

Impact of Leadership Styles on Organizational Performance and Employee Retention – Case Study of Germany, Switzerland and Austria

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Abstract

This study aims to examine the complex relationship between leadership styles, organizational performance, and employee retention across different economic systems. Furthermore, it seeks to illustrate how different leadership approaches impact organizational dynamics within different economic contexts. Employing a mix of case study and qualitative methodologies, the research investigates the multiple organizations in Germany, Switzerland and Austria, utilizing a structured analysis on the collected data. The methodology is designed to capture the nuanced ways in which leadership influences key organizational outcomes, including employee loyalty and organizational efficacy. The findings suggest that transformational leadership universally enhances organizational performance and employee retention, yet the effectiveness of leadership styles is significantly shaped by cultural and economic factors. In conclusion, this research paper indicates that adaptable, context-aware leadership is crucial for navigating the complexities of global economic systems, highlighting the need for leaders to tailor their approaches according to the environment in which it operates.

Keywords: *leadership, leadership styles, organizational performance, employee performance, employee retention, socio-economic environment*

JEL classification: M12, P51, L2

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1. Introduction

In the complex world of global economics, investigating the influence of leadership styles on organizational effectiveness within various economic frameworks presents an intriguing and essential field of study. This inquiry delves into the intricate interplay between different approaches to leadership and their impacts on organizational success, viewed against the backdrop of distinct economic models that shape countries and regions worldwide.

Leadership, an intricate blend of both art and scientific principles, encompasses a range of styles from the visionary transformational to the pragmatic transactional, and from the inclusive participative to the directive autocratic. These

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approaches significantly affect organizational culture, employee engagement, decision-making strategies, and, ultimately, the performance metrics of organizations. Importantly, these leadership methodologies are not isolated; they are deeply influenced by the economic environments in which they function, ranging from free-market capitalism to centrally planned socialism, and various mixed economy forms.

In the competitive, profit-driven environment of capitalist economies, leadership often leans toward being goal-centric and resolute, with a focus on operational efficiency and fostering innovation. Conversely, in socialist or mixed economies, where there is a greater emphasis on communal well-being and equitable distribution, leadership might lean towards being more collaborative and consensus oriented. This varying economic terrain offers fertile ground for analyzing how leadership styles are tailored or modified to suit the economic ideologies and cultural nuances of these systems.

This examination considers the global business arena, where multinational entities navigate through diverse economic and cultural landscapes. This aspect underscores the need for adaptable leadership styles that can resonate across different economic and cultural settings to maintain or improve organizational effectiveness. By exploring the nuanced relationship between leadership approaches and organizational performance within different economic systems, this study aims to shed light on the subtleties and interconnections that characterize effective leadership in the dynamic world of economics. The goal is to provide not only academic insight but also practical guidance for those in management, organizational development, and policymaking. Through this exploration, the author seeks to enrich the understanding of how leadership can act as a critical driver in shaping organizational success across different economic settings.

2. Literature Review

Scholars have been strongly exploring how various leadership styles, such as transformational, transactional, and entrepreneurial, impact organizational performance in diverse economic contexts. This research domain gained momentum as organizations increasingly recognized the pivotal role of leadership in navigating through economic uncertainties, technological advancements, and global market dynamics. Previous studies have revealed that the success of a leadership style could considerably vary depending on the economic system in which a business operates. Additionally, the interaction between internal organizational dynamics and leadership styles, including job security, employee morale and ethical consideration, has also been a central focus point. This is predominantly relevant in times of economic crises or rapid market changes, where the right leadership approach can make the difference between organizational resilience and vulnerability.

Korneeva et al. (2020) emphasizes the significance of managerial communicative and organizational abilities in determining effective styles of leadership. They explore how leadership styles are optimized based on the current

situation. The development and nourishment of these skills are crucial. Furthermore, the authors reveal that a leader's ability to communicate and organise efficiently represents the core trait an effective leadership style. According to Ye et al. (2020), leader's humility has a positive influence on team's humility which stimulates the creative performance of employees.

Ariussanto et al. (2020) investigates the relationship between work environment, employee engagement, employee performance and leadership style, within manufacturing companies. They assess how leadership style influences empowerment and employee participation. Additionally, the authors identify that leadership style considerably influences work environment and employee engagement. As a result, these have an impact on employee performance. Moreover, Madanchian et al. (2021) examine the organizational performance of companies using transformational leadership. They underline the importance of transformational leadership as it facilitates economic growth and success for both employees and organizations. More specifically, the authors identify a strong connection between enhanced organizational performance and transformational leadership style.

Borde et al. (2022), focuses on how different leadership styles such as ethical, authentic, benevolent, moral, and spiritual leadership correlate with organizational commitment. Their systematic review underscores ethical leadership as the most researched style. Furthermore, this study identifies that self-enhancement, self-awareness and self-regulation aspects are key personality traits in organizational context. Also, their research paper provides essential insights into Human Resource Development (HRD) practitioners, pointing out the complex relationship between leadership styles and organizational dynamics.

Tamimi and Sopiah (2022) present a systematic literature review that synthesizes various research findings related to the influence of leadership style on employee performance. Their review compiles several studies, highlighting how different leadership styles influence the performance of the employees. This approach involved an extensive examination of existing studies, using PRISR (Preferred Reporting Items for Systematic Review) and Meta-Analysis. Therefore, the authors classified the effects of leadership styles into non-influential aspects, significant positive aspects, together with mediating and moderating variables. Employee performance is strongly connected with the leadership style as the outcomes of such collaboration is reflected in the achievement of organizational objectives and enhancement of employee performance. Thus, this research paper successfully combines the theoretical aspects in the field of organizational leadership with the practical applications.

Alsharif *et al.* (2021) examines the dynamic between entrepreneurial leadership and economic performance in Croatian companies during the COVID-19 pandemic. The research highlighted that while entrepreneurial leadership positively influenced sustainable economic performance, it surprisingly did not alleviate job insecurity among employees. This outcome suggests that entrepreneurial leadership, characterized by innovation and risk-taking, can drive economic success even in times of crisis. However, the persistence of job insecurity indicates that such

leadership may not fully address employees' concerns about stability and security in turbulent times.

Cui *et al.* (2022) investigates the impact of leadership styles within Chinese Small and Medium Sized Enterprises (SMEs) regarding organizational learning and innovation. They identify that both transactional and transformational leadership styles positively impact organizational learning. Therefore, by possessing this ability, innovation performance is improved, suggesting that organizational learning acts as catalyst for the relationship between innovation performance and leadership styles. Their study is based on data from 417 Chinese consumers, contributing to leadership and innovation literature. It emphasizes how different leadership styles could enrich corporate innovation performance. Additionally, to foster an innovative environment, it provides a theoretical background for leadership decision-making within enterprises.

Yang and Lew (2020) examine the moderating effects of frontline managers' leadership styles on the link between high-performance work systems (HPWSs) and innovation support among employees in China. Their study, conducted with 429 employees across 66 teams in 14 firms, demonstrate that certain leadership styles significantly influence the relationship between HPWSs and innovation support, subsequently impacting team effectiveness. This research paper contributes to strategic human resource management by showing how leadership styles at the frontline management level are crucial in implementing HPWSs effectively in order to boost organizational innovation and team performance.

Drewniak *et al.* (2020) investigates how the leadership styles practiced by European managers could influence the perception and enthusiasm of employees regarding their work. Their research paper includes feedback provided by 185 workers from different divisions and European companies. Having the necessary data, the authors used statistical analysis to comprehend this dynamic. Their findings show that a strong correlation between leadership style and 1) level of freedom and guidance and 2) the expectations and perceptions of the employees. As a result, this study emphasizes the nuanced ways leadership could impact the perception and passion of the employees as well as the workplace culture. Also, it provides valuable information for leaders aspiring to foster a positive and productive work setting.

Siddiqui and Siddiqui (2021) examine the crucial role of HRM (human resource management) practices and transformational leadership, concentrating on improving organizational performance. The authors explore how these elements contribute to significant effects such as work efficiency, employee turnover, job satisfaction and morale. This study highlights the idea that efficient and effective people management, using strategic HRM together with the leadership that motivates and inspires employees, is essential for accomplishing organizational goals and retaining employees. Their findings indicate that organizations that prioritize robust HRM practices and transformational leadership notice major improvements in employee performance and commitment. Thus, lower turnover rates and higher levels of job satisfaction are anticipated. This indicates a strong relationship between HRM practices, leadership styles and the overall success of an organization.

Collectively, the outcomes of these research papers converge to redefine effective and efficient leadership in this current, globalized world. However, a standardized set of rules hinders the development and evolution of a great leader as it requires unique cultural knowledge about each environment, a deep and discerning understanding of diverse economic structures and the complexities of various organizational models. Furthermore, leaders who exhibit the agility to tailor their approach in response to these diverse factors are more likely to cultivate organizations that are not only resilient and innovative but also consistently high-performing. This research paper presents a scenario where adopting a universal leadership strategy is increasingly impractical. The need of the hour is for leadership that is adaptable, culturally attuned, and tailored to the specific context, steering organizations towards triumph in a complex, tightly-knit global business landscape.

3. Research Methodology and Data

This research paper presents an in-depth case study considering the complex layers of leadership within Germany, Switzerland, and Austrian organizations during 2023. Moreover, this research paper makes use of qualitative research methodology to meticulously explore the contribution of leadership to employee retention. This methodological choice is pivotal, as it empowers the author to penetrate beyond the surface-level understanding of leadership roles and examine the subtle, yet powerful, dynamics at play. By focusing on specific organizations in Germany, Switzerland and Austria, this study is positioned to uncover rich, detailed insights that reveal how different leadership styles directly influence both the overall success of organizations and the stability of their workforce.

Qualitative research methodology plays a vital role across a broad spectrum of academic and professional disciplines such as social sciences and education. Its primary aim is to identify the complexities of human behaviour, emotions, attitudes and lived experiences. This approach highlights the underlying reasons and motivations behind people's thoughts and actions. This approach is particularly useful in uncharted research areas or to gain an insightful information regarding specific experiences. Furthermore, it provides a nuanced understanding that quantitative research methodology might miss while emphasizing the importance of the social, cultural, and individual circumstances shaping human behaviour. Using techniques such as detailed interviews, observations, and document analysis, qualitative research captures the prominent experiences of participants. As a result, it provides an ample understanding of the human condition.

This methodology, using data from Hays and Statista, is mainly suited for satisfying our research objectives because it provides the necessary flexibility and captures the complex interplay between leadership practices and their outcomes. Furthermore, the authors could observe how leadership influences motivation, satisfaction, and employee engagement, representing key factors that emphasize the organizational performance and employee retention. As a result, this methodology highlights the cultural nuances inherent in Germany, Switzerland, and Austrian

organizations, providing a greater understanding of how local cultural norms and values shape and are shaped by leadership styles.

4. Results and discussions

In the modern business environment, the impact of effective leadership has never been more required. As organizations struggle with the challenge of retaining talented employees amidst a competitive market, comprehending the aspects that inspire employee loyalty is essential. This study conducted across Germany, Switzerland, and Austria in 2023 highlights the leadership qualities that are perceived to play essential roles in nurturing employee commitment. This analysis unpacks the human dimensions of these qualities, providing insights into the complex relationship between leadership practices and the propensity of employees to remain with their current organization.

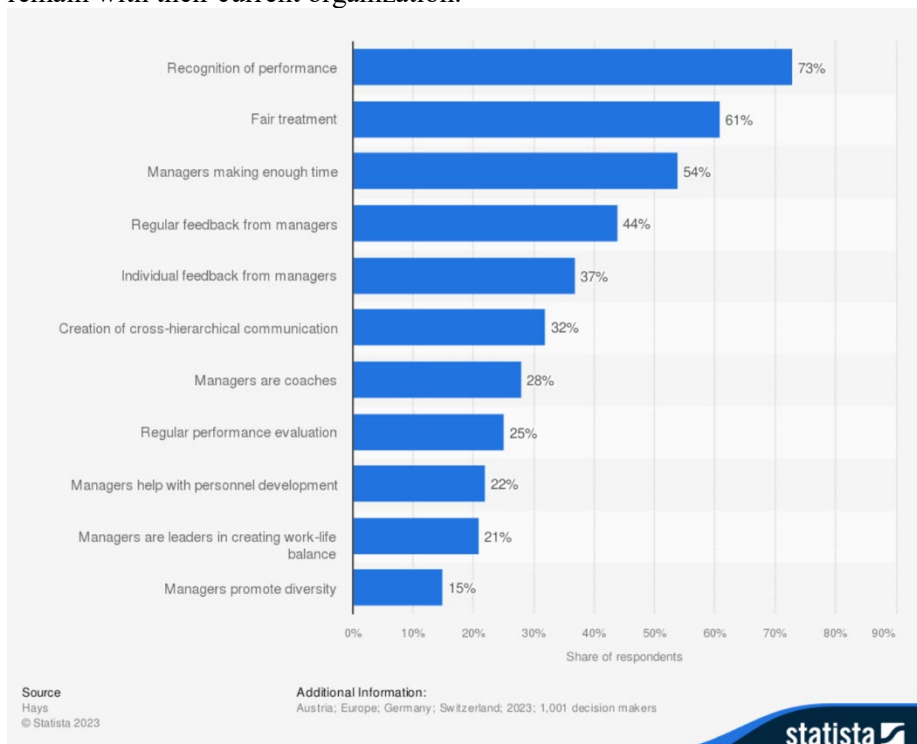


Figure 1. Contribution of leadership to employee retentions in Germany, Switzerland and Austria in 2023

Figure 1 presents the contribution of leadership to employee retention in Germany, Switzerland, and Austria in 2023. It illustrates the percentage of decision makers who believe that different leadership qualities have a significant impact on employee retention. The data is sourced from Hays and Statista and represents the opinions of 1,001 decision-makers as follows:

1. Recognition of Performance (73%)

This is the most valued leadership quality, with 73% of respondents. Employees are not only motivated by their job titles or salaries. They want recognition for their efforts. Morale and personal satisfaction are boosted when their achievements are acknowledged. As a result, this appreciation can come in many forms such as awards, public praise or sometimes, a simple thank-you note would be welcomed as it validates their hard work and highlights that they are valued members of the team.

2. Fair Treatment (61%)

61% of respondents believe that fair treatment by leadership is vital for employee retention, representing the second most important factor. Employees need to feel that they are treated with respect, without bias or favouritism. This includes consistent application of rules, impartiality in conflict resolution and equitable opportunities for growth.

3. Managers Making Enough Time (54%)

54% of the respondents suggest that managers who reserve sufficient time for their employees plays an important part in retaining them. Time represents a limited resource and when a manager dedicates time to an employee, it shows respect and attention. This means that managers are approachable, willing to listen to concerns and open to provide solutions. This promotes a supportive work environment, highlighting that employees are valued.

4. Regular Feedback from Managers (44%)

44% of the respondents' value regular feedback, indicating that consistent and constructive communication from managers is key to keeping employees engaged and committed to the company. Moreover, this process reveals a more responsive and dynamic work culture.

5. Individual Feedback from Managers (37%)

While regular feedback is important, individualized feedback is about tailoring communication to each employee's specific situation, skills, and career aspirations. It demonstrates a manager's commitment to an employee's unique journey and fosters a deeper, more personal mentor-mentee relationship.

6. Creation of Cross-Hierarchical Communication (32%)

32% of respondents think that promoting communication across different levels of the organization is beneficial for retention. This might involve encouraging open dialogues between junior and senior staff. Furthermore, it fosters inclusivity, allowing concerns and ideas to flow from different departments of the organization.

7. Managers as Coaches (28%)

A coaching mindset goes beyond managing tasks; it involves nurturing an employee's potential. Managers as coaches invest in teaching and guiding their

team members, not only directing them. This can create a more resilient and adaptable workforce and can be fulfilling for both the employee and the manager.

8. Regular Performance Evaluation (25%)

Structured evaluations provide a formal mechanism for reviewing achievements and setting goals. They give employees a clear sense of direction and an understanding of the expectations they should meet. It also provides recurring performance evaluation as well as career development opportunities.

9. Managers Help with Personnel Development (22%)

22% of respondents believe that managers who assist with personnel development contribute to employee retention. This indicates the importance of investment in employees' growth and career progression within the company. As a result, this could lead to greater job satisfaction and loyalty.

10. Managers are Leaders in Creating Work-Life Balance (21%)

21% of respondents believe that managers could lead in creating a superior work-life balance. This aspect can influence an employees decision to remain within the company. Furthermore, it recognizes that employees have other responsibilities outside of their jobs that are just as important. Leading by example and support policies, diminishes burnout and improves general well-being. This is critical for maintaining a healthy and sustainable work environment.

11. Managers Promote Diversity (15%)

The criterion that has the lowest percentage, with 15% of respondents, is managers promoting diversity. While it is the lowest on this list, it still emphasizes that diversity and inclusion at the workplace are still significant. Embracing diversity consists of valuing different backgrounds, perspectives, and experiences. Moreover, this process fosters an inclusive culture that can lead to more cohesive team dynamic and innovative solutions.

These factors show an all-rounded view of leadership, one that goes beyond conventional management to include empathy, emotional intelligence, growth of employees and genuine investment in their well-being. Each of these leadership abilities have a positive impact on workplace environment in which employees feel engaged, motivated, and respected.

It becomes clear that aspects extending beyond conventional management tactics - such as fairness, personal recognition, and individualized feedback - are essential to fostering a beneficial work environment, boosting employee retention. Furthermore, the emphasis on development, both personal and professional, and the promotion of a balanced and inclusive workplace, highlight a shift towards a more empathetic and growth-oriented leadership approach. These findings not only emphasize the evolving expectations of the modern workforce but also emphasize the significance of leadership. More specifically, managers who are willing to invest their time for the well-being of employees are highly appreciated. As companies strive to adapt and thrive, these outcomes could guide the future of dynamic and retention-focused leadership strategies.

Examining the leadership qualities that contribute to employee retention in the German-speaking regions, the author discerns a pattern: attributes that involve personal acknowledgment and fairness are paramount, suggesting that leadership's human touch is crucial for keeping employees. Qualities such as regular feedback and developmental support, while important, do not seem to hold the same weight. Meanwhile, attributes such as fostering diversity and work-life balance appear less immediately linked to retention, possibly due to the complexities of implementing such cultural shifts.

5. Conclusions

This study examines how leadership styles influence both the effectiveness of organizations and the loyalty of their workforce across diverse economic structures. At its core, leadership profoundly shapes the trajectory of organizational achievements and plays a crucial role in retaining valuable employees, with leadership styles that consider the cultural and economic environment in which they are practiced.

One significant observation is the universal appeal of transformational leadership as it is linked to enhanced motivation, innovation, and organizational performance regardless of the economic setting. This suggests a broad applicability for leadership that is visionary and supportive, transcending cultural and economic boundaries. However, the efficacy of any leadership approach is not without its nuances. Leadership that drives an organization forward in a competitive capitalist setting may not resonate as strongly within economies focused on social equity and community welfare. This highlights the need for leaders that are versatile and attuned to the specific requirements and dynamics of their organization's environment.

The connection between leadership style and employee retention is particularly important as leadership that is engaging, supportive, and fosters a positive workplace not only elevates organizational performance but also strengthens employee commitment and satisfaction. Such a strong relationship highlights the critical role of leadership in evaluating and nurturing human resources for long-term success.

Lastly, this study emphasizes that there is no universal leadership style suitable for all contexts. The key to effective leadership lies in the ability to adapt and resonate with the unique characteristics of the organization's environment, allining its cultural ethics with the economic strategies. Leaders who excel in tailoring their approach to these unique factors are more likely to succeed in boosting organizational performance. As a result, they secure a committed workforce, laying the foundation of continuous success in a rapidly changing global landscape.

As a result, this qualitative assessment paves the way for future hypotheses that could be quantitatively tested in order to understand the complex dynamics of leadership and employee loyalty. Furthermore, this study contributes significantly to

the field of leadership styles, organizational performance and employee retention across varying economic systems, with a focus on Germany, Switzerland and Austria. By integrating quantifiable outcomes, it provides a comprehensive framework that highlights the importance of context-aware leadership. The findings emphasized the necessity for leaders to adapt their approaches based on cultural and economic nuances, enriching the dialogue on leadership effectiveness. This study not only broadens the academic literature on leadership but also equips practitioners with actionable strategies to enhance organizational resilience and workforce commitment in a globalized economy.

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