

LEADER-MEMBER EXCHANGE THEORY (LMX)

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Leader-Member Exchange Theory

The leader-member exchange theory, first described in 1975 by Dansereau, Graen, and Haga, is a leadership concept that explains how leaders maintain control of an organization by developing unique working relationships with individual members in the group. Leader-member exchange theory maintains that the leader and each individual member of a work group have a unique two-way relationship (dyadic). Therefore, the dyad, rather than the work group or the individual, is treated as the unit of analysis in leadership. The theory states that the leader should cultivate a special bond and mutual understanding with certain members of the organization. These members, also known as the "In-Group," belong to the inner circle of the leader's sphere of influence. They are given more serious responsibilities, challenging tasks, and they are granted access to well kept organizational resources. In exchange, the leader "gives" them an unspoken promise of future benefit, promotion, or prestige.

Other leadership theories have focused on the leader and their trait, skills or style approach to leadership and still other theories have focused on the follower and the context of situational, contingency or path goal leadership theories. Whereas both trait theory and situational theory concentrate on the leader, the LMX model focus is on the dyad. LMX does not assume leaders behave the same to every member of the group, and therefore, members of the group will not report the same leader traits or behaviors. The LMX theory challenges the assumption that leaders treat followers in a collective way as a group and directs attention to the differences that might exist between the leader and each of his/her followers. In leader-group interaction, judgments are made and opinions formed by the leader and the member of each dyad. Leaders give more positive tasks to members they feel support them. Each dyad is seen as a social exchange or negotiated transaction of the leader-member.

The Role Theory of Katz and Kuhn (1966) is the original theoretical base of the LMX (Graen, 1976). Leaders accomplish their work through role sets, in which the leader is most influential. The leader communicates to the member a set of expectations regarding the appropriate role behavior of the member (role expectation). The member then receives and interprets these expectations (received role) and may modify his or her role behavior. Finally, the member's role behavior transmits feedback to the leader (monitored behavior).

The first studies of LMX were called Vertical Dyad Linkage, the single person mentoring that often occurred in organizations. The focus was on the vertical linkages leaders formed with each of their followers. The leader's relationship to a work unit is also viewed as a series of vertical dyads in which the leader forms a unique relationship with each subordinate resulting in two distinct groups:

-In-Group

The members who go beyond their expected roles and have a constructive approach to the tasks, they form the in-group. Leaders identify them as subordinates that are proactively seeking to help the leadership role. The in-group is identified as high-quality of LMX with positive outcomes.

Some of the characteristics and benefits of the in-group are:

- Members initiate and negotiate their role expansion beyond their job description
- The relationship with the leader is comprised of mutual trust, respect and liking
- Members receive reciprocal attention, more information and concern from their leader
- Members receive more positive performance evaluation, higher frequency of promotions, their desired work assignments and much more support.

-Out-Group

The members, who only try to work enough to fulfill their contractual obligations, form the out -group. Compared to the in-group, the members of the out-group do not receive any additional attention or benefits, their interaction with the leader is formal and task oriented.

The out-group is a low degree LMX and as expected only provides mediocre results.

- The communication or interaction between leader and member is formal, more like scripted gestures between two strangers.
- The leader tries to influence the subordinate but there is little reciprocity.
- The subordinate is primarily concerned about fulfillment of self-interest.

The process of how the leader chooses people to belong into his inner circle can be sometimes complicated. Often, it is not the people with the most skill and expertise which make it to the inner circle, but rather those who are similar to the leader in attitude, personality traits, leadership style, and values. Eventually, this leader-member exchange can be beneficial to the organization, but it can also result in certain problems if not handled correctly by the leader of the organization.

The leader-member exchange, or the special relationship between leader and subordinate, has three stages:

1-Role taking: In this stage, the leader assesses a new member's capabilities and gives him or her certain tasks to "prove" effectiveness and efficiency. If the member performs the task well, the leader may start seeing him as a reliable person in that particular area of work. The member, on the other hand, gains an idea of the leader's style of management.

2-Role making: This is the phase where the leader and member engage in an unspoken, unwritten and informal contract or agreement. The member is expected to demonstrate high levels of work output, loyalty, and dedication. In exchange, the leader gives a "silent" promise that the member will be rewarded in terms of material things, or even intangible rewards such as promotion, recognition and authority.

Trust building is very important in this stage, and any feelings of betrayal, especially by the leader, can result in the member being demoted to the out-group. This negotiation includes relationship factors as well as pure work related ones, and a member who is similar to the leader in various ways is more likely to succeed. This perhaps explains why mixed gender relationships regularly are less successful than same gender ones. The same effect also applies to cultural and racial differences.

3-Routinization: The two phases above become a routine exchange between the leader and the member. A pattern of on-going social exchange between the leader and member becomes established. The members work hard at building and sustaining trust and respect. The members are often empathetic, patient, reasonable, sensitive, and are good at seeing the viewpoint of other people, especially their leader. Aggression, sarcasm and a self-centered view are qualities seen in the out-group.

The quality of the LMX relationship varies. It is better when the challenge of the job is extremely high or extremely low. The size of the group, financial resource availability and overall workload are also important. The theory can also work upwards as well. The leader can gain power by being a member of his or her manager's inner circle, which the leader can then share with subordinates.

The main limitation of leader-member exchange research is that it is not particularly helpful in describing the specific leader behaviors that promote high-quality relationships. At best it only implies generalities about the need for leaders to show trust, respect, openness, autonomy and discretion.

Observations of note in regard to LMX and Vertical Dyad Linkage include:

-The best predictors of in-groups membership are compatible personality, interpersonal attraction, extraversion, and subordinate competence/performance

-In exchange for special relationship, in-group members are expected to present higher loyalty and greater effort and responsibility as they are assessed and groomed for potential leadership positions

-The in-group relationship is relatively stable over time

-Once a person is in the in-group, the halo effect may take over and there is evidence that manager ratings of in-group subordinates may be inflated beyond their actual performance, while out-group members are rated accurately

-LMX is positively related to empowerment, latitude, and job satisfaction

-The initial impressions that form the eventual group membership of in- and out- groups may take place very quickly; within hours of pairs working on a simulation, and within weeks of working on a job

-Without some form of equity for the out-group, they may eventually feel resentment, loss of team identity, impoverished teamwork and cooperation, and lower production and morale

The in-group may be at risk for taking advantage of their position, behaving arrogantly, or reducing their effort once they have attained in-group membership.

The initial research done primarily addressed differences between in-groups and out-groups. Then a shift in focus took place. In a later study by Graen & Uhl-Bien (1995) an examination of how LMX theory was related to organizational effectiveness and the quality of leader-member exchanges resulting in positive outcomes for:

-Leaders

_Followers

-Groups

-Organizations in general

Research determined that high quality leader-member exchanges produced:

-Less employee turnover

-More positive performance evaluations

-Greater organizational commitment

-More desirable work assignments

-Better job attitudes

-More attention and support from leaders

-Faster career progress

-Organizations prosper from high quality leader-member exchanges

This revised version has correctly added the recommendation that leaders who desire to be most effective will strive to create special exchange relationships with all their followers. It is not necessary to treat all subordinates exactly the same. The leader should have a deeper exchange relationship with those who have been entrusted with greater responsibility or administrative functions. Yet, it is possible and desirable that the leader cultivates a relationship of mutual supportiveness, respect, and trust with all subordinates. It is important that every follower is respected like a valued member of the team. They should be able to thrive in an environment of equal opportunity where their skills are evaluated because of their competence rather than obvious favoritism.

This is a prescriptive approach to leadership. It emphasizes that a leader should develop high-quality exchanges with all of their subordinates rather than just a few. It attempts to make every employee part of the in-group. Graen and Uhl-Bien refer to this as leadership making. Leadership-making suggests that leaders create partnerships throughout the organization which benefits the organization at large as well as their own career. They explain that leadership-making develops over time in three phases:

-The Stranger Phase

In this initial phase the interactions within the leader-subordinate dyad are rule bound with heavy reliance on contractual relationships. The leader-member relate to each other within their prescribed organizational roles. The quality exchange is lower, very similar to the out-group. The subordinate complies with the formal leader who has hierarchal status for the purpose of achieving economic rewards. The motives of the subordinate are directed toward self-interest rather than the good of the group.

-The Acquaintance Phase

This phase begins with an offer from the leader or the subordinate for improved career-oriented social exchanges. It involves sharing more resources and personal information. There are tests in which the leader and subordinate assess whether the subordinate is interested in taking on new roles and if the leader is willing to provide new challenges. Dyads shift away from the prescribed job description and defined roles to new ways of relating. The leader-member exchange improves along with greater trust and respect. They tend to focus less on self-interest and more on the goals of the group.

-The Mature Partnership Phase

This is a partnership marked by high quality leader-member exchanges. There is a high degree of mutual trust, respect, and obligation toward each other. Leaders and subordinates are tied together in a productive way that goes beyond traditional hierarchy. The relationship has been tested and found to be dependable. There is a dependence on

each other for favors and special assistance. Highly developed patterns of relating to each other produce positive outcomes for the leader, subordinate and the organization.

These partnerships between the leader-subordinate are transformational, moving beyond self-interest to accomplish greater good of the team and the organization. The LMX relationship is built through interpersonal exchanges in which parties to the relationship evaluate the ability, benevolence, and integrity of each other. These perceptions, in turn, influence the behaviors of each other. LMX examines trust, respect and a sense of mutual reciprocity in the leader/follower relationship [Brower, et al, 2000].

The question remaining is how does the LMX theory work and how can it be implemented in the workplace. The theory works in two ways: it describes leadership and it prescribes leadership. In both, the central concept is the dyadic relationship between the parties involved.

In describing leadership the theory highlights the importance of recognizing the existence of in-groups and out-groups. The differences on how goals are accomplished using the in-groups or out-groups are substantial. In-group members do more than the job description requires and look for innovative ways to advance the group. In response, leaders give them more responsibilities and more opportunities. Leaders also give them more time and support.

Out-group members operate strictly within their prescribed organizational roles. They do what is required of them, but nothing more. Leaders treat them fairly and according to the formal contract, but do not give them special attention. They get the standard benefits.

In prescribing leadership, the authors of the theory advocate that leaders should try to create special relationships with all subordinates. Leaders should offer each subordinate the opportunity to take on new roles and responsibilities. The leader should nurture high-quality exchanges with all of their subordinates. If the LMX Theory is practiced, the result should be positive organizational outcomes relating to performance, organizational commitment, job climate, innovation, organizational citizenship behavior, empowerment, procedural, distributive justice, and career progress.

The concept of in-group/out-group is reminiscent of high school gym class. The coach picks the two most athletically gifted students as team captains giving them instructions to put together a team. Then the dreaded selection process begins. The biggest, strongest, fastest, are picked first by the captains in an effort to build a winning team. As the selection pool dwindles, all that is left are the awkward and less physically gifted in the class. Within the team there are now two groups-the in-group and the out-group. The goal of everybody on the team is to win. How the team captain chooses to lead all of the members of the team will determine the outcome.

The same situation occurs in the workplace. In an ideal world every leader would be able to hand pick his/her dream team. A group of like thinking individuals with the same

ethics, values, aspirations, level of trust, respect, and goals. Unfortunately it never works out that way. On a recent episode of *Master Chef* the winners of the previous competition were instructed by the judges to choose up teams for the next challenge. They had the opportunity to put together their “dream teams.” When the selections had been made and the team captains were congratulating themselves on their choices, the judges threw them a curve. The team captains were instructed to “swap teams.” Neither captain ended up with anybody they really wanted. In reality, they ended up with a team they never wanted; quite the quandary. The captains still wanted to win the next challenge; their team members wanted to win the challenge, but nobody was thrilled with the team they were going to have to work with to accomplish that result.

To demonstrate how the LMX theory works in this type of situation, or any situation for that matter, it is best understood within the Leadership Making model. The leader has to form a special relationship with all subordinates. In order to do that, it will be necessary to:

1-Identify the out-group-it’s probably pretty obvious who these subordinates are. What has to be determined is why these people have fallen out of favor. Did they do something exceptionally serious or exhibit bad behavior? Are they truly incompetent, or do they have low motivation. Analyze what they’ve actually done, and compare the facts with the perceptions. Look for key characteristics that might help in exploring their interests and an area where they might excel.

2-Reestablish the Relationship-if there is no relationship or it has been damaged a reasonable effort needs to be made to repair that. The leader should initiate some planned dialogs to better understand the subordinate’s personal aspirations, task related preferences and career goals. Determine what can be done to make their work more challenging and engaging. The motive of this exercise is to test the willingness of the subordinate to take on new responsibilities, and also to test and develop the confidence in the leader. The leader will obtain more feedback from the subordinate and reduces the self-interest oriented approach of the subordinate.

While it’s important to understand what motivates an individual, it’s equally important to identify factors that might prove de-motivational. Below are some factors that can affect the relationship:

-Are the organization and the job position meeting the subordinate’s expectations of what was promised at the time of hire? If not, why?

-Is there low ability and willingness on the part of the subordinate to perform? This can force a leader to take a directive style which lessens the relationship.

-Are the lines of communication open? There is an element of satisfaction in subordinates when there is proper communication regarding various aspects of the organization. Personal and interpersonal communication with the leader and coworkers

provides a sense of organizational citizenship to the subordinates that they are an integral part of the organization.

-The amount of organizational information received also has a positive affect. The more transparency in the workings of an organization, the more confidence and motivation for members to exceed expectations.

-Interactions that are not work related, social exchanges, also have a positive affect by building mutual confidence and trust.

It is important to get to know subordinates on a personal level. Constant communication is crucial. It provides a strong base to give importance to exchanges between leader and subordinate

Each subordinate needs to be given an opportunity to take on new roles and responsibilities. The leader should nurture high-quality exchanges with each team member. Rather than concentrating on differences, the leader focuses on ways to build trust and respect with all subordinates resulting in the entire workgroup becoming an in-group.

As a whole, it is a very interesting approach to the leadership process, and it offers us a lot of ideas to understand better the relationship between leader and follower. It is a tool that offers insight that managers can use to improve their leadership behavior. These ideas can be used at all levels of the organization. Furthermore, the ideas can also apply to creating networks within an organization and calling upon this network to help solve problems or advance career goals.

LMX theory validates our experience of how people within organizations relate to each other and the leader. The LMX theory is the only leadership approach that makes the dyadic relationship the centerpiece of the leadership process. Our attention is directed to the importance of communication in the leadership process. Positive organizational outcomes are the foundation of how the practice of LMX theory works.

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