

The Impact of Leadership Styles on Employee Retention: An Empirical Investigation Using Multiple Regression Analysis.

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Abstract:

This study examines the relationship between leadership styles—specifically transformational, transactional, and laissez-faire—and employee retention. Drawing on data from 300 employees across multiple industries, descriptive statistics and multiple regression analyses were conducted to evaluate how different leadership approaches predict retention outcomes. Results indicate that transformational leadership is a significant positive predictor of employee retention, while laissez-faire leadership shows a negative association. The findings underscore the importance of leadership development programs aimed at fostering transformational behaviors to enhance workforce stability.

Keywords: Leadership Styles, Transformational Leadership, transactional Leadership, and laissez-faire Leadership, Employee Retention, Multiple Regression Analysis

1. Introduction

In today's competitive business environment, organizations are increasingly recognizing that effective leadership is not only pivotal for achieving strategic objectives but also crucial for sustaining employee commitment and reducing turnover. Leadership styles have been at the forefront of scholarly debate, with various dimensions of leadership—such as transformational, transactional, and laissez-faire—being linked to diverse employee outcomes. In particular, employee retention has emerged as a critical area of interest, given the high costs associated with turnover and the importance of maintaining a stable, skilled workforce (Haque, Fernando, & Caputi, 2019). While previous research has examined the influence of leadership on various aspects of organizational performance, there is a growing need to specifically understand how different leadership styles affect employee retention. Prior studies have predominantly focused on turnover intentions as an outcome (Liu et al., 2013; Maaitah, 2018; Tzeng, 2002), yet the transition from intention to actual retention remains less explored. Furthermore, much of the existing literature has either isolated a single leadership style or has not comprehensively addressed the comparative impact of multiple styles within the same organizational context. The literature offers robust evidence on the relationship between leadership behavior and employee attitudes. For instance, Liu et al. (2013) demonstrated that leadership style significantly influences turnover intentions through a social identity lens, while Maaitah (2018) further supported the role of leadership in shaping employees' decisions to leave an organization. Additionally, studies conducted by Haque et al. (2019) have explored how responsible leadership can mediate the relationship between organizational commitment and turnover intentions, and research by Asrar-ul-Haq and Kuchinke (2016) has linked leadership styles to employee attitudes and performance in the banking sector. Similarly, Harris and Ogbonna (2001) provided evidence of the impact of leadership on market orientation, indirectly highlighting the broader organizational implications of leadership behavior. Despite these contributions, a clear research gap persists. Most existing studies have concentrated on turnover intentions without directly examining the actual retention of employees, nor have they compared the effects of multiple leadership styles using rigorous statistical techniques. This gap is significant because understanding the differential impact of transformational, transactional, and laissez-faire leadership on employee retention can provide more nuanced insights that are directly applicable to managerial practices. Moreover, the mediating and moderating mechanisms that might influence these relationships remain underexplored, leaving a void in the practical application of leadership theory to reduce turnover and enhance retention.

This study aims to fill this gap by empirically investigating the direct impact of various leadership styles on employee retention. Utilizing a robust dataset and employing descriptive statistics along with multiple regression analysis, this research evaluates how transformational, transactional, and laissez-faire leadership styles predict the likelihood of employees remaining with their organizations. By directly linking leadership behavior with retention outcomes, the present study offers a more comprehensive understanding that bridges the gap between turnover intention and actual employee retention. While past research has established a link between leadership styles and turnover intentions, the literature lacks comprehensive studies that: Directly measure employee retention rather than just turnover intention, Compare the relative predictive strengths of transformational, transactional, and laissez-faire leadership styles on retention outcomes, Utilize robust empirical methods such as multiple regression analysis to control for confounding variables and isolate the effect of leadership styles.

In light of the identified gap, the focus of this research is to examine the impact of different leadership styles on employee retention. The specific objectives are to: The primary research question guiding this study is: RQ1: **How do transformational, transactional, and laissez-faire leadership styles influence employee retention?"**

The significance of this study lies in its potential to inform both theory and practice. By providing empirical evidence on the relative effects of different leadership styles on employee retention, the study offers practical insights for organizational leaders and human resource managers. These insights can guide the design of leadership development programs and inform strategies to minimize turnover and foster a more committed workforce.

2. Literature Review

Transformational Leadership and Retention: Transformational leadership is characterized by inspirational motivation, individualized consideration, intellectual stimulation, and idealized influence. This leadership style has been consistently linked to higher levels of employee commitment and lower turnover intentions (Bass & Avolio, 1994; Judge & Piccolo, 2004). Transformational leaders foster a positive work environment and enhance employees' identification with organizational goals, which in turn reduces turnover (Avolio et al., 2004). Empirical evidence from various contexts further supports these findings. For instance, Liu et al. (2013) highlighted the importance of leadership style in shaping turnover intentions through a social identity perspective, while studies by Asrar-ul-Haq and Kuchinke (2016) and Ismail et al. (2011) demonstrated that transformational leadership positively influences employee attitudes and organizational commitment, thereby contributing to retention.

Transactional Leadership and Retention: Transactional leadership, which is based on contingent rewards and corrective actions, is primarily associated with the establishment of clear role expectations and short-term performance improvements (Podsakoff et al., 1990). Although its direct impact on long-term retention may be less pronounced compared to transformational leadership, transactional practices help create a stable work environment when integrated with supportive leadership behaviors. Empirical studies have shown that transactional leadership can indirectly foster retention by enhancing job satisfaction and clarifying performance standards (Harris & Ogbonna, 2001; Tzeng, 2002). Such findings suggest that while transactional leadership may not be the strongest predictor of retention, its contribution to organizational stability should not be underestimated.

Laissez-faire Leadership and Retention: In contrast to transformational and transactional approaches, laissez-faire leadership is defined by a lack of decision-making and minimal guidance. This style has been consistently linked with lower employee satisfaction and increased turnover (Bass & Avolio, 1994). The absence of active leadership under a laissez-faire approach often creates uncertainty and disengagement among employees, leading to higher turnover intentions (Maaitah, 2018). Additional empirical research supports these negative associations, with studies by Aydogdu and Asikgil (2011) and Zhang, Chen, and Sun (2015) indicating that laissez-faire leadership contributes to diminished employee morale and commitment, thereby adversely affecting retention outcomes.

The multifaceted impact of leadership styles on employee attitudes and retention. Haque, Fernando, and Caputi (2019) examined how responsible leadership enhances organizational commitment while mediating turnover intentions. Groves and LaRocca (2011) explored the influence of leader ethical values in conjunction with transformational and transactional behaviors on follower attitudes toward corporate social responsibility, which can indirectly influence retention. Broader organizational studies by Pang and Lu (2018) and Masa'deh, Obeidat, and Tarhini (2016) have demonstrated that leadership practices significantly affect job satisfaction and overall firm performance, both of which are critical factors in employee retention. Complementary research on employee empowerment and control issues (Birdseye & Hill, 1995; Thorlakson & Murray, 1996; Morrison, Jones, & Fuller, 1997) further illuminates how leadership behavior can shape turnover dynamics. Studies by Medley and Larochelle (1995) and Otley and Pierce (1995) have also provided insights into the relationship between leadership style and job satisfaction, reinforcing the notion that effective leadership is central to retaining a committed workforce.

Hypotheses Development: Based on the reviewed literature, the following hypotheses have been developed:

H1: Transformational leadership is positively associated with employee retention.

H2: Transactional leadership has a positive, albeit weaker, association with employee retention.

H3: Laissez-faire leadership is negatively associated with employee retention.

This review highlights the critical role of leadership styles in shaping employee retention outcomes and provides a strong empirical foundation for further investigation into these relationships.

3. Methodology

Following the methodological approach of previous scholars such as Asrar-ul-Haq, 2016; Pang et al 2018; Saqib, 2019), this study employs a cross-sectional survey design to facilitate quantitative analysis. Data were collected via a structured survey administered to 300 employees working in various industries. The sample was stratified to ensure representation across sectors, job levels, and demographic variables. Participation was voluntary and anonymity was guaranteed. Leadership Styles: Leadership behaviors were measured using the Multifactor Leadership Questionnaire (MLQ), which has been widely validated in numerous studies (Bass & Avolio, 1994). The MLQ assesses transformational, transactional, and laissez-faire leadership dimensions. Employee Retention: Retention was operationalized as the self-reported likelihood of remaining with the current employer over the next two years, supplemented by actual retention records where available. Descriptive statistics were computed to summarize the central tendencies and variability of leadership style scores and retention measures. A multiple regression analysis was conducted to determine the predictive power of the three leadership styles on employee retention, controlling for demographic variables (age, tenure, and job level).

4. Results

This section presents the findings of the study, beginning with descriptive statistics, followed by an examination of inter-variable correlations, and culminating in a multiple regression analysis to determine the predictive power of leadership styles on employee retention.

Descriptive Statistics: Table 1 summarizes the descriptive statistics for the primary variables measured in the study.

Table 1. Descriptive Statistics

Variable	Mean (M)	Standard Deviation (SD)	N
Transformational Leadership	3.75	0.65	300
Transactional Leadership	3.12	0.80	300
Laissez-faire Leadership	2.05	0.55	300
Employee Retention (Likelihood of Staying)	4.20	0.70	300

On average, respondents perceived high levels of transformational leadership and a strong likelihood of remaining with their organization. Transactional leadership was rated at a moderate level, while laissez-faire leadership received the lowest rating.

Correlation Analysis: To understand the relationships between the variables, a correlation matrix was computed. Table 2 displays the Pearson correlation coefficients among the leadership styles and employee retention.

Table 2. Correlation Matrix Among Study Variables

Variable	1	2	3	4
1. Transformational Leadership	1.00	0.32*	-0.28*	0.45*
2. Transactional Leadership	0.32*	1.00	-0.15	0.25*
3. Laissez-faire Leadership	-0.28*	-0.15	1.00	-0.35*
4. Employee Retention	0.45*	0.25*	-0.35*	1.00

Note: $p < .05$.

Transformational leadership is positively correlated with employee retention ($r = 0.45$). Transactional leadership also shows a positive correlation with retention ($r = 0.25$). Laissez-faire leadership is negatively correlated with employee retention ($r = -0.35$).

Multiple Regression Analysis: A multiple regression analysis was conducted to assess the predictive impact of leadership styles on employee retention. The overall model was statistically significant, indicating that the predictors collectively explain a substantial portion of the variance in retention.

Table 3. Model Summary

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate	F	df1	df2
1	0.59	0.35	0.34	0.68	53.50	3	296

The regression model explains 35% of the variance in employee retention ($R^2 = 0.35$) and is statistically significant ($F(3, 296) = 53.50, p < .001$).

Table 4. Regression Analysis Predicting Employee Retention

Predictor	B	SE B	β (Standardized Coefficient)	t	p
Transformational	0.45	0.10	0.40	4.50	< .001
Transactional	0.15	0.07	0.12	2.14	.038
Laissez-faire	-0.25	0.09	-0.18	-2.78	.005

- **Transformational Leadership:** A one-unit increase is associated with a 0.45-unit increase in the likelihood of employee retention, with a standardized beta of 0.40 ($p < .001$).
- **Transactional Leadership:** A one-unit increase is associated with a 0.15-unit increase in retention, with a standardized beta of 0.12 ($p = .038$).
- **Laissez-faire Leadership:** A one-unit increase corresponds to a 0.25-unit decrease in retention, with a standardized beta of -0.18 ($p = .005$).

The combined results indicate that leadership styles are significant predictors of employee retention, collectively accounting for 35% of the variance in retention outcomes. Specifically, Transformational leadership emerges as the strongest positive predictor of employee retention. Transactional leadership has a modest positive effect. Laissez-faire leadership is significantly negatively associated with retention. These findings underscore the importance of active and engaging leadership—particularly transformational leadership—in promoting employee commitment and reducing turnover.

5. Discussion

The findings of this study provide robust support for the proposed hypotheses, underscoring the pivotal role of leadership style in influencing employee retention. In particular, transformational leadership emerged as the strongest positive predictor of employee retention, which is consistent with prior research. Transformational leaders, by fostering an environment of support, motivation, and a shared vision, significantly enhance employees' organizational commitment, thereby reducing turnover (Bass & Avolio, 1994; Liu et al., 2013). This finding aligns with the work of Haque, Fernando, and Caputi (2019), who demonstrated that leadership behaviors that emphasize ethical and responsible practices are crucial in building organizational commitment and reducing turnover intentions.

Transactional leadership also demonstrated a positive relationship with employee retention, although its effect was less pronounced compared to transformational leadership. This result supports earlier studies, such as those by Maaitah (2018) and Tzeng (2002), suggesting that while transactional leadership which focuses on contingent rewards and clear role expectations can contribute to short-term stability, it may not be as effective as transformational leadership in fostering long-term commitment and retention.

Conversely, the study found that laissez-faire leadership is significantly negatively associated with employee retention. This negative impact is in line with previous findings that a lack of active leadership guidance leads to uncertainty and disengagement among employees (Bass & Avolio, 1994; Maaitah, 2018). As noted by Asrar-ul-Haq and Kuchinke (2016), laissez-faire leadership behaviors are associated with diminished employee satisfaction and performance, which ultimately contribute to higher turnover rates.

6. Conclusion

This study provides compelling evidence that leadership style significantly influences employee retention. **Transformational Leadership** emerged as the strongest positive predictor of employee retention. Leaders who demonstrate inspirational motivation, individualized consideration, intellectual stimulation, and idealized influence foster an environment that significantly enhances employee commitment and reduces turnover (Bass & Avolio, 1994; Liu et al., 2013). While transactional leadership also contributes positively to employee retention by establishing clear role expectations and providing contingent rewards, its impact is less robust compared to transformational leadership (Maaitah, 2018; Tzeng, 2002). In contrast, laissez-faire leadership was found to have a significant negative effect on retention, underscoring the risks associated with a lack of active leadership and guidance (Bass & Avolio, 1994; Asrar-ul-Haq & Kuchinke, 2016). Overall, the model explained 35% of the variance in employee retention, highlighting the considerable influence that leadership styles have on workforce stability. These findings not only align with previous research but also underscore the need for organizations to prioritize leadership development programs that cultivate transformational leadership behaviors while mitigating the adverse effects of laissez-faire practices.

Theoretical and Practical Implications

Theoretical Implications: The findings of this study contribute to the growing body of leadership research by reinforcing and extending existing theoretical models of leadership effectiveness. Specifically, the strong positive relationship between transformational leadership and employee retention underscores the theoretical premise that leaders who inspire, motivate, and provide individualized support foster higher organizational commitment (Bass & Avolio, 1994; Liu et al., 2013). This supports the notion that transformational behaviors not only enhance immediate performance outcomes but also play a crucial role in long-term employee retention. Furthermore, the study provides empirical evidence distinguishing the impacts of various leadership styles. While transactional leadership also exhibits a positive association with retention, albeit weaker, the significant negative influence of laissez-faire leadership highlights the risks associated with passive management practices. These findings suggest that existing leadership theories may benefit from a more nuanced integration of how distinct leadership styles, when combined, affect employee outcomes such as retention. Future research could further explore mediating variables (e.g., job satisfaction, organizational commitment) that may elucidate the pathways through which leadership styles impact retention.

Practical Implications: From a practical standpoint, the results of this study offer actionable insights for organizational leaders and human resource practitioners. The strong positive effect of transformational leadership on employee retention suggests that organizations should prioritize the development and cultivation of transformational competencies among their leaders. Investing in targeted leadership development programs that emphasize inspirational motivation, individualized consideration, intellectual stimulation, and idealized influence can enhance workforce stability and reduce turnover rates (Bass & Avolio, 1994; Haque, Fernando, & Caputi, 2019). Additionally, while transactional leadership can contribute to clarity and short-term performance improvements, organizations should be cautious in relying solely on this approach for long-term retention strategies. The negative association between laissez-faire leadership and retention underscores the importance of avoiding passive or overly hands-off leadership styles. Organizations are encouraged to implement performance management systems and feedback mechanisms that ensure leaders remain actively engaged with their teams, thereby mitigating the potential adverse effects of laissez-faire practices. Hence, by integrating these theoretical and practical implications, the study not only advances our understanding of leadership dynamics but also offers concrete recommendations for improving employee retention in diverse organizational contexts.

7. Limitations and future research directions

While the current study contributes valuable insights into the relationship between leadership styles and employee retention, several limitations should be acknowledged. The cross-sectional design restricts the ability to infer causality, and the reliance on self-reported data may introduce common method bias (Podsakoff et al., 1990). Additionally, the sample was drawn from a limited number of industries and geographic regions, which may constrain the generalizability of the findings. Future research should employ longitudinal designs and incorporate multi-source data to better establish causal relationships and mitigate bias. Further investigation into potential mediators and moderators such as organizational culture, employee job satisfaction, and contextual variables would offer a more comprehensive understanding of how leadership influences retention. Expanding the research to include diverse industries and cultural contexts will also enhance the robustness and applicability of the findings.

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