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**EMPLOYEE RELATIONSHIPS IN SERVICES: LEADER MEMBER EXCHANGE LEADING PERFORMANCE.****Dr.Manvinder Singh Tandon\*****Owais Ahmed\*\***

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**Abstract**

Leader member exchange theory, being, an emergent theory in leadership literature, has been associated with favourable job outcomes like employee motivation, commitment, productivity. However, least research was conducted regarding job outcomes like employee service performance. The current study would examine leader member exchange in relationship with employee service performance. The current study is an endeavour to be first research study examining leader member exchange and employee service performance relationship in service industry with integration of insurance, banking and postal service organizations. The study is conducted in Kashmir region of the State of Jammu and Kashmir, India. The study offer valuable findings, implications and suggestions regarding betterment of leader member exchange quality, job satisfaction and employee service performance.

**Keywords:** Leader Member Exchange and Service Performance.

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## Introduction

Service Industry being vital for shaping economies across the globe, in particular sectors like banking, insurance, postal etc, has been considered as the pillars for forming strong and stable economies. Employees in service sector act as ambassadors of an organization. Employees in service organizations are responsible for creating perception of service quality, repeat purchases, customer satisfaction, retention, loyalty and organizational image. However, employee performance is influenced by factors like relationship with supervisors, co-workers, job attitudes, organizational support, etc. Relationship between supervisor-subordinate and service performance of employees received least attention of researchers in the past. However, the current study would examine the given relationship in its exclusivity.

*Insert Fig 1 here.*

## Statement of the Problem

Service organization's lack of focus on human resource, especially, the relationship aspect among employees, in particular superior- subordinate relationships had been the cause of concern for attaining the objective of delivering superior service performance. Therefore, it seems necessary to understand the complex nature of leader member relationships and formulate an appropriate strategic course of action to foster better leader member relationships. Leader Member Exchange has been found having significant relationships with various individual as well as organizational outcomes. Researchers were of the opinion that LMX would be of strategic importance to organizations worldwide. Therefore, the current study would be of strategic importance to Managers or Practitioners in service industry to identify elements that could enhance employee service performance.

## Objectives of The Study

The current study would like to achieve various objectives like study of LMX relationships in service organizations like Department of Posts, SBI, LIC, JKB and PNB; study the role of LMX on job service performance of employees in above organizations; identify as well as suggest measures to overcome loopholes to improve service performance in above listed organizations.

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### **Theoretical Framework and Hypothesis**

Leader Member Exchange Theory (Dansereau et al., 1975; Graen and Cashman, 1975), is based on the principle of reciprocity i.e. leaders and members share mutual understanding and responsibility of each other's needs and authority (Graen and Cashman, 1975) i.e. both parties exchange favours for each other either simultaneously or expectation of receiving in future. LMX suggests that leaders form different relationships with their subordinates in the form of high and low quality relationships. High quality relationships are characterized by more leader attention, loyalty employee trust, autonomy, resources, respect, etc given by leader to his immediate subordinate. Cooperation, compliance etc, is exchanged by subordinate in return and thus form in-groups. Low quality relationships are controlled by formal contracts and economic exchanges (Sparrowe and Liden, 1997) like routine tasks, role defined, etc and thus form out-groups. In-groups are preferred by leaders by finding personality identification match in terms of characteristics like aggression, extroversion, agreeableness, emotional stability etc. Out-groups are being perceived as lacking competence, abilities, skills, responsibility, decision making etc. Also, constraints like time, scarce resources, personality clash etc, limit the scope for forming high quality relationships.

### **Service Performance**

Service Performance, refers to the goal directed behaviour of employees set by an organization like superior service delivery, customer satisfaction, customer retention, etc (Campbell et al., 1993) and include performing in-role tasks (mentioned in job contract), out-role tasks (outside job contract) like helping co-workers, showing courtesy to customers, etc (Zemke and Schaaf, 1989). Service performance comprises of individual as well as organizational performance. Individual performance include outcomes like work performance, rate of turnover, absenteeism rate etc, while as organizational outcomes service quality, productivity, image etc (Dyer, and Reeves, 1995).

### **LMX and Service Performance**

Employee perform in-role as well as out-role tasks (voluntary tasks) in work cultures characterized by supervisor and co-worker support, job autonomy, access to information, resources; feedback; open communication etc. Management support like participation in decision making enhance employee morale, commitment and performance (Polly, 2002). Mentoring by supervisors in key technical tasks affect self-efficacy of employees and lead to increase in productivity, performance, profitability (Samuel, 2011). Employees feel empowered when given more responsibility,

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resources, access to confidential information that leads to more engagement, commitment and performance (Alzate, 2009). Employees receiving feedback has shown more productivity and performance in their job tasks. Since, LMX has been of the opinion of establishing quality relationships between supervisors and subordinates based on mutual employee trust, sharing responsibility, resources, delegating autonomy in job tasks, feedback, open communication, etc. Thus, we propose that LMX has a positive impact on employee service performance.

H1: LMX positively influence service performance of employees.

### **Methodology**

The methodology followed mainly involve the examination of the causal relationship between LMX and service performance. The details of methods followed are as:

#### **Data Collection Method and Sample Size.**

The survey method with structured Questionnaires and interview, were used for data collection purposes. A sample size of 500 respondents representing profiles like middle management, frontline staff, lower level employees and customers were part of the current study. Stratified sampling method was used in which each of the five strata represent same proportion of sampling elements that is of 100 respondents, thus ensuring more chances of representation of elements of target population and validating generalization of results. A sample size of 500 comprises of 100 supervisors or leaders, 200 sub-ordinates or members and 200 customers. 20 Supervisors, 40 sub-ordinates and 40 customers each from all five organizations like Life Insurance Corporation (LIC), Department of Posts (Post Offices), State Bank of India (SBI), Jammu and Kashmir Bank (JKB) and Punjab National Bank (PNB) thereby making sum total of sample size equivalent to 500. Relationship of each supervisor is linked with two immediate sub-ordinates and performance of each sub-ordinate is assessed by a single customer. The survey was conducted in the state of Jammu and Kashmir, the northern most part of India for almost a period of 6 months.

The SPSS tool was used to analyse data, by using various statistical techniques like descriptive analysis, multiple regression analysis, factor analysis, ANOVA, Duncan' Post Hoc test. Also, structural equation modelling was used to test the hypothesized model. Path coefficients revealed positive relationships between all constructs of the present study. Also, other statistical coefficients like Pearson's coefficient of correlation and multiple regression coefficients in addition to mean and standard deviation values were all in favour of positive and significant relationship between each and every pair of constructs present in the current study.

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## Analysis and Discussion

Data were analysed through various techniques in order to test the hypothesized model. The path model depicting the impact of LMX on service performance was examined through structural equation modelling. SEM enable to test the extent to which variables in the hypothesized model is consistent with the data. The maximum likelihood estimation technique is used to estimate the model as the given technique generate reliable results. Measurement model was first confirmed using factor analysis, then SEM was performed based on the measurement model to estimate the fit of the hypothesized model to the data.

The Confirmatory factor analysis suggested a good fit for the measurement model with  $\chi^2$  value is statistically significant ( $\chi^2 = 838.1$ ,  $df = 348$ ,  $p < 0.05$ ,  $RMR = 0.042$ ,  $GFI = 0.781$ ,  $AGFI = 0.754$ ,  $CFI = 0.901$ ). The goodness-of-fit index (GFI) and the adjusted goodness-of-fit index (AGFI) were 0.781 and 0.753, respectively. The CFI showed a high value of 0.90. Cronbach alpha for all constructs was in significant range. Table 1 below represent mean, standard deviation, correlation coefficients and cronbach values for all constructs which are in significant range.

*Insert Table 1 here.*

The structural modeling suggest that the hypothesized model fit the data well with  $\chi^2$  statistically significant ( $\chi^2 = 913.1$ ,  $df = 391$ ,  $p < 0.05$ ,  $RMR = 0.043$ ,  $GFI = 0.831$ ,  $AGFI = 0.787$ ,  $CFI = 0.913$ ). The goodness-of-fit index (GFI) and the adjusted goodness-of-fit index (AGFI) were 0.812 and 0.795, respectively. The CFI showed a high value of 0.923. The hypothetical relationship of present study is well supported by structural modelling results. The path coefficients for the hypothesized model are shown as below:

*Insert Fig 2 here.*

Further, using, varimax rotation, the principal component factor analysis was administered for reduction of the data. The KMO value of 0.69 and significance of Bartlett's test was at 0.00 level indicating the sampling adequacy for conducting factor analysis Items those indicated low factor loadings ( $<0.40$ ), high cross-loadings ( $>0.40$ ), or low communalities ( $<0.30$ ) were eliminated for further analysis. All factors exhibited satisfactory alpha reliability coefficients, ranging between 0.56 and 0.91.

*Insert Table 2 to 3 here.*

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**Influence of LMX on Service Performance.**

The influence of LMX on service performance is analysed and understood, using a specialized technique of data analysis i.e. multiple regression analysis, represented as:  $Y_1 = bx_1 + bx_2 + \dots + bx_7$ . Where 'Y<sub>1</sub>' represents dependent variable i.e. service performance and 'x<sub>1</sub> to x<sub>7</sub>' represent 7 items or statements of independent variable i.e. LMX. The SPSS tool of data analysis was used to analyse data through multiple regression analysis technique, where in data pertaining to dependent variable i.e. service performance were recorded as 'Y<sub>1</sub>' and data pertaining to independent variable i.e. LMX were recorded as 'x<sub>1</sub> to x<sub>7</sub>'. The results obtained are presented in Table 4. All items of LMX are positively influencing on service performance, with item no 3, being the most influential with (b=.38, p<.05). Item numbers 1, 6, 7, 2, and 5 represents the decreasing order of influence on employee engagement with regression coefficients (b=.37, .36, .36, .34, and .31 respectively) with significant p value of < .05. Item no 4, representing the least influence among all items of LMX on service performance with regression coefficient i.e. (b = .28 and p < .05). The overall influence of LMX on service performance i.e. (R<sup>2</sup>=.38), reflecting a 38% variation in the dependent variable. It evidences that there exists a positive relationship between LMX and service performance, thus supporting hypothesis H1 i.e. LMX has a positive impact on service performance of employees.

*Insert Table 4 here.*

**Comparison of LMX and Service Performance across Multiple Organizations.**

Leader member exchange and service performance being, a phenomenon of perception, often, varies from organization to organization. Therefore, to know the differences or variations among leader member exchange quality and employee service performance, among different organizations of present study, Analysis of Variance test (ANOVA) need to be conducted. ANOVA allowed identifying differences in LMX quality and employee service performance. Also, Duncan's post hoc classification enable to classify organizations in to several groups based on their differences with more significant groups are classified in to subsets while non significant groups form single groups. Statistical values like mean, percentage mean, F-value (ANOVA), significance (p-value) were recorded for each variable in all organizations. Organizations were grouped in descending order of their mean and percentage mean scores based on Duncan's post hoc classification. The results are presented in Table 5 below.

*Insert Table 5 here.*

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The statistical values in Table 5 signifies that significant difference exist between organizations regarding LMX quality and employee service performance with **F-values (6.73 and 5.76)** and **significance of ( $p < 0.00^*$  and  $0.02^*$ )**, respectively. LMX witnessed three Duncan post hoc groups for organizations based on their mean and percentage mean scores that basically, reflect their LMX quality. LIC was found having highest LMX quality and form part of Group 1, followed by SBI, PNB and DOP'S sharing decreasing order of LMX quality and occupy Group 2. JKB is having the least LMX quality and form part of Group 3. Employee service performance consists of three Duncan post hoc Groups with LIC leading in Group 1 with highest employee service performance. SBI, DOP'S and PNB occupied Group 2. Group 3 with JKB having least employee service performance among all organizations.

### Findings and Suggestions

The current study has found that LMX exerts a positive and significant influence on employee service performance directly, with regression coefficient and significance value of ( $R^2 = .38, p < .05$ ).

*Insert Figure 3 here.*

The statistical analysis of the current study offer, various suggestions for improving LMX quality and employee service performance. LMX can be enhanced by increasing the frequency of supervisory support communications like recognition, need analysis, problem solving etc to boost self-esteem and trigger favourable work attitudes among subordinates. Feedback can improve existing high quality relationships, employee trust, While, minimizing low quality relationships at the same time. Leader member personality fit must be ensured while allocating or creating leader member teams. Empowerment of subordinates like sharing information, resources, responsibility etc, could improve LMX quality. The leadership across organizations should make sincere efforts to enhance LMX relationships which would lead to enhancement of individual as well as organizational performance.

### Conclusion

Service sectors like banking, insurance, postal etc, has been highly significant for dynamic growth of Global economy. Employee performance a blend of key factors like relationship with supervisors, co-workers, job attitudes, organizational support, technical knowhow etc. Better leader member relationships influence employee job attitude like job satisfaction etc. Job satisfaction in turn

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influences employee service performance. Research related to direct relationship between LMX and service performance of employees in banking, insurance and postal service sectors has received least or no attention at all. No research study has been found that could explain the direct effects of LMX on service performance in banking, insurance or postal service sectors. LMX and its influence on service performance of employees are scarce in the past research, but the current study exclusively explored the direct relationship between LMX and Service performance.

The current study offer several valuable implications for management practitioners, academicians, scholars etc. Since, LMX theory believe in the principle of reciprocity i.e. exchange of favours. Therefore, leaders could achieve organizational goals and objectives by focusing on mutual obligation perspective, where in supervisors may provide resources, information and support to subordinates who in return accomplish challenging tasks, meeting deadlines, performing in-role, out-role tasks etc. Therefore, management across organizational hierarchy should sensitize their leaders to understand the philosophy of LMX and encourage them to inculcate desired behaviours to ensure effective and efficient leadership. So, that maximum organization desired behaviours and work outcomes could be achieved.

### **Limitations and Future Research.**

The current study may be vulnerable to various discrepancies that may include issues like, data collection techniques, geographic reach, etc. Although, data is collected from different companies like banking, insurance and postal sectors. But, lack of representation from other fields like health, tourism, hospitality, education, may limit the scope of application to these sectors of service economy. Also, geographic reach of current study is restricted to regional level only; participation of organizations from national as well as international destinations could have impacted the results in a different way.

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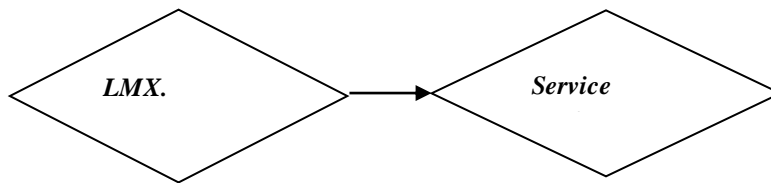
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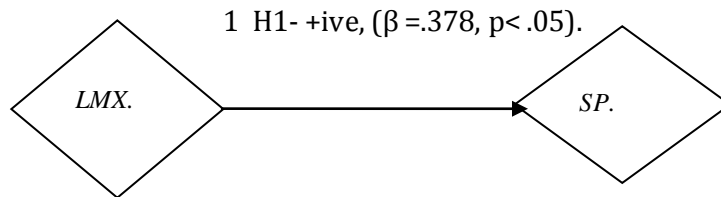
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**Figure 1**



*Fig 1: Self Developed Model for Influence of LMX on Service Performance.*

**Figure 2.**



*Fig 2: Structural Model Results for the Hypothesized Model.*

Note: LMX- Leader Member Exchange and SP- Service Performance.

Figure 3

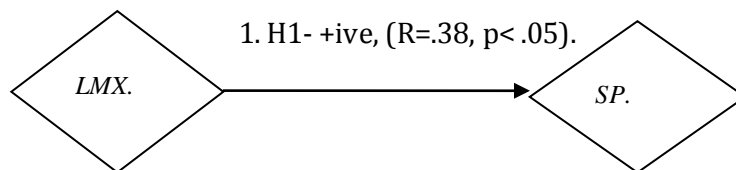


Fig 3: Influence of LMX on Service Performance.

Note: LMX- Leader Member Exchange, JS- Job Satisfaction and SP- Service Performance.

**Table 1: Descriptive Statistics (mean standard deviation and Pearson's correlation coefficients and alpha values of the constructs).**

S.No	Variables	Mean	Standard Deviation	1	3
1	LMX	3.21	0.66	1	
2	SP	3.58	0.805	.42	1.
	Cronbach's alpha			.69	.72

Note: LMX- Leader Member Exchange, and SP- Service Performance. \*All Significant from  $< .01$  to  $< .05$ ; Source: Data collected by Scholars for the study.

**Table 2: Factor Extraction Results.**

S.No.	Variable.	Items.	Factor Loadings.	% Age of Variance.
1.	LMX.	Do you know where you stand with your supervisor...do you usually know how satisfied your leader is with what you do?	0.67	0.23
		How well does your supervisor understand your job problems and needs?	0.56	0.19
		How well does your supervisor recognize your potential?	0.69	0.26
		Regardless of how much formal authority he/she has built into his/her position, what are the chances that your supervisor would use his/her power to help you solve problems at work	0.49	0.24
		Again, regardless of the amount of formal authority your	0.48	0.17

supervisor has, what are the chances that he/she would “bail you out,” at his/her expense?	0.61	0.27
I have enough confidence in my supervisor that I would defend and justify his/her decision if he/she were not present to do so?	0.72	0.18
How would you characterize your working relationship with your supervisor?	<b>0.69</b>	
<b>Cronbach alpha</b>		

Note: LMX- Leader Member Exchange; Source: Data collected by Scholars for the study.

**Table 3: Factor Extraction Results.**

S.No.	Variable.	Dimensions.	Factor Loadings.	% Age of Variance.	Cronbach Alpha.
1.	SP.	SE.	0.89	0.44	.71.
		ESP.	0.81	0.53	.73.

Note: SP- Service Performance, SE- Service Empathy, ESP- Excellent Service Performance. Source: Data collected by Scholars for the study.

**Table 4: Regression Coefficients from Multiple Regressions between LMX and Service Performance.**

S.NO.	Independent Variable. LMX.	Dependent Variable. SP.
1.	Do you know where you stand with your supervisor...do you usually know how satisfied your leader is with what you do?	0.37*.
2.	How well does your supervisor understand your job problems and needs?	0.34 *.
3.	How well does your supervisor recognize your potential?	0.37*.
4.	Regardless of how much formal authority he/she has built into his/her position, what are the chances that your supervisor would use his/her power to help you solve problems at work	0.28*.
5.	Again, regardless of the amount of formal authority your supervisor has, what are the chances that he/she would “bail you out,” at his/her expense?	0.31*.
6.	I have enough confidence in my supervisor that I would defend and justify his/her decision if he/she were not present to do so?	0.36*.
7.	How would you characterize your working relationship with your supervisor?	0.36*.
	<b>R<sup>2</sup></b>	<b>0.38</b>

Note: LMX- Leader Member Exchange, SP- Service Performance.

\*All Significant at < .05; Source: Data collected by Scholars for the study

**Table 5: Comparison of LMX, and Service Performance across multiple organizations.**

S.NO	Var.	Company.	Mean.	P- Mean.	F-Value (ANOVA).	P- Value.	Duncan's (Homogenous Subsets).	Post Hoc	Test
1.	LMX.	LIC.	4.12	82.4	6.73	0.00*	Three Groups:		
		SBI.	3.95	79				G1-LIC.	
		PNB.	3.76	75.2				G2-SBI, DOPS and PNB.	
		JKB.	3.43	68.6				G3- JKB.	
		DOPS.	3.88	77.6					
2.	SP.	LIC.	4.30	86.	5.76	0.02 *	Three Groups:		
		SBI.	3.99	79.8.				G1- LIC.	
		PNB.	3.96	79.2.				G2- SBI, DOP'S and PNB.	
		JKB.	3.51	70.2				G3- JKB.	
		DOPS.	3.97	79.4.					

Note: Var- Variable, P- Mean- Percentage Mean, LMX- Leader Member Exchange and SP- Service Performance; R<sup>2</sup>- Multiple Regression Coefficient. \* p< 0.00 represent significant difference, \*\* p < 0.13 near to significance; \*\*\* p > 0.13 non-significant; Source: Data collected by Scholars for the study.