cultivating a positive work environment that fosters increased employee engagement (Ariussanto *et al.*, 2020). Transformational and transactional leadership are widely recognized as having a direct relationship with employee motivation, satisfaction, and engagement. These leadership styles have a significant impact on shaping the level of employee motivation, job satisfaction, and level of engagement in the workplace.

Dr. Devi and Narayanamma (2016) confirmed in their research that both transformational and transactional leadership styles impact employee engagement, but the relationship between transformational leadership and employee engagement is stronger. Employee-oriented leadership indeed has a substantial impact on creating a high level of engagement among employees (Othman *et al.*, 2017). Transformational leadership plays a vital role in the advancement of an organization. By building trust with their employees and providing opportunities for growth and advancement, they enhance work capacity and stimulate engagement (Agarwal *et al.*, 2012; Afsar *et al.*, 2019). Transformational leadership has the ability to motivate and enhance employee engagement by embodying an energetic and exemplary work ethic (Jiatong *et al.*, 2022; Lai *et al.*, 2020; Yang *et al.*, 2020).

Furthermore, transformational leadership fosters a climate of innovation, encouraging employees to think creatively and engage in innovative work behaviors that drive positive outcomes and further enhance their level of engagement (Cartwright & Holmes, 2006; Dariush *et al.*, 2016). Researchers Popli and Rizvi (2016) have indeed highlighted a significant relationship between transactional leadership style and employee engagement in their study. Researcher Padmanathan's (2010) findings indicate that transactional leadership has a more positive effect on employee engagement compared to transformational leadership. This suggests that the structured and reward-oriented approach of transactional leadership, which emphasizes clear expectations and incentives, may be particularly effective in promoting employee engagement. There is a positive relationship between transactional leadership style, employee engagement, leadership effectiveness, and innovative work behavior (Eliyana *et al.*, 2019; Gameda & Lee, 2020; Thanh & Quang, 2022; Uddin *et al.*, 2019). This style of leadership promotes a structured and goal-oriented work environment, which motivates employees to actively contribute their ideas, take ownership of their work, and engage in innovative practices to achieve organizational goals.

1) Research model

Based on a review of theoretical concepts the following model for the research and hypothesis of the study is elaborated.

2) Research hypotheses

The following hypotheses were formulated within the framework of the research model.

- H1: Transformational leadership has an impact on employee loyalty.
- H2: Transformational leadership influences employee engagement.

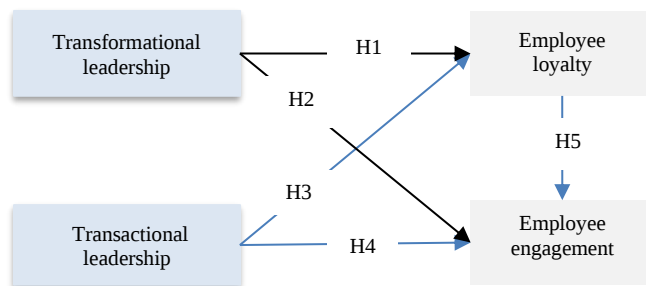


Fig. 1. Research model.

- H3: Transactional leadership has an effect on employee loyalty.
- H4: Transactional leadership influences employee engagement.
- H5: Employee loyalty has an impact on employee engagement.

III. RESEARCH RESULTS

A. Data Collection and Sample Size

The survey was conducted from May 15 to May 29, 2023. Out of a total of 167 questionnaires, 160 (95.8%) were collected, and 153 (95.6%) of them were used in the study.

When selecting the survey sample, a minimum confidence level or acceptable level of 95% was chosen, with a confidence interval of 5%. The target population consisted of 241 employees from two insurance companies. The sample size was determined to be 148 participants. As the survey collected responses from 153 participants, it can be concluded that the sample was considered representative of the original population.

In the study, 42.5% of the participants were male, while 57.5% were female. Regarding age distribution, the majority (58.8%) fell within the 26-35 age range, 16.3% were under the age of 25, 11.1% were aged 36-40, 7.2% were aged 41-50, and 6.5% were over 51 years old. When considering years of work, 7.2% had worked for up to 1 year, 7.8% for 1-5 years, 51% for 6-10 years, 13.1% for 11-15 years, 11.8% for 16-20 years, and 9.2% for more than 21 years. Regarding positions, 3.9% were department directors, 3.3% were branch directors, 3.9% were underwriters, 3.9% were programmers, 4.6% were network engineers, 4.6% were underwriters, 5.8% were actuaries, 9.2% were senior specialists, 23.5% were specialists, 16.3% were middle managers, and 8.5% were service workers. In terms of education, 3.9% of the employees held a high school diploma, 9.2% had a specialized profession, 56.9% had a bachelor's degree, and 30.1% held a master's degree or higher.

B. Instruments and Data Analysis

The survey utilized a total of 6 questionnaires developed by scientist Ria Mandal (2018) to assess leadership style, 8 questionnaires developed by scientist Lexi Croswell (2021) to measure employee engagement, and 4 questionnaires developed by Bettencourt *et al.* (2001) to evaluate employee loyalty. All questionnaires were scored on a 5-point Likert scale. To ensure the quality of the measurements, the reliability and correlation of the variables were analyzed in the study. Structural equation modeling (SEM) was employed to examine the relationships and obtain the results.

C. Reliability Analysis of Variable

In any study, before conducting analysis there is a need to ensure the reliability and validity of variables. To test the reliability, Cronbach's alpha value is tested for validating the reliability of variables and the minimum cut-off points showed 0.7 (Nunnally, 1978) and which proved that the data is acceptable for further measurements. Subsequently, composite reliability (CR) is employed to assess internal consistency. According to Hair *et al.* (2014), a CR value above 0.7 indicates satisfactory internal consistency. Consequently, all constructs in this study meet the criteria for the internal consistency test. Moreover, the validity of the questions demonstrated above of 0.3. AVE (Average Variance Extracted) coefficient is also shown as 0.5 for composites (Awang, 2014) which means it is acceptable for measurement. Table I provides a summary of the analysis results.

TABLE I: RESULTS OF FACTOR RELIABILITY ANALYSIS

Factors	No. Items	Factor loading	Cronbach's α	CR	AVE
Transformational leadership-TFL	3	0.852-0.859	0.834	0.899	0.748
Transactional leadership-TSL	3	0.814-0.858	0.787	0.873	0.697
Employee loyalty-EL	4	0.770-0.865	0.839	0.888	0.665
Employee engagement-EE	8	0.785-0.867	0.954	0.947	0.690

D. Correlation Analysis

The correlational analysis is used for statistical correlation to estimate how strong or weak the relations between independent and dependent variables are. Moreover, it is used for analyzing data from more than one variable. It shows the relation between two or more variables such that examine the changes in one variable effect on the other variable. The results of the correlation analysis are shown in Table II.

TABLE II: RESULTS OF CORRELATION ANALYSIS

Factors	Mean	SD	TFL	TSL	EL	EE
TFL	3.3804	.87850	1			
TSL	3.3455	.82815	0.628	1		
EL	3.2983	.78961	0.690	0.416	1	
EE	3.4801	.92656	0.656	0.454	0.723	1

***Significant at the 0.001 level; **significant at the 0.01 level; * significant at the 0.05 level. Variable definition: TFL, Transformational leadership; TSL, Transactional leadership; EL, Employee loyalty; EE, Employee engagement.

The analysis results indicate that there is a positive and significant correlation between transformational leadership and both employee loyalty [$r = 0.690$, $p < 0.01$] and employee engagement [$r = 0.656$, $p < 0.01$] among the study participants. Similarly, transactional leadership is positively and significantly associated with employee loyalty [$r = 0.416$, $p < 0.01$] and employee engagement [$r = 0.454$, $p < 0.01$]. These results suggest a strong positive relationship between leadership styles and employee loyalty, and engagement. Furthermore, the results of the study revealed a positive correlation between employee loyalty and employee engagement [$r = 0.723$, $p < 0.01$]. The positive correlation between employee loyalty and employee engagement suggests that as employee loyalty increases, employee

engagement also tends to increase. This implies that when employees feel loyal to their organization, they are more likely to be engaged and committed to their work, leading to higher levels of productivity and performance.

E. Structural Equation Modeling (SEM)

For testing the significance of the structural model and variables R-Square is estimated for PLS analysis. The correlation between independent and dependent variables was reviewed during the analysis. The results of the analysis supported all six assumptions, and all the regression weight values were positive and significant ($p < 0.01$). The results of the survey are shown in Table III.

TABLE III: RESULTS OF PLS-SEM

Hypothesis	Path	Standardize Beta	Standard Error	T statistics	P value	Remarks
H1	TFL→EL	0.673***	0.035	11.209	0.000	Supported
H2	TFL→EE	0.644***	0.062	9.752	0.000	Supported
H3	TSL→EL	0.381**	0.123	13.721	0.002	Supported
H4	TSL→EE	0.413**	0.201	8.123	0.001	Supported
H5	EL→EE	0.768***	0.098	10.112	0.000	Supported

Note: ***, $p < 0.001$; **, $p < 0.01$; *, $p < 0.05$, significance levels are two-tailed
Variable definition: TFL, Transformational leadership; TSL, Transactional leadership; EL, Employee loyalty; EE, Employee engagement.

The analysis results indicate that, for the study participants, transformational leadership has a strong positive effect on both employee loyalty [$\beta = 0.673$; $p < 0.01$] and employee engagement [$\beta = 0.644$; $p < 0.01$]. This means that when transformational leadership is present, it has a significant impact on increasing employee loyalty and engagement. On the other hand, transactional leadership also has a positive effect, but it is moderate in comparison. It positively influences employee loyalty [$\beta = 0.381$; $p < 0.01$] and employee engagement [$\beta = 0.413$; $p < 0.01$]. While the effect of transactional leadership is not as strong as transformational leadership, it still contributes to fostering employee loyalty and engagement.

Furthermore, the analysis results show that employee loyalty has a significant positive effect on employee engagement [$\beta = 0.768$; $p < 0.01$]. This suggests that when employees are more loyal to the organization, it positively influences their level of engagement. Please refer to Fig. 2 for a visual representation of the standardized estimates.

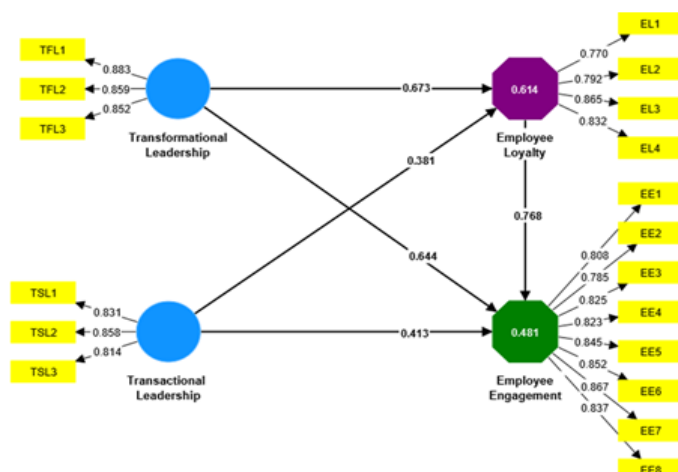


Fig. 2. Path Model and PLS-SEM Estimate.

The hypotheses are all confirmed because all effects of associated regulator variables (Beta coefficients) are both positive and statistically significant ($p < 0.01$).

IV. DISCUSSION

An organization's ability to maintain its competitive advantage and strengthen its position in the market relies heavily on the long-term stability, loyalty, and dedication of its valuable employees (Bidisha & Mukulesh, 2013).

Employees who are loyal to the organization are more likely to stay with the company, reducing turnover and ensuring the retention of valuable knowledge and expertise.

Dedicated employees tend to go above and beyond in their work, driving innovation, productivity, and customer satisfaction. Therefore, improving employee loyalty and engagement is a challenging yet crucial task for business leaders. In this study, we examined the relationship between leadership style, employee loyalty, and active participation by including employees from two insurance companies, building upon the research conducted by previous scholars.

- The research's first findings indicate a robust influence of transformational leadership style on employee loyalty and engagement. These results are consistent with prior studies conducted by Khuong *et al.* (2014), Lin and Hsiao (2014), and Abasilim *et al.* (2019), which also demonstrated the positive impact of transformational leadership styles on increasing employee loyalty. In addition, the present study's findings are consistent with previous research conducted by Agarwal *et al.* (2012), Afsar *et al.* (2019), Ariussanto *et al.* (2020), and Othman *et al.* (2017). These studies also established a significant positive relationship between transformational leadership styles and employee engagement, further reinforcing the alignment of results across multiple research studies.
- The second key finding of the study reveals that the transactional leadership style has a generally positive effect on employee loyalty and engagement. This finding is in line with the research conducted by Birasnav *et al.* (2014), which suggests that transactional leadership does have an impact on increasing employee loyalty. However, it is worth noting that the effect of transactional leadership is comparatively weaker when compared to the impact of transformational leadership.
- The final result of our research indicates a positive relationship between employee loyalty and employee engagement. This finding aligns with the studies conducted by Niranjana and Thomas (2018) and Pelaez and Roman Calderon (2023), which also highlight the positive effect of employee loyalty on employee engagement.

V. CONCLUSION

The leadership skills, behaviors, and role modeling of managers in insurance companies have a positive impact on enhancing employee loyalty and active participation. Management's support for employee development fosters trust, creating an open relationship that, in turn, influences

employees' pride in their work within the organization. This sense of pride encourages employees to take the initiative and contribute productively to the organization.

In conclusion, the study emphasizes the importance of leadership style in fostering employee loyalty and engagement. Transformational leadership style was found to have a significant positive impact on both loyalty and engagement, while transactional leadership style also had a positive effect, albeit weaker. Furthermore, the study highlights the mutual relationship between employee loyalty and engagement, suggesting that loyal employees are more likely to be engaged. These findings provide valuable insights for organizations aiming to enhance their competitive advantage by nurturing a loyal and engaged workforce.

A. Limitations and Future Research

The limitation of this study arises from its focus on two organizations and the consideration of only two leadership styles when examining the relationship between employee loyalty, engagement, and leadership style.

In future studies, it is advisable to expand the scope by considering a broader range of leadership styles and not limiting the research to a single organization. Including multiple organizations within the same industry will provide the opportunity to conduct large-scale investigations and gain a comprehensive understanding of how different leadership styles influence employee loyalty and engagement. This will contribute to creating a more complete picture of the relationship between leadership style and employee loyalty and engagement.

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CONFLICT OF INTEREST

The authors declare that they do not have any conflict of interest.

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