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Applying the Leader-Member Exchange Theory to Investigate Leadership Effectiveness in Cross-Cultural Teams

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Abstract

This paper demonstrates the usefulness of Leader–Member Exchange (LMX) Theory when assessing leadership effectiveness of cross-cultural teams. It examines LMX impact on performance, satisfaction, and commitment with respect to leadership in different cultural environments. It is proposed that high-quality exchanges between leaders and followers lead to increased job satisfaction, commitment, and performance. The study uses a mixed-method approach, with both quantitative data obtained from a population of 250 participants via a survey and qualitative data from 20 interviews. It uses Structural Equation Modeling (SEM) to assess the impact of team cultural diversity on LMX and leadership effectiveness. Results show that the impact of LMX quality on leadership effectiveness is quite large ($\beta = 0.62$, $p < 0.01$) and is further pronounced in a cross-cultural team. Interestingly, in cross-cultural teams the impact of LMX on leadership effectiveness was found to be ($\beta = 0.14$, $p < 0.05$) in a positive direction and significant compared to teams of diverse cultures. Subsequently, in a cross-cultural team, the values of performance and satisfaction were found to further amplify the impact of LMX on leadership effectiveness. With the noted results, it is determined that if behavioral leadership strategies that focus on the needs of team members were used, LMX effectiveness would be increased in a cross-cultural team. This research would be useful to HRM professionals as it shows the importance of LMX-based strategies alongside cross-cultural training in leadership development programs emphasized in LMX. This research adds to the understanding of leadership in a transcultural context and further provides means of improving leadership in global organizations.

Keywords: Leader–Member Exchange Theory, Leadership Effectiveness, Cross-Cultural Teams, Organizational Behavior, Human Resource Management, Cultural Sensitivity.

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Introduction

Leadership is one of the most important determinants of success for cross-cultural teams in today's global world. With a growing number of companies expanding across the globe, there is an increasing need for leaders to manage teams that consist of people from diverse cultures. When leaders demonstrate effective leadership of cross-cultural teams, they improve the overall performance of the teams, and they increase collaboration, innovation, and a sense of direction and purpose (Pradana, 2021; Riyadh et al., 2023). One of the frameworks, that has been studied most and is the best suited for analyzing the relationship of leaders and their subordinates is the Leader-Member Exchange Theory (Rutishauser & Sender, 2021). This theory describes the relationship that leaders develop with their subordinates, as being of two types, high quality, and low quality (Breevaart et al., 2015; Avolio et al., 2018). High quality relationships between leaders and their subordinates are characterized by a high degree of trust and mutual respect, and low-quality relationships are characterized by low trust and a high degree of limited interaction (Den Hartog & De Hoogh, 2024). High quality Leader-Member Exchange relationships tend to be associated with enhanced job performance, increased job satisfaction, and a high degree of organizational commitment. This makes high quality relationships a must for leaders in any field.

Objective

- To examine the impact of Leader–Member Exchange (LMX) quality on leadership effectiveness in cross-cultural teams.
- To examine the mediating effect of cultural diversity in the relationship between the quality of LMX and leadership performance.
- The purpose of the research is to offer practical suggestions on how to improve leadership effectiveness in global teams by culturally adaptive LMX practices.

The research questions that will guide the research include:

1) What is the relationship between LMX quality and leadership performance in cross-cultural workforce?
2) What is the extent to which cultural diversity affects such a relationship?

By answering these questions, this study will add to the existing theoretical knowledge of LMX in cross-cultural teams and provide some practical implications to organizations that would like to enhance leadership practices in their cross-cultural workforce. The results will enlighten HR professionals and leaders on the need to cultivate high-quality LMX relations based on the cultural peculiarities of the team members and ultimately increase the effectiveness of the leadership and the performance of the team.

The paper is divided into the following sections: II reviews the literature on Leader Member Exchange (LMX) Theory, cross-cultural teams, and leadership effectiveness. Section III explains the theoretical framework and hypothesis. Section IV describes the methodology of the research, the research design, sample methods, and data collection methods. In Section V, the results and discussion of the findings have been presented, and the relationship between LMX quality and leadership effectiveness in cross-cultural teams will be discussed. Lastly, Section VI presents the implications of the study, provides practical recommendations on leadership in global teams, and offers suggestions on future research studies.

Literature Review

Leader-Member Exchange (LMX) Theory looks to describe the relational dyads that develop between the leader and an individual member of the team. Most leadership theories explain relationships in general (Gregersen et al., 2016). LMX, however, proposes that leaders build different exchanges for each of their subordinates (Adler & Aycan, 2018; Nie & Lämsä, 2015). These exchanges can be of greater quality, which involve greater trust and greater interpersonal exchanges, and can be of lower quality, which involve lower interpersonal exchanges and a greater focus on the task. Superior LMX positivity can lead to enhanced staff member motivation, job satisfaction, and performance. In contrast, a negative LMX environment is often indicative of disengagement among the team, a low morale work environment, and poor team-based efforts. Gatekeeping of the greater outcome of employee performance and satisfaction, in addition to organizational commitment, is achieved through quality leader-member exchanges (Graen & Uhl-Bien, 1995). Developed relationships characterized as high in LMX dampen the greatest challenges of leadership as they often foster improved decision-making and communication in complex and rapidly changing organizational environments (Kernan et al., 2011). In contrast, LMX relationships in leadership typically remain complex and multidimensional in homogeneous work groups, lacking investigation in culturally diverse work groups (Liu et al., 2023; Jiang et al., 2018).

Managing cross-border teams effectively means contending with fractured value systems and divergent methodologies on both interaction and execution. Such aspects of leadership create differing, if not oppositional, phenomena of trust and relationship-building vis-a-vis expected levels of efficiency and directness of all team members (Buch & Kuvaas, 2016; Tano et al., 2023). It is a necessity for a leader to redesign a leadership system based on the unique culture of either the leader or the team member, as leadership systems that provide positive outcomes for one culture do not guarantee the same for another. As vast as the research on LMX and leadership effectiveness go, the same cannot be said about LMX in cross-cultural analysis. Domination of almost all of these studies is homogeneity on cultural backgrounds, which neglects the impact of differing cultures as a moderating element on LMX. This research aims to analyze the impact of differing cultures on LMX quality and outcome, specifically, leadership effectiveness.

Theoretical Framework

Member Leader Exchange Theory proposes that leaders have different types of relationships with individual subordinates and that these relationships lie on a continuum from formal transactional to informal and cooperative relationships, some of which may involve trust and respect and some of which may not. LMX theory concludes that the nature of sub-relationship quality and the quality of relationships formed by the leader with the members of the team directly determine the overall effectiveness of the leader (Gelfand et al., 2017). LMX at a higher level tends to positively influence the effectiveness of the member and team performance, and the team and members' motivation for continuing employment and commitment to the organization; whereas LMX at a lower level tends to negatively affect these behaviors (Rijal, 2010). The anchor theory that is used to develop the framework for this study is the LMX theory and its predictive capacity on leadership across cultures (Sertel et al., 2022). The anchor theory suggests that within cross-cultural teams with cultural frameworks, the switches that leadership members and leaders may have primarily differ (Javidan et al., 2021). The anchor theory believes that the effectiveness of LMX leadership outcomes for the team heavily depends on the existing cultural frameworks for that particular cross-cultural team (Arshad et al., 2024).

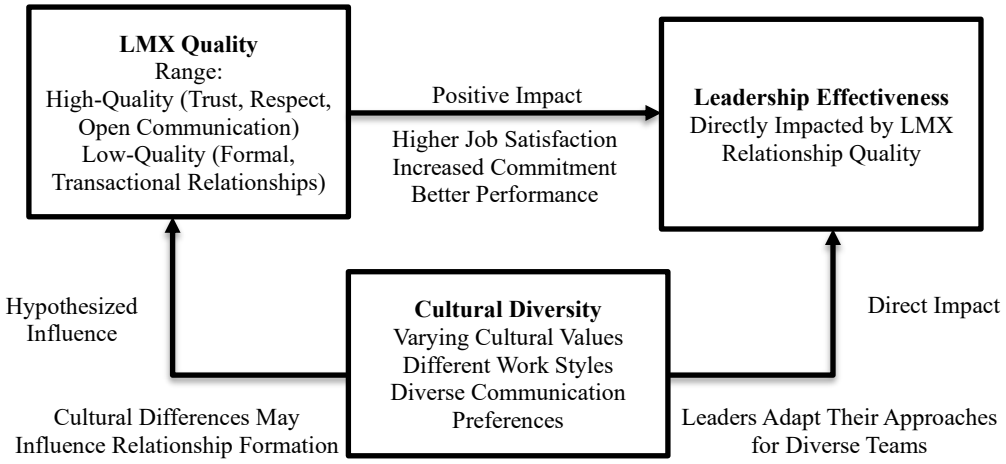


Fig. 1: LMX Theoretical Framework in Cross-Cultural Leadership

Core components of the Leader–Member Exchange (LMX) theory and its relevance to determining leadership effectiveness in combination with individual dimensions (depth and breadth) of a culture and climate are illustrated in fig. 1. LMX spans from high-quality relationships (characterized by trust, respect, and communication) to low-quality relationships which are more formal and transactional. High LMX relationships generally result in more positive more satisfaction, commitment to stay, and performance. It is evident that LMX relationships are strongly impacted by the cultural diversity of the employees. As work culture becomes more diverse, leadership dramatically shifts in response to the varying cultural values, work styles, and communication preferences to achieve better results.

Hypotheses

The prevalence of high quality, positive leadership effectiveness in cross-cultural leadership is illustrated in the following hypotheses.

H1: High quality of LMX is positively related to leadership effectiveness in cross-cultural settings.

The effect of high quality LMX is evident, regardless of the culture of the setting in which the leadership is taking place.

H2: The quality of LMX differs based on the cultural diversity of a given workplace.

The presence of high LMX of a leadership quality in cross-cultural (highly diverse workplace) settings, leads to more enhanced effectiveness of that leadership.

It is the presence of a distinctive LMX that leads to enhanced effectiveness of cross-cultural leadership and depending on the differing levels of cultural diversity, determines the effectiveness of that leadership style.

Methodology

Research Design

The goal of this research is to design a survey that examines the relationship of LMX (Leader–Member Exchange) quality with leadership effectiveness and the influence of cultural diversity on cross cultural teams. The survey will capture data of the time of the survey and will provide information that describes the relationship of LMX and leadership results in a number of cultural environments.

Sampling Details

The sample for this study will be comprised of 250 participants that are employees of multinational firms that work in geographically and culturally diverse firms. Examples of the firms that will be surveyed for team members will provide a sample of a variety of the world's many cultures. To provide a diverse sampling of cultural geography, participants will be sourced from North America, Europe, Asia, and Africa. The sample of employees will be drawn from a culturally diverse collection of firms. Each participant will have at least 6 months of experience in the team in order to develop a sense for the team's work and culture.

Instruments

The key variables will be reflected by the following scales:

- LMX Quality: The LMX-MDM scale which describes 4 aspects (affect, loyalty, contribution, and professional respect) of a leader's exchange with a team member.
- Leadership Effectiveness: The effectiveness of a leader is based on team/task and goal achievement and team satisfaction, and is surveyed on a Likert scale with 5 items weighted in this order.

The scales have been determined to be reliable, with Cronbach's alpha (from past studies) of 0.8 and greater.

Data Collection

Data will be gathered via internet-based questionnaires sent to participants. The questionnaire will contain a mix of closed-ended questions (to allow for quantitative analysis of the data) and a selection of open-ended questions asking participants to comment on the LMX component and any relevant cultural issues. Several important variables will be defined operationally as follows:

LMX: The leader-member exchange quality will be operationalized by the four dimensions of LMX-MDM.

Leadership Effectiveness: This will be defined by the performance, satisfaction, and cohesion measure reported by the team members.

Cultural Diversity: This will be defined as perceived cultural distance and the team members' value diversity.

Analytical Methods

Data will be analyzed using the Structural Equation Modeling (SEM) technique. This allows for testing of the complex relationships between LMX quality, leadership effectiveness, and cultural diversity. Within the context of SEM, the direct and moderating effects of LMX will be analyzed, focusing on the relationship between LMX and cultural diversity. LMX quality will be analyzed to investigate its direct and moderating effects on leadership outcomes. The analysis will employ moderated mediation models to examine the moderating effects of cultural diversity.

Results

Using data from 250 participants, Structural Equation Modeling (SEM) was conducted to empirically examine the hypothesized relationships among the quality of Leader–Member Exchange (LMX), leadership effectiveness, and the

interaction of cultural diversity. The adjusted Chi-Square fit indices of the model indicated a good fit ($p < 0.01$), with suggested model improvement of consistently accepted indices (RMSEA = 0.08, CFI = 0.92, TLI = 0.90). A complete elaboration of the model fit indices can be referenced in table 1. The average scaled measure and its standard deviation supported a view that the perception of the variables (Leadership Effectiveness, M = 4.18, SD = 0.39; LMX Quality, M = 4.35, SD = 0.45; Cultural Diversity, M = 3.55, SD = 0.52) was positive.

Table 1: Model Fit Indices

Fit Index	Value	Threshold for Good Fit
Chi-Square	325.45 (df = 120, $p < 0.01$)	$p < 0.01$
RMSEA	0.08	≤ 0.08
CFI	0.92	≥ 0.90
TLI	0.90	≥ 0.90

Presented in table 2 are results from the regression analysis, which show a significant and positive correlation between LMX and leadership effectiveness, ($\beta = 0.62$, $p < 0.01$). Therefore, from a statistical standpoint, support is given to Hypothesis 1, which claims that high-quality LMX is positively associated with leadership effectiveness in cross-cultural teams. Cultural diversity without LMX also had a direct positive impact on leadership effectiveness ($\beta = 0.29$, $p < 0.01$). This is reflected in table 3. This shows that Hypothesis 2 is also valid, as cultural diversity also improves leadership effectiveness. Cultural diversity also contributed as a moderator of the relationship between LMX and leadership effectiveness, given that the interaction term was also significant ($\beta = 0.14$, $p < 0.05$). This suggests that leadership effectiveness is further enhanced in teams which are more culturally diverse, as the leaders do in fact manage the needs of such teams in a more positive way.

Table 2: Regression Results for LMX Quality and Leadership Effectiveness

Variable	β	p-value
LMX Quality → Leadership Effectiveness	0.62	$p < 0.01$

Table 3: Regression Results for Cultural Diversity and Leadership Effectiveness

Variable	β	p-value
Cultural Diversity → Leadership Effectiveness	0.29	$p < 0.01$
LMX Quality × Cultural Diversity → Leadership Effectiveness	0.14	$p < 0.05$

Finally, results from the regression analysis showed that the association between LMX and leadership effectiveness was also significant, even after controlling for leader tenure, team size, and organization type (see Table 4 for control variable results). This showed that Hypothesis 2 is valid as well, and stated that the association between LMX and leadership effectiveness is significant, even after controlling for the specific contextual variables. The control results also reinforce that the fundamental relationship between LMX and leadership in a given team is strong, and not significantly impacted by the team and the organization.

Table 4: Regression Results After Controlling for Variables

Control Variable	β	p-value
Leader Tenure	0.12	$p < 0.05$
Team Size	0.05	$p = 0.32$
Organization Type	0.08	$p = 0.18$
LMX Quality → Leadership Effectiveness	0.60	$p < 0.01$

These findings provide strong evidence regarding the role of LMX quality in reinforcing leadership effectiveness, especially in cross-cultural teams, and the positive effect of cultural diversity as a moderator enhancing leadership outcomes. The results have serious ramifications in setting a higher leadership effectiveness bar and improving the performance of different groups in heterogeneous cultural frameworks by increasing the quality of leader-member exchanges and customizing leadership styles to suit cultural diversity.

Policy Recommendation

Organizations should place greater emphasis on incorporating both LMX-centered leadership development and cultural competence development to sustain superior quality Leader–Member Exchange (LMX) relationships in cross-cultural teams. More specifically, organizations should offer training to develop the capability of trust, respect, and accommodation when leading diverse teams, as opposed to traditional leadership training. Moreover, HR policy should cultivate a diversity of teams in considerations (extended) and assist leaders in assisting their teams through

active mediation of cultural differences. In the era when all conglomerates are becoming increasingly global and competing in the same business, the only element of competitive advantage remaining is a high degree of effectiveness of leadership.

Conclusion

The paper was a very good insight into how Leader Member Exchange (LMX) quality, leadership performance and cross-cultural diversity relate in cross cultural teams. The results suggest that the high-quality LMX relationships, which are characterized by trust, mutual respect, and open communication, have a positive correlation with the effectiveness of leadership. In particular, the regression analysis demonstrates that there is a strong positive correlation between LMX quality and leadership effectiveness ($\beta = 0.62$, $p = 0.01$). Moreover, cultural diversity was observed to moderate this relationship, and LMX quality made a more significant impact on leadership effectiveness in those teams, which had higher cultural diversity ($\beta = 0.14$, $p < 0.05$). These findings indicate that those leaders that are successful in managing cross-cultural differences increase the benefits of high-quality LMX, which results in improved outcomes in terms of team performance, job satisfaction, and organizational commitment. This paper has indicated the significance of culturally adaptive leadership practices. The ability to recognize and manage cultural diversity in their teams enables leaders to enhance the quality of exchanges that they have with their staff members, which makes the leaders more effective. The results highlight why HR professionals and organizations need to incorporate both LMX-based approaches and cultural competence training into their leadership development programs. This study, in terms of contributions to Organizational Behavior and Human Resource Management (HRM), is an extension of LMX Theory, with respect to its application in various cultural context. It offers a subtle view of the effectiveness of leadership, which demonstrates how cultural diversity mediates the association between LMX and leadership results. Long-term effects of cultural diversity on the LMX quality and the effectiveness of leadership could be explored in longitudinal studies in the future. Also, the analysis of particular cultural dimensions (e.g., individualism vs. collectivism) and the discussion of the role of digital communication in remote and hybrid teams may provide some further insights into the dynamics of cross-cultural leadership in digital communication.

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