Mediating Effect of Emotion Regulation on the Relationship Between Leadership Styles and Performance: A Study on Banking Sector

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Abstract
In this study, leadership style perceptions, emotion regulation abilities, and organizational performance perceptions of employees in the banking sector, and mediating effect of emotion regulation on the relationship of performance and leadership styles were measured. To test the model, a questionnaire was applied to the banking sector employees working in the Diyarbakır province of Turkey. As a result of the Structural Equation Model (SEM), emotion regulation mediates between performance and transformational leadership. The relationship between performance, transactional leadership style, and laissez-fair leadership style was not significant. A mediating effect of emotion regulation between organizational performance and leadership perception was examined by the same model. Also, some differences were found in terms of demographical variables.

Keywords: Leadership Styles, Emotion Regulation, Organizational Performance, Banking Sector.

JEL Code Classification: D23, G21, M12.
1. Introduction

Since the 1980s, scholars have investigated the relationship between performance and leadership. Zehir et al. (2012) found that there is a strong relationship between performance and leadership styles. Birasnav (2014) asserted that since transactional leaders tend to implement strategies, reward employee performance, and exhibit active management by exception behavior to correct mistakes, they can significantly contribute to organizational performance. Similarly, studies are showing that transformational leaders have a positive effect on organizational performance since they encourage employees to search for innovative solutions to problems as well as taking risks (Waldman et al., 2001).

Some studies were conducted about emotional intelligence and emotion management of leaders. Thiel et al. (2013) stated that one of the significant abilities of successful leaders is managing self- and interpersonal emotions in the organization, especially when employees experience negative ones. Therefore, leadership is vital for organizational performance (Acar, 2012: 217). Similarly, creating an organizational goal or vision to achieve organizational performance requires strong leadership (Samad, 2012: 489).

In this study, basic concepts will be defined first, and then the relationship between (two/three) different leadership styles will be examined (and that if emotion regulation has a mediating effect on this relationship is/will be examined.) The study also analyzes if emotion regulation has a mediating effect on this relationship. The focal point of this study is transformational, transactional, and laissez-faire leadership styles, as well as their relationships with organizational performance.

2. Literature Review

2.1. Leadership Styles

Leadership has been one of the most significant subject matter in social sciences. However, it is challenging to give a single definition since there are countless numbers of different leadership styles. In this study, only three leadership styles, transformational, transactional, and laissez-faire leadership styles will be examined. The transactional leadership style focuses on "the task-related exchange of actions and rewards between follower and leader." While "transformational leadership emphasizes on a person-orientation by aligning followers' needs with the organization's (higher) tasks and goals." (Tyssen, Wald, & Spieth, 2014). Nowadays, the laissez-faire leadership style is mostly taken as a category that non-leadership exists.
Bass (1985) covered three different components of transactional leadership style as a contingent reward (leader defines the jobs well and reward the employee for performance in a limited time), active management by exception style (controls employees intensively), and passive management by exception style (interferes into the employees' work only when the errors occur) (Birasnav, 2014: 1623). Within these components, transactional leaders clarify the responsibilities of the followers, objectives, and the tasks needed to achieve these objectives. They do not operate out of the boundaries and standards of the existing culture (Epitropaki & Martin, 2005).

On the other hand, Bass (1985) covered four components of transformational style; as an idealized influence (emphasizing the fact that leaders become role model for their employees), intellectual stimulation (seeking alternative perspectives from followers), inspirational motivation (engaging followers by communicating and a compelling crafting vision), and individualized consideration (transforms leader to a mentor or coach by focusing on the individual needs of followers) (Birasnav, 2014: 1623; Ewen et al., 2013: 520). They behave as coaches and focus on learning, personal development, and achievement needs of the followers. They provide a sense of mission and higher vision and become a role model for the employees. So transformational leadership is linked to higher organizational commitment and job satisfaction (Epitropaki & Martin, 2005: 572).

These two leadership styles were first introduced as opposite ends of the same continuum of leadership, but then researchers argued that they are compatible, and the same leader could display both (Ewen et al., 2013: 520). Supporting this claim, transactional leadership can be seen as a necessary step for transformational leadership since it means developing the relationship between the leader and follower, providing focus and direction (Hinkin & Schriesheim, 2008).

Laissez-faire leadership, as the third leadership style, is sometimes examined as a different style and sometimes as the non-leadership dimension of the transformational leadership approach. It may be defined as the avoidance or absence of leadership. In this type of leadership, the leader gives responsibility to the employees and do not use authority. This type of leader ignores both problems and subordinates' needs. That is why, it is stated as the most ineffective and passive style of leadership (Pihie et al., 2011).

2.2. Organizational Performance

Organizational performance defines the organization's priorities and goals parallel to its strategic plans and involves evaluation of whether all employees from bottom to top are working to succeed in these plans or not (Sancak, 2010). In this scope, organizational performance is defined by three determinants; the scarce resources, qualified and financially positive results, and finally, organizational objectives that are defined before. In other words, organizational performance is related to three different company outcomes; "(1) financial performance (profit, return on assets,
return on investment, etc.) (2) market performance (sales, market share, etc.); and (3) shareholder return (total shareholder return, economic value-added, etc.)." Within this scope, to measure organizational performance, it is essential to measure efficiency and effectiveness (Damgaci, 2009).

In some studies, the term organizational performance used interchangeably with organizational effectiveness, and in some other studies, performance is defined as an indicator of effectiveness. So organizational effectiveness can be accepted as a broader area, including organizational performance, as grounding in organizational theory that proposes alternative performance goals like reputation. Similarly, efficiency is seen as the measure of performance, having maximum output using minimum input. (Richard et al., 2009; Draghicia et al., 2014: 548).

In some other studies, organizational performance indicators are classified under financial performance, non-financial performance as well as technical performance. Financial performance is measured by growth, profit, and compatibility between the planned budget and realization. Since financial performance is expressed in terms of ratios, numbers, and percentages, it has numeric indicators (Sancak, 2010). On the other hand, indicators including product quality, product characteristic variation (i.e., flexibility), and delivery schedule maintenance (i.e., dependability), are used as measure factors for nonfinancial performance (Perara et al., 1997). Although these two concepts seem to be very different from each other, there are studies on the leading effect of nonfinancial measures on financial performance (Ittner & Larcker, 1998). The third component of organizational performance is technical performance. It includes indicators like effectiveness, quality, innovation, etc.

In this study, intangible assets will be taken into account, covering non-financial and technical performance indicators like quality of work-life, customer satisfaction, and employee satisfaction.

2.3. Emotion Regulation

Emotion has been a part of many different science theories since the 19th century (Callahan, 2000: 245), but emotion regulation is a relatively new concept, especially in social sciences, that has been studied in the last three decades (Lively & Weed, 2014: 202). The number of researchers increases gradually, as they claim that emotional processes affect decision-making performance (Fenton-O'Creevy et al., 2011) and so organizational performance (Moon, 2006). They assume that to learn from errors, emotional and cognitive self-regulation can affect the performance positively (Turban et al., 2013). Emotion regulation is most frequently studied in customer service settings (for instance, bank and hospital employees, convenience store clerks), and these researches have proposed that emotion regulation influences employees' job satisfaction, strain, health, and
customer service performances. Due to these essential impacts, many organizations have norms or
formal rules regarding the expected emotional levels for their employees (Kim et al., 2013).

Some of the emotion regulation literature seek the most effective emotion management strategies
(Thiel et al., 2013); suggest strategies for effective emotion regulation (Akçay & Çoruk, 2012); explain social insights into what emotion management is, why, how, and to what extent it occurs (Lively & Weed, 2014); aim to improve the levels of individuals by supporting them to develop emotion strategies and abilities (Wagstaff & Hanton, 2013); examine determinants and consequences of emotional management (Turliuc & Bujor, 2013) and some focus on whether emotion management is a skill that can be enhanced by training (Berking et al., 2010).

Quoting from Lazarus (1991), Levine (2010) identifies emotion as "a complex reaction of a person arising from appraisals of self-relevant interactions with the environment, which results in states of excitement, the direction of attention, facial expressions, action tendencies, and behavior." Correspondingly, Wagstaff et al. (2013) define emotion regulation as being "capable of keeping emotions under sufficient control to allow for inter-personal relatedness and sociability, prosocial initiatives when appropriate, sympathy toward others, personal assertiveness when needed, and other indices of successful functioning." In this scope, the regulation of emotion term defines two different facts. The first one is managing the emotional climate, which is composed of perceptions of the individuals in an organization, and the other is the self-regulation of emotion (Demir, 2013). Managing the emotional climate aims to develop a common sense, behavior, and evaluation in an organization about a specific event, situation, or person (Akçay & Çoruk, 2012).

On the other hand, emotion regulation in personal terms is defined as attempting to bring one's expression or experience of her emotion in line with common feelings as well as displaying rules (Lively & Weed, 2014). Thus, to be happy and prosperous, individuals should be aware of their power, could manage their emotions and behavior, understand the emotions and thoughts of other people (Çoruk, 2012); otherwise, emotion dysregulation will lead to hopelessness and failure correspondingly (Walumbwa et al., 2010; Vatan et al., 2014). To manage the self-regulation of emotion, the individual should increase awareness of her inner feelings and manage the situation appropriately, and it is essential to observe the moment, which the intensity of her feelings start to grow. Ciolacu (2014) claims that people become blind to solutions when they are under increased pressure, although the solution is right under their eyes. Thus, if a person can relax in such situations, he or she can more efficiently solve the problems and will be advantageous compared to those who could not achieve success to calm down. Thus, emotion regulation is so crucial for companies that most of them pay their employees for controlling their emotional expressions and feelings, especially for the sectors facing customers more frequently. Hochschild (1983), who is
one of the pioneers of emotion regulation researches, named this fact as "emotional labor" and suggested mainly two strategies to regulate their emotional displays; deep acting and surface acting (Hochschild, 1983). Deep acting refers to changing the felt emotion, and surface acting means managing the expression of affect by hiding an undesired emotion (Lively & Weed, 2014); (Diefendorff et al., 2008). Shortly, surface acting can be defined as the change of external expressions while deep acting is changing the internal feelings (Kim et al., 2013).

On the other hand, emotion may be regulated with five different phases in the Gross’ emotion generation process model; situation selection selecting a situation from alternatives, situation modification as tailoring the situation by modifying its impact, attentional deployment selecting which aspect to focus, cognitive change – selecting one from the many possible meanings and lastly response modulation attempting to affect the response tendencies. Besides defining the process, he suggests two strategies to down-regulate emotion; reappraisal and suppression. Reappraisal aims at changing the emotional impact, while suppression involves hampering one's actual emotional expressions (Gross, 2001). It is claimed that suppression strategy is not suitable for reducing negative emotions, and it is concluded that suppressors tend to experience more negative emotions, as compared to non-suppressors (Liu et al., 2010).

In this study, we focus on more self-regulation side of the emotion of employees in the banking sector. There are studies about emotion regulation of different professions, in which emotion regulation is vital, like police officers (Berking et al., 2010), call center employees (Koskina & Keithley, 2010) and airline employees (Hochschild, 1983) but there is not any detailed study about emotion regulation of banking sector employees in Turkey in which cognitive reappraisal and expressive suppression have critical importance.

3. Methodology

3.1. Hypothesis

As a result of the theoretical background the hypotheses may be listed as follows;

\[ H_1: \] There is a positive relationship between transformational leadership style and organizational performance.

\[ H_2: \] There is a positive relationship between emotion regulation and organizational performance.

\[ H_3: \] Emotion regulation mediates the impact of transformational leadership on organizational performance.
H₄: There is no relationship between transactional and laissez-faire leadership styles and organizational performance.

3.2. The Research Universe and Sampling

To test the model, a questionnaire consisting of 27 questions other than the ones regarding demographic variables was conducted. The questionnaire was applied to randomly selected employees from the marketing and operation departments of the branches of commercial banks in Diyarbakır, Turkey. 297 questionnaire forms were valid and used for analysis.

3.3. Collecting Data

Three different measurement scales were used, in addition to demographics-related questions in the questionnaire, to determine the leadership styles, emotion regulation abilities of employees and organizational performance,

- Demographic Questions: To obtain descriptive data about the employee's gender, age, marital status, education level, and experience as well as department information were asked.
- In all other measures, a 5-point Likert Scale is used (5- Agree, 4- Agree, 3- Partially Agree, 2- Do not Agree 1- Absolutely Not Agree).
- Skewness and Kurtosis values are between -1/+1, and the distribution seems to be normal for all scales.
- Leadership Styles Scale: Bass (1990) developed the original scale, it is simplified and used by Zehir et al. (2012), which measures the leadership styles. In this study, the corresponding questions to Zehir's study, measuring leadership perceptions of employees, are used, which are translated from Legier's research (2007). The scale is composed of 17 questions. The Cronbach Alpha value of the scale is calculated as 0,85. Two questions are omitted since they were not satisfying the threshold value (4). The Cronbach Alpha value of transactional leadership is calculated as 0,85; transformational leadership is 0,76 and laissez-faire leadership is 0,91.
- Emotion Regulation Scale: The scale was proposed by Mulki et al., (2014) and composed of 4 questions. The Cronbach Alpha value of the scale is calculated as 0,86.
- Organizational Performance Scale: Bakiev (2011) proposes this scale by using the measure of Nyhan (2000) and Şahin (2010). The scale is composed of 6 questions. The Cronbach Alpha value of the scale is calculated as 0,81. One question is omitted to increase reliability.
3.4. The Analysis of Data

As for the data analysis/evaluation, SPSS 18.0 and AMOS 18.0 programs were used to reach the results of the Structural Equation Model (SEM). SEM was chosen to analyze the relationship of many variables at once, and it is possible to take the measurement errors into account with this method (Byrne, 2006). The t-tests and ANOVA tests were used in order to analyze the variables. Statistically, significance level is accepted as p<0.5.

4. Findings

Before testing the hypothesis of the research, frequency analysis was completed. As shown in Table 1, 297 employees answered the questionnaire properly. The majority of the sample was composed of married males between the ages 20-30, having 1-5 years of experience, university degree working in the private sector at officer/expert level in the marketing department.

<table>
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<th>Table 1: Frequency Analysis for Demographic Variables</th>
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n= 297
SEM model is produced to analyze the relationship between the variables of the study, as illustrated in Figure 1. There appears to be a meaningful relationship between all the variables and the connected latent variables within the revised SEM results (p<0.001).

A positive and significant results was found between transformational leadership and performance (p<0.001). Also, the relationship between transformational leadership and emotion regulation is found significant and positive (p<0.001). In this model, it appears that emotion regulation has a mediating effect on the relationship of transformational leadership and performance.

**Figure 1:** The Relationship between Leadership Styles, Emotion Regulation, and Performance with Structural Equations Modelling (SEM)

![SEM Diagram](image-url)
According to the SEM results in Figure 1, standardized regression weight of the transformational leadership and performance was 0.50; and standardized regression weight of the transformational leadership and emotion regulation was 0.42. However, the standardized regression weight of the emotion regulation and performance was found 0.18. The findings of this study revealed that 36% of the variance in performance was represented by transformational leadership and emotion regulation.

Furthermore, the relationship between performance, laissez-faire leadership style and transactional leadership style, was not significant.

Eventually, it is concluded that the emotional regulation significantly affected the relationship of transformational leadership and performance. The weight/coefficient of the relationship between transformational leadership style and performance is calculated as 0.48 to expose the mediating effect. Subsequently, emotion regulation is included to the model as a mediator. Thus, the value of the relationship is decreased to 0.36. It was observed that all three variables explained 35% of the variance of the performance.

5. Conclusion and Discussion

As a result of the analyses, this study reached some interesting findings that need further discussions. The study confirms the existence of the relationships between transactional leadership style and transformational leadership style. In fact, in literature, transformational and transactional leadership styles are introduced as opposite ends of the same leadership continuum. Yet, later researchers argued that actually both leadership features might be possessed by the same leader (Ewen et al., 2013). Transactional leadership is considered as a necessary step for transformational leadership that serving to develop the relationship between the leader and follower, providing focus and direction (Hinkin & Schriesheim, 2008). All these arguments consist with the results of this study.

However, findings of the study point out some connections of laissez-faire leadership style and other leadership styles. Laissez-faire leadership is defined as a non-leadership dimension of the transformational leadership theory (Pihie et al., 2011). This definition supports the existing connection between laissez-faire leadership and other leadership styles included in this study.

Similarly, a negative mediating effect of emotion regulation between transformational leadership style and performance was also found. At first glance, this result seems different than the literature suggests. On the other hand, it is meaningful when the characteristics of the sample are taken into consideration.
The relationship between transactional leadership style, laissez-fair leadership style and performance, was not significant. This result is compatible with the findings of other researchers (Asrar-ul-Haq & Kuchinke 2016; Veliu, et. al 2017).

As it is shown in the Table 1, a questionnaire instrument was responded by young and inexperienced bank employees. It was also known that the employees were financially unsatisfied. According to the literature, burnout commonly observed in fields where human factor occupies a crucial role in the quality of service leads to economic damage, termination of employment, and a decrease in the service quality (Kumcagiz et al., 2014) as it is the case in our study. There are also studies arguing that emotion regulation induces employee stress. Emotion regulation forces bank employees to amplify their pleasant emotions that means exaggerating emotional displays to increase the quality of service they provide. Thus, the employees suppress their emotions, as a means of hiding emotional displays that are actually experienced internally. Although it is claimed that this strategy is not effective in stopping negative emotions, it has been concluded that the suppressors may experience more negative emotions than non-suppressors (Liu et al., 2010). Employees in our survey choose to suppress their emotions, as they are young and inexperienced. Bank employees have to use this strategy when they are angry at their boss or customers (Cote & Morgan, 2002).

In this context, it may be assumed that the positive relationship of transformational leadership and performance decreases by mediating effect of emotion regulation, since wrong strategy of emotion regulation is applied by young and inexperienced bank employees. Accordingly, emotion regulation induces employee's stress. This result conforms to the literature arguing that, in the social interaction model, employees' emotion regulation does not necessarily decrease their strain (Coté, 2005).

6. Future Research and Limitations

In the future studies, mediating effect of new variables might be examined like management of emotional climate or other leadership styles.

Including only a sample of employees in banking sector and applying the questionnaire only in Diyarbakır city were some of the limitations in this study. Therefore, the study might be repeated for another sector and/or city. Similar to other surveyed studies, this study was also based on human perceptions instead of objective evaluations.
References


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