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ARTICLE INFO
Yenhui Ouyang, Chun Hao Cheng and Chi Jung Hsieh (2010). Does LMX enhance the job involvement of financial service personnel by the mediating roles?. Problems and Perspectives in Management, 8(1-1)

JOURNAL
"Problems and Perspectives in Management"

FOUNDER
LLC “Consulting Publishing Company “Business Perspectives”

NUMBER OF REFERENCES 0
NUMBER OF FIGURES 0
NUMBER OF TABLES 0

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Does LMX enhance the job involvement of financial service personnel by the mediating roles?

Abstract

This research seeks to investigate the critical mediating effects between leader-member exchange and the job involvement of financial service personnel. The empirical results showed that leader-member exchange (LMX), job satisfaction and corporate social responsibility had significant direct effects on the organizational commitment of employees, and that the organizational commitment of employees had a direct significant effect on job involvement. In addition, forming a good organization climate is helpful to enhance the job involvement of employees. For example, the establishment of a good reputation and behavior with regard to corporate social responsibility result in employees’ feeling proud of the organization and contributing to the long-term benefit of the firm. In addition, employee organizational commitment is a quite important mediator with regard to job involvement. LMX, job satisfaction and corporate social responsibility also had indirect effects on job involvement through the organizational commitment of employees. The implications of the findings are discussed, and directions for future research are suggested.

Keywords: Leader-Member Exchange (LMX), job satisfaction, Corporate Social Responsibility (CSR), Organizational Commitment (OC), job involvement.

JEL Classification: C120, J530.

Introduction

The recent global financial crisis has led to numerous economic uncertainties. One area thus changed is the working environment of financial services personnel, many of whom have lost their jobs. It is thus likely that both the job involvement and organizational commitment of employees have been adversely affected, and this study will examine the ways to address this.

The LMX theory of leadership can diagnose this relationship between leaders and employees, so that this relationship can be enhanced, enabling improved job involvement of employees. Recently, CSR has emerged as a social movement and has attracted substantial attention from the business world, politicians and scholars alike. Siwar and Hossain (2009) view CSR as an organizational commitment to conduct its business in an economically, socially and environmentally sustainable manner while balancing the interests of a diverse range of stakeholders. Moreover, CSR is a way for corporations to raise their legitimacy, and thus leaders have an obligation to set the standards for such actions in their organizations. Empirical research (Dirks and Ferrin, 2002) has shown that employees with greater job satisfaction have stronger organizational commitment and an increased sense of belonging to the organization. This is due to the general recognition that job satisfactions is the major determinant of organizational commitment and that when employees are dissatisfied at work, they are less committed to it (Lok et al., 2004). Thus, this research predicts that the job involvement of employees will be significantly affected by organizational commitment, job satisfaction and corporate social responsibility.

Various antecedents of job satisfaction and organizational commitment have been studied in the earlier research (Silverthorne, 2004; Lam et al., 2003). However, there has been little attention paid to the causal relationships between LMX, job satisfaction, CSR, organizational commitment and job involvement. Examining the past literature, we not only investigate the direct effect of LMX on job involvement, but also study its indirect effects via job satisfaction, CSR and organizational commitment (OC). We will provide a theoretical basis for the constructs of LMX, job satisfaction, CSR, and organizational commitment as the antecedents of job involvement, and then show how these constructs are related within this context. The results can provide practical recommendations with regard to dealing with the human resources of organizations.

This paper is organized as follows. First, we examine some related literature, hypotheses and frameworks. The second section gives an overview of the core methodology. The third section discusses the findings of the research, while the final section offers the conclusions of the paper, managerial implications, limitations, and future research directions.

1. Literature and hypotheses

1.1. Job involvement. Job involvement is defined as the degree to which a person identifies psychologically with his/her work and its importance in his/her total self-image (Lodhal & Kejner, 1965). Zagenczyk and Murrell (2009) investigated the relationships among advice-giving, advice-receiving, and employees’ work attitudes, and found that while advice-giving and advice-receiving were positively related to job involvement, only advice-receiving was positively related to work-unit commitment.
Job involvement is strongly affected and can be perceived as a reflection of work experiences (Cohen, 1999). Individuals may become involved in their jobs in response to specific attributes of the work situation (Mudrack, 2004). Brown (1996) argues that job involvement will be the highest when the work environment (1) makes an individual believe that his/her work is meaningful, (2) offers control over how work is accomplished, (3) maintains a clear set of behavioral norms, (4) makes feedback concerning completed work available, and (5) provides supportive relations with supervisors and coworkers. Many theorists have hypothesized that highly job-involved employees will put forth substantial efforts towards the achievement of organizational objectives and be less likely to leave their jobs (Kahn, 1990; Pfeffer, 1994).

1.2. Leader-member exchange. LMX describes the relationship between a leader and a subordinate and how they influence each other in an organization. According to Gerstner and Day (1997), job satisfaction is the strongest correlate of LMX. Subordinates with high LMX not only receive extrinsic rewards, such as promotions (Wakabayashi and Graen, 1984), but also have more intrinsic satisfaction in terms of autonomy and challenging tasks (Bhal and Ansari, 2007). This stream of research addresses how employees respond to the benefits that their leaders or organizations offer them (Podsakoff et al., 2000). If employees feel that they receive more than they give, they are likely to return equity by engaging more in the organization, as well as feel higher levels of satisfaction. We thus predict that Leader-Member Exchange is positively associated with job satisfaction.

**H1:** Leader-member exchange has a positive effect on job satisfaction.

Working within a team that enables subordinates to experience a greater feeling of empowerment, thus implying a greater degree of self-control, allows subordinates to self-manage their work effort and behavior (Gomez and Rosen, 2001; Niehoff et al., 2001), and they are likely to reciprocate to their employers with increased organizational commitment. Consistent with these prior results and the literature, we predict that Leader-member exchange is positively associated with organizational commitment.

**H1-1:** Leader-member exchange has a positive effect on organizational commitment via job satisfaction.

Mulki et al. (2009) identified a type of leadership style that can help firms with regard to corporate social responsibility and the moral obligations that they have go beyond maximizing their profits. A number of studies have examined how leaders play a key role in the attitudes and behaviors of employees (Mulki et al., 2007). Grojean et al. (2004) found that leaders influence the ethical climate by both stating and implementing ethical policies and practices. Schwepker and Good (2004) also found that sales manager’s ethical attitudes influence the salesperson’s quota performance. Consistent with these prior results and the literature, we predict that Leader-member exchange is positively associated with corporate social responsibility (see Figure 1).

**H2:** Leader-member exchange has a positive effect on corporate social responsibility.

**H2-1:** Leader-member exchange has a positive effect on organizational commitment via corporate social responsibility.

1.3. Job satisfaction. Job satisfaction reflects employees’ attitudes toward their job and is directly tied to individual needs. Organ (1988) suggested that positive job attitudes arise as a result of some positive actions on the part of the organization and lead to a sense of obligation on the part of the employee. This sense of obligation should cause employees to repay their organization in a manner congruent with their exchange ideology. Previous empirical research found that employees with job satisfaction will have stronger organizational commitment and a greater sense of belonging to the organization (Dirks and Ferrin, 2002; Organ and Ryan, 1995). That is, job satisfaction is a significant predictor of organizational commitment. Allen and Meyer (1990) stated that committed employees are likely to exert greater efforts than employees needing or feeling obligated to belong. As a result, we presume job satisfaction might influence organizational commitment and job involvement, and thus the following hypotheses are proposed:

**H3:** Job satisfaction has a positive effect on organizational commitment.

**H3-1:** Job satisfaction has a positive effect on job involvement via organizational commitment.

1.4. Corporate social responsibility. Corporate social responsibility (CSR) has recently been gaining more attention from business leaders, politicians and scholars. CSR is about how companies conduct their business in an ethical way, taking account of their impact economically, socially, environmentally, and in terms of human rights (Karnes, 2009). As such, the term may be used for all societal corporate initiatives that go beyond formal governmental regulations (Kakabadse and Kakabadse, 2007). CSR has thus emerged as a social movement and a business approach that views respect for ethics, people, communities and the environment as an integral strategy that improves the competitive position of a firm (Mittal et al., 2008).
Shaw (2009) viewed corporations as having an obligation to avoid harming the environment, to contribute positively to the local community, and to promote the well-being of their employees and treat them fairly. There are several different theories that touch on the concept of CSR. The social contract theory states that businesses must act in a responsible manner, focusing not only on their commercial interest but also on the wider society (Siwar and Hossain, 2009). According to the instrumental theory, some social programs can be undertaken for reasons of competitive advantage and to promote a good company image (Greenfield, 2004). Finally, the stakeholder theory pays attention to the needs and rights of all stakeholders as a useful way of developing socially responsible behavior by managers (Maignan and Ferrell, 2004).

Mulki et al. (2009) identify a type of leadership style that can help firms pursue corporate social responsibility and consider whether companies really do have a need to fulfill certain social duties and thus moral obligations that go beyond maximizing profits. A number of studies have shown that leadership plays a crucial role in the attitudes and behaviors of employees (e.g., Mulki et al., 2007). In addition, Schwepker and Good (2004) found that sales manager’s ethical attitudes influence salesperson’s quota achievement. Ingram et al. (2007) explored the influence of a model of leadership style and assessed the impact on ethical climate. Redington (2005) stated that companies need to engage with CSR because it offers a better way of doing business, while Sirotta et al. (2005) noted there is a strong positive relationship between employee business morale and success. CSR research has generally concentrated on corporate strategic rationales for engaging in CSR, but Djelic and Sahlin-Andersson (2006) also highlight the array of broader social forces at work. In addition, they also found that the regulative mode of CSR aims at improving corporate practices, while the management mode is directed at enhancing the corporation’s legitimacy. Thus, although a growing number of studies have investigated the various dimensions of corporate social responsibility (CSR) in the literature, relatively few have considered its impact on employees. The purpose of this study is, therefore, to analyze how CSR affects the organizational commitment of employees based on the social identity theory (SIT). In principle, good corporate social responsibility will facilitate organizational commitment, and so we want to test the effect of CSR on job involvement. Therefore, the following hypotheses are tested:

H4: Corporate social responsibility has a positive effect on organizational commitment.

H4-1: Corporate social responsibility has a positive effect on job involvement via organizational commitment.

1.5. Organizational commitment. Organizational commitment is defined as an individual’s attitudes toward an organization that involve a strong belief in and acceptance of its goals and values (Steers, 1977). In the present study, organizational commitment has been defined as the relative strength of an individual’s identification with and involvement in a particular organization (Mowday, Steers and Porter, 1982). Moreover, organizational commitment reflects an individual’s fondness for a job and emotional attachment to that organization (Mitchell et al., 2001).

There are three characteristics of organizational commitment: (1) a strong belief in and acceptance of the organization’s goals and values, (2) a willingness to exert a considerable effort on behalf of the organization, and (3) a strong intent or desire to remain with the organization. The relationship between job involvement and organizational commitment is well documented in the literature (Brown, 1996). The positive relationship between job involvement and commitment suggests that those employees who are committed to their jobs are also likely to be committed to their employing organizations. Employees who are committed to their organizations are more likely not only to remain with the organization, but are also likely to exert more effort on behalf of the organization and work towards its success, and therefore should be better performers than uncommitted employees (Kovnisky and Cropanzano, 1991). Therefore, we propose the following hypothesis:

H5: Employee organizational commitment has a positive effect on job involvement.

In summary, we suggest that job involvement is fully affected by organizational commitment, job satisfaction and corporate social responsibility (see Figure 1).
Fig. 1. Hypothesized relationships among LMX, job satisfaction, CSR, OC and job involvement

2. Methodology

SPSS 15.0 for Windows and Amos 7.0 were used to analyze the data, and SEM was used to discuss the structural path relationships of the model. The instrument was administered as a questionnaire survey to 400 employees of banks, securities and insurance companies in Taiwan. In total, 232 surveys were returned, resulting in an overall response rate of 58%. This questionnaire adapted scales from relevant studies and examined the four factors of organizational commitment, job satisfaction and corporate social responsibility via a seven-point Likert scale, anchored on strongly disagree and strongly agree. The period of the survey was from April, 2009 to July, 2009.

3. Results and discussion

3.1. The characteristics of the respondents. In the survey, 32 percent of respondents were male and 68 percent were female. About 75 percent held university or graduate school degrees, whereas only 25 percent held high school degrees. A large proportion of the sample population, representing 76 percent, was between the ages of 26 and 45. About 28 percent of the sampled employees have worked in the financial institutions for less than three years, 23 percent for three to six years, 17 percent for seven to ten years, and 32 percent for more than ten years. With regard to their employers, 8 percent worked in security companies, 36 percent worked in the banking sector, whereas 56 percent worked in insurance companies.

3.2. Measurement model. We followed Anderson and Gerbing’s (1988) two-step approach for structural equation modeling, in which the estimation of a measurement model using confirmatory factor analysis (CFA) preceded estimation of the structural model. First, a five-factor CFA was performed on the entire set of measurement items simultaneously. Factor analysis was used to reduce the number of items in each construct to maintain its reliability and discriminate validity. After removing these variables (α<0.7), all scale items showed good reliability. Table 1 shows the items that remained for modeling the structural equation and also summarizes the results of a reliability analysis of the variables. Cronbach’s α were greater than 0.7 for all five factors, suggesting that they possessed adequate convergence (Hair et al., 2006). Factor loadings ranged from 0.703 to 0.944, well above the minimum of 0.35 for a sample of 228 (Hair et al., 2006). In addition, all of the measures of the constructs had been used in past studies, and had been validated.

Moreover, we evaluated the reliability and convergent validity of the factors estimated by composite reliability and average variance extracted. Composite reliability (CR) for all factors in our measurement model was above 0.70, which meant that more than one-half of the variances observed in the items were accounted for by their hypothesized factors. The average variances extracted (AVE) were all above the recommended 0.50 level required to be considered reliable.

Thus, all factors in the measurement model had both adequate reliability and convergent validity. To examine discriminate validity, we compared the shared variances between factors with the average variance extracted of the individual factors. This showed that the shared variances between factors were lower than the average variance extracted of the individual factors, confirming discriminate validity (see Table 1). Overall, our results indicated that the measures had reasonable psychometric properties and were suitable for the structural model analysis in the next step.
Table 1. Inter-correlation among job involvement, organizational commitment, job satisfaction and corporate social responsibility

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<tr>
<td>1. LMX</td>
<td></td>
<td>0.8643</td>
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<tr>
<td>2. OC</td>
<td>0.567**</td>
<td></td>
<td>0.8455</td>
<td></td>
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<tr>
<td>3. Job satisfaction</td>
<td>0.484**</td>
<td>0.607**</td>
<td></td>
<td>0.8305</td>
<td></td>
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<tr>
<td>4. CSR</td>
<td>0.565**</td>
<td>0.597**</td>
<td>0.344**</td>
<td></td>
<td>0.9011</td>
</tr>
<tr>
<td>5. Job involvement</td>
<td>0.350**</td>
<td>0.663**</td>
<td>0.389**</td>
<td>0.490**</td>
<td>0.7977</td>
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Note: All correlations are significant at the 0.01 level (two-tailed). The diagonals represent the square root of the average variance extracted.

3.3. The results of the structural model. We formulated an SEM using AMOS 7.0 to analyze our model. Bagozzi and Yi (1988) suggested that a similar set of fit indices be used to examine the structural model. A comparison of all the fit indices with their corresponding recommended values provided evidence of a good model fit ($\chi^2 / df = 1.69$, 127, degrees of freedom, GFI = 0.911, AGFI = 0.880, CFI = 0.972, NFI = 0.972, PNFI = 0.776, PGFI = 0.676 and RMSEA 0.055), and thus we could proceed to examine the path coefficients of the structural model.

3.4. Analysis of paths. We tested several versions of our model. In the first model (Figure 2) we included all constructs, testing the direct and indirect (via job satisfaction, corporate social responsibility and organizational commitment) relationships between LMX and job involvement. The explained variance values of the endogenous constructs are 0.576 (job involvement). With the exception of three paths, all paths are significant. The properties of the causal paths (standardized path coefficients) are shown in Figure 2. As expected, LMX had a strong positive and highly significant influence on both job satisfaction ($\gamma = 0.52$, P < 0.001) and corporate social responsibility ($\gamma = 0.64$, P < 0.001). Therefore, H1 and H2 were supported. In addition, the effect of job satisfaction on organizational commitment was also significant, supporting H3. Meanwhile, the effect of corporate social responsibility on organizational commitment was significant, supporting H4. The effect of employee organizational commitment on job involvement was significant, supporting H5. However, we did not find a direct effect of LMX on organizational commitment. Moreover, we also did not find a direct effect between job satisfaction-job involvement and corporate social responsibility-job involvement, thus it is necessary for us to find the mediating effects of job satisfaction, corporate social responsibility and organizational commitment on job involvement.

As Figure 3 shows, the direct path of LMX on OC is significant at p < 0.001. After introducing job satisfaction and CSR as the mediators of the path between LMX and OC, the direct path from LMX to OC (from $\beta = 0.62$*** to $\beta = 0.17$) became insignificant, indicating job satisfaction and CSR fully mediate the LMX and OC relationships (Figure 4), supporting H1-1 and H2-1.
Comparing Figures 5-1 and 5-2, the same procedure was repeated to test the mediating effect of OC on the job satisfaction-job involvement and CSR-job involvement relationships. The direct paths of job satisfaction and CSR on job involvement are significant at p<0.001. After introducing OC as a mediator of the path between job satisfaction-job involvement and CSR-job involvement, the direct path from job satisfaction to job involvement (from $\beta = 0.25^{***}$ to $\beta = -0.13$) became insignificant and the strength of the relationship between CSR and job involvement was strongly reduced (from $\beta = 0.46^{***}$ to $\beta = 0.06$), indicating that OC fully mediates between the job satisfaction-job involvement and CSR-job involvement relationships, supporting H3-1 and H4-1.

In conclusion, LMX can influence employees’ job involvement via job satisfaction, CSR and OC. Previous research also showed the positive effects of leadership on subordinates’ work-related attitudes, which increase the latter’s willingness to invest effort and enthusiasm in achieving the task at hand (De Hoogh et al., 2005). Therefore, the quality of the leader-member relationship plays an important role in defining the overall job attitudes of employees.

**Conclusion and discussion**

The recent financial crisis has meant that employees in the financial services industry are faced with considerable job uncertainty. Therefore, it is necessary to better understand the critical factors influencing their job involvement. We thus investigated what factors have an impact on financial service personnel’s job commitment, which in turn cause their job involvement. Firstly, we demonstrated that there is strong and positive relationship between LMX and organizational commitment and job involvement. Secondly, we identified job satisfaction and corporate social responsibility as the important antecedents of job commitment. Thirdly, we hypothesized and demonstrated empirically that job satisfaction and corporate social responsibility are also related to job involvement via the organizational commitment of employees. In conclusion, LMX, job satisfaction and corporate social responsibility have significant positive effects on job involvement via organizational commitment. That is, maintaining good relationships between managers and subordinates causes the latter to feel more satisfaction in their jobs, making them more willing to abide by the regulations of the organization, commit themselves to their jobs and in turn feel increased job involvement.

**Managerial implications.** One obvious implication of the present study is that leaders should be aware of the important linkages between job satisfaction, corporate social responsibility, organizational commitment, and job involvement. Our empirical evidence shows that the causal relationship between LMX and job involvement is better explained when job satisfaction, CSR and OC are taken into consideration. LMX directly, and via job satisfaction and CSR indirectly, explained 33.6 percent of the variance in job involvement. After introducing the or-
organizational commitment of employees as the mediator of the path, the explained variance value (57.6%) of job involvement has higher explanatory power. If managers realize that LMX is directly and indirectly positively related to employee job involvement, then they should interact with their subordinates in a positive and encouraging fashion, and thus the latter will naturally increase both their job satisfaction and job involvement.

Another implication of our study is that CSR has an indirect effect on employee job commitment and involvement. The Economist (2008) reported that practitioners believe that CSR behaviors result in employees feeling proud of the organization, thus contributing to long-term benefit of the firm. Managers should consider strengthening their organizations' corporate social responsibility effects and work towards a unique organizational culture. After seeing a consistent pattern of CSR actions throughout the organization, employees will have greater willingness to work harder to support the firm's goals.

Limitations and future research directions. First, the present study has relied primarily on samples drawn from the financial institutions of Taiwan, and thus the findings cannot be generalized to all firms in Taiwan. Moreover, future studies could be extended by broadening research to other service industries, which could further test the validity of the results. Second, the exogenous variables of LMX used in the present study should be expanded to include employer-employee personal guanxi (connections), which is likely to predict the crucial variables of financial service personnel's job involvement, with possibly higher explanatory power in different contexts. Third, this study was conducted during a widespread financial crisis, and this is likely to have influenced employee job attitudes. Thus, it would be worthwhile to identify the importance of LMX under different economic conditions. Finally, a longitudinal study might provide greater insight with regard to understanding the development of LMX more thoroughly, and provide more conclusive findings on employee job involvement.

References


