

Business Ethics: Leader Member Exchange Theory

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Abstract: *The Leader-Member exchange theory is an exchange-based relationship between the leaders and the followers. The role of leadership in management has occupied the attention of both practitioners and theorists alike. Research on ethical leadership, despite its importance has been limited. This study, therefore, explores the relative impact of ethical leadership on subordinate's outcomes.*

Keywords— *Ethical leadership, Subordinates, Leader-member exchange, Leaders.*

I. INTRODUCTION

The concept of Ethical-leadership is juxtaposed with exchange- based between the leader and the member. The LMX theory proposes that leaders from differential relationships with different subordinates in a work group, which result in a differentiated work group. This differentiated work group consists of subordinates with high and low quality of LMX depending upon the relative exchanges between the Leader and their subordinates. Thus, this study conceptualizes subordinate outcomes as belonging to either of the two categories – generic job-related behaviors (outcomes) i.e. effectiveness of the subordinate, extra effort of the subordinates, and satisfaction with the leader. Or Normative (ethic-related outcomes) i.e. leader's honesty, willingness to report problems, affective trust.

In earlier times, ethical leadership was closely related to charismatic or transformational leadership. According to Burns (1978), transformational leadership inspires followers by aligning their own and their follower's value systems towards moral principles. Avolio and Bass (1993) described four dimensions of transformational leadership –inspirational motivation, idealized influence, intellectual stimulation and individualized consideration. Out of these, Idealized influence dimension has an ethical component. It thus implies that transformational leaders become "role models for followers to emulate." Thus a transformational leader recognizes and exploits an existing need or demand of potential followers, seeks to satisfy higher needs and engages the full person of the follower.

In Transactional leadership the leaders are aware of the link between the effort and the reward. It is responsive and its basic orientation is dealing with present issues. Transactional leadership depends on the leader's power to reinforce subordinates for their successful completion of the bargain.

Thus, a transactional leader motivates followers by setting goals and promising rewards for desired performance. Ethical leadership is a combination of both transformational and transactional leadership. Trevino, Brown and Hartman (2003) found that ethical leaders use transactional type influence processes such as performance appraisal, standard setting and rewards and punishments to hold followers accountable for ethical conduct, along with transformational leadership styles. However, some researches also believe that it is not necessary to have all components common in both transformational and transactional leadership.

Leader –member exchange (LMX), on the other hand, has been defined as the quality of exchange relationship between the supervisor and each of his subordinates (Dinesch and Liden,1986). According to the LMX theory leaders form different kind of relationship with various groups of subordinates One group, referred to as the in-group, is favoured by the leader. Members of in-group receive considerably more attention from the leader and have more access to the organizational resources. By contrast, other subordinates fall into the out-group. These individuals are disfavoured by the leader. As such, they receive fewer valued resources from their leaders.

II. METHODOLOGY

LMX theory originated from the 1970s. Analysis manager team member relationships. It mainly consists of three phases role taking, role making and routinization. Categories members as in group or out group.

The relationship between leaders and followers follows these stages:

- *Role taking:* When a new member joins the organization, the leader assesses the talent and abilities of the member and offers them opportunities to demonstrate their capabilities.
- *Role making:* An informal and unstructured negotiation on work-related

factors takes place between the leader and the member. A member who is similar to the leader is more likely to succeed. A betrayal by the member at this stage may result in him being relegated to the out-group.

Normative Outcomes

Ethical leadership, by definition, has certain ideal aspects to it. Some of the beautiful subordinate reactions that have moral/normative components and see them as being predicted by ethical leadership.

1. Perceived leader's Honesty
2. Willingness to report problems
3. Interpersonal trust
4. Idealized Influence

Pragmatic Outcomes

LMX is an exchange-based relationship which focuses on give-and-take on the job. While ethics related outcome Have moral/normative aspects, work-related outcomes have notions of getting the job done, efficiently and effectively.

1. Leadership effectiveness
2. Satisfaction with Leader
3. Employees' extra effort

III. PRIOR APPROACH

Ethical leadership description was based on Brown, Trevino and Harrison's (2005) conceptualization of ethical leadership consisting of ten items. The scenario for ethical leader read as follows (phrases in parentheses indicated unethical leadership):

- You are working with a leader X. X is a person who can (not) be trusted, (does not make) makes fair and balanced decisions and (does not conduct) conducts personal life in ethical manner. X defines success not just by result but also by emphasizing on the process (X defines success in terms of results without any concern for how the results are achieved). X also takes (does not take) opinion of others before making any decision. X listens (does not listen) to the employees and disciplines (does not discipline) those who violate ethical standards. X sets an example of how to do things the right way in terms of ethics. X has the best interest of employees in mind

and discusses business ethics and values with the employees (Doesn't care about the employees and never talks about business ethics or values with employees).

Since LMX is conceptualized as on-the-job relations, leader-member exchange (LMX: Low-High) vignettes employed perceived contribution currency based on the recent literature (Bhal and Ansari, 2000; Dienesch and Liden, 1986; Liden and Maslyn, 1998). We created high and low LMX scenarios by depicting the quality of Leader-member relationship as positive and negative respectively. The scenario for the high LMX read as follows (phrases in parentheses indicated low LMX):

- You have been working under your present boss X for about two years. You (do not) like your boss and (do not) enjoy working with him. He (does not) provide you with enough (clarity) on what are you supposed to do and how you are supposed to do, he contributes to your job both in terms of high quality solutions or enough time (he does not contribute at all to your job either in terms of high quality solutions or enough time).

To check the validity of the scenarios, each scenarios was followed by scales on ethical leadership and LMX to check for experimental manipulation. Ethical leadership was assessed through the ten-item scale by Brown, Trevino and Harrison, (2005). The range of scale was from 1 = Strongly disagree and 5 = Strongly agree).

IV. OUR APPROACH

Twenty students from different post graduate programs from engineering colleges in India participated in the study. The ethic related and work-related outcomes of the subordinates were measured through standard scales. The items involved were modified to the experimental condition. Their description follows:

1. Leader's honesty: Honesty and integrity are seen as important components of transformational leaders' idealized influence (AVOLIO,1999; Bass and Steidlmeier, 1999).
2. Willingness to report problems: Research has shown that there is a relationship between ethical judgment and the subsequent decision to blow the whistle;

the relationship, however is impacted by the situation (Finn and Lampe, 1992).

3. Interpersonal trust: The five point scale by McAllister's(1995) is used to measure the affective and cognitive-based trust levels in this study.
4. Idealized influence: We used MLQ (Bass and Avolio,2004) to measure the idealized influence-behavioural.
5. Leaders' effectiveness: We used MLQ (Bass and Avolio,2004) to measure leader's effectiveness.
6. Satisfaction with the leader: Liden and Maslyn (1998) studied two aspects of satisfaction (with work and supervision).
7. Employees' extra effort: We used MLQ (Bass and Avolio,2004) to measure employees' extra effort.

Table 1. shows the mean and standard deviation among study variables. Ethical leadership and LMX were independent variables manipulated through the scenarios.

	MEAN	SD
LMX		
Ethical leadership		
Leaders' honesty	3.23	1.37
Reporting problems	2.80	1.20
Affective and Cognitive trust	2.70	1.10
Idealized influence	2.78	1.04
Leader's effectiveness	3.25	1.30
Satisfaction with the leader	2.80	1.08
Extra effort	2.85	1.29

Table 1
 Mean & sd

V. CONCLUSION

The study shows that ethical leadership impacts almost all the sub-ordinates outcomes. It shows that the ethical behavior of the leader has far-reaching effects not only on normative outcomes but also on pragmatic on the job behaviors of the subordinate. The result that ethical leader behavior is important in predicting perceived effectiveness of the leader points to the fact that subordinates also consider the mechanism (ethical means) that the leaders use for accomplishing their goals on the job. Thus, ethical leader behavior is as important as LMX.

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