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TOWARDS EXPLORING PROTAGONIST OF LMX THEORY OF LEADERSHIP IN AUGMENTING EMPLOYEE PERFORMANCE AND LEADER-MEMBER RELATIONS

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Abstract

This review paper is an endeavor to find out the degree of applicability and influence of Leader Member Exchange (LMX) theory in refining individual performance and leader-member relations in organizations. The retrospective approach and looking at the contemporary face of LMX theory in literature with the review of relevant research papers was espoused. The adopted methodology was helpful with respect to building a comprehensive and an in-depth understanding of this important theory which embraces both leader and follower perspectives in defining the leadership phenomena. It can be construed as per the findings of existing literature and chronological developments in the past few decades in organizational and management sciences that LMX theory is connected with two important constructs i.e. employee performance and leader-member relation. The theory also augments employee performance and relation with the leader in organizational settings. There is a need to empirically investigate the relationship of constructs under the umbrella of LMX theory in different contexts with a view to enhance theory's generalizability.

Introduction

Leadership is one of the most contemplated subjects in social sciences (Avolio et al, 2003; Bennis, 2007) and a prominent theme in management research where researchers are investing their exuberances for producing knowledge. The job of the researcher is not to prove anything but to analyze things in a scientific way so that the produced knowledge may qualify for more reliability and objectivity (Creswell, 2012). The literature on leadership is enriched with different theories; some are theorized within leadership discipline whereas others have taken their roots from other disciplines but mainly from management sciences. It is evident from the existing body of knowledge that theories of leadership are mainly concerned with leader traits, leader behavior and leadership effectiveness. The conventional and even contemporary leadership theories are silent on incorporating follower perspectives in determining the leadership effectiveness except the leader-member exchange, which is eminently acknowledged as LMX theory.

The theory is based on the social exchange process between leaders and followers (Yu & Liang, 2004). It has been observed over the years that the existing literature on LMX theory is rich in terms of availability of sufficient knowledge for exploring various facets of leadership and it is one of the indications about the significance and popularity of this theory. A few researchers, however, are still of the view that there is a lack of clear and commonly accepted description of LMX theory which is causing confusion about its nature and applicability (Schriesheim et al, 1999). The need for theories supporting the social exchange processes, good working relationships and positive behavior through knowledge and teamwork skills is becoming acute in the prevalence of knowledge economy and information era (Seers, 2004). The LMX theory represents dyadic work relationship between the leader and the followers. These dyadic relationships between the leader and followers are considered as socially significant and help to improve performance. Keeping this in view, there is a need to clearly comprehend the relationship

between the leader and the follower and it must be taken independently rather than considered on a group basis.

The LMX theory is relationship based style of leadership and is also recognized to have as vertical dyad linkage because it purports direct social relationship of one leader with his/her follower (s). This theory first emerged through scholarly contribution by **Graen (1976)** and a team of researchers. Initially, this theory was recognized as Variation Dependent Leadership (VDL) and was transformed into LMX later. It is pertinent to note that few researchers before the aforementioned article of **Graen (1976)** explored LMX but Graen's article gave rise to this theory and it became the popular and most cited leadership theory in research literature. The problem with the previous leadership theories is that they assumed that all followers have the same characteristics; hence, the leaders will behave with all followers in the same way (**Day et al, 2016**). The LMX theory had challenged this assumption and supports the perspective that it is not always pragmatic to treat every individual in the team in the same way.

It is important to understand the mechanics of LMX theory, which says that there are three stages through which leader-member relations emerge, developed and trusted. The first stage is regarded as role taking, it emerges upon the joining of group by a new member and the leader takes and uses time to assess the potential and abilities of the new member. The second stage is recognized as role making where new members of the team start working on different assignments and projects. The expectation of the leader at this stage is commitment, dedication, hard work and loyalty from new members of the team. This stage of role making also involves sub-conscious decision of leaders to classify members of the team into one of two groups, namely in-group and out-group. The in-group members are most trusted and find the opportunities of challenging and interesting work assignments. They are the ones who get maximum attention of their leaders and also get opportunities of training, growth and advancement.

The members of out-group are regarded as those people who have betrayed the trust of their leaders or proved incompetent and not motivated. They are the ones who will get minimum attention of their leaders and their work assignments would be restricted, not challenging and interesting. The people of out-group are also deprived from

additional training and advancement opportunities. The third stage in leader-member relations is routinization where the routines of social relationship leaders and team members are established. The people of in-group at the expense of some social cost will try to develop best possible relationship with their leaders. They work hard and do not hesitate to go the extra mile in order to win and maintain the trust and confidence of their leaders. The people of in-group use strategies such as empathy, respect, trust and persistence for the long-term survival of the relationship. The out-group members are the ones who distrust and dislike their leaders. It is difficult to get out of the out-group once perceptions are established. (**Graen, 1976; Graen & Uhl-Bien, 1995; Case, 1998; Winkler, 2010**).

The LMX theory is a useful theoretical umbrella, which supports and urges leaders to re-establish their relationship with the members of the out-group in the best interest of the organization. This review study will outline some important implications for leaders to get the best out of the LMX theory. The implications will be based on improved employee performance and high-quality leader-member relations, which is the basic research question.

Research Question: Does LMX theory help strengthen the relationship between leaders and followers and ensure effective performance of employees?

It is pertinent to note that this is a review paper and aim of this research study is to review the existing literature. The above research question has remained and will be the probable hypothesis for upcoming research studies. It is not the general research statement for finding the empirical evidence in this study.

Literature Review

The effective and operative work relationships should be differentiated from ineffective and non-operative work relationships (**Graen, 1976; Graen & Uhl-Bien, 1995; Graen 2003**). The effective work relationships and ineffective work relations are represented as high-quality LMX and low-quality LMX, respectively. Many of the researchers are of the view that quality and effective work relationships are positively related to employee performance outcomes (**Wayne & Ferris, 1990; Engle & Lord, 1997**). Good working relationship of

organizational members with their superiors leads to job satisfaction (**Wayne & Ferris, 1990; Epitropaki, & Martin, 2015; Seo, Nahrgang, Carter, & Hom, 2017**). The research study of **Graen et al. (1982)** reported that LMX theory is inversely related with employee turnover. This study also supports and is consistent with the interpretation that good and quality leader-member relations help to control the employee turnover issues in organizations. It is pertinent to note that such studies need to be replicated in different contexts in order to verify the results and applicability of the theory.

Scandura & Graen (1984) are of the view that LMX-based interventions within organizations can produce better and positive results in terms of both employee and organizational performance (**Martin, Guillaume, Thomas, Lee, & Epitropaki, 2016; Hu, Wayne, Bauer, Erdogan, & Liden, 2016**). **Turban et al, (1990)** report that LMX theory helps in building positive relationships and expectations between leaders and followers, which ultimately help both parties to satisfy their self-fulfilling prophecies. The research studies of **Masterson et al, (2000)** and **Maslyn & Uhl-Bien (2001)** report that LMX-based intrusions are positively related with employee support and helping behavior towards the organization to achieve its goals.

It is important to note over here that some research studies have also reported the organizational justice issues due to the prevalence of LMX theory where low-performing employees who are in-group employees get superior performance ratings and high-performing or better-performing out-group employees get poor or performance ratings according to their actual performance (**Duarte et al., 1993; Dusterhoff, Cunningham, & MacGregor, 2014**). This issue of organizational justice warrants attention of leaders so that they can make their sincere effort in re-establishing good relationship with out-group members of the organization according to LMX theory (**Leow, & Khong, 2015; Williams, Scandura, Pissaris, & Woods, 2016**). It will also help leaders to review their self-deception and self-betrayal process. The research studies on LMX theory also suggest that the employee performance levels are dependent upon the type of relationship, which the leader is maintaining with his/her team members. These relationships can be cultivated positively if leadership style is transformational or paternalistic and consistent with some degree of delegation for the followers because these steps will allow the leader to focus on relationship

building approach and ultimately job satisfaction and employee performance will increase (**Pellegrini & Scandura, 2006**). The research study of **Gerstner & Day (1997)** is pertinent to cite here as it outlines the implications and positive effects of quality leader-member exchange in minimizing job tension. This study also invites attention of leaders to focus on out-group team members as well for better climate and organizational outcomes.

It is important that leaders must develop series of interactions either positive or negative with followers so that organization should not face disruption in operations (**Pellegrini & Scandura, 2006**). It can be deduced from the previously mentioned statement that leader-member interactions are critical for smooth flow of organizational operations, employee and organizational performance. The research study of **Liden et al, (2006)** criticized the previously conducted studies on LMX theory as they were more inclined to explore individual and organizational level performance and not incorporating group level performance construct which also needs to be explored in future research studies based on its importance and relevance. The group effectiveness is also one of the important dimensions, but has been under-explored in the research literature (**Liden et al, 2006**). The same study also explored that LMX differentiation is negatively related with employee individual performance. The incorporation of group level of analysis can make LMX theory more holistic to measure performance outcomes (**Liao, Wayne, Liden, & Meuser, 2017**).

The research study of **Graen et al, (1982)** also stressed upon the need of testing LMX theory within and between group working relationships. If LMX theory should be taken holistically to cover all the level of analysis, i.e. individual, group and organizational then it is also relevant to understand the multidimensionality of LMX theory. The LMX theory helps to develop good working and interpersonal relationships between leader and follower with respect to trust building (**Liden & Graen, 1980**), augmenting employee competence (**Liden & Graen, 1980**), loyalty building amongst leader and follower (**Dansereau et al, 1975**), ensuring perceived equity of exchange in leader-member relationship (**Liden & Graen, 1980; Grover, 2011**), the relationship should address the issue and also create some balance with respect to degree of mutual influence (**Yuki, 2002**) and to ensure good interpersonal relationship between leader and followers

(Dansereau et al, 1975; Graen & Cashman, 1975; Erdogan, Vidyarthi, Anand, Liden, & Chaudhry, 2014; Nie & Lämsä, 2015; Egitropaki, & Martin, 2015).

Graen & Uhl-Bien (1995) pointed out that in-group team members are often regarded and respected as rising and shining stars. These organizational members are trusted with high levels of performance. The out-group employees are usually the recipient of a few challenging projects and assignments and less opportunities of training and advancement. It is also important for a leader to identify the out-group and ask few self-explanatory and judgmental questions focusing on probing reasons for employees to be in the out-group. The critical challenge as per LMX theory for any leader is to re-establish the relationship with out-group members (**Lee, 2001**). The organization can be benefitted more if leader is able to maintain strong, vibrant and productive relationship with a majority of the organizational population (**Boies, & Howell, 2006**). This sincere effort on part of the leader is helpful in building and maintaining high employee morale (**Griffith,**

Connelly, & Thiel, 2011; Matta, Scott, Koopman, & Conlon, 2015).

The interaction with out-group members is also one of the best ways to take employee feedback by asking pertinent questions such as how will they be more satisfied with their jobs, and what will make their work more interesting, challenging, rewarding and self-satisfying (**Wang, Law, Hackett, Wang, & Chen, 2005**). This exercise is effective in bridging the gap between employer and employee psychological contracts. **Graen & Uhl-Bien (1995)** also highlighted the importance of training and development opportunities for out-group members other than in-group members in positively affecting employee satisfaction, performance and leader-member relations because it should not always be discriminative when it comes to coaching and mentoring from the leader. It is imperative to see and understand the theoretical framework **Figure-I** of LMX theory highlighting four different categories of organizational employees before initiating empirical investigation.

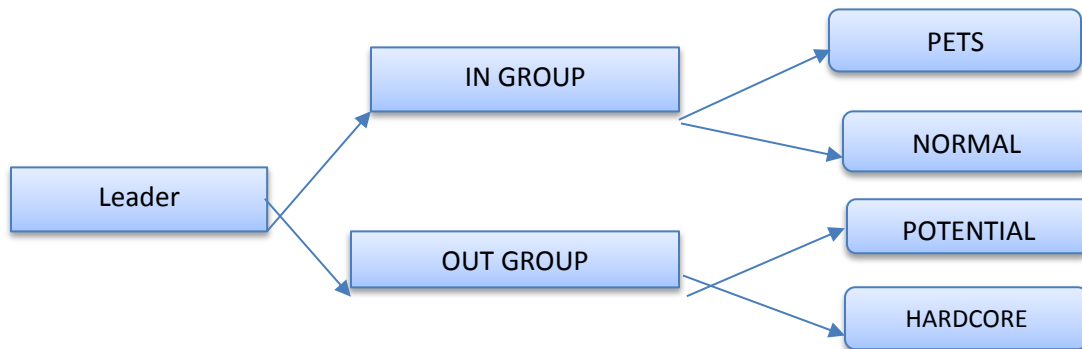


Figure-I: Theoretical Framework of LMX Theory

The pets can become hardcore if they lose their position. The hardcores are actually waiting when the leader will change his/her opinion or stance regarding hardcores. The potentials are the ones who are waiting and want to become normal. The hardcores are the ones whom the leaders are least bothered. The organizations are usually running on the existence of normals and potentials because one can expect work-place deviance behaviors from hardcores. In reality, not all team members in any organization are equally eligible for trust. The challenge for leadership is to find the right person for a given job. It is also essential that leaders are objective in evaluating the talent and not naïve in

their approach while implementing LMX theory (**Ilies, Nahrgang, & Morgeson, 2007**). It is imperative to comprehend **Figure-II** after understanding the theoretical framework of LMX theory. The three stages of leader-member relations, namely, role taking, role making and routinization are important and logical considerations for leaders and helpful in defeating their self-deceptions if these three stages are executed well and without bias. The three stages of developing leader-member relations along with the following four stages of LMX theory development are helpful in understanding the roots and basic operational framework of LMX theory.

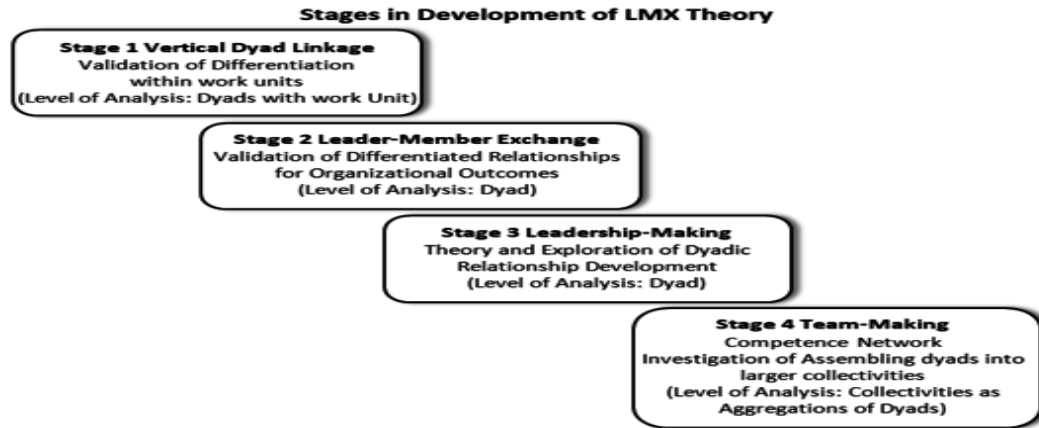


Figure-II: Stages in the Development of LMX Theory

Adopted from: Graen & Uhl-Bien (1995)

Conclusion

The organizational leadership is best defined with the help of the LMX theory. The LMX theory focuses on interaction between leaders and followers (first described in 1975 by Graen, Dansereau and Cashman). The theory had changed the idea and perception of looking at followers as groups. This theory looks at followers as individuals. It also focuses on differences that might exist between leader and his/her followers. A unique feature of this theory is that it provides the basis for descriptive leadership as well as prescriptive leadership. The prescriptive leadership urges the leader to develop the context of trust building. However, when it comes to assess the impact of LMX theory on improved leader-member relationship and superior employee performance then the research literature presents mixed opinion. There are research studies, which report that good leader-member relations result in superior employee performance (Graen, 1976; Graen et al. 1982; Scandura & Graen, 1984; Wayne & Ferris, 1990 Graen & Uhl-Bien, 1995; Engle & Lord, 1997; Graen 2003). But, some research studies have reported negative relationship between LMX theory and employee performance (Sias & Jablin, 1995; Vecchino & Norris, 1996; Liden et al, 2006). It follows that future research is needed in varying contexts in order to test the theory and its assumptions. It is established that LMX theory is the most widely and extensively researched theory in the domain of leadership in the last 40 years and researchers are still working on it for the exploration of knowledge and application of this theory at the workplace. The researchers are also criticizing certain aspects of this theory and because of criticism, new insights on the LMX theory are

emerging. The transition from VDL to LMX was due to the focus on the domains of jobs and tasks in 1980s, hence it proves that this theory though is relationship oriented, it does not compromise on job and task related aspects. After reviewing the distant literature on LMX theory, it can be concluded that previous research studies have confirmed the dual benefits such as superior employee performance and superior leader member relations in the form of high-quality LMX (HQ-LMX). The superior leader-member relations due to the prevalence of LMX theory have been confirmed by research studies (Dansereau et al, 1975; Graen & Cashman, 1975 Liden & Graen, 1980; Yukl, 2002; Liden et al, 2006; Pelligrini & Scandura, 2006; Griffith, Connelly, & Thiel, 2011).

As far as future research directions are concerned, there is a strong need to operationalize the constructs involved in testing that theory with more clarity having strong reliability and validity values in varying contexts. Moreover, novel theories in understanding and optimizing leader-member relation and performance are required apart from leader-member exchange.

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