

## CHAPTER 11

### THE MEDIATING ROLE OF LEADER-MEMBER EXCHANGE IN THE EFFECT OF TRANSFORMATIONAL LEADERSHIP ON EMPLOYEE PERFORMANCE AND JOB SATISFACTION

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#### Introduction

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The concept of transformational leadership, developed by Burns (1978) and promoted by Bass (1985), was received with great interest and became one of the most-frequently studied leadership theories in the four decades following its introduction (Mhatre and Riggio, 2014). It is a style of leadership based on protecting and advancing the interests of its followers. It represents individual's interests, supporting awareness and loyalty about the group's purpose and mission (Nielsen *et al.*, 2009). As a leadership style aiming for sudden and effective change in an organization, transformational leadership seeks to facilitate learning and innovation rather than establishing a leadership based on the control and coordination of the organizational environment. It is all about describing reality and creating excitement for change (Buluç, 2009).

The concept of leader-member exchange was first developed by Graen *et al.* (1982) under the name "vertical dyad linkage theory" (Dienesch & Liden, 1986). According to this theory, which generally focuses on the vertical relations between superiors and subordinates, the leaders in an organization have limited time, resources, and power at their disposal, hence they cannot sustain the same leadership style for all subordinates. The essence of this theory is to determine the ways superiors use their power and resources to develop various social exchanges with their subordinates (Bolat, 2011).

The basis of transformational leadership in an organization is the interaction between the leader and followers. It channels the employee effort to a vision, rather than to specific objectives. On the other hand, a transformational leader can play a pioneering role in the development of a leader-member exchange (Anand *et al.*, 2011), after all the purpose of this type of leadership is to clarify long-term goals, tap into the talents and skills of the followers and boost their confidence (Erkuş & Günlü, 2008). With their tendency to respond positively

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of studies (Thomas, 2016; Saleem, 2015; Salau, 2018; Braun *et al.*, 2013) performed to determine the relation between transformational leadership and job satisfaction. In the course of the study, the effect of leader-member exchange on employee performance and job satisfaction was also examined. It was found that leader-member exchange had a significant positive effect on employee performance. This finding is consistent with the studies (Li, Sanders & Frenkel, 2012; Wang, 2016; Choy, McCormack & Djurkovic, 2016) conducted to determine the relation between leader-member exchange and employee performance. The findings showed that leader-member exchange had a significantly positive effect on job satisfaction. This finding is consistent with the studies (Thomas, 2016; Loi, Chan & Lam, 2014; Nielsen *et al.*, 2009) conducted to determine the relation between leader-member exchange and job satisfaction. The mediating role of leader-member exchange in transformational leadership's effect on the relation between employee performance and job satisfaction was examined as the primary aim of the study and it was concluded that leader-member exchange had a mediating role in the effect of transformational leadership on the relation between employee performance and job satisfaction. This finding is consistent with the relevant study (Thomas, 2016).

As shown by analyses conducted in the course of this study, high-levels of transformational leadership and leader-member exchange elevate employees' job performance and job satisfaction levels.

The most important limitation of this study is that it was conducted in one type of business environment, *i.e.* hotels. For a future confirmation of these results, it is important to perform similar studies in different industries and with employees of different characteristics.

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