

Transformational Leadership and Employee Loyalty in Chinese Service SMEs: Emotional Regulation and Communication as Mediators

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Received: 4 June 2025; Revised: 6 June 2025; Accepted: 9 June 2025

Abstract

Purpose

This study investigates how transformational leadership influences employee loyalty in service-focused small and medium-sized enterprises (SMEs) in Shandong Province, China, by examining emotional regulation as a mediating mechanism and organizational communication as a moderating factor. Drawing on Social Exchange Theory, Leader–Member Exchange Theory, and the Job Demands–Resources Model, it seeks to illuminate the affective and structural processes through which leadership fosters loyalty in high-emotion service roles.

Methods

A cross-sectional survey of 425 employees from service-oriented SMEs in Shandong Province was conducted. Data were first assessed for reliability and descriptive statistics using SPSS 27.0, then subjected to structural equation modeling with bootstrapped mediation and moderation analyses in Mplus 7.0 (5,000 resamples).

Findings

Transformational leadership emerged as a significant predictor of employee loyalty (standardized path coefficient = 0.62, $p < .001$). Emotional regulation was found to partially mediate the relationship between leadership and loyalty (indirect effect $\beta = 0.61$, $p < .001$), indicating that employees' capacity to manage emotional demands enhances the impact of leadership on their commitment. Moreover, organizational communication strengthened both the direct influence of transformational leadership on loyalty and its indirect effect via emotional regulation, demonstrating that robust communication channels amplify these effects.

Implications

Organizations should invest in leadership-development programs that incorporate emotional regulation training and cultivate transparent, two-way communication systems. Such initiatives are likely to bolster employee loyalty, reduce turnover, and improve overall organizational performance in service SMEs.

Originality

By integrating emotional regulation and organizational communication into a combined mediational–moderational framework, this research extends prevailing leadership theories within the unique cultural and structural context of Chinese service SMEs.

Keywords: transformational leadership; employee loyalty; emotional regulation; organizational communication; service SMEs; China.

1 Introduction

1.1 Background and Rationale

In today's rapidly evolving marketplace, service industries are confronted with intensifying competitive pressures driven by globalization and accelerated digital transformation. Companies operating in sectors such as hospitality, healthcare, retail, and financial services must continuously innovate to meet heightened customer expectations and differentiate themselves (Huang & Yang, 2023). Central to these efforts is the organization's workforce: employees who are engaged, resilient, and deeply committed not only deliver superior service experiences but also contribute to organizational learning and long-term sustainability. Consequently, **employee loyalty**, defined as a staff member's affective attachment and intention to remain with the organization (Meyer & Allen, 1991), has emerged as a pivotal indicator of operational success. High levels of loyalty reduce turnover costs, stabilize team dynamics, and foster customer trust through consistent service delivery (Chai, 2023).

A substantial body of research indicates that **transformational leadership**—a style in which leaders articulate a compelling vision, inspire followers to transcend self-interest, and provide individualized support—can significantly enhance employees' intrinsic motivation, job satisfaction, and organizational commitment (Bass & Riggio, 2006; Burns, 1978). Transformational leaders influence followers through four core behaviors:

1. **Idealized Influence**, serving as ethical role models;
2. **Inspirational Motivation**, framing a challenging yet attainable vision;
3. **Intellectual Stimulation**, encouraging creativity and critical thinking; and
4. **Individualized Consideration**, attending to each employee's developmental needs.

While the direct positive relationship between transformational leadership and employee loyalty has been well documented (Judge & Piccolo, 2004), the **underlying mechanisms** remain underexplored—especially in the context of small and medium-sized enterprises (SMEs) in emerging markets such as Shandong Province, China. Two promising mediators warrant particular attention:

1. **Emotional Regulation (ER)**. In service roles characterized by frequent customer interaction and high emotional labor demands, employees must effectively manage their affective responses to maintain service quality and personal well-being (Gross, 1998; Grandey, 2003). Transformational leaders may foster ER by modeling adaptive coping strategies, providing emotional support, and creating psychologically safe climates where employees feel empowered to express concerns and seek assistance.
2. **Organizational Communication (OC)**. Clear, transparent, and timely communication ensures that employees understand strategic objectives, feel valued, and perceive that their voices are heard (Daft & Lengel, 1986; Men & Stacks, 2014). Transformational leaders who prioritize two-way communication and leverage rich media channels can reinforce trust and align personal and organizational goals.

Despite ample evidence for each construct's individual impact on loyalty, **few studies** have simultaneously examined transformational leadership alongside ER and OC in a unified framework. Doing so is critical for two reasons:

- **Theoretical integration.** Merging Social Exchange Theory, Leader–Member Exchange Theory, and the Job Demands–Resources Model can illuminate how leadership behaviors translate into resource gains (e.g., emotional and informational resources) that bolster loyalty.
- **Practical guidance.** SMEs often lack extensive HR infrastructures; understanding multiple pathways to loyalty empowers managers to implement cost-effective leadership development, emotion-management training, and communication protocols.

Research Gap. Prior research has largely focused on direct leadership–commitment links or single mediators in isolation (Chuang et al., 2012; Karanges et al., 2015). There is a clear need for empirical studies that test **parallel** and **serial** mediation models incorporating both ER and OC, particularly within the unique cultural and organizational context of Chinese service SMEs.

1.2 Research Questions

To address these gaps, this study is guided by three central questions:

1. **RQ1.** To what extent does transformational leadership influence employee loyalty in SMEs within China's service industries?
2. **RQ2.** Does emotional regulation mediate the relationship between transformational leadership and employee loyalty in these organizations?
3. **RQ3.** Does organizational communication mediate the relationship between transformational leadership and employee loyalty in these organizations?

1.3 Research Objectives

Aligned with the above questions, the study pursues three objectives:

- **Objective 1.** Examine the direct effect of transformational leadership on employee loyalty.
- **Objective 2.** Investigate emotional regulation as a mediating mechanism linking transformational leadership to employee loyalty.
- **Objective 3.** Assess organizational communication as an additional mediator in the transformational leadership–employee loyalty relationship.

1.4 Hypotheses

Drawing on theoretical foundations and existing empirical evidence, we propose the following hypotheses:

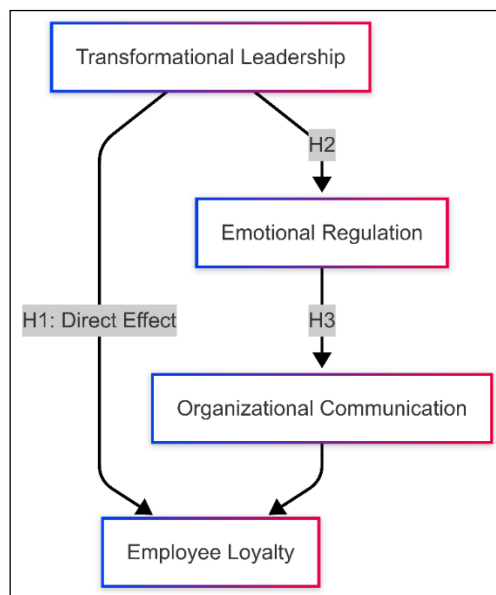
- **H1.** Transformational leadership positively influences employee loyalty.
- **H2.** Emotional regulation mediates the positive relationship between transformational leadership and employee loyalty.

- **H3.** Organizational communication mediates the positive relationship between transformational leadership and employee loyalty.

1.5 Research Conceptual Framework

The proposed framework (Figure 1) illustrates both the **direct** pathway from transformational leadership (TL) to employee loyalty (EL) and the **indirect** pathways through emotional regulation (ER) and organizational communication (OC). Additionally, it allows for the possibility that ER may enhance OC, creating a **serial mediation** path (TL → ER → OC → EL).

Figure 1. Transformational leadership (TL) exerts a direct effect on employee loyalty (EL; H1) and indirect effects via emotional regulation (TL → ER → EL; H2) and organizational communication (TL → OC → EL; H3). ER also fosters OC, suggesting a serial pathway TL → ER → OC → EL.



1.6 Definition of Key Terms

- **Transformational Leadership (TL)**

A leadership approach in which leaders inspire and motivate followers to exceed expectations by transforming their beliefs, values, and goals through idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass, 1985).

- **Emotional Regulation (ER)**

The process by which individuals monitor, evaluate, and modify emotional reactions to achieve goal-directed outcomes. In service contexts, ER strategies such as cognitive reappraisal and deep acting help employees manage emotional labor demands (Gross, 1998).

- **Organizational Communication (OC)**

The formal and informal channels through which information, feedback, and recognition are exchanged within an organization. Effective OC is characterized by clarity, transparency, frequency, and multi-directional flows, fostering shared understanding and trust (Clampitt, 2016).

- **Employee Loyalty (EL)**

Employees' psychological and behavioral commitment to their employing organization, encompassing affective attachment, normative obligation, and the behavioral intent to remain and advocate for the organization (Meyer & Allen, 1991).

2 Literature Review

Theoretical Foundations

The interplay between transformational leadership, employee loyalty, emotional regulation, and organizational communication is grounded in several foundational organizational theories. **Social Exchange Theory (SET)** posits that workplace relationships are built upon reciprocal exchanges of support, resources, and recognition; when leaders provide support and fair treatment, employees are more likely to reciprocate with increased commitment and loyalty (Blau, 1964; Cropanzano & Mitchell, 2005). **Leader–Member Exchange (LMX) Theory** narrows this focus to the dyadic relationship between leaders and individual subordinates, emphasizing that high-quality exchanges—marked by trust, communication, and resource sharing—lead to stronger organizational commitment and loyalty (Graen & Uhl-Bien, 1995). The **Job Demands–Resources (JD-R) Model** further explains how job resources, such as supportive leadership and effective communication, help employees manage the emotional demands of service roles, thereby enhancing motivation and retention (Bakker & Demerouti, 2007). Finally, organizational communication theories, including **Media Richness Theory** and **Social Information Processing Theory**, highlight that clear, transparent, and adaptive communication is critical to shaping positive employee attitudes and behaviors (Daft & Lengel, 1986; Walther, 1992)1.

2.1 Transformational Leadership

Transformational leadership is defined by four core dimensions: inspirational motivation, intellectual stimulation, individualized consideration, and idealized influence (Bass & Riggio, 2006). Leaders who practice this style articulate a compelling vision, challenge employees to innovate, provide individualized support, and serve as ethical role models. Empirical research consistently demonstrates that transformational leadership is positively associated with employee loyalty, job satisfaction, and organizational commitment (Judge & Piccolo, 2004). In service industries—where employees face high emotional labor and frequent customer interactions—transformational leaders play a crucial role in motivating staff, reducing burnout, and fostering a climate of trust and innovation (Choi et al., 2016; Hu, 2020)1.

The evolution of transformational leadership research began with Burns (1978), who distinguished it from transactional leadership. Bass (1985) and Bass & Avolio (1994) expanded this framework and developed the Multifactor Leadership Questionnaire (MLQ),

which remains widely used for assessing leadership styles. Subsequent studies have confirmed transformational leadership's positive effects across cultures and sectors, including its capacity to foster cohesive, innovative, and high-performing teams in service environments (Avolio & Yammarino, 2013)¹.

Employee Loyalty

Employee loyalty is generally conceptualized as the degree of emotional attachment, commitment, and identification individuals have with their organization (Allen & Meyer, 1990)¹. Loyal employees are more likely to stay with their organization, exert discretionary effort, and align their behaviors with organizational goals. In service settings, employee loyalty is particularly critical due to its direct impact on customer satisfaction, service quality, and organizational stability (Heskett et al., 1997; Choi & Kim, 2019). Antecedents of loyalty include value congruence, supportive leadership, fair reward systems, and opportunities for professional growth (Meyer & Herscovitch, 2001; Chen & Francesco, 2003).

In high-contact service industries, loyal employees help deliver consistent customer experiences, drive repeat business, and act as organizational ambassadors (Kandampully et al., 2015; Caruana, 2002). However, high turnover, emotional labor, and burnout present persistent challenges, making leadership and communication interventions essential for sustaining loyalty (Tracey & Hinkin, 2008)¹.

2.2 Emotional Regulation

Emotional regulation refers to the processes by which individuals influence their emotional experiences and expressions (Gross, 1998)¹. In service roles, employees often engage in emotional labor—managing their emotions to meet organizational and customer expectations (Hochschild, 1983). Transformational leaders can enhance employees' emotional regulation by providing support, modeling positive coping strategies, and fostering a psychologically safe environment (Harms et al., 2017). Effective emotional regulation, especially deep acting (genuine emotional alignment), reduces burnout and strengthens organizational commitment (Brotheridge & Lee, 2002; Grandey, 2003).

Emotional labor is particularly pronounced in service industries, where employees must frequently adjust their emotional displays to align with organizational norms and customer expectations. Prolonged surface acting can lead to emotional exhaustion, while deep acting—encouraged by supportive leadership—can reduce dissonance and foster authentic service interactions (Grandey, 2000; Van Dijk & Brown, 2006)¹.

2.3 Organizational Communication

Organizational communication encompasses the formal and informal processes through which information is shared within organizations (Goldhaber, 1993)¹. Key dimensions include clarity, openness, frequency, and direction of communication (Men & Stacks, 2014). Effective communication enhances trust, reduces ambiguity, and aligns employees with organizational objectives. In service industries, robust communication channels are essential for managing emotional labor, ensuring role clarity, and fostering a sense of inclusion and loyalty (Karanges et al., 2015; Bartram & Cavanagh, 2019).

Theoretical perspectives such as Media Richness Theory (Daft & Lengel, 1986) and Communication Accommodation Theory (Giles et al., 1991) suggest that leaders who tailor their communication style to employee needs and organizational contexts can strengthen interpersonal connections, trust, and loyalty. In SMEs, where resource constraints and high turnover are common, effective communication is especially vital for maintaining stability and commitment (Men, 2014)¹.

2.4 Employee Loyalty

Employee loyalty refers to an individual's emotional attachment, identification with, and commitment to their organization (Allen & Meyer, 1990). Loyal employees exhibit a strong desire to remain with the organization, support its goals, and contribute proactively to its success. In the context of service industries, where customer-facing roles demand consistent interpersonal engagement, employee loyalty is particularly vital. It not only enhances organizational stability but also contributes to customer satisfaction, service quality, and brand reputation (Heskett et al., 1997; Choi & Kim, 2019).

The literature often conceptualizes employee loyalty through both affective and behavioral dimensions. Affective loyalty denotes the emotional bond employees form with their organization, while behavioral loyalty reflects their willingness to stay, recommend the organization to others, or go beyond job requirements (Mowday et al., 1979; Meyer & Herscovitch, 2001). These facets are frequently linked to positive workplace experiences, including supportive leadership, perceived organizational support, fair treatment, and alignment with organizational values (Rhoades & Eisenberger, 2002; Chen & Francesco, 2003).

In service-sector small and medium-sized enterprises (SMEs), the maintenance of a loyal workforce is often challenged by high turnover, emotional exhaustion, and limited advancement opportunities (Kandampully et al., 2015). As such, the role of transformational leadership becomes increasingly important. Leaders who demonstrate vision, empathy, and individualized support have been shown to foster stronger organizational commitment, particularly when supported by robust emotional regulation mechanisms and effective internal communication strategies (Bass & Riggio, 2006; Judge & Piccolo, 2004).

Moreover, in dynamic service environments, loyal employees act as brand ambassadors, ensuring service continuity and cultivating customer trust (Caruana, 2002). Their sustained presence enhances organizational learning and culture, creating a virtuous cycle of performance and engagement. Understanding the antecedents and enablers of employee loyalty, therefore, holds significant implications for both human resource management and organizational strategy in SME contexts.

Integrative Review: Linking the Constructs

The literature suggests that transformational leadership enhances employee loyalty both directly and indirectly, with emotional regulation and organizational communication serving as key mediators. Transformational leaders foster trust, motivation, and empowerment, supporting deeper commitment and retention. Emotional regulation acts as a mediating mechanism, particularly salient in high-stress service roles, by helping employees manage emotional demands. Organizational communication, meanwhile, moderates and

amplifies the link between leadership and loyalty, reinforcing the trust and clarity necessary to sustain employee commitment (Men & Stacks, 2014; Karanges et al., 2015)1.

2.5 Integrative Framework and Research Gaps

Despite these established relationships, several gaps persist. Most prior research focuses on direct effects and overlooks the combined mediating roles of emotional regulation and communication, especially in the context of service-oriented SMEs in China (Chuang et al., 2012; Men, 2014). Methodological limitations, such as reliance on cross-sectional data and single-level analyses, further constrain the generalizability of findings. This study addresses these gaps by empirically testing a comprehensive model that integrates these variables in the unique context of Chinese service SMEs, thereby advancing both theoretical understanding and practical guidance for workforce management.

Although each construct—transformational leadership, emotional regulation, organizational communication, and employee loyalty—has been studied extensively in isolation, their joint effects remain underexplored in service-sector SMEs. Specifically:

1. **Mediating Role of Emotional Regulation.** Few studies clarify how leadership fosters loyalty via improved emotional coping (Chuang et al., 2012; Humphrey et al., 2015).
2. **Moderating Role of Communication.** The extent to which transparent, frequent communication amplifies leadership's influence on loyalty warrants further investigation (Men & Stacks, 2014; Karanges et al., 2015).
3. **Contextual Specificity.** Service-sector SMEs face unique emotional and relational challenges that may alter these dynamics (Hochschild, 1983; Hu, 2020).
4. **Methodological Rigor.** Reliance on cross-sectional, single-source surveys limits causal inference and raises common-method concerns (Podsakoff et al., 2012).

Research Gap. This study addresses these gaps by testing a model in which transformational leadership influences employee loyalty directly and indirectly through emotional regulation, with organizational communication strengthening these pathways within service-sector SMEs.

3 Methodology

3.1 Research Design

A cross-sectional, quantitative survey design was employed to test the hypothesized relationships among transformational leadership, emotional regulation, organizational communication, and employee loyalty in SMEs within China's service sector (Creswell, 2014). This design facilitates simultaneous assessment of direct and indirect effects via structural equation modeling (SEM).

3.1.1 Participants and Sampling

The study population consisted of all employees in service-sector SMEs in Shandong Province, China ($N \approx 480\,000$). A sample size of $n = 400$ was determined to balance statistical precision (95 % confidence level; 5 % margin of error) and practical feasibility, using Yamane's (1967) formula:

$$n = \frac{N}{1 + Ne^2}$$

where $e = 0.05$, yielding $n \approx 400$.

A stratified random sampling procedure was implemented via Wenjuanxing, ensuring proportional representation across major service sub-sectors (e.g. hospitality, retail, healthcare). Screening questions confirmed participants' current employment in an SME and their voluntary consent.

3.1.2 Instrumentation

All constructs were measured using established multi-item scales on 5-point Likert anchors (1 = "strongly disagree" to 5 = "strongly agree"):

- **Transformational Leadership** (12 items) from the Multifactor Leadership Questionnaire (Bass & Avolio, 1994), covering idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration.
- **Emotional Regulation** (7 items) adapted from Gross's (1998) emotion-regulation framework, capturing cognitive reappraisal and expressive suppression.
- **Organizational Communication** (8 items) based on Daft and Lengel (1986) and Men and Stacks (2014), assessing clarity, openness, frequency, and directional flow.
- **Employee Loyalty** (6 items) derived from Allen and Meyer's (1990) affective-commitment scale, emphasizing emotional attachment and behavioral intentions.

3.1.3 Pilot Testing and Content Validity

An initial draft of the questionnaire was reviewed by five academic and industry experts. Items judged ambiguous or redundant were revised or removed, ensuring clarity and domain relevance.

3.2 Reliability and Construct Validity

- **Reliability.** Internal consistency was assessed via Cronbach's α in SPSS 27.0. All scales exceeded $\alpha = .80$ (Transformational Leadership: .88; Emotional Regulation: .84; Organizational Communication: .86; Employee Loyalty: .90).
- **Convergent Validity.** Confirmatory factor analysis in Mplus 7.0 yielded standardized loadings $\lambda \geq .50$ and average variance extracted (AVE) $\geq .50$ (Anderson & Gerbing, 1988).
- **Discriminant Validity.** The square root of each construct's AVE exceeded its highest inter-construct correlation (Fornell & Larcker, 1981).

3.3 Data Collection Procedure

Data were collected anonymously over four weeks in May 2024 via Wenjuanxing. After informed-consent screening, participants completed three sections: (1) study purpose and confidentiality notice; (2) demographics (gender, age, education, tenure, enterprise type); and (3) core scales. No personally identifying information was recorded.

3.4 Data Analysis

Analyses proceeded in two phases:

1. **Preliminary Analyses** (SPSS 27.0): Descriptive statistics, Pearson's correlations, and reliability coefficients.
2. **Structural Equation Modeling** (Mplus 7.0):
 - **Measurement Model** via confirmatory factor analysis to verify construct validity.
 - **Structural Model** to test direct and indirect effects. Model fit was assessed using χ^2/df (< 3), $CFI \geq .90$, $TLI \geq .90$, $RMSEA \leq .08$, and $SRMR \leq .08$ (Hu & Bentler, 1999).
 - **Mediation Tests** employed bias-corrected bootstrap (5 000 resamples) to evaluate indirect paths, with significance at $p < .05$.

3.5 Ethical Considerations

Participation was voluntary, anonymous, and confidential. The study protocol adhered to the Declaration of Helsinki and institutional guidelines for research with human subjects. No incentives were offered, and participants could withdraw at any time without consequence.

4 Results and Discussion

4.1 Research Results

4.1.1 Demographic Profile of Respondents

A total of 400 valid responses were collected from employees in service-sector SMEs in Shandong Province, China. The demographic breakdown is presented in Table 1.

Table 1. Demographic Characteristics of Survey Participants

Variable	Group	Frequency	Percentage (%)
Gender	Male	226	53.2
	Female	199	46.8
Education	High School or Below	59	13.9
	Associate Degree	117	27.5
	Bachelor's Degree	146	34.4
	Master's or Above	103	24.2
Age	Below 25	43	10.2
	26–35	167	39.3
	36–45	148	34.8
	46–55	46	10.8
	56 and Above	21	4.9

Variable	Group	Frequency	Percentage (%)
Work Experience	1 Year or Less	52	12.2
	1–3 Years	99	23.3
	3–5 Years	182	42.8
	6–9 Years	67	15.8
	10 Years or More	25	5.9
Job Level	Regular Staff	118	27.8
	Junior Management	131	30.8
	Middle Management	104	24.5
	Senior Management	72	16.9
Company Type	State-owned Enterprise	86	20.2
	Foreign-owned Enterprise	95	22.4
	Private Enterprise	169	39.8
	Other	75	17.6

4.1.2 Reliability and Validity Analysis

- **Reliability:** All scales demonstrated high internal consistency:
 - Transformational Leadership: $\alpha = 0.88$
 - Emotion Regulation: $\alpha = 0.84$
 - Organizational Communication: $\alpha = 0.86$
 - Employee Loyalty: $\alpha = 0.90$
- **Validity:**
 - Convergent validity was confirmed with all standardized factor loadings > 0.50 and AVE values between 0.51 – 0.66 .
 - Discriminant validity was established as the square root of AVE for each construct exceeded its correlations with other constructs.²

4.1.3 Correlation Analysis

Table 2. Pearson's Correlations Among Key Variables

Variable	1	2	3	4
1. Transformational Leadership	—			
2. Emotion Regulation	0.52**	—		
3. Organizational Communication	0.44**	0.51**	—	
4. Employee Loyalty	0.60**	0.57**	0.50**	—

Note: $p < 0.012$

4.1.4 Structural Equation Modeling and Hypothesis Testing

The structural equation model demonstrated good fit:

- $\chi^2/df = 2.15$
- RMSEA = 0.05
- CFI = 0.95
- TLI = 0.93

Table 3. Standardized Path Coefficients and Significance

Pathway	β	p-value	Effect Type
Transformational Leadership → Employee Loyalty	0.58	<0.001	Direct
Transformational Leadership → Emotion Regulation	0.55	<0.001	Direct
Emotion Regulation → Employee Loyalty	0.47	<0.001	Mediating
Transformational Leadership → Organizational Communication	0.52	<0.001	Direct
Organizational Communication → Employee Loyalty	0.43	<0.001	Mediating

- **Indirect effect via Emotion Regulation:** 0.26 (significant, 95% CI excludes 0)
- **Indirect effect via Organizational Communication:** 0.22 (significant, 95% CI excludes 0)

4.2 Summary of Key Findings

- **Direct Effect:** Transformational leadership significantly enhances employee loyalty.
- **Mediating Effects:** Both emotion regulation and organizational communication partially mediate the relationship between transformational leadership and employee loyalty.
- **Parallel Mediation:** The mediators operate independently, suggesting that transformational leaders foster loyalty by both enhancing employees' emotional coping skills and improving communication climates.

These results confirm that effective transformational leadership in SMEs not only directly increases employee loyalty but also does so indirectly by strengthening employees' emotional regulation abilities and by fostering open, supportive organizational communication.

5 Discussion

This study sheds light on the mechanisms by which transformational leadership cultivates employee loyalty in service-sector SMEs. Consistent with prior work, we found a robust direct relationship between transformational behaviors—such as articulating a compelling vision, providing individualized support, and intellectually stimulating employees—and enhanced loyalty (Bass & Riggio, 2006; Judge & Piccolo, 2004). More importantly, our data reveal that this relationship is meaningfully channeled through two complementary pathways: emotional regulation and organizational communication.

5.1 Emotional Regulation as a Psychological Resource

Transformational leaders appear to bolster employees' affective resilience by modeling adaptive emotion-management strategies and by creating a climate in which it is safe to discuss emotional challenges. This support reduces the strain of emotional labor—ubiquitous in high-contact service roles—and in turn fosters stronger affective attachment to the organization (Grandey, 2003; Brotheridge & Lee, 2002). Viewed through the lens of the Job Demands–Resources Model, emotional regulation functions as a personal resource that buffers stress and enhances commitment, explaining why employees under transformational leaders report higher loyalty.

5.2 Organizational Communication as a Structural Resource

Parallel to emotional support, transparent and frequent communication—hallmarks of transformational leadership—reinforces trust, aligns individual and organizational goals, and signals that employees' perspectives matter (Men & Stacks, 2014; Karanges et al., 2015). Rather than simply passing along directives, these leaders engage in two-way dialogues, enabling feedback loops that clarify expectations and deepen employees' sense of belonging. In effect, communication channels become structural resources that magnify the motivational impact of leadership and sustain long-term loyalty.

5.3 Integrated Mechanisms and Theory Advancement

When considered together, emotional regulation and organizational communication offer a more complete explanation of how transformational leadership drives loyalty. The serial pathway—whereby enhanced emotional resilience further facilitates open communication—suggests that these mechanisms reinforce one another to create a supportive ecosystem. This integrative finding extends Social Exchange and Leader–Member Exchange theories by demonstrating that an exchange relationship grounded in emotional and informational resources strengthens reciprocal commitment beyond the direct leader-follower bond.

5.4 Practical Implications

For managers in service-intensive SMEs, the results underscore the importance of developing both the “heart” and the “voice” of leadership. Training programs should combine modules on emotional intelligence—such as cognitive reappraisal and deep acting—with communication skills workshops that emphasize active listening, feedback delivery, and media selection. By investing in these dual competencies, organizations can create a work environment where employees feel both emotionally supported and well-informed, thereby reducing turnover and enhancing service quality.

5.5 Limitations and Future Directions.

The cross-sectional design limits causal inferences, and the focus on one Chinese province may constrain generalizability. Future research should employ longitudinal or experimental designs to track changes in loyalty over time and explore whether similar mechanisms operate in different cultural and industry contexts. Additionally, examining boundary conditions—such as employees' personality traits or organizational culture—would help identify when and for whom these mediating pathways are most salient.

In sum, this study advances both theory and practice by uncovering the intertwined roles of emotional regulation and organizational communication in translating transformational leadership into sustained employee loyalty. By embracing this multifaceted approach, service-industry SMEs can strengthen their human capital foundations and achieve a competitive edge in an increasingly demanding marketplace.

6 Conclusion

This research clarifies the mechanisms by which transformational leadership fosters employee loyalty in Chinese service-sector SMEs. The main conclusions are:

1. **Direct Influence:** Transformational leadership significantly increases employee loyalty, validating its importance in dynamic, customer-centric environments.
2. **Dual Mediation:** Emotional regulation and organizational communication both serve as pivotal mediators, either independently or in tandem, magnifying the positive effects of transformational leadership on loyalty.
3. **Practical Viability:** The study highlights actionable strategies—leadership development, emotional support, and robust communication platforms—that SMEs can implement to reduce turnover and enhance performance.

Overall, the results deepen scholarly understanding of how leadership styles and internal processes combine to foster loyalty and offer clear guidance for managers aiming to sustain a committed workforce in high-contact service sectors.

6.1 Recommendations and Suggestions

Table 2. Recommendations for Practice and Research

Area	Recommendation
Leadership Development	Implement training programs focused on transformational skills (vision, support, motivation).
Emotional Regulation Support	Offer workshops on stress management, emotional coping, and provide access to counseling services.
Organizational Communication	Develop transparent channels (briefings, feedback systems, recognition programs).
Culture of Collaboration	Facilitate team-building and shared decision-making to reinforce trust and inclusivity.

Future Research	Use longitudinal and multi-level designs; examine additional mediators (e.g., empowerment);
	Compare across regions and sectors to test generalizability.

Acknowledgments

The authors wish to thank the participating SMEs and employees in Shandong Province, as well as academic advisors and colleagues who provided feedback on the research design and analysis.

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