

Can LMX be dysfunctional? Possible causes and outcomes

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ABSTRACT

The general view in leader-member exchange (LMX) theory is that it is desirable for leaders to develop high quality exchange with their members. Most LMX theorist assume that the development of LMX and the creation of an in-group within a work group are unproblematic. This paper argues that LMX development can have dysfunctional consequences. We discuss the possible situations where the high quality LMX enjoyed by the in-group can affect the overall group cohesiveness and performance. It is argued that the inaccurate assessment of a member by a leader and the flawed categorization of members into the in-group will create a sense of inequity and is likely to lead to dysfunctional LMX (DLMX).

Key words: trust, group processes, leadership

When the LMX theory was first developed it was seen as questioning the assumptions of the Ohio State and Michigan studies on leadership (Graen & Uhl-Bien, 1995). These studies argue that leaders develop an average leadership style that is applied uniformly on all subordinates. The LMX theory basically takes a different position. It argues that leaders develop differentiated dyadic relationships with their subordinates. High quality leader-member exchange (LMX) is seen as something desirable in the relationship between a leader and his or her subordinates. Some subordinates enjoy a higher quality LMX and some experience lower quality LMX. Much of the work on LMX assumes that this differentiated treatment of the members by the leader is unproblematic and does not lead to dysfunctional consequences.

LMX THEORY

High quality LMX is characterized by mutual trust, liking, respect and reciprocal influence between the leader and team members (Liden & Maslyn, 1998). Studies show that subordinates who enjoy high quality LMX with their leader enjoy more freedom in performing

their work, are usually given better job assignments and more support, have more opportunities to work with the leader and experience more trust in the relationship (Ashkanasy & O'Connore, 1997; Lee, 2005). LMX is also said to be an important element in developing effective work relationships in work teams (Graen, Hui & Taylor, 2006). Employees who enjoy a high quality LMX are also said to be more willing to take risks and deviate from the status quo (Tierney, 1999).

Low quality LMX is marked by a relationship that is based strictly on the terms of the employment contract (Liden & Maslyn, 1998). Members in a low quality LMX are more likely to be given unattractive job assignments and have limited opportunity to interact with the leader (Ashkanasy & O'Connor, 1997). Leaders in low quality LMX relationships are usually perceived as autocratic and tend to rely on communication behaviour that exhibits leader dominance (Sparrowe, Soetjipto and Kraimer, 2006).

One of the criticisms of LMX theory has been its failure to take a more contingency approach (Erdogan, Liden & Kraimer, 2006). It assumes the desirability of having high quality LMX. This paper argues that while high quality LMX is beneficial to the leader and his in-group, there may be circumstances where such a situation can be dysfunctional. We argue that this can happen when the high quality LMX developed by a leader with the in-group is based on a flawed assessment of the in-group members' contribution and performance. As a consequence, out-group members perceive unfairness and may develop negative reactions to this situation. This can then undermine the performance of the group as a whole (Liden, Erdogan, Wayne & Sparrowe, 2006).

LMX Formation

Ashkanasy and O'Connor (1997) argue that LMX evolves through a two stage process. First, leader and member form initial impressions of each other based on their personal and demographic characteristics. The second stage is when the leader assesses the member's work

performance and makes attributions about their performance. The leader then decides on the quality of exchange he wants to develop with the member on the basis of this assessment. The leader's perception of member performance is partly shaped by their value congruence.

Dienesch and Liden (1986) point out that the assessment made by a leader can be affected by the halo effect. Members who are perceived to be good in some aspects are treated as though they are good in all aspects of their job. Situations may also arise where there is a compensatory effect. For instance, a member's less than satisfactory job performance is tolerated because of the loyalty he has shown to the leader.

While high quality LMX is beneficial to those included in the relationship, there has been limited attention given to the impact it has on those not included in the relationship. In the context of work groups, it is possible that such a situation can be divisive and undermine group performance. Scandura (1999) points out that differentiated treatment of group members can violate expectations of equality. Northouse (1997: 117) argue that the notion of in-group creates the appearance of discrimination within a work group. Such a situation runs counter to our expectations of fairness and can lead to negative consequences (Erdogan et al., 2006).

Erdogan et al. (2006) point out that a leader's fair treatment of subordinates conveys a sense of the leader's benevolence. This also signals the leader's commitment to the subordinates which then fosters the high quality exchange between them. However, fairness does not always require equal treatment. Scandura (1999) points out that the differentiated treatment of team members into in-group and out-group can be accepted by team members if leaders are seen to behave in a just manner. In fact, members can accept unequal treatment and distribution of resources if they perceive the decision making process leading to the decision was done in a fair manner. In other words, the functionality of having a differentiated treatment of group members is contingent upon those affected by it perceiving it as being done in just manner.

DYSFUNCTIONAL LMX

We begin by defining DLMX as a condition where the high quality of exchange between a leader and certain member/s is perceived by others in the work group as an inequity. This can arise because of the leader's inaccurate assessment of group members. This inaccurate assessment has the potential to create a sense of unfairness and subsequently undermines work group morale, cohesiveness and performance.

Antecedents of Dysfunctional LMX

We argue that DLMX can arise as a result of two conditions. The first is the inaccurate assessment of a member by a leader. This inaccurate assessment can be because of the lack of information and opportunity to observe the member or simply due to biasness on the part of the leader in favour of those the leader perceives as sharing the same views and values as her own. As a result of this inaccurate assessment, the leader fails to notice or underestimates the performance of certain members. In the short-term this can create a sense of inequity among the out-group members who may perceive the leader's treatment of the in-group members as favouritism. In the long-term the leader increases the leader's reliance on the favoured members and gives them privileged treatment. Yet these members are incapable of delivering the desired performance.

The second condition arises when members use upward influence tactics to create a favourable impression of themselves. The use of upward influence tactics has the potential to distort the leader's assessment of the member's performance. Leaders then form high quality LMX and include in their in-group these members and confer upon them extra support and resources. At the same time, those not relying on the use of upward influence tactics find their performance not being duly recognized.

In both conditions, those not included in the leader's in-group may react to this perception of unfairness by reducing their commitment and contribution to the group. Liden et al. (2006) argue that in highly differentiated groups, out-group members are more likely to withhold effort and undermine group performance. Sanders and Schyns (2006) argue that when group members develop a common perception of the leadership style of their leader, the more cohesive they become. Using social categorization theory, they argue that team members experiencing inequity may then develop categorization where they define themselves as an in-group and others, including their leader, as their out-group. Harvey, Martinko and Douglas (2006) add to this discussion when they argue that flawed attribution of subordinates' behaviour and outcomes can be detrimental. It can erode trust among other members in the work group and undermine the perception of the leader's effectiveness. The creation of an in-group and an out-group can polarize the work group to the point of undermining horizontal cooperation and group cohesiveness, especially when the tasks are interdependent. The following section discusses the two antecedents of DLMX in greater detail.

Inaccurate Assessment and DLMX

As mentioned earlier, a number of conditions can lead to a leader making inaccurate assessments of group members. These conditions are indicative of a distortion and attributional biases in the assessment (Dienesch & Liden, 1986). These conditions result from the behaviour of the leader and the behaviour of the member.

One behaviour that is related to the leader is favouritism. Miller, Droge and Vickery (1997) discuss about conditions that give rise to favouritism. Their discussion focuses on functional favouritism within organizations. They argue that favouritism can arise during conditions of success as well as conditions of failure. During periods of success leaders tend to attribute the success to certain functional departments. This happens as part of an attempt by the

leader to claim credit for the success. They do this by aligning themselves with a particular unit and then praising the unit. Favouritism can also arise during conditions of failure and in stable conditions. Failures during stable conditions tend to elicit defensive responses from leaders. A common defensive behaviour is for leaders to seek consistency. This causes them to escalate commitment in existing decisions. Such a situation also causes leaders to favour familiar functions and activities. Thus, leaders are more likely to favour and bring into their in-group those who conform with their views.

We argue that leaders facing failure in stable situation are likely to favour members who subscribe to their existing views and decisions. Those who do not concur with the leader's view are excluded from this in-group. This escalates the leader's commitment to existing views and decision that caused the failure. This view is consistent with Ashkanasy and O'Connor's (1997) view that leaders tend to develop high quality LMX with members who they perceive as having similar values and attitudes. As a result, members who see the problem differently are more likely to be marginalized. Such a favouritism is less likely to arise in dynamic environments. A dynamic environment tends to force leaders to recognize that the future is less likely to be similar to the past and prompts solution search behaviour (Miller et al., 1997). We therefore propose:

Proposition 1:

Leaders facing failure in a stable environment are more likely to develop dysfunctional LMX by favouring members who reinforce their commitment to ineffective decisions and policies than leaders facing failure in a dynamic environment.

DLMX can also arise because of the inaccurate assessment resulting from the behaviour of the member. Dienesch and Liden (1986) and Deluga and Perry (1991) point out that subordinates' use of upward influence behaviour is common in organizations. Specifically, members may resort to behaviours that create a favourable impression of themselves. Individuals

shape the image they project by managing the impression of others they interact with. Impression management helps create an image of good organizational citizenship behaviour (Bolino, 1999).

McFarland et al. (2005) argue that impression management has an impact on performance evaluation under certain conditions. They found evidence showing that the use of impression management is more common when the performance assessment relies on subjective criteria, such as the interpersonal skills of members, than in situations where the assessment is based on technical skills. Leaders are more easily influenced by impression management when they do not have an objective basis for assessing their subordinates' performance. And members know that they are more likely to be able to create a desirable view of themselves through impression management when the leader relies on subjective criteria in evaluating them. Among other things, employees find it necessary and expedient to behave and convey an impression that they subscribe to the leader's values (Hewlin, 2003).

Bolino (1999) argue that impression management becomes more important under certain conditions. One such condition is when there is a high level of politicization in the organization. Bolino (1999) argue that in this situation, members find that an individual's image becomes more important. Being seen in favourable terms by those who are politically powerful is seen as important. This includes exhibiting behaviours that indicate agreement with these individuals. Thus, creating an impression of conformity with the views and positions of these individuals becomes necessary.

Impression management also becomes more important as the performance appraisal date approaches. Bolino (1999) explains that members try to exploit the effect of recency bias by exhibiting extra-role behaviours as the date of appraisal nears.

Another condition that may cause members to rely on impression management is when they have limited control over performance (Bolino, 1999). This can happen when a member's

performance is highly dependent on the performance of those before or after her in a process. In such a situation, a member finds her ability to deliver high performance is constrained and may feel compelled to rely on impression management to create a favourable image of herself. Members also rely on impression management when they perceive their performance to be indistinctive.

The preceding discussion shows that leaders can develop high quality exchange because of the upward influence tactics used by the member. This is more likely to happen when the performance appraisal systems rely on subjective criteria. Members are also able and more likely to exploit this situation when the organization is highly politicized, as the appraisal date approaches, when they see that they have limited control over their performance and when their performance does not differentiate them from others. These tactics are particularly effective when the work arrangement limits the leader's ability to observe their subordinates.

As a result of these situations, leaders may end up bringing into their in-group members who did not actually deliver good performance. As such, the high quality exchange the leader developed with the in-group is dysfunctional in that it undermines the morale of those who are excluded. Thus, we propose that:

Proposition 2:

DLMX is more likely to develop in a situation where leaders do not have an objective measure of members' performance and in-group members rely on managing impression to gain favourable appraisal and inclusion into the in-group.

Specifically, this is more likely to happen in conditions when members are not able to demonstrate good performance or where good performance is less valued. Thus,

Proposition 2a:

DLMX is more likely to develop when the climate in an organization is highly politicized and when members rely on managing impression to gain favourable appraisal and inclusion into the in-group.

Proposition 2b:

DLMX is more likely to develop as the performance appraisal date approaches and when members rely on managing impression to gain favourable appraisal and inclusion into the in-group.

Proposition 2c:

DLMX is more likely to develop when members have limited control over their work performance and when these members rely on managing impression to gain favourable appraisal and inclusion into the in-group.

Proposition 2d:

DLMX is more like to develop when members perceive their performance as indistinguishable from others and when these members rely on managing impression to gain favourable appraisal and inclusion into the in-group.

OUTCOME OF DLMX

When employees feel unfairly treated, they are likely to react by initially changing their job attitudes, followed in the longer term by responses that are more retaliatory such as quitting (Vigoda, 2000). In a work group, a negative perception can arise among out-group members because of the flawed assessment of group members by the leader and the special treatment given to in-group members. Therefore, we expect:

Proposition 3:

When out-group members perceive the high quality LMX their leader develop with certain members to be based on flawed assessment, they are more likely to perceive it as unfairness.

Dasborough and Ashkanasy (2002) argue that members observe and make attributions of their leader's behavior. Members can gravitate or shun a leader after observing the leader's behavior. When members perceive their relationship with the leader both parties they develop the desire to reciprocate by behaving in ways that benefits the leader. On the other hand the experience of being treated negatively and unfairly by the leader is likely to create the opposite impact.

Uhl-Bien's (2003) review of the literature on LMX and reciprocity shows the reciprocal exchange between a leader and group members can be both positive and negative. Negative reciprocal behaviour involves a range of possible behaviours aimed at causing some damage or injury to the other party. One form of negative reciprocity is to engage in behaviours that is purely motivated by self-interest rather than mutual interest. Negative reciprocal behaviour involving inflicting injury is less likely to be used in a troubled leader-member relationship. This is because of the power and status difference between the leader and the member limits the actions that can be used by the member (Uhl-Bien, 2003). We therefore propose:

Proposition 4:

As a result of the perception of unfairness arising from DLMX, out-group members are more likely to engage in negative reciprocal behaviour. Specifically, these members' behaviour will be shaped purely by self-interest and reduced willingness to engage in extra-role behaviour in the group.

Poon, Rahid and Othman (2006) found that trust in the leader will decrease when members perceived the leader as having little intention to do good to him or her in the leader-member relationship. These members subsequently reduce their affective organizational commitment. In the context of work groups, DLMX will undermine trust and commitment to the group. Thus, we argue:

Proposition 4a:

When out-group members perceive the high quality LMX enjoyed by the in-group as being based on flawed assessment, they are more likely to reduce their commitment to their work group.

Murphy et al.'s (2003) examination of social loafing found evidence to show that justice and LMX quality is negatively related to social loafing in the work place. Members who experience unfair treatment are likely to perceive their relationship with their leader to be of a high quality. As a reaction, they withhold effort and engage in social loafing. We therefore propose:

Proposition 4b:

As a result of the perception of unfairness arising from DLMX, out-group members are more likely to engage in negative reciprocal behaviour. Specifically, these members withhold their effort and are more likely to engage in social loafing.

Graen et al. (2006) also argue that team effectiveness is affected by the development of a network of exchange i.e. LMX and member-member exchange (MMX) within teams. In a high quality exchange, between a member and the leader, and with other team members, the member develops relationships that begin as strangers that then develop into acquaintances and finally evolve into friendship and leadership- sharing.

Conversely, when members develop a feeling of unfairness they begin to distance themselves from their leader and are likely to act and communicate in ways that exacerbated the detachment (Fairhurst, 1993). It will also undermine trust and respect towards the leader as well as reduce satisfaction in the work group. The discussion on cooperative behaviour in teams recognize the distinction between horizontal and vertical cooperative behaviours (Sanders and Schyns, 2006). The former refers to cooperation with peers and the latter with the leader. Cooperation with peers is reflective of the quality to member-member exchange (MMX). Both are needed in developing successful teams (Graen, Hui & Taylor, 2006).

Venkataramani and Dalal (2006) argue that negative emotions and relationships adversely affect the ability to collaborate and work together towards achieving organizational goals. Individuals are also less likely to help disliked peers. As such, we expect DLMX to undermine trust and cooperation between out-group members and the leader as well as their trust and cooperation with the leader's in-group members. Thus, we propose:

Proposition 4c:

When out-group members perceive the high quality LMX enjoyed by the in-group as being based on flawed assessment, they are less likely to engage in cooperative behaviour with other group members.

CLOSING

We hope to contribute to the development of LMX theory by raising questions about the potential negative consequences of LMX. We propose a number of conditions where the development of high quality LMX can be dysfunctional. These conditions arise out of the perceived unfairness that then leads to the differentiated treatment of group members. In doing this, we hope to contribute to a more contingent understanding of LMX.

This contingent understanding of LMX has a number of implications for research and practice. Even though more researchers are beginning to recognize the conditions where leaders can end up developing dysfunctional LMX, more need to be done on this issue. There may also be a need to reconceptualize what constitutes high quality LMX. Perhaps there is the need to incorporate fairness as a dimension in LMX quality. This is particularly necessary when we see that the nature of social exchange has repercussions beyond the dyadic relationship between a leader and a member. It also impacts the work group as a whole.

For practitioners, recognizing the possibility of that the exchange between them and their subordinates can be dysfunctional is important. Leaders need to be sensitive about their assessment of their employees and ensure it is accurate and fair. This is particularly the case in situations where the leader has limited opportunity to observe and interact with their members and where the performance outcome is indistinctive. Leaders need to be cognizant that high quality developed based on flawed assessment is likely to be perceived as injustice. The possibility of leaders developing DLMX in such situations should not be underestimated.

We hope this discussion will stimulate more debate and further development of the views presented here. It highlights the need for leaders to understand the role of LMX on the performance of their group. This is important given that group performance is a key measure of a leader's effectiveness (Liden et al. 2006). Enacting justice is crucial in ensuring that LMX development does not undermine group performance.

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