



**LEADER-MEMBER EXCHANGE AND EMPLOYEE
ENGAGEMENT: ORGANIZATIONAL JUSTICE AS
MEDIATOR**

BY

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ABSTRACT

The purpose of this study was to investigate the impact of leader-member exchange theory of leadership on employee engagement mediated by organizational justice. Data was obtained from an airline company located in Yemen. A total of 218 employees comprised the sample and filled out a questionnaire. Results indicated that higher quality of relationship exchange between supervisors and their subordinates positively and significantly contributes to the employee engagement in the workplace. Results also showed that higher perception of procedural justice, distributive justice and interactional justice positively contributes to employee engagement and, in turn, higher quality of dyadic exchange promotes the perception of organizational justice. Furthermore, results indicated that a partial mediation effect of the three organizational justice dimensions exists in the relationship between leader-member exchange and employee engagement. Thus, building a strong interpersonal relationship with employees and expanding the in-group member category by managers and supervisors will lead to higher perception of justice and higher level of employee engagement. This, in turn, will contribute to the effectiveness and success of business.

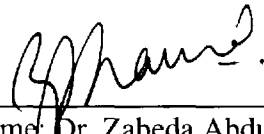
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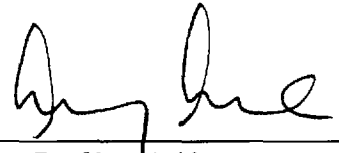
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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

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Dedicated

To

My beloved Father and Mother,

My brother Abdullah

And

My family

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In the name of Allah, the Most Compassionate and the Most Merciful. All praise due to Allah, Lord of the Universe and peace and blessings to His Prophet and Messenger Muhammad S.A.W.

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List of Abbreviations

DJ	Distributive Justice
EE	Employee Engagement
IJ	Interactional Justice
LMX	Leader-Member Exchange
OJ	Organizational Justice
PJ	Procedural Justice

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Today, the whole world is badly affected by the financial crises that hit the entire world economy where we hear that many giant organizations have collapsed and many others are about to. All economic sectors are losing on a daily basis including the airline industry and especially in the third world economies. Therefore, the importance of building a strong relationship with employees comes to fight such menace that threatens the existence of such organizations and to sustain its competitive advantage. Yemenia Airways is not immune from such problems. Thus, developing strong relationships with its employees to empower them, engage them, and give them a voice seems to be the need of the hour.

In a very challenging but fast moving and rapidly changing business environment such as what organizations face and encounter today where they cannot predict what will happen tomorrow and whether they are going to stay in the market or simply go out of the market, organizations need to have very good relationships with its people since organizations are formed of people and directly affected by those employee's behaviors and attitudes at work. Having a good relationship with employees plays a vital role in organization effectiveness and sustaining its competitive advantage especially in tough times. Organizations need people who are physically, mentally and emotionally engaged

with their work. They cannot obtain and sustain their competitive advantages with disengaged employees. Research interest examining the issue of employee engagement has been relatively new and calls for validation of this construct in different work context. Employee engagement is defined as “...the harnessing of organization members’ selves to their work roles and, in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances” (Kahn 1990).

How employees are treated by their leaders and how they perceive the fairness of the organizational practices such as allocation of organizational resources etc. appear to contribute to employees’ attitude and behavior, including their engagement. Moreover, empirical studies on leadership and its impact on employees’ attitude and behavior in Yemen are very scarce. It is with these reasons that this study has been planned. Specifically, the study intends to examine how the quality of relationship between leaders and subordinates, as explained by the LMX theory, influences employees’ perception of organizational justice which in turn contributes to employees’ engagement.

From past studies, it has been found that people have different relationship styles with different people whom they interact with. Leaders are selective and choose whom they like, respect and trust more, those are called the in-group. The in-group members will be given more attention in terms of trust, empowerment, and allocated resources where as those who are being dealt with formally- the out-group- receive less attention from their supervisors so that they might not be as much trusted, respected and getting

similar pay, promotions and training opportunities as those in the in-group. Those who are in the in-group try to repay their organizations by being loyal, committed, and might not think of leaving the organization. The out-group, on the other hand, would tend to perform their jobs as it is described in their employment contracts rather than taking on extra role.

1.2 Objectives of the Research

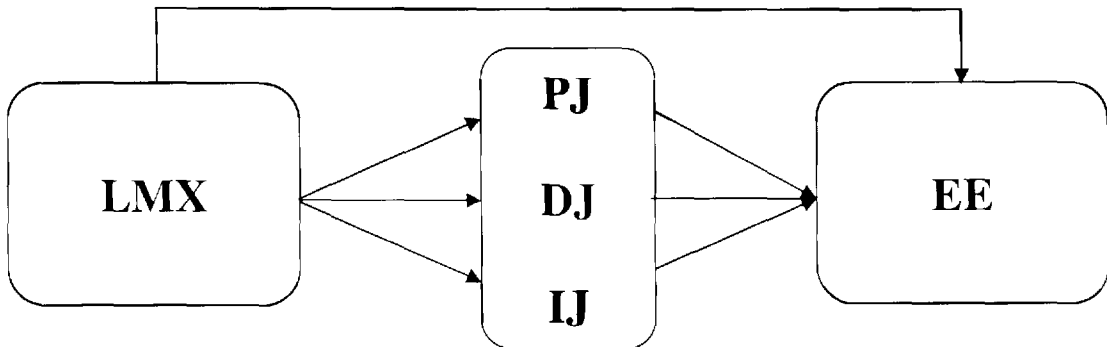
Research Questions:

The following specific research questions are proposed for the study.

1. What is the quality of relationship (LMX) between managers and their employees at Yemenia Airways?
2. Are Yemenia Airways employees engaged or disengaged?
3. How employees perceive organizational justice, namely, distributive, procedural, and interactional justice in this organization?
4. Does LMX affect employees' engagement?
5. What component(s) of organizational justice determine employees' engagement?
6. How perception of justice mediates the relationship between quality of LMX and employee engagement?

Conceptual Model

Figure 1: Hypothesized model for Employee engagement.



We hypothesized that LMX will directly contribute to employee engagement. Also, LMX will contribute to employee engagement mediated by organizational justice. Furthermore, organizational justice will contribute directly to employee engagement.

1.3 Significance of the Study

The study is expected to provide empirical knowledge on leadership, organizational justice, and employees' engagement in the unique context of Yemen where such research based knowledge on management issues is scarce. The findings of the study will provide empirical validity to the relatively new concept of employees' engagement and the organizational factors that foster such work behavior. This will help organizations specially belonging to the Arab countries to design effective management practices that promote employees' engagement.

1.4 Limitation of the Study

As any empirical study, the current study has some limitations that should be acknowledged. The main limitation is that it is difficult to generalize the finding of this study to all Yemeni Business sectors since data was collected from one single company in the airline industry which might not represent all business types or even the airline companies operating in Yemen.

1.5 Organization of the Project Paper

Chapter 1 introduces the current research in which background and objectives of the study are outlined. Chapter 2 is tailored for the literature review of the main constructs of the study namely; Leader-Member Exchange theory of leadership, Organizational Justice and Employee Engagement. Chapter 3 presents detailed overview of research methods and data analyses procedures. In chapter 4, quantitative data analysis and the findings from the research are presented. Finally, Chapter 5 presents a discussion of findings, conclusions, and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Leader-Member Exchange

Leader-members exchange (LMX) is one of the leadership theories that emerged in the mid-seventies of the last century and was known as vertical-dyad linkage model. This theory is based on the idea that supervisors develop or build different types of relationship with their subordinates and focuses on the leader-member dyads and their quality of interactions (Dansereau, Graen, & Haga, 1975). Unlike other leadership theories which focus only on the leaders' characteristics and their personal traits or situational factors which were thought as a measurement of leaders' success while not considering the role of followers and the quality of work relations that connect leaders with their subordinates, LMX is more concerned with such relationship and the quality of the relationship exchange and the nature that direct such relationship towards different organizational behaviors and outcomes.

Researchers have identified two types of relationships that leaders may have with their subordinates: the in-group consists of small numbers of trusted followers who may be considered as wazirs or advisors (Hassan A, 2005), and the out-group which is formed by the remaining followers whom their relationship with their leaders remains formal. The in-group members are those who are favored by their leaders and receive a great attention. They are more trusted, given more privileged information, receive more benefits and alike. Furthermore, they are more dependable, highly involved and more

communicated. Leaders encourage them to undertake more responsible activities (Graen and Uhl-Bien, 1995). Those followers frequently interact with their leaders and have their leaders' support, confidence, encouragement, and consideration. This is all based on the mutual liking, respect and trust (Dansereau et al., 1975). As a result, the in-group members try to be more committed to their jobs, spend a great deal of time and mental and physical efforts toward achieving the tasks assigned to them and pleasing their leaders, and even go beyond the employment contract which means they perform extra roles that they were not asked to do (Liden et al., 1997; Settoon et al., 1996). On the other hand, the out-group members have poorer quality of interaction with their supervisors and do not receive such great attention. They might not be trusted, or dependable. Thus, they tend to perform the tasks as defined in their employment contracts and job description and not to take on any extra role.

2.1.1 LMX Development

The development of LMX is theoretically rooted in the role theory and social exchange theory (Katz and Kahn, 1978; Blau, 1964). Graen and Scandura (1987) proposed a three-phase model of LMX development including role taking, role making, and role routinisation. In the initial dyadic exchange (role-taking), a leader initiates an assignment of tasks and begins to evaluate the behavior of the member and then makes a decision regarding that behavior. He also gathers important information regarding the member's potential for tasks in this phase. The exchange in the role-taking phase is based on economic transactions (Graen & Scandura, 1987).

After this stage, the role-making phase begins. Role-making is a continuation of the developmental process in which further exchanges are made (Bauer & Green, 1996). Graen and Uhl-Bien (1995) called this the acquaintance stage. During this stage, the leader and member evolve how each will behave in various situations and begin to define the nature of their dyadic relationship (Graen & Scandura, 1987). If a dyad is developing into a high quality exchange relationship, the exchange becomes more social and less economic (Graen & Uhl-Bien, 1995). Conversely, if the relationship is not evolving to the next level, the relationship will remain based on the employment contract (Bauer & Green, 1996). Therefore, role-making is built on the mutual contribution of valued resources. Each party must offer something that the other party sees as valuable, and each party must see the exchange as reasonably fair (Graen & Scandura, 1987). This is the stage at which behavioral aspects of trust come into play. The leader is taking a risk by delegating work to the member (Bauer & Green, 1996).

After the role-making stage, the behaviors of a leader and a member are much more predictable through role routinization. The exchange is maintained over time through the process of collaborating on different tasks. The dyadic relationship involves the relational dimensions of trust, respect, loyalty, liking, support, and quality. The exchange of resources of the leader for collaboration on tasks by the member is controlled by mutual expectations (Graen & Scandura, 1987). However, due to the limited resources available to leaders for exchange and the investment of time necessary, a high quality of exchange tends to be developed and maintained in a limited number of leader-member dyads (Dienesch & Linden, 1986; Graen, 1976).

The social exchange theory, on the other hand, does not focus on the role of leader and followers as is the case in the role theory. It focuses on the exchange between them instead. Liden et al. (1997) described leader-member relationship development as a series of steps that begins with the initial interaction between the members of a dyad. This initial interaction is followed by a sequence of exchanges in which individuals test one another to determine whether they can build trust, respect and obligation necessary for high quality exchanges (Uhl-Bien et al., 2000). If reception of an exchange behavior is positive, the individuals continue the exchanges. But if the response to an exchange is not positive or if the exchange never occurs, opportunities to develop high quality exchanges are limited and relationships will likely remain at lower levels of LMX development (Dienesch and Linden, 1986; Uhl-Bien et al., 2000).

2.1.2 Multi-dimensional Nature of LMX and Subordinate Outcomes

Most of the previous conceptualizations of LMX have treated it as one dimensional construct that focuses only on the job-related interactions with out considering the social interactions. Since both roles and exchanges are multidimensional, Dienesch and Liden (1986) and Liden and Maslyn (1998) have proposed that LMX too needs to be studied as a multidimensional construct. Dienesch and Liden (1986) suggested that LMX may be based on three “currencies” of exchange: task behaviors (perceived contribution), loyalty to each other (loyalty), and simply liking for each other (affect). Thus, perceived contribution deals with on-the-job dimension of interaction, loyalty with social support, and affect with affective feelings of liking which go beyond the work situation.

Then, Bhal and Ansari (1996) proposed that LMX should be studied as two dimensions: LMX-Contribution and LMX-Affect. It is argued that a high “contribution-dominated” exchange (work-related currency) is likely to involve intensive interaction on task-related activities, whereas an “affect-dominated” exchange (social currency) is likely to involve off-the-job, affective and personal interactions (Bhal, Gulati, and Ansari, 2009).

It has been argued that the nature of leader-member exchange (LMX) relationship has a remarkable impact on the subordinate outcomes. Hassan (2005) found that LMX promotes employees’ job satisfaction, lead to higher organizational commitment and reduce employee intention to leave their organization. This study supported earlier studies on LMX relationship with many important organizational outcomes (e.g. Graen et al., 1982; Scandura et al., 1984; Duchon et al., 1986; Vecchio and Gobdel, 1984).

2.1.3 LMX and Employee Engagement

High quality of relationship between supervisors and their subordinates seems to have a great impact on employee engagement since higher quality of LMX leads to higher level of satisfaction, job commitment and reduced intentions to leave the job, Hassan (2005). It is also argued that employee who receive higher economic and socioemotional exchange resources are more likely to try to bring themselves deeply in their jobs and to be more engaged as a repayment to the organization resource. According to Saks (2006), employees who perceive higher organizational support are more likely to reciprocate with greater levels of engagement in their job and in the organization; and employees who

have higher perceptions of procedural justice are more likely to reciprocate with greater organization engagement. Engaged employees are also more likely to have a high-quality relationship with their employer leading them to also have more positive attitudes, intentions, and behaviors. Thus, we hypothesized the following:

H1: Higher quality of LMX is positively related to employee engagement.

2.1.4 LMX and Organizational Justice

As it is motioned earlier two groups are identified in the LMX (in-group and out-group). As leaders have limited resource that can not be equally devoted to all members in the organization, the in-group members are likely to be most fortunate ones to win their leader's support, trust and confidence. The out-group, however, seems not to be given such support and privilege from their bosses. The in-group may perceive their leaders as just and fair for them but this might not be the case for the other group. This is supported by many studied such as Tansky (1993) who reported that the nature of LMX relationship is positively correlated with subordinate perception of justice and citizenship behavior. Bhal (2005) also reported that the relationship between LMX and OCB gets operational through perceived justice of process and interactions. Hassan (2005) reported that quality of LMX positively shapes the perception of distributive and procedural justice. Based on that, these hypotheses are offered:

H2a: Higher quality of LMX is positively related to procedural justice perception.

H2b: Higher quality of LMX is positively related to distributive justice perception.

H2c: Higher quality of LMX is positively related to Interactional justice perception.

2.2 Employee Engagement (EE)

2.2.1 Conceptualization of Employee Engagement

The conceptualization of employee engagement can be traced back to Kahn's (1990) study where he defined personal engagement as "the harnessing of organization members' selves to their work roles and, in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances. On the other hand, personal disengagement is defined by Kahn (1990) as "the uncoupling of selves from work roles and, in disengagement, people withdraw and defend themselves physically, cognitively, or emotionally during role performances". When workers are engaged, they become physically involved in their tasks, cognitively alert, and emphatically connected to others (Kahn, 1990). They are aware of business context, and works with colleagues to improve performance within the job for the benefit of the organization. However, disengaged employees become physically uninvolved in tasks, cognitively unvigilant, and emotionally disconnected from others.

Another dimension of employee engagement can be drawn from the burnout literature where burnout research has shifted its focus to the positive side, namely job engagement. This development reflects a new trend toward a positive psychology that emphasizes human strengths and optimal functioning rather than malfunctioning and weaknesses (Seligman and Csikszentmihalyi, 2000). It has been argued that engagement is the opposite pole of burnout. Engagement, though, is characterized by energy, involvement, and a sense of efficacy which Maslach and Leiter (1997) considered them

as the direct opposite of the three burnout dimensions exhaustion namely, cynicism, and lack of professional efficacy, respectively. As engagement was measured by the burnout instruments where, according to Maslach and Leiter (1997) approach, low scores on exhaustion and cynicism, and high scores on efficacy are considered as indicators of engagement. Schaufeli et al., (2002), reported that engagement should be measured independently with a different instrument.

As such, Schaufeli et al., (2002) defined engagement as a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption. Rather than a momentary and specific state, engagement refers to a more persistent and pervasive affective cognitive state that is not focused on any particular object, event, individual, or behavior. Vigor is characterized by high levels of energy and mental resilience while working, the willingness to invest effort in one's work, and persistence even in the face of difficulties. Dedication is characterized by a sense of significance, enthusiasm, inspiration, pride, and challenge. Absorption is characterized by being fully concentrated and deeply engrossed in one's work, whereby time passes quickly and one has difficulties with detaching oneself from work. Unlike vigor and dedication that make a direct contrast with the first two burnout components (exhaustion and cynicism), absorption is found not to be the direct opposite of last burnout dimension of reduced efficacy rather it was found to be another constituting element of engagement (Schaufeli et al., 200; Schaufeli and Bakker, 2004).