Leader-Member Exchange: A Critique of Theory & Practice

Shweta Jha & Srirang Jha
Apeejay School of Management, New Delhi, India
E-mail: shwetajha.asm@gmail.com, jha.srirang@gmail.com

Abstract
Leader-Member Exchange (LMX) relationship based on social exchange, reciprocity and role has evolved as a crucial factor in fostering competitiveness of organizations all over the world. Outcomes related to LMX such as performance improvement, overall satisfaction, organizational citizenship behavior, commitment, innovation, creativity, team spirit and engagement not only generate positive employment experiences but also augment organizational effectiveness. This review paper is a modest attempt at understanding nuances of LMX, examining predictors of good quality LMX relationships, capturing significant outcomes and providing a critique of the theory and practice.

Keywords: Leader-Member Exchange, Employee Reciprocation, Social Exchange

Theoretical Underpinnings of Leader-Member Exchange (LMX)
LMX exemplifies somewhat differential social exchange practice involving supervisors on the one hand and subordinates on the other. The manner in which supervisors and subordinates relate to each other has significant bearing on organizational outcomes. Indeed it has been traditionally viewed as a function of dyadic characteristics (Liden et al., 1997; Bauer & Green, 1996). Dyadic relationships and work roles are developed and negotiated over time through a series of exchanges between leader and member (Bauer and Green 1996). Further, dyadic leader-member exchange may be viewed as multidimensional – a characteristic which evolves as a consequence of role development of the subordinates (Bhal et. al. 2009). As roles are usually negotiable and multidimensional, the process of role development involves exchanges at every level of role development enabling the members of the dyad to exchange a variety of items such as physical resources and non-material goods like information or valued task assignments (Graen and Cashman, 1975; Gouldner, 1960).

The concept of LMX has evolved out of ‘reciprocity’ (Gouldner, 1960; Adams, 1965), ‘social exchange’ (Blau, 1964), ‘similarity-attraction’ (Byrne, 1971), and ‘role’ (Katz and Kahn, 1978). Reciprocity is a crucial factor in fostering LMX relationships. reciprocity norm stabilizes social systems, pervades every interpersonal relationship, and applies universally to all cultures (Gouldner, 1960). Subordinates are expected to feel duty-bound to interchange preferential treatment they receive from their managers by exceeding their contribution over and above formal employment contract (see also Lapierre & Hackett, 2007). When one person treats another well, the norm of reciprocity obliges the return of favourable treatment (Gouldner, 1960). It has also been observed that compulsions to repay benefits based on reciprocity norms help strengthen interpersonal relationships at workplace (Eisenberger et. al. 2001).
Moreover, employees who perceive that their organization values their contributions and
cares about their well-being are obligated to increase their in-role and extra-role performance
while sense of perceived obligation reduces in case the organization does not value or reward
their contributions (Rousseau, 1995).

Social exchange, as an extension of the norms of reciprocity, represents a dyadic relation
between two persons (in organizational context—supervisors and subordinates) based on
duties arising out of courtesies extended and completion of assigned tasks with value added
through substantial discretionary labors. In such a social exchange the subordinates stretch
themselves to accomplish outcomes anticipated by their supervisors even if the tasks fall
outside their job descriptions and responsibilities and they have to work beyond office hours
or outside the workplace. In fact, social exchange creates a felt obligation on the part of
organization members to reciprocate their leaders’ trust and liking through organizational
citizenship behaviors and good performance (Gerstner & Day, 1997). However, it is not
essential that social exchanges occur only directly between the leader and followers, rather
indirect chains of exchange may be generated by way of normative obligations when
individuals work in an established group (Blau, 1964).

Similarity-Attraction theory (Byrne, 1971) provides a unique dimension to the evolution of
leader-member exchange relationships. This theory indicates that people tend to report more
positive interactions with individuals who are more or less similar. In the organizational
context, high quality LMX relationships develop when individual on either end of the dyad
are of identical mind on key relationship variables (see Bauer & Green, 1996 for further
elaboration). It has been observed that deep level perceived similarity (common perspectives,
receptiveness and liking) has greater influence on the quality of LMX relationships as
compared to surface level actual similarity (age, gender, race, background, religious beliefs,
cultural traits etc.) (Kacmar et. al. 2009). Besides, it may be added that employees tend to
associate themselves with leaders who share identical personality traits such as openness,
optimism, extroversion/introversion, conscientiousness, self-esteem, worldview, etc.

Roles are important determinant of LMX relationships. A role may be explained in terms of
formal specification of duties, communication patterns and hierarchical relationships as well
as informal norms and expectations (Doll, 1977). Roles become integral part of the
employees on signing employment contract in any organization. Initially leader-member
exchange was viewed as role-making process (Graen, 1976). Indeed, LMX denotes operative
work relationships based on role-taking, role-making and role-routinization process (Graen,
1976, Graen & Scandura, 1987). Roles assigned to employees at workplace define their
expected behaviour with the leader as well as the peer-group as also how they expect others
to interact with them. Through repeated role episodes at the role taking, role making, and role
routinization stages, subordinates develop high quality of LMX relationships (Graen, 1976;
Graen and Scandura, 1987).

A few scholars believe that LMX emerged out of vertical dyad linkages theory (Dansereau et
al. 1975). This theory proposed that there is a differentiation of relationships within work
units creating dyadic relationships between leaders and their followers. Approximately ten
years later, this theory turned out to be the basis for the development of LMX (Graen et al.,
1982). Essentially, LMX theory advanced vertical dyad linkages theory by focusing on the
dyadic relationship between leader and follower with an emphasis on the changing quality of
that relationship over time (Graen et al., 1982). Graen et. al. (1982) also hypothesized dyadic
relationships on a continuum of low to high negotiating latitude. Members with high negotiating latitude were conceived to be in an ‘in-group’ and those with low negotiating latitude were in an ‘out-group’. Leaders tend to use a more directive leadership style with ‘out-group’ members whereas they use more consultative and participatory practices with ‘in-group’ members (Graen and Cashman, 1975).

Predictors of High or low Quality LMX Relationships
LMX quality is determined in the early stage of dyadic relationship and remains relatively stable over time (Deluga, 1994). Quality of LMX is predictive of performance related and attitudinal job outcomes of the subordinates (Day, 1997; Graen & Uhl-Bien, 1995). Gerstner and Day (1997) observe that having a high-quality relationship with one’s supervisor can affect the entire work experience in a positive manner, including performance and affective outcomes. ‘Quality of LMX is characterized by mutual trust, respect, and obligation that generate influence between an employee and his or her supervisor. Low-quality exchange relationship, on the other hand, is characterized by formal, role-defined interactions and predominantly contractual exchanges that result in hierarchy-based downward influence and distance between the parties’ (Janssen & Van Yperen, 2004). Quality of LMX serves as social support which eventually neutralizes negative employee experience. (Erdogan, Kraimer & Liden, 2004)

Quality of dyadic relationships in LMX is defined either as low or high depending on how the subordinates relate with their leaders and vice versa. In LMX, leaders form inimitable interactions with each follower through differentiated exchanges (Graen & Uhl-Bien, 1995). A high-quality relationship is characterized by trust, loyalty, respect, and obligation, which generate mutual influence between the subordinate and the leader. In contrast, a low-quality relationship has been found to be based solely on the formal job requirements and employment contract and has been shown to be related to distance between the parties (Graen, 2003). Based on quality of exchange, subordinates are labeled as in-group (as in high quality LMX) or out-group (as in low quality LMX). In-group exchange is characterized by reciprocity, extra-contractual behavior, mutual trust, respect, affection, as well as solidarity while out-group exchange is characterized by one-way top-down effect and task-based relationship (Dansereau et al.1975).

In the LMX context, relationship between superior and subordinate develops primarily because of their workplace interactions (Graen and Scandura, 1987; Graen and Uhl-Bien, 1995; Graen and Wakabayashi, 1994; Graen et al., 1990; Liden and Graen, 1980). As a result of time pressures, the leader can develop close relationships with only a few of his/her key subordinate(s) (high-quality LMX), while, sustaining a formal relationship with the rest of his/her group (the low-quality LMX) on the continuum basis (Abu Bakar, Mustaffa, Mohamad, 2009). Subordinates who have high quality working relationships with their superior demonstrate higher levels of subordinate satisfaction and performance, lower levels of turnover and most importantly, better quality of assignments. On the other hand, superior-subordinate in low quality working relationships may result in simple contractual relations, higher levels of supervisory control and directives, lower levels of subordinate satisfaction, higher levels of subordinate turnover and less desired assignments (Liden and Graen, 1980; Liden et al., 1982).

LMX is correlated more with relations-oriented behaviour as compared to other types of leadership behaviour (Yukl et al., 2009): ‘The relations-oriented behaviour includes
providing psychological support, recognizing subordinate contributions, developing subordinate skills, consulting with subordinates to learn about their ideas and concerns, and delegating more authority and responsibility to subordinates'. The quality of exchange is best described using the four dimensions (as proposed by Dienesch & Liden (1986) and Liden & Maslyn (1998)):

- Affect: It refers to the mutual affection that the dyad members have for each other based primarily on interpersonal attraction rather than on work or professional values. The affect-dimension addresses the more emotional side of the co-operation among various members of the dyad.
- Loyalty: It refers to the expression of public support for the goals and personal character of the other member of the LMX dyad. Loyalty involves the willingness to defend actions of other members of the dyad.
- Contribution: It refers to the perception of the amount, direction, and quality of work-oriented activities each member contributes to the mutual goals (explicit or implicit) of the dyad. Perceived contribution is reflected in the willingness of team-members to work hard for the manager/supervisor/leader.
- Professional respect: It refers to the perception of the degree to which each member of the dyad has built a reputation, within or outside the organization, for excelling in his or her line of work. Professional respect is also reflected in the manner in which occupational competence of each member of the dyad is acknowledged.

Maslyn & Uhl-Bien (2001) are of the view that the affect, loyalty, and professional respect dimensions are more like social currencies that focus on the social exchange between the leader and the member, whereas the contribution dimension is more like a work-related currency. Earlier Dienesch and Liden (1986) aired similar views indicating that LMX may be based on three ‘currencies’ of exchange: task behaviour (perceived contribution), loyalty to each other (loyalty), and liking for each other (affect) where perceived contribution deals with on the job dimension of interactions, loyalty deals with social support, and affect deals with affective feelings of liking which go beyond the work situation.

Jenkins (1994) asserts that three types of personality variables influence the creation of in-groups and out groups in LMX context:

- Locus of control –reflects the degree to which an individual generally perceives events to be under the control of powerful others (external locus) as opposed to under his or her own control (internal locus). Internal locus of some individuals can lead to better communication since they are interacting better with their environment.
- Need for power –where people with greater need for power tend to accept some additional roles and responsibilities in order to prosper in organizations.
- Self-esteem –individuals who value themselves at higher levels (higher self-esteem) have been shown to have higher job satisfaction and experience or focus on more positive aspects of their work as indicated by Judge and Bono (2001)

Thus, subordinates with internal locus of control, greater need for power and better self-esteem are more likely to be part of the in-group in LMX context in any organization. Further, subordinates’ self-concepts, particularly when the self is defined at the relational level, are powerful determinants of their behaviour and reactions toward supervisors (Lord & Brown, 2001; Lord et al., 1999). Individuals who hold a positive view of themselves tend to adopt positive behaviour and attitudes that are consistent with their self-image (read Korman’s (1970) self-consistency theory for elaboration). Some personality traits for the
leader and subordinate (e.g. agreeableness, extroversion, positive affectivity) may also be related to LMX (Mahsud, Yukl & Prussia, 2010).

Besides personality dimensions, there are other contextual factors that contribute towards formation and sustenance of high quality LMX relationships in organizations. High-quality exchange relationships are more likely to occur when leaders are honest, trustworthy, and genuinely concerned about the well-being of their followers (Erdogan et al., 2006; Wayne et al., 2002). Ethical leaders are likely to develop high-quality exchange relationships with their subordinates through honest and open communication and principled decision-making (Brown and Trevino, 2006). Fairness of interpersonal communication and is strongly related to LMX (Cohen-Charash & Spector, 2001). Employees who feel important and valued by their supervisors usually engage in harmonious relationships and avoid dyadic conflicts. (Landry & Vandenberghe, 2009). Higher quality relationship depends on the degree of emotional support and exchange of valued resources between leader and members (Kang & Stewart, 2007). Empathy, ethical values, and relations-oriented behavior are distinct constructs that may jointly influence the development of exchange relationships. (Mahsud, Yukl & Prussia, 2010). Further, organizational culture, human resource practices, type of team and work unit, the size of the work group, and the organization’s policies can also affect the way the relationship develops in LMX context (Liden et al., 1993; Henderson et al., 2009).

The development of LMX may also be affected by contextual variables (Liden et al., 1997): ‘It may be more difficult for the leader to develop favorable exchange relationships when the work unit or team has many members, when the members are only temporarily assigned to the team, when the members are widely dispersed and seldom interact with the leader, when the leader is overloaded with responsibilities and has little time for interaction with individual members, or when the leader has little power to provide rewards and benefits desired by members.’

It has been observed that the quality of LMX relationship is usually better when the leaders and followers exchanged greater physical resources, information and enjoyable tasks (Liden & Maslyn, 1998). These relationships are characterized as high quality, reflecting trust, respect, and loyalty, or low quality, reflecting mistrust, low respect, and a lack of loyalty (Morrow et al., 2005). According to Sparrowe & Liden (1997), individuals in high-quality LMX relationships receive more of a leader’s time, more direction information, and more emotional support than those in low-quality relationships. Such subordinates have an advantage since their supervisors introduce them to key people in the social network, leading to additional information and political and social resources.

Trust is at the core of LMX relationships. Even induction of subordinates in the in-group depends on the extent to which they can be trusted in addition to their competence, skills and motivation (Liden & Graen, 1980). It has been posited that mutually trusted supervisors and subordinates are more likely to build a high quality relationship (Schriesheim et al., 1999). High-quality leader-member relationships form working exchanges characterized by mutual trust and support (Liden and Graen, 1980), with subordinates showing increased levels of commitment and competence (Dansereau et al., 1973) and supervisors offering reassuring performance-linked rewards and career advancement (Graen et al., 1990; Yukl, 1994).
Thus the chosen subordinates, who are classified as in-group members, work beyond their required job duties and make more contributions towards work success. In response, they receive greater attention and more support from their supervisors on a continuous basis. On the other hand, those subordinates who are not chosen by their supervisors are viewed as out-group members. They have a contractual relationship with their supervisors and accordingly have low quality LMX relationships (Dansereau et al., 1975; Graen and Cashman, 1975; Liden and Graen, 1980). A favorable exchange relationship is more likely when the subordinate is perceived to be competent and dependable, and the subordinate’s values, attitudes, and demographic attributes are similar to those of the leader.

Outcomes of Leader-Member Exchange
LMX is a system of components and their relationships, involving both members of a dyad, involving interdependent patterns of behaviour, sharing mutual outcome instrumentalities, and producing conceptions of environments, cause maps and value (Scandura, et. al. 1986). A high-quality exchange relationship is beneficial for both the leader and the subordinate, and the benefits may include increased performance, commitment, satisfaction (Gerstner and Day, 1997) and helping behaviors (Masterson et al., 2000). High quality leader-member exchange relationships may give organizations a competitive advantage in retaining and motivating talent (Zijada & Jasna, 2009). On the other hand, low-quality leader-member relationships form pure economic exchanges following contractual agreements, with supervisors obtaining routine subordinate performance and subordinates receiving standard organizational benefits (Graen & Cashman, 1975).

Indeed, high-quality LMX has been found to be associated with improved in-role performance (Graen, 2003) as well as with elevated extra-role performance (Kwan et al., 2011; Wayne et al., 1997). Thus, subordinates maintaining high-quality LMX with their supervisors can be expected to engage in Organizational Citizenship Behaviour such as working overtime and offering extra help to coworkers or managers. A few scholars have, in fact, shown that the quality of the LMX relationship is positively related to subordinates’ Organizational Citizenship Behaviour (e.g. Hackett et al., 2003; Wang and Wong, 2011). In high quality dyadic relationships, leaders may give their followers the levels of autonomy and discretion necessary for innovation to emerge (Graen and Scandura, 1987). High quality exchanges between leader and member have been found to have positive relations to innovative behaviour (Basu and Green, 1997; Scott and Bruce, 1994, 1998).

High quality LMX relationships have been linked to fostering employee engagement (Macey and Schneider, 2008). Buckingham and Coffman (2000) concluded that the key to retaining talent and making a talented employee more productive is determined by the individual’s relationship with his/her immediate supervisor. A good quality supervisory relationship is regarded as an important factor for the employees to stick around and have a long-term career with their organizations (Dixon-Kheir, 2001). Obviously, high quality LMX relationships help in nurturing employees with deep interest in overall development of their organizations while aligning their personal vision, mission, and objectives with that of the organization. Such an alignment work in favour of both the organization as well as the employees. Thus, engaged employees with long-term career aspiration within the organizations may stretch themselves to augment their contribution towards accomplishment of strategic objectives outlined by their leaders.
LMX researches carried out during last three decades have confirmed positive impact of the dyadic relationships on employee performance, job/career/overall satisfaction, organizational commitment, employee retention, innovative behavior and creativity, loyalty and reliability, employee engagement, career development and increased team effectiveness (see Table 1 below). All these outcomes are instrumental in ensuring competitiveness of organizations. Outcomes of high quality LMX also reinforce relevance of dyadic relationships in contemporary work-settings.

**Table 1: Outcome Dimensions of LMX**

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<th>Sl. No.</th>
<th>Outcome of LMX</th>
<th>Researches conforming indicated outcomes</th>
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**Conclusion**
It is true that high quality of LMX relationships generate several outcomes which are essential for individual and organizational effectiveness. However, it is equally just right that
irrespective of quality, LMX may result into a few outcomes which are detrimental to the realization of vision and mission as well as accomplishment of strategic objectives of the organizations. In fact, negative outcomes of LMX originate from its theoretical underpinnings that revolve around differential treatment of the subordinates. The quality of social exchange affects a leader’s reward and resource allocation decision, preferring mainly in-group members. This accentuates further any sense of unfairness that had initially been present between in-group and out-group members (Othman et al, 2010).

While high quality leader-member exchange is beneficial to the leader and his in-group, there may be circumstances where such a situation can be dysfunctional where members’ behavior indicates disrespect, restrained communication, misunderstanding, non-supportiveness and low commitment to the leader (Othman et al. 2010). In dysfunctional LMX scenario, high quality of interchange between a leader and certain member/s is perceived by others in the work group as an inequity. As a consequence, out-group members perceive unfairness and may develop negative reactions to this situation. In highly differentiated groups, out-group members are more likely to withhold efforts and undermine performance of the group as a whole (Liden et al., 2006).

Higher degree of mutual trust, respect and obligations arising out of LMX often raise performance expectations of both the parties to the extent beyond their capabilities. It has been observed that the employees with high levels of LMX relationships with their supervisors report more stress reactions compared to those with moderate quality LMX relationships due to additional pressure and deep sense of obligation (Harris and Kacmar, 2006). Interestingly, source of support itself cause stress or supportive communication by the supervisor might aggravate perceived stress as such interaction has the potential of trivializing the stressful experience of the concerned employee (Kaufman & Beehr, 1986).

Contrary to the popular belief, even good quality of LMX can adversely affect employee performance. This may happen either due to extraction of efforts by employees who are seemingly in the out-group or stress and burn-out of employees who are supposedly in the in-group. In both the cases, employee performance staggers. Further, LMX fails to enhance employee performance of employees in out-group in highly regulated, specified, and routinized work settings (Rose & Wright, 2005). While poor performance of out-group members is viewed by the supervisors with punitive eyes, they are likely to overlook lower output of the in-group members who are largely protected thanks to yes-man-ship.

Theoretical weakness of LMX relationships based on marked differentiation makes its practice all the more susceptible to employee indifference, negative job experiences, perceived breach of psychological contract, and a heightened sense of organizational justice. As majority of the employees fall in the out-group, the consequences of LMX in organizations may be quite damaging and irreparable.

References


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