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Leader-Member Exchange (LMX) Theory

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the background of these ideas and discusses the Graen theory in some detail.

Historical Context

Starting with their early work on learning, psychologists have recognized that rewards and punishments have a strong influence on behavior. At the end of the 19th century, Edward Thorndike at Harvard University published research on learning in cats, done in William James's basement in Cambridge, Massachusetts, which established "the law of effect"—the idea that reward stamps behavior in and punishment stamps behavior out, as Thorndike put it.

A great deal has been made of this basic idea that behavior is under the control of outcomes, specifically rewards and punishments, or more generally, benefits and costs. In social psychology, George Homans developed the idea that interpersonal behavior is an exchange where one individual's behavior provides costs or benefits to another person. Influence happens as a result of rewards and costs people can provide for each other.

Related work by John Thibaut and Harold Kelley developed the idea that each person in a relationship derives an *outcome level* (OL) based on the average degree of rewards minus costs that he or she obtains through the interaction exchanges in the relationship. Furthermore, they argued that the outcome level is evaluated against a *comparison level* (CL), based on all the outcomes a person knows about through his or her own and other people's relationship histories. The CL provides a baseline, or an expectation, of what level of outcome a person will or should get in a relationship. When the OL exceeds the CL, the relationship is satisfying. If the OL is less than the CL, people are dissatisfied and are likely to leave the relationship, depending on the available alternatives.

Hollander's Idea

The idea that people in relationships engage in some kind of exchange, and that each must provide satisfactory outcomes for the other if the relationship is to continue, has been important in Edwin Hollander's exchange theory of leadership. The leader provides "adequate role behavior directed toward the group's goal attainment," and

LEADER-MEMBER EXCHANGE (LMX) THEORY

Leader-member exchange (LMX) *theory* is rooted in the idea that leaders and followers exchange benefits, and that their relationships are at the heart of the leadership process. Social scientists have long attempted to understand how people relate to each other, beginning with explorations of costs and rewards, interpersonal behavior, and human relationships. A number of theories have used the lens of interpersonal relationships to understand leadership, including Edwin Hollander's focus on idiosyncrasy credits, Tom Tyler's notion of procedural justice, Dave Messick's delineation of psychological exchanges, and James MacGregor Burns's conceptualization of transforming and transactional leadership. Most notably, George Graen and his colleagues constructed the formal leader-member exchange theory, which began by elaborating on the nature of the leader–follower relationship and its outcomes, and later created a model for effective leadership. This entry traces

followers accord the leader "status, recognition, and esteem." In effect, the followers give the leader legitimacy, which obliges them to follow the suggestions and directives of the leader. The key concept in Hollander's approach is the highly influential idea of *idiosyncrasy credit*. Leaders have varying amounts of credit given to them by followers, based fundamentally on individual leaders' competence and conformity to group norms. Credit is essentially legitimacy. It is the resource leaders need to provide direction for the group.

The legitimacy that followers give in exchange for leader competence and conformity is called idiosyncrasy credit, because although credit is built up partially on the basis of conformity, followers expect that leaders will use their credit to innovate—and that might mean not conforming. A leader who deviates, or acts idiosyncratically, may simply spend the credit, or if his or her initiatives lead the group to a better place, to more rewards, the deviation may actually build up credits rather than depleting them.

An example of using idiosyncrasy credit is U.S. President Richard Nixon's opening a peace initiative with China in 1972. The United States had shunned all public communication with "Red China" for more than 20 years. Conservative Republicans had been loudest in their condemnation of the "Chinese Communists" and their opposition to recognizing its government. When Nixon traveled to China, fellow Republicans swallowed their opposition and waited to see how the initiative would play out. A Democratic president, lacking credit with the political right, would have been pilloried. Nixon's diplomacy deviated from the group norm but ended up building credit with his followers for further innovations.

Hollander defines the legitimacy given to leaders by followers as the basis for leaders' ability to induce their followers to voluntarily comply with their directives for change. A leader without legitimacy will not be followed. According to Tom Tyler, the legitimacy of a leader or authority depends very heavily on the leader's using fair procedures in making decisions, that is, on *procedural justice*. Procedural justice provides a benefit, but it is a psychological rather than a tangible benefit. Through treating the follower fairly, the leader signals that the follower is a valuable member of the group. By being fair and unbiased, by listening to the follower's ideas and viewpoints, and by treating the follower with dignity, the leader confirms the follower's good standing in the group. In return, the follower accords the leader increased legitimacy, and more readily complies with his or her commands and suggestions.

Related Research

The distinction between psychological and tangible exchanges between leaders and followers is highlighted in James MacGregor Burns's concepts of transactional and transformational leadership. *Transactional leadership* involves the tangible exchange of benefits—as illustrated by the politician who promises no new taxes in exchange for election to office or the manager who offers an extra vacation day for employees who meet a lofty quota. In contrast, Burns's concept of *transformational* or *transforming leadership* contends that leaders empower followers to achieve fundamental change through the exchange of psychological benefits that raise both the followers' and the leaders' levels of motivation and morality.

David Messick further delineates the mutually beneficial exchange of psychological benefits between leaders and followers in his *social exchange model* of leadership. People follow leaders because they get something valuable from them, and leaders in turn benefit from their followers. For example, leaders give their followers vision and direction in return for focus and self-direction from the followers. In addition, leaders give their followers protection and security, achievement and effectiveness, inclusion and belonging, and pride and self-respect. Followers reciprocate these benefits with gratitude and loyalty, commitment and effort, cooperation and sacrifice, and respect and obedience.

The Graen Team's Work

The principal theory that makes the individual leader-member dyadic relationship the fundamental component of the leadership process is George Graen and his colleagues' *leader-member exchange* (LMX) theory. LMX theory has evolved through a number of stages. Originally, it was termed the *vertical-dyad linkage* (VDL) theory, and at that point, researchers examined the vertical linkages, or relationships, leaders created with their followers.

They found that followers with positive, high-quality relationships consisting of mutual respect, trust, and obligation become part of the leader's ingroup. Followers in the ingroup become trusted assistants going above and beyond their job descriptions for their leader. In return, the leader does more for ingroup than outgroup members and gives ingroup members more information and influence.

VDL theory subsequently became leader-member exchange theory, and the focus shifted to examining the nature of these relationships and the organizational outcomes associated with the quality of leader–follower relationships. At this stage, researchers noted that these dyadic relationships occur through a role-making process, and they identified a number of characteristics and behaviors of both leaders and followers that have an impact on the development of these relationships. For example, the quality of these relationships is influenced by the value agreement between leaders and followers, communication patterns and frequency, interaction patterns, and influence tactics, as well as by followers' optimism, dependability, and efficacy. High-quality relationships between leaders and followers are associated with a great variety of positive outcomes, including organizational performance, job satisfaction, and career progress.

The next stage in the evolution of LMX theory has shifted the focus from a descriptive approach to a prescriptive approach, emphasizing the development of effective dyadic partnerships in the leadership-making model. Thus, the focus has shifted from examining how leaders differentiate among followers to highlighting how leaders can develop effective relationships with all group members. There also has been a shift from a hierarchical leader–follower approach to viewing leadership as a partnership of group members. This model suggests that leadership making occurs progressively over three phases. The first phase, termed the *stranger* phase, is characterized by rule-bound, formal interactions focused on purely contractual exchanges; leaders give followers what they need to do their job, and followers do only the basic requirements of their job. This phase is akin to the transactional model of leadership and is characterized by low-quality exchanges and self-interested motivations.

When one of the dyad members makes an offer for improved relations, the relationship can move to the second phase, *acquaintance*, which is characterized by increased social exchanges such as sharing information and resources of both a personal and work nature. Finally, the relationship can mature to the third phase, *mature partnership*, which includes even greater social exchanges such as respect, trust, and obligations. This final stage is marked by high-quality dyadic exchanges, with a shift in focus from self-interest to the interests of the group; thus, the relationship at this stage can be considered transformational in nature.

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See also Charismatic Leadership; Contingency Theories of Leadership; Great Person Theory of Leadership; Idiosyncrasy Credit; Interactionist Theories of Leadership; Leadership; Path–Goal Theory of Leadership; Personality Theories of Leadership; Procedural Justice; Relational Model of Authority in Groups; Social Exchange in Networks and Groups; Social Identity Theory of Leadership; Transactional Leadership Theories; Transformational Leadership Theories; Vertical Dyad Linkage Model

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