

## **ANALYSIS OF THE RELATIONSHIP OF LEADER-MEMBER EXCHANGE (LMX) TOWARDS EMPLOYEE PERFORMANCE MEDIATED BY THE EMPLOYEE COMMITMENT**

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### **Abstract:**

Indonesia is an archipelagic country with a long history as a maritime country. In the past, the maritime archipelago had many kingdoms, such as Sriwijaya, Majapahit, and the kingdoms in Maluku had once held a vital route for world trade through the sale of spices. Merchants from Gujarat and China took herbs and spices from the Maluku Islands and then sent them via merchant ships to China, the Arabian Peninsula, Europe, and Madagascar. Maritime leadership can be defined as the ability of maritime leaders to influence, motivate, and enable others to contribute to the effectiveness and success of maritime organizations. Leader-Member Exchange (LMX) can be a way to promote better leader-follower relationships and, ultimately, improve performance in public sector organizations. Social Exchange Theory (SET) argues that employees can improve performance with high-quality LMX. The purpose of this study was to examine the effect of LMX on organizational commitment and employee performance and to determine the impact of LMX on employee performance by mediating organizational commitment variables. The results prove that LMX affects organizational commitment; LMX has a beneficial effect on employee performance; organizational commitment is significantly positive. Effective LMX is beneficial for employee performance with organizational commitment as a mediating variable.

**Keywords:** Leader-Member Exchange, LMX, Employee Performance, Employee Commitment.

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## **INTRODUCTION**

Indonesia has a long history as a maritime nation. In the past, the kingdom's maritime archipelago as Sriwijaya, Majapahit, and the kingdoms in Maluku once hold the essential track of world trade through spices. Merchants from Gujarat and China took herbs and spices from the Maluku Islands ago sent them through ships trade going to China, Arabian Peninsula, Europe, and Madagascar. Previously, to manage ports in Indonesia, 4 Pelindos were formed, which were divided into based on different regions. Pelindo I, for example, manage ports in Province Nanggroe Aceh Darussalam, North Sumatra, Riau and the Riau Archipelago. Pelindo II manages ports in 10 provinces, namely West Sumatra, Jambi, South Sumatra, Bengkulu, Lampung, Bangka Belitung, Banten, DKI Jakarta, West Java, and West Kalimantan. Pelindo III manages ports in 7 provinces, namely East Java, Central Java, South Kalimantan, Central Kalimantan, Bali, NTB and NTT. While Pelindo IV is managing ports in the region of 11 provinces, namely Provinces of East Kalimantan,

North Kalimantan, South Sulawesi, Central Sulawesi, Southeast Sulawesi, Gorontalo, North Sulawesi, Maluku, North Maluku, Papua and West Papua.

Pelindo I, II, III, and IV are non-listed state-owned companies whose shares are 100% owned by the Ministry of SOEs as the Shareholders of the Republic of Indonesia. With a lot managed port, of course, this could influence quality connection exchange. Among top and bottom and effective leadership to improve performance and commitment employee should be leveled. Leader-Member Exchange (LMX) can be a way to promote better leader-follower relationships and, in the end, Upgrade performance in public sector organizations and associations can lead to an increased need for effective leadership in helping organizational structure become leaner and corporate culture becomes more dynamic (Yeo *et al.*, 2013). Leader-Member Exchange (LMX) has strength strong prediction \_ in Settings organizations (Harris *et al.*, 2009; Henderson *et al.*, 2008), where LMX refers to quality connection exchange Between superiors and subordinates (Graen & Uhl -Bien, 1995). LMX is an effective tool \_ for understanding the connection between hierarchical organization (Boies & Howell, 2006), task employees and performance or citizenship performance (Harris *et al.*, 2014), effectiveness of something group (Dionne *et al.*, 2002; Erdoan *et al.*, 2004), and effectiveness leadership (Graen & Uhl -Bien, 1995).

*Social Exchange Theory* (SET) argues that employees are more possible got a reply mind from high-quality LMX through enhancement performance and showing a favorable attitude on the spot work (Gerstner & Day, 1997). Gerstner and Day (1997) reviewed LMX's effect on employees' attitude and behavior on-site employee work as a correlation (e.g., satisfaction and performance). Dulebohn *et al.* (2012) argue that characteristics of subordinate, trait boss and relationship are three group antecedent critical for LMX, which influence the attitude of assistants (e.g., commitment, role perception and behavior employees). Ohemeng (2020) argues that LMX theory is more applicable to understanding the realities of public sector life, as it helps understand the power of hierarchies in public organizations. Vigoda-Gadot and Beerli (2012) argue that LMX should be regarded as a powerful tool in public managerial reform structures and processes due to the belief that internal improvements relationship between leader and subordinates is essential for improving organizational results in each organization. Tummers and Knies (2013) said that LMX has several important positive job outcomes, such as increased job satisfaction, lower performance, and staff turnover, especially in this volatile environment of public sector management. The study's objective is to know the effect of LMX on commitment organization and performance employees and know the effect of LMX on performance employees with commitment organization as variable mediation.

**Leader-member exchange (LMX).** Leaders exchange personal resources and positions for subordinates' performance on unstructured tasks (Megheirkouni, 2017). This LMX theory will help us to understand how leaders can build trust and empower employees (Ohemeng, 2018), where LMX focuses on the quality of the exchange between employees and managers, and this is based on the level of emotional support and value exchange resources (Atatsi *et al.*, 2019). LMX connect supervisor and employees in relationships that promote employee performance, flexibility, dedication and responsibility. There are three crucial factors to building a strong bond: trust, responsibility, and respect. When building solid bonds, leaders must be equal, and there should be no in-group-out-group diversity (Tarim, 2018). Leaders are also tasked with this process. Leaders build strong bonds with their employees, motivate them, improve their appearance, internalize their emotions, and even depend on them.

There are two types of connection in LMX: low-quality relationships are oriented toward an economic exchange. In contrast, high-quality relationships, which focus on long-term social exchange, are based on the degree of reciprocal obligation, trust, respect, and reciprocity. In a high-

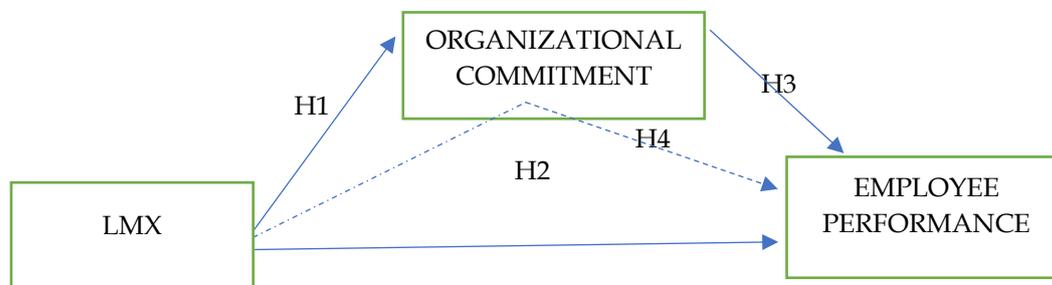
quality LMX relationship, it is assumed that followers have access to relevant resources such as information, empowerment, feedback, recognition, dignity, emotion, and endorsement from their leader (Villa-Vázquez, 2020).

**Commitment to the employee.** Today no organization can be competitive if employees are not committed to organizational goals; employees have to think like entrepreneurs, work in teams and prove their worth. Of course, organizations must also appreciate employees by providing good income and opportunities for development, and safe work (Radosavljevic *et al.*, 2017). Organizational commitment can be defined as the relative strength of individuals with identification and involvement in a particular organization (Megheirkouni, 2017). According to Meyer & Allen (2004), commitment implies an intention to persist in action. Therefore, organizations often try to cultivate commitment in their employees to achieve stability and reduce costly turnover. It is generally believed that committed employees will also work harder and are more likely to try harder to achieve organizational goals.

The high commitment is usually inseparable from the employee's belief in their excellent management, namely the existence of a management approach to human resources as a valuable asset and not merely a commodity that management can exploit. Conceptually, organizational commitment can be categorized into three factors: a) a strong belief in and acceptance of organizational goals and values, b) a willingness to exert considerable effort on behalf of the organization, and c) a definite desire to maintain organizational membership (Megheirkouni, 2003). 2017). The meaning of employee commitment can best be explained using social exchange theory (Vila-vazquez *et al.*, 2020). Social exchange theory is based on an economic model of human behavior. The interaction between individuals is motivated by the desire to increase rewards and reduce losses. The basic premise of social exchange theory is that relationships that provide more rewards than costs contribute to mutual trust and permanent attachment. Furthermore, it includes material benefits and psychological rewards, including status, loyalty, and approval (Radosavljevic *et al.*, 2017). Individuals feel they have benefited from a positive relationship; they will feel indebted and obliged to repay it by showing positive behavior (Vila-vazquez *et al.*, 2020).

**Employee Performance.** Job performance is something that is done and can be observed. Employee job performance information becomes helpful in organizations on issues related to performance appraisal, feedback, promotion and service payment systems (Megheirkouni, 2017). There are three groupings of employee performance according to Atatsi *et al.* (2019), namely understanding performance as the totality of output by individuals; regarding it as an in-role behavior or fulfillment of the responsibilities expected in completing the tasks given in the job description; and performance in roles and performance in different positions that play an essential part for organizational performance. Otoo & Mishra (2018) suggested that employee performance is performance related to the quantity of output, quality of output, timeliness of production, attendance, the efficiency of work completed and effectiveness of work completed.

### Conceptual framework



**LMX and Commitment employee.** Leaders need to define the goals and direction of their organization. They also need to align these goals and rules across organizational systems, ensuring organizational commitment to shared goals. Organizations are like cars. They cannot go anywhere on their own; they need the human factor to operate.

Moreover, it must be a good human being to become effective. Almost all of these people do their jobs as needed and go with the flow; they seek their leader to determine its direction, speed, and duration. They need guidance and recommendations on where to go and get there (De - Vries, 2007). Leadership is the ability to persuade an organizational community to strive toward a defined goal. From time to time, leadership requires staying behind without putting pressure on the group, letting others speak, remaining calm, showing doubt, and delaying decisions in opposition cases. Competent leaders create competent employees, which leads to better results. A leader's primary responsibility is to stimulate the organizational community towards a meaningful goal. Members need to have positive feelings about the goals worth striving for, their opportunities, and the leader's abilities. Organizations are no longer built on coercion but trust; what is needed here is commitment, and commitment cannot be achieved without trust (Ertosun & Asci, 2021).

Srivastava and Dhar (2016) found that LMX was positively associated with commitment. Therefore, they call for the development of leadership skills through practical leadership training, which they believe can help these leaders motivate subordinates and increase their loyalty and acceptance of organizational goals and responsibility. Likewise, Tarim (2018) and Megheirkouni, (2017) found a significant relationship between LMX and organizational commitment. The following hypothesis can be formulated based on the arguments above: H1: LMX positively affects organizational commitment.

**LMX and Employee Performance.** Quality LMX can vary in content and exchange processes among team members; for example, low, quality LMX is limited to economic exchange based on formal job requirements, whereas high-quality LMX involves a lot of resources and social support beyond legal role requirements. It suggests that the nature and characteristics of the LMX relationship are essential for overall effective team performance (Tse, 2013). LMX connects supervisors and employees in a relationship that promotes employee performance, flexibility, devotion and responsibility (Atatsi *et al.*, 2019). However, these connections are based on high-quality LMX (in-group) defined by trust, open communication and sharing or low quality (out-group) limiting relationships with defined job responsibilities (Walumbwa *et al.*, 2011). Tse (2013) and Taquiuddin *et al.* (2018) found a significant relationship between LMX and performance. The following hypothesis can be formulated based on the arguments above: H2: LMX positively affects employee performance.

**Commitment to the organization and employee performance.** Employees receive opportunities for development and social support from leaders and can discuss with their leaders

(Breevaart & Bakker, 2014) how to solve a problem; of course, they will feel comfortable with the leader, so they are committed to the company, which will improve work performance. Organizational commitment reveals that committed employees perform better, are more productive, exhibit greater engagement and appropriate corporate citizenship behaviors, and record lower absenteeism, intention to retire, and turnover (Brown *et al.*, 2019). Research conducted by Brown *et al.* (2019) found a significant relationship between organizational commitment and performance. The following hypothesis can be formulated based on the arguments above: H3: Organizational commitment positively affects employee performance.

**LMX, commitment to employees and employee performance.** LMX theory arises from the quality of the exchange between leaders and employees. What determines employee behavior, job satisfaction, and commitment can positively or negatively affect employee performance. An effective leadership style can generate inspiration, admiration, and empowerment of its subordinates. This will result in very high levels of effort, commitment, and willingness to take risks and better performance (Ohemeng *et al.*, 2018). Leadership is essential when encouraging employee and team performance; providing opportunities for employees to discuss and clarify their problems will help them better understand the organization and enable them to align their personal goals with organizational targets (Sharifkhani *et al.*, 2016)

The leader acts casually and informally, without creating unnecessary barriers, reduces the psychological distance from others, exhibits openness, non-conflict and good humor, with a level of conversational agility to suit all types of interlocutors. Subordinates see their leaders as representatives and spokespersons of the organization, explicitly communicating its mission and expectations of its employees, thereby affecting their emotional attachment to the organization. dimensions of communication style may have an impact on the commitment. (Brown *et al.*, 2019). Research conducted by Taquiuddin *et al.* (2018) found that organizational commitment could mediate the influence of leader-member exchange on employee performance. Based on the arguments above, the following hypothesis can be formulated.

H4: Organizational commitment can mediate the influence of leader-member exchange on employee performance.

## METHODS

**Sample.** All employees at PELINDO III. Successfully collected respondents from a google form totaling 211 people, consisting of 182 males and 29 females. **Scale and measure.** The questionnaire structure consists of three sections containing 40 statements using a five-point Likert scale. S scale 1 indicates strongly disagree, and five means strongly agree. A questionnaire was circulated through *google the form* and fill it out *online*. LMX is adapted from Vila-Vázquez (2020) with 8 statement items, and commitment organization is adapted from Allen & Meyer (2004) with three dimensions, using 18 statement items. Employee performance was adapted from Otto & Mishra (2017) with four measurements using 14 statement items.

## RESULT AND DISCUSSION

Research data analysis using Structural Equation Modeling Partial Least Square (SEM-PLS). This analysis focuses more on the purpose of the prediction study, Hair *et al.* (2017). The research model involves a mediating variable, namely employee commitment mediating the effect of LMX on employee performance. The variable measurement model is a *second-order factor* for employee commitment and performance variables and a *first-order factor measurement model* for the LMX variable. The estimation of the PLS model uses the *Disjoint Two-Stage Approach method*, where the analysis is carried out in two stages, Sarstedt *et al.* (2019). The first estimate evaluates the causality

measurement model between the dimensions of employee commitment and employee performance with the measurement items. Then a latent variable score was created as a dimensional score used in the second estimate. Evaluation of the measurement model is seen from the Loading Factor above 0.60 (Chin, 1998), Composite Reliability above 0.70 and Average Variance Extracted above 0.50, Hair *et al.* (2017). The second estimate is evaluating the causality measurement model between variables with measurement dimensions/items, evaluating the structural model and evaluating the suitability and goodness of the model, Sarstedt *et al.* (2019). Evaluation of the measurement model is seen from the results of the path coefficient test, where if the t statistic is above 1.96 (significantly influential). The model's goodness is evaluated from R square and Q square.

**Table 1.** Evaluation of Dimensional Level Measurement Model

Dimension	Number of valid items	Loading Factor	Composite Reliability	AVE
Affective	5	0.667 - 0.792	0.848	0.529
Continuance	4	0.628 - 0.860	0.853	0.595
normative	5	0.700 - 0.847	0.887	0.612
The efficiency of the work	3	0.906 - 0.926	0.938	0.834
Planning of work	3	0.902 - 0.939	0.939	0.838
Creativity and innovation	4	0.833 - 0.907	0.910	0.716
Making efforts	4	0.833 - 0.890	0.890	0.669

The first thing to do in SEM PLS is to ensure that the measurement items have a good level of validity and reliability, Hair *et al.* (2017). The first estimate evaluates the causality between the dimensions and the measurement items. Measurement items that measure the dimensions of affective commitment, continuance commitment, and normative commitment have acceptable levels of validity and reliability. The resulting Loading Factor has a validity level above 0.60 (Chin, 1998) and a reliability level above 0.70 (Hair *et al.*, 2017) and good convergent validity by an AVE above 0.50 (Hair *et al.*, 2017). The dimension of affective commitment of employees is reflected in their attitude that they want to spend a career in the company, feel they belong and are part of the organization, are emotionally attached to the organization, and feel that the organization is significant to them. The Continuance Commitment dimension has 4 (four) valid items with a Loading Factor above 0.60 and a high level of reliability above 0.70. This dimension explains that employees have a desire to work for the company. If you leave this company, your family's life will be disrupted, and if you leave this company now, you will have very few options to work for other similar companies. The normative commitment dimension has an acceptable level of validity where the loading factor lies between 0.700 - 0.847 and the reliability level is 0.887. The normative commitment dimension is reflected in the attitude of employee loyalty to keep working in the company. There are obligations and responsibilities towards other employees so that employees do not leave the company, and employees feel indebted to this company.

The efficiency of the work dimension has a very high level of validity above 0.90 with an acceptable level of reliability (0.939 > 0.70) and AVE (0.838 > 0.50). Work efficiency is reflected in insincerity, dedication, and high responsibility for the company, having professional knowledge of work and carrying out duties by company policies and procedures. The planning of the work dimension has an acceptable level of validity and reliability. This dimension is reflected in effective

work planning, the ability of employees to carry out plans according to responsibilities and focus on completing responsibilities according to plans. The dimensions of creativity and innovation have valid and reliable measurement items, which are reflected in having an interest in making changes to the company, solving problems with their methods, expressing solutive ideas, and expressing thoughts. The dimension of making efforts has a validity level between 0.833 – 0.890 with a reliability level of 0.890, which is reflected in the sense of pride in the task, willingness to work outside working hours and trying harder for additional work given by the company, as well as an increase in salary offered by the company to diligent employees.

**Table 2.** Evaluation of Variable Level Measurement Model

Variable	Dimensions/ Item Measurement	Average and Std. Deviation	Loading Factor	Composite Reliability	AVE
LMX	Two-way exchange relationship	4,009 (0.750)	0.775	0.923	0.667
	Balance of inputs and outputs	3,332 (0.992)	0.811		
	Managers reciprocate the employee's effort	3,981 (0.730)	0.834		
	Good relationship between manager and employee	3,882 (0.775)	0.887		
	The manager returns the employee's efforts	3,844 (0.775)	0.808		
	The manager returned the employee's voluntary actions	3,806 (0.814)	0.780		
Employee Commitment	Affective	3,789 (1,226)	0.782	0.851	0.657
	Continuance	3,733 (1.008)	0.748		
	normative	3,998 (0.895)	0.894		
Employee Performance	The efficiency of the work	4,340 (0.649)	0.908	0.937	0.789
	Planning of work	4,283 (0.654)	0.919		
	Creativity and innovation	3,938 (0.745)	0.854		
	Making efforts	4,033 (0.835)	0.870		

The evaluation of the two measurement models is the causality between the variables and the measurement dimensions/items. The LMX variable is explained by 6 (six) measurement items with a Loading Factor above 0.60 (valid) and a very high level of reliability (0.923 > 0.70) and convergent validity 0.667 > 0.50. The highest measurement item explaining the LMX variable is a good relationship between managers and employees. Managers give good rewards/appreciation for employees' efforts, and there is a balance between input and output. At the variable level, employee commitment is measured by 3 (three) correct dimensions with LF above 0.60, namely affective, continuance and normative commitment. The dimension that reflects the highest measurement is normative commitment (LF=0.894). Although the three dimensions of

commitment are valid, reflecting the measurement of employee commitment, changes in employee commitment will be bigger/greater as reflected in the dimensions of normative commitment. The attitude of loyalty to the company, the presence of responsibility towards other employees, and the feeling of indebtedness of employees make employees persist in not leaving the company.

Four valuable items measure the dimension of employee performance, and the four dimensions are interrelated in explaining employee performance. Among the four dimensions, the planning of work dimension (LF=0.919) has the highest level of validity. It shows that company employees have good planning, carry out plans with a sense of responsibility and complete work to completion by previous plans. The dimension of work efficiency (LF=0.908) is also considered very important with a high loading factor. Although considered valid, employee creativity and innovation dimensions need to be improved because the loading factor is lower than the other dimensions. Companies need to build a creative and innovative culture so that every employee can propose changes for the company's progress.

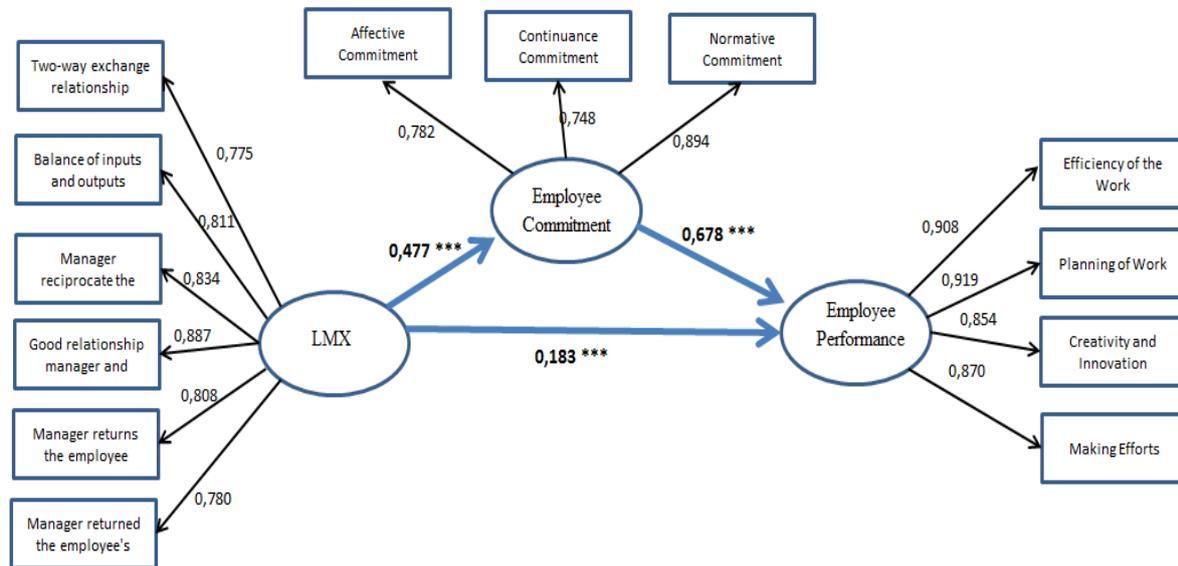
**Table 3. Discriminant Validity**

	Employee Commitment	Employee Performance	LMX
Employee Commitment	0.810*		
Employee Performance	0.765	0.888*	
LMX	0.477	0.506*	0.817*

Evaluation of the measurement model does not only look at convergent validity (validity and reliability), but it is also necessary to examine discriminant validity, Hair *et al.* (2017). Evaluation using the Fornell and Lacker Criterion method shows that the AVE root of each variable is more significant than its correlation with other variables. Therefore this evaluation is accepted.

**Table 4. Hypothesis test**

Hypothesis	Hypothesis Statement	Path Coefficient	T Statistics	P Values	Information
H1	LMX has a positive effect on Employee Commitment	0.477	7,780	0.000	Hypothesis Accepted
H2	LMX has a positive effect on Employee Performance	0.183	3.985	0.000	Hypothesis Accepted
H3	Employee Commitment has a positive effect on Employee Performance	0.678	18,955	0.000	Hypothesis Accepted
H4	Employee Commitment has a positive effect on mediating the impact of LMX on Employee Performance	0.324	7,161	0.000	Hypothesis Accepted



\*\*\* significant at =1%

### Model Estimation Results Diagram

After obtaining a good measurement model (convergent validity and divergent validity), the next step is testing the structural model or testing the model hypothesis. The test results on the First Hypothesis (H1) are accepted. Namely, there is a significant positive effect of the LMX variable on the employee commitment variable with a path coefficient (0.477) and a t statistic of  $7.780 > 1.96$ . The better the reciprocal relationship between superiors and subordinates, it will affect increasing employee commitment. When managers build good two-way relationships with employees, creating a balance between assignments and rewards and giving rewards to employees will make employees commit to the company.

The second hypothesis (H2) is accepted where there is a significant positive effect of the LMX variable on employee performance with a path coefficient (0.183) with t statistic ( $3.985 > 1.96$ ). The better the relationship between managers and employees, it will directly encourage employee performance. The two-way relationship between managers and employees can promote the implementation of employee performance planning to be better; employees become efficient at work, foster employee creativity and innovation and employees have a sense of pride in the work they do.

The third hypothesis (H3) is accepted with a path coefficient (0.678) with a t statistic ( $18.955 > 1.96$ ). These results indicate that the better the employee's commitment to the company, the better the employee's performance will be. Companies need to maintain a normative commitment, namely the attitude of employee loyalty to the company and a sense of responsibility for employees at work. This dimension is rated as the most critical in the measurement model. However, the company needs to accelerate the commitment to affective and continuance by creating a sense of pride in owning and working for the company. Employees will not feel a loss working for this company.

The fourth hypothesis (H4) is accepted where there is a significant positive effect of the LMX variable on employee performance through employee commitment mediation with the mediation path coefficient (0.324) with t statistic ( $7.161 > 1.96$ ). These results prove that employee commitment plays a significant role in mediation. The LMX variable has a substantial direct effect on increasing employee performance and also an indirect impact through employee commitment.

**Table 5. R Square, Q Square and SRMR. tables**

Variable	R Square	Q Square	SOME
Employee Commitment	0.228	0.224	0.095
Employee Performance	0.612	0.608	

The final result of model evaluation in SEM PLS is the evaluation of the suitability and goodness of the model consisting of R square, Q square and SRMR (*Standardized Root Mean Square Residual*). The size of the R square for employee commitment is (0.228), which means the magnitude of the influence of the LMX variable on employee commitment is 22.8%, and the magnitude of the effect of the LMX variable and employee commitment on employee performance is 61.2%. SEM PLS is a predictive study where the value of Q square for employee performance and employee performance variables above 0 indicates the model has predictive relevance. The value of the LMX variable can predict every change in employee commitment and employee performance variables. Therefore, the influence model between the variables in this study can be accepted. The SRMR value describes the model's fit, namely the match between the correlation of the initial data and the correlation of the estimated parameter results. According to Hair *et al.* (2017), SRMR values below 0.10 are acceptable. The model estimation results show an SRMR of 0.095 < 0.10, which means the proposed model fits the data.

## CONCLUSION

The better the relationship between managers and employees, it will directly encourage employee performance. LMX refers to quality connection exchange Among top and bottom, so LMX is adequate for understanding connection hierarchical organization \_ as in Pelindo III. This LMX theory will help us understand how leaders can build trust and empower employees. So the results study to prove that LMX has an effect positive on commitment organization, LMX is influential and favorable to performance employees, commitment organization is significantly positive to performance employees, and effective LMX is positive to performance employees with commitment organization as variable mediation. Research this only done at Pelindo III. So that no close possibility will obtain different results \_ if implemented in Pelindo I, II and IV. Variables under study only LMX, Employee Commitment, and Employee Performance. Could add other variables such as organizational culture, gender, teamwork, etc.

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