

CREATING AN EFFECTIVE LEADER-MEMBER EXCHANGE: TESTING THE MEDIATING EFFECT OF ORGANIZATIONAL IDENTIFICATION AND MODERATING EFFECT OF ORGANIZATIONAL LEARNING ON PERCEIVED ORGANIZATIONAL PERFORMANCE.

*Rakhshan Ummar, Mohsin Bashir, Jun Zhao¹

Department of Business Administration Government College University Faisalabad

¹Zhongnan University of Economics and Law. Wuhan. People's Republic of China.

*Corresponding Author: rakhshan2000@yahoo.com

ABSTRACT: *Portraying on the integration of Social Exchange Theory, Equity Theory and Social Identity Theory, the present study investigated that how Explorative and Exploitative Organizational Learning moderated Leader-Member Exchange and Organizational Identification to influence the Perceived Organizational Outcomes. Data was obtained from the respondents belonging to textile sector (n=360) across Pakistan through stratified random sampling. Results noticeably demonstrate that Leader-Member Exchange and Organizational Learning collectively interact to strengthen the relationship between Leader-Member Exchange and Organizational Identification. It was also illustrated that the positive relationship between Leader-Member Exchange and Perceived Organizational Performance is strengthened if they collectively identify with the organization. Furthermore, the positive indirect effect of Leader-Member Exchange on Perceived Organizational Performance through the mediator Organizational Identification and in the presence of moderating variable Organizational Learning is higher if Organizational Learning is high as compared to when it is low. This research encourages that relationship in organizational setup when equitable and is complimented with a tinge of individual needs encourage collective identity in groups. Then these groups outperform than those which lack this combination and organizational performance is improved. This study also persuade on exploring more dimensions through which high quality relations among leaders and followers be developed to improve the performance of firms through synergy in close groups leading to organizational goals.*

Key Words: Leader-Member Exchange, Explorative Learning, Exploitative Learning, Perceived Organizational Performance, Organizational Identification.

1-INTRODUCTION

Organizations as social set ups are reflections of the society and are based on the convictions mutually shared by all. It is evidenced that people perceive the reality in their own context [1] these perceptions are antecedents of their experiences. Collective inclination of employee's perception about firm's performance has found to be strong predictor of its actual performance. Perceived Organizational Performance (POP) has already been used as robust variable of organizational performance and have been given due credit by many researchers [2, 3]. Perceptions are formed on the experiences of those who are a part of that system. They share the experience of every change and getting reinforcement by others who constitute them. So employees who perceive that their organization is performing well cannot be an illusion and those who perceive that things are not going well as per plan, can be taken as signs of ineffective performance.

Leaders are always found to have an influential role in organizations to meet objectives and their influence is pervasive in both groups and teams [4]. The mere effect of leadership in social sciences as agreed by almost all researchers is associated with the postulation that they influence the behavior of others specifically the people in their domain. Those leaders who can synergize the human capital are considered as means to gain competitive advantage [5] and are well thought-out as elemental in organizational progress and betterment.

This strong belief in leadership transcends from several paradigm shifts in research on leadership; from leadership traits to behavior and from power and influence to situational approaches. Researchers have concluded that there are trade-offs between different styles when subjected to multiple criteria expected by all stake holders [6, 7]. Consistent effectiveness due to certain leadership behaviors were sought

impossible due to different role demands, analogy in leader and follower temperament and contextual elements [8].

Another paradigm concentrated on nurturing effective leadership through the impact of situational variables that gave support to adjunct theories of social sciences like Decision Process Theory and Path-Goal Theory by developing an interface in which leaders would get the support of followers through prescriptive treatment [9, 10]. Due to deficiencies in this contemplation a decline in leadership studies is observed mainly due to its captured impact on performance was not empirically justified and had methodological inaccuracies pointed out by researchers. It was proposed by many to hold back leadership domain entirely and advocated that it was exhausted and lack attribution [11]. It was up to 90's that the possibility of unfavorable impact of leadership behaviors was not discussed [12].

Later, put forth by [13, 14] among others was the notion that need for power and supremacy characteristics of leader may have negative effects on the performance of firms through the followers. As a response researchers investigated new aspects of leadership through social exchange. The relationship between follower and leader was found to be of immediate focus as a basic unit of analysis in which a leader influences and the followers get influenced [15].

Leader Member Exchange (LMX) has its roots in role theory proposed by [16] and social exchange theory coined by [17] both theories converge to develop a sense of oneness, reciprocity and mutual dependence, which takes us to believe that this LMX relationship can be mediated by Collective Identity as indicated by [18] to reach the goals of an organization. [19] developed a multidimensional construct of organizational identity having its attachment to centrality, affect and mutual ties is thought out to improve the relationship between a leader and follower, this lead to

believe that LMX has close proximal relations with concepts of mutual interdependence.

Recent turbulence is forward to emphasize the impact of change in the present organizations. A learning organization is the one which continuously adapts to changing environment this finding is in congruence with [20] among others. This leads to accept as true that organizational learning both exploratory and exploitative is well thought-out and is claimed to be most important [21] in organizational dynamics. Hence, Organizational Learning can moderate the dynamics of working relationships in LMX by doing so, also improving performance indicators of an organization.

Members in an organization tend to associate themselves to their collective social identity which, when adapted in organizational set up is known as Organizational Identification (OID) [18]. Both leaders and members are likely to get influenced from this variable. It has already been found that OID brings forth many positive outcomes in both organizational as well as employee perspective. Drawing on Social Exchange Theory we propose that LMX is better able to achieve organizational outcomes if leader and subordinate collectively identify to their organization. Also continuous adaptation to the changing environment is mandatory which require organizations to explore new possibilities and concentrate on existing competencies, this learning tendency has its impact on all individuals in an organization [22]. Skills do not improve with the same pace if organizations are focused on exploration and progressive improvements in competency makes exploration less attractive [23]. It is the relative re-allocation in organizational approach which has an impact on employee performance leading to collide on overall organizational performance. The effectiveness of LMX is challenged due to many reasons; this study will contribute to improve its effectiveness in order to yield improved organizational performance. The objective of this study is to establish and explain how Leader Member Exchange (LMX) can become an effective organizational means to reach desirable outcomes of an organization. At the same time the mediation of Collective identity will be examined. This study will also gauge the moderation of organizational learning on the relationship of LMX and organizational perceived performance.

2-REVIEW OF LITERATURE

Leadership in organizational studies recognizes a relationship between leaders and followers, when some people exert an influence on others due to collective identity of values, goals and aspirations, transforming individual actions into group actions even organizational outcomes [24] also [25] Industrial and Organizational psychologists have greatly emphasized the importance of interactive groups outperforming from leverage of leadership in organizations [26].

The basic unit of relationship based social exchange from a leadership perspective is the Leader-Member Exchange in which role negotiations and quality in relationship develops over time [27]. But it was also debated that this dyadic relation is not always effective in bringing positive outcome as it may not be positively associated to organizational outcomes as reported in a meta-analysis by [28]. Taking care of various discrepancies in bringing a favorable outcome, studies on LMX moved towards various other factors which may lead to better organizational outcomes. In this search the

aspects of relative LMX were studied by [29], personality traits in the context of LMX were explained by [30], differences in emotional state in LMX relationship were articulated by [31], LMX within group behavior was proposed by [32], trust, justice and in- group behavior was detailed by [33]. Even turning towards different leadership styles in group behavior like transformational leadership, paternal leadership [34] and ethical leadership [35] were treated with LMX to improve the organizational results.

Others [36] proposed a model in which LMX fully mediated between transformational leadership and Organizational Citizenship Behavior as well as task performance. The leadership in LMX relationship promotes a personalized touch in role making process and conveys unifying organizational objectives which are identifiable to the follower in an organizational context [37]. People with varied personality traits are unified having an organizational identity which appeal to them as their own self-concept at the same time it cannot be ignored that individual personality traits may affect the LMX relationship [38].

The organizations require adaption to the changing circumstances by recognizing the elements of both exploration and exploitation and striking a balance between the two aspects with cautious decision making [21]. This continuous adaptation may entail difficulties as well as opportunities for strengthening relations through exchange of resources, support and recognition.

The variability in leader's outcome when engaged in LMX is found to be contingent on in group relative variation. Even effective LMX relationship was found not to play its role in improving OCB and decreasing turnover intentions due to their relational differences [39]. It is due to these reasons new domains are explored to authenticate this synergic relation.

The outcome of social exchange is always been of interest to researchers in the social sciences [40]. The relationship between employees and organizations and employees among themselves depend on the subjects exchange ideology according to the social exchange theory [18]. Also LMX has strong support from Role Making Theory as individuals assume different roles in the groups and perform in many roles at the same time [37]. It is also supported by equity theory [41] that relations are transactional in nature and based on the cervix of give and take. For instance, the more a leader is deliberate in giving responsibilities and opportunities to the member the more members would reciprocate in his actions to meet and even exceed the expectations of his superior due to his sense of inclusion in group and gratitude. On similar grounds the more the LMX is established positively the more this relation will contribute towards desirable organizational outcomes.

The main limitation of this dyadic relationship is that it fails to consider the broader social context in which groups make an exchange [42] also it does not account for comparison with other leader member exchange relationships, procedural justice and in group behaviors [43]. The limitations of LMX relationship can be addressed by converging to a social Identity theory that effective leader member exchange can be achieved if leaders and members identify collectively and consider it as an important aspect of their self-concept [44]. It is also believed that more the organization serve to the aspirations and inclination of its employees the more employees identify with it and engage in fruitful social

exchange [17]. As Organizational Learning through exploration and exploitation appeal to the personal needs of an employee the better these needs are fulfilled the stronger they will associate with their organizations. This reason drives us to hypothesize that

H1: Leader-Member Exchange (LMX) and Organizational Learning (OL) collectively interact to predict Organizational Identification (OID), if OL is higher the relation between LMX and OID will be stronger and if OL is low the relation between LMX and OID will be weaker.

Author elsewhere reported his findings on LMX and Perceived Organizational Support POS and found that in newly hired employees the supervisor gets support from the organization and in turn exchange this support with the subordinates if the moderating effect of fear from organizational exploitation is low[45]. It was further explored that employees consider the treatment from their superiors as contingent to the support they get from the organization. It was moreover concluded that POS and LMX were highly associated when employees identified more with their superiors. This led us to conquer on the domains of social identification in our proposed study.

Social exchange Theory advocates that exchanges are interdependent although they take place under some circumstances [40] which are situational and unpredictable. The scholarly writings of [46] indicate that social exchange is comprised of actions which depend upon rewarding reactions from others which may be individuals, groups, societies or organizations. Many researchers have concluded that social relationships are stronger and pleasant in better performing organizations, even prospective employees prefer to become a part of such organizations which perform well. This improvement in relationship is explained on the logic of identity theory and signaling theory. The same impact was studied by [47] and found a positive relationship between corporate social performance and attractiveness of employees towards an organization. So we hypothesize that

H2 (a): LMX is positively related to Perceived Organizational Performance (POP)

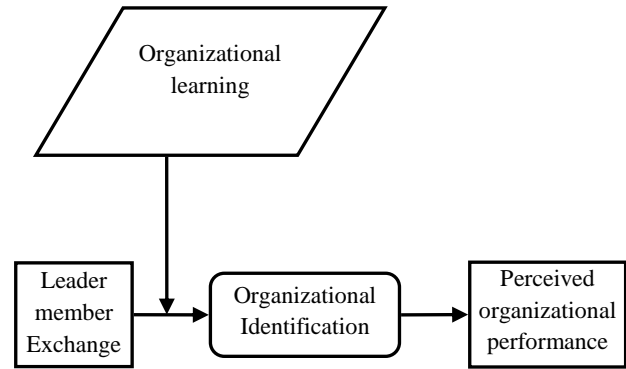
H2 (b): LMX is positively related to (POP) such that LMX and POP relation is stronger if OL is high and low if the OL is low.

LMX relationship and its relative strength on Job Performance have a pivotal importance and expected to bring better overall organizational performance. It has been testified that effective LMX relations impact positively on various jobs related outcomes like job performance revealed by [38], Organizational Commitment explained by [48] and turnover intentions proved by [49]. Perceived Organizational Performance indicate the level of performance an organization attains from various angles of quality, sales, relations between the organization and employees and market performance measures. Instrument to gauge organizational perceived performance were first adopted by [50]. There is always a concern for organizations, adaptive processes to learn [51]. Organizational learning is the right blend to explore new opportunities or contain old competencies as this entails personal tradeoff between experimenting new beliefs and innovation as compared to production efficiency and execution [52]. This selectivity of the organization to go for exploration or exploitation or both have an impact on social

relations which makes us to accept as true that organizational explorative and exploitative learning will moderate the relationship of LMX which is framed in a unique social identity. Hence, we hypothesize

H3: Organizational Identification partially mediates the interactive effect of LMX and OL on POP in such a way that the positive indirect effect of LMX on POP is stronger when OL is high as compared to when it is low.

2.1 Conceptual Framework



3-METHODOLOGY

This research is exploratory in which new domain in relationship between the variables is investigated. The lack of effectiveness in LMX is still not clear and this research aims to clarify and explain it. The gathered data was Primary in nature summarized on a questionnaire based on the conceptual model. As all textiles related organizations in Pakistan were included in the sampling frame so employees working in textile sector from middle and upper management were the sampling units. The textile sector is chosen for this study as its functional effectiveness is based on teamwork and it relies heavily on interdependence of supervisors and subordinates. The target population comprise of respondents belonging to middle level management and upper level management. A stratified random sampling technique according to industry with proportionate allocation was used to generalize the findings. Commonly used statistical tool for the reliability of instrument/scales is Cronbach's coefficient alpha. By using SPSS (21) Cronbach alpha reliability coefficients of each variable were calculated.

Textile sector of Pakistan is the population of this study. Total 500 questionnaires were sent to the employees to get their feedback. The questionnaires were first emailed on verified email addresses and an interactive web page was developed to clarify any possible inquiries. The response was awaited for three weeks, after which only 30 percent response was received. In the second round, emails accompanied by telephone calls were made to the respondents and the purpose was exclusively explained in detail to them. A total of 360 complete questionnaires were received back with a response rate of 71 %. A survey questionnaire based on four meticulous variables was self-administered for any possible ambiguity. Cronbach's alpha is utilized to measure and confirm the reliability of the scales. The analysis is done in which descriptive statistics is utilized to get information about the normality of data. Mean values describe the average

reaction of the employees on variables under study standard deviation show the variations within the information. The relationship among the variables was tested with the help of Pearson correlation. A Hierarchical Regression Analysis was done for a moderator-mediator model in SPSS. Hierarchical regression analysis is used to test the impact of the independent variable on the dependent variable. Mediation analysis is done with the guideline provided by [53] along with the Sobel test was utilized to confirm the variable relationship. Indirect effects of Moderated mediation are tested with the help of Process method by [54].

3.1 Instruments

Relevant literature was consulted in the development of a representative questionnaire and already established tools were adopted to develop the questionnaire. The questionnaire comprised of the following variable information.

Leader-Member Exchange LMX:

The scale developed by [27] containing seven items on a five point Likert scale ranging from (Never know where I stand to Always know where I stand) was used.

Organizational Identity OID:

The measurement instrument is based on the concept of social identity developed by [55] containing six items on a five point likert scale (ranging from strongly agree to strongly disagree) was used.

Measurements on Exploratory Learning and Exploitative Learning:

The measurement scale was based on existing research of [56, 57, 58, and 59]. Both aspects of organizational learning were measured by 5 items each on a five point likert scale (Very much below average to very much above average).

Perceived Organizational Performance:

Scale developed by [50] with seven items on a five point likert scale (ranging from very poor to excellent) was used.

3.2 Sample and Procedure

The final sample consisted of 360 respondents from three major strata comprising of Faisalabad, Lahore and Karachi. The basic standards of assortment of sample we obtained has the attribution of confidence level, precision of size and an acceptable degree of variation as expressed by [60]. A pilot study covered 20% of the sample size as endorsed by [61] was conducted to verify the model and its theoretical justification. We administered questionnaire containing a covering letter to the respondents. The covering letter explained to the respondents the purpose of the study and assured them complete confidentiality. A progressive follow-up was done on a weekly basis to accumulate the survey questionnaire from the respondents. Initially, only 30 percent of the questionnaires were returned, but later an aggregate of 71 percent of the questionnaires were returned. The final sample of employees had an average age of 40.2 years (SD = 4.6) and 96 percent of the participants were male and had been employed in the organization on an average of 4.3 years (SD = 3.2). Overall a total of 30% of the respondents worked in large organizations (more than 1000 employees), 62% of the respondents worked in mid-sized organizations (100-1000 employees) and 8% in small organizations (less than 100 employees). This information was obtained from the first part of the questionnaire.

Ethical Issues:

The basic elements of ethical consideration that the participation is voluntary, discretion was permissible, secrecy was ensured and interpretation of data was not biased was ensured as mentioned by [62] in their research.

Control Variables.

As our respondents were the employees from a variety of organizations, we controlled statistically for organizational size, organizational performance and tenure of employee.

4-RESULTS

4.1 Descriptive statistics

Table 4.1 shows the number of respondents, means and standard deviation of the independent, dependent, mediating and moderating variables.

4.2 Correlation Analysis

Table 4.2 shows the correlation analysis and Cronbach's alpha (Internal consistency) of independent, dependent, mediating and moderating variables. Values of Cronbach alphas were in acceptable range quite high by some liberal standards [63]. As depicted in the table correlation values are all positively and significantly related.

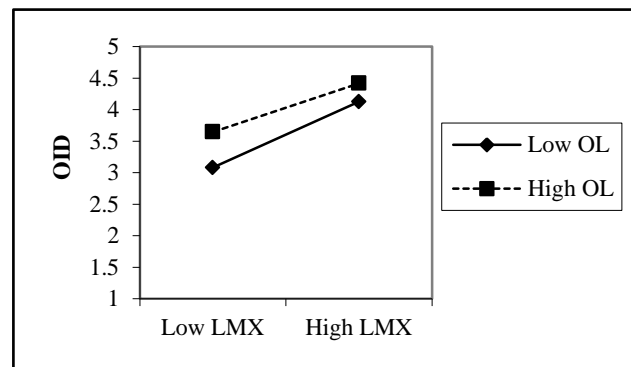
4.3 Hierarchical Regression Analysis

In order to prove the relationship of variables hierarchical regression was conducted stepwise to find the relationship between the variables directly and then by introducing interaction terms. The values of the coefficients were found to be significant as proposed in the conceptual model.

Table 4.4 shows the values of coefficients. In hypothesis H1 we predicted that LMX and OL interact with each other positively and have a positive relationship with organizational identification as shown by the positive improved interaction ($b=.696, p=.000$) and ($b=1.011, p=.000$) with R squared change of .007. The interaction of LMX and OL on POP is also depicting that there is a positive relationship between the interaction of LMX and OL on final outcome variable POP ($b=.725, p=.000$) and ($b= 1.201, p=.000$) with R squared change of .016.

4.4 Graphical Representation

Figure 1 Interaction of Leader Member Exchange and Organizational Learning in predicting Organizational Identification (H1)



The Figure 1 graphically shows that when LMX interact with OL the corresponding predicted values of OID are low when LMX is low and high when LMX is high.

Figure 2 Interaction of Leader Member Exchange and Organizational Learning in predicting Perceived Organizational Performance (H2)

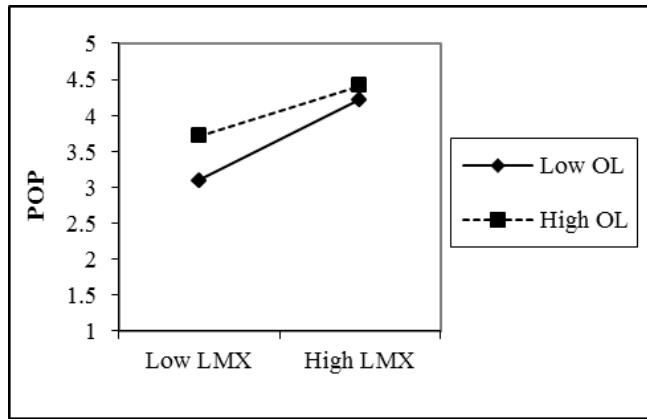


Figure 2 graphically show that when LMX interact with OL the predicted values of POP the dependent variable are low when OL is low and high when OL is high.

In order to check and confirm the impact of mediation between LMX and POP through OID we have employed Bar [53] analytic approach and used Sobel Test to verify the significance and strength of mediation. Table 4.3 shows that there is a significant positive relationship between LMX and POP ($b = .913, p = .000$) then when mediation is adopted in the Sobel analysis the value of ($b = .880, p = .000$) showing a partial mediation of OID on the relationship between LMX and POP. The Z values indicate a high significant mediation $z = 17.578 ***$

Table 4.4 shows results of hierarchical regression such that Leader Member Exchange has a positive relationship with Perceived Organizational Performance and this relationship is high at higher values of Organizational Learning and Organizational Identification and low at lower values of moderator and mediator.

Table 4.5 shows the results of conditional indirect effects which support the hypothesis that LMX interact with OL in such a way that for higher values of OL the values of OID are higher. Also it shows that when LMX interact with OL the values of POP are higher as compared to when the interaction is low.

5. DISCUSSION AND CONCLUSION

5.1 Managerial Implications:

This study incorporated learning model and identification into social exchange perspective. We have examined the basis of equity and identity in exchange processes of individuals and organizations. Our study examines the overwhelming impact of collision between organizational interest and individual preferences. As main effect that is expressed loudly in this study clearly signifies that social exchanges are not antecedents in today’s challenging environment. Rather, it is the matching up of the interests of both parties at stake that is the organization and employees. Our findings stressed that the basis of socially desirable exchange is the ideology behind it which whether supports an exchange or not and if it is a reflection of self or not. The appropriate inclusion of a

moderator thus explains how the social exchange can be made effective in achieving the desired results in organizational settings.

Our findings will provide a persuasion at all levels to indulge in effective social relations in organizational contexts with moderators that can strengthen the relationships. This study will lead to the development and nurturing of Leader-Member association when coupled with Organizational Identity and moderated by effective learning for all employees. The synergic impact of this dyadic relationship can be achieved by blending it with organizational endeavors to learning and adaptation.

5.2 Theoretical Implications

Once the role of leader was sought to be obsolete this study will extend the literature in the support of effective leadership through the understanding of its impact on its followers. Also more avenues can be sought when visualizing the social relations through the particular lens of social identity and recognizing the pervasive impact of social Identification. The element of self-recognition when establishing the relations or building value for an organization should also emphasized. Thus organizations need to balance their learning potential which is an attractive call for all employees as organizational learning is not only for creative super minds but has ingredients of specialization and expertise for the masses and integrate oneness among employees for effective performance.

5.3 Limitations

The current study has certain limitations and provides certain clues for the upcoming researchers to make improvements. Firstly, the scales used in the current research have been adopted as such from the previous validated work of the researchers. Those scales are obviously developed in certain context and culture which is not the same as this research certain adaption with the guideline from academia and professional could have improved the scales and made it more compatible with the local context of Pakistan. Apart from web based response gathering various facilitators were used to get the questionnaire filled this could have an impact on the reliability of the information as human bias is involved. During contact with the employees an informal sharing on many aspects of LMX, OID, OL and POP was shared and it was not included in the analysis. The next step can be an unstructured semi-formal interview in order to get in depth information on many related matters. The element of single respondent bias is also there which need to be resolved in future studies. As this study is cross sectional it does not account for the time an employee is associated with the organization or the supervisor, a similar study with longitudinal aspect in which the quality of relations are mature and organizational performance with reference to various challenges can be seen clearly is advised. As data was gathered on the variables of study on a pet questionnaire the study could not gauge the impact of many other factors on perceived organizational performance not included in the study. Combined impact of Organizational Learning was dealt in this research but the impact of exploitative and explorative learning be investigated separately for more precise findings.

Table 4.1 Descriptive Statistics

Variable	N	Mean	Std. Deviation
Leader Member Exchange	360	3.51	0.69
Organizational Identification	360	3.70	0.86
Organizational Learning	360	3.60	1.00
Perceived Organizational Performance	360	3.73	0.86

Table 4.2 Correlations and Reliability Values

Variable		1	2	3	4
1	Leader member exchange	(0.88)			
2	Organizational identification	.735***	(0.93)		
3	Organizational learning	.586***	.627***	(0.95)	
4	Perceived Organizational performance	.766***	.881***	.653***	(0.91)

***Correlation is significant at the 0.01 level (2-tailed). Scale reliabilities are in parentheses along the diagonal.

Table 4.3 Sobel Test Results of Mediation

	Path a	Path b	St error of Path a	St error of Path b	Z
LMX	.913	.880	.045	.025	17.578***

Table 4.4 Hierarchical Regression results

Variable	Mediator Variable		Dependent variable	
	Organizational Identification		Perceived Organizational Performance	
Step-1	M1	M2	M1	M2
Leader member exchange	0.696**	1.011**	0.725**	1.201**
Organizational learning	0.251**	0.572**	0.262**	0.746**
Step-2				
Leader member Exchange Organizational learning	-0.100		-0.151	
ΔR^2	0.007		0.016	

** Significant at the 0.01 level

Table 4.5 Analysis of Conditional Indirect Effects

Independent Variable	Dependent Variable	Mediator	Moderator	Indirect Effect	95% bias corrected bootstrap CIc
Leader Member Exchange	Perceived Organizational Performance	Organizational Identification	High Low	0.520** 0.378**	(0.430, 0.614) (0.225, 0.520)

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