Leading for Success: Leader-Member Exchange Relationships and Employee Creative Self-Efficacy

Mary Joy Wytsma
Portland State University

Follow this and additional works at: https://pdxscholar.library.pdx.edu/honorstheses

Part of the Leadership Commons

Recommended Citation
https://doi.org/10.15760/honors.1359

This Thesis is brought to you for free and open access. It has been accepted for inclusion in University Honors Theses by an authorized administrator of PDXScholar. Please contact us if we can make this document more accessible: pdxscholar@pdx.edu.
Leading for Success: Leader-Member Exchange Relationships and Employee Creative Self-Efficacy

by

Mary Joy Wytsma

An undergraduate honors thesis submitted in partial fulfillment of the requirements for the degree of Bachelor of Science in University Honors and Business Management and Leadership

Thesis Advisor
Theodore Khoury

Portland State University
2023
Abstract

In today’s competitive and ever-evolving business landscape, creativity has become a major focus for managers, leaders, and organizations. However, there are downsides to making creative employees the end-all goal. Instead, managers and leaders should focus on fostering employee creative self-efficacy via high-quality Leader-Member Exchange (LMX) relationships. Within team settings, LMX works in tandem with Team-Member Exchange (TMX), and these relationships allow employees to experience positive *physiological state, social persuasion, vicarious experience*, and *mastery experience*, the four drivers of self-efficacy. Employees with high levels of creative self-efficacy experience increased creativity, job satisfaction, and motivation, making them major assets to teams and businesses.

*Key Words:* Creative Self-Efficacy, Leader-Member Exchange, Creativity, Innovation, Empowerment, Pygmalion Effect

Introduction

Within the world of business, creativity is a fascination and a primary area of focus, and not without good reason. Creativity is essential for the development of new ideas, developing unique approaches to solving problems, and increasing organizational flexibility. Endless podcasts, blog posts, and articles tout how creativity and investing in creative employees will revolutionize business. However, the romanticism of creativity has created an environment where it is viewed as the end-all goal that managers and business leaders should pursue. But creativity is not so straightforward. The concept is incredibly subjective and difficult to measure or study (e.g., how does one define creativity, or measure what ideas and outputs are more
creative than others?) resulting in a pronounced lack of research concerning the link between employee creativity and positive organizational outcomes. In fact, research has shown that creativity and having creative employees alone does not generate value for organizations. Instead, a better goal is enhancing employee creative self-efficacy, or the state in which employees believe themselves capable of creative action. By fostering such creative self-efficacy, organizations can observe the benefits that creativity can bring, as well as increase employee thriving, job satisfaction, motivation, and more (Amabile, 1988; Christensen-Salem et al., 2021; Tierney and Farmer, 2004).

So the question becomes: how do leaders cultivate employee creative self-efficacy? One way is through Leader-Member Exchange (LMX) relationships, which are the differentiated bonds that managers create with employees that allow for enhanced communication, trust, and support. Fostering high-quality LMX relationships provides a means by which managers can motivate and support employees so that they have creative self-efficacy, a critical antecedent of creative performance, innovation, and employee thriving.

This paper will first review the background of LMX as well as the four categories of self-efficacy. This will set the stage for a discussion of how LMX relates to employee creative self-efficacy via the Pygmalion effect, leader-follower expectations for creativity, and empowering leadership. Because of the increasing collaboration and prevalence of teams within organizations, it is also important to expand past the dyadic relationship between leader and follower and also apply this to team settings. Thus, this paper will also explore LMX and Team-Member Exchange (TMX) relationships, seeing how they work in tandem to enhance
employee creative self-efficacy. Finally, the information will be applied to an organizational context through practical applications.

**Background**

**Innovation and Creativity**

While often used synonymously, creativity and innovation represent two distinct concepts. Creativity is the act of being creative itself, whereas innovation uses creativity to produce tangible outcomes (Anderson et al., 2014). For example, creativity is the idea generation and brainstorming for a device that allows instantaneous communication, while innovation is creating and testing the first telephone. While separate concepts, they work in tandem to generate utility and value.

Within an organizational context, creativity drives innovation, and innovation is necessary to achieve success. Companies that do not innovate are quickly rendered obsolete. An example is BlackBerry, one of the first cell phone manufacturers, which went from being one of the fastest-growing companies in the world in 2009 to being all but forgotten just a few years later (Gustin, 2013). As consumer demand for smartphones sharply increased and the touch screen was first introduced, BlackBerry refused to discard their full keyboard devices in favor of more user-friendly interfaces. This, paired with other missed opportunities to innovate, caused BlackBerry to quickly fall behind companies such as Apple. By 2013, the company only held 3% of the market share (Gustin, 2013).

Not only do examples like this demonstrate how crucial innovation is to organizational success, business leaders also recognize it as a topic of ever-increasing importance. A survey of decision-makers at large global companies showed that 82% of them believe there is a direct
correlation between creativity and desired business results (Forrester Consulting, 2014). Additionally, according to a PwC survey of over 1,300 CEOs from countries around the world, innovation was ranked as the top business priority (PwC 20th CEO Survey).

However, creativity itself is a difficult outcome to measure, as it is highly subjective and not easily quantified. So, while having creative employees can be an asset to organizations and teams, there is not a significant body of data that has demonstrated a direct correlation between creative employees themselves and increased benefits for organizations. In fact, making creativity the end goal for employees can lead to some unforeseen difficulties for businesses and managers. First, this is because simply “being creative” or generating creative ideas does not create value for an organization unless these ideas are implemented in a meaningful way (Levitt, 2002). In fact, “the personal attributes associated with idea generation (i.e., creativity) have been shown to have no effect or even a negative effect on performance outcomes related to idea implementation” because creativity that does not translate to innovation has little to no utility within an organizational context (Miron-Spektor et al., 2011, p. 741). Additionally, “creative-type” employees are notoriously challenging to manage because of their difficulty adhering to corporate structure and the certain level of conformity required for accomplishing goals in the timely and structured manner that successful businesses need (Levitt, 2002).

Thus, when looking to enhance creative performance and innovative output, it is more useful to instead focus on fostering employee creative self-efficacy. Employees with high creative self-efficacy believe that they are capable of generating creative outcomes, a mindset that has been shown to lead not only to employee creativity, but also to higher job satisfaction, lower turnover rates, enhanced motivation, and intrinsic motivation (Amabile, 1988; Tierney and
Farmer, 2004; Christensen-Salem et al., 2021). Surveys show that of companies that value creative self-efficacy, “69% ... reported winning awards and national recognition for being a ‘best place to work’” compared to just 27% of less creative companies (Forrester Consulting, 2014). So the question is—how do managers increase employee creative self-efficacy? One way they can do this is through Leader-Member Exchange (LMX).

**Leader-Member Exchange (LMX)**

LMX theory was first presented in 1975 as vertical dyad linkage. It was one of the first studies to distinguish the different relationship qualities that leaders have with members (Dansereau et al., 1975). This theory discusses the two concepts of ‘leadership’ and ‘supervision,’ where ‘leadership’ is an empowering relationship between leader and member, where, by contrast, ‘supervision’ is transactional. The study hypothesized that the more freedom and autonomy members are given, the more likely the relationship will produce ‘leadership’ qualities, whereas less freedom and autonomy produces ‘supervision’ relationships between leader and member. They found that this was indeed supported by their research, and that leaders develop ‘leadership’ relationships with some members and ‘supervision’ relationships with others.

Over time, the language has changed, and the term vertical dyad linkage was replaced by Leader-Member Exchange (LMX). The concept of ‘leadership’ relationships were instead referred to as high-quality LMX relationships, and the ‘supervision’ relationships described as low-quality LMX relationships. The central premise remains the same, being that LMX theorizes that leaders develop unique relationships with every employee and that these relationships are varied in quality (Dansereau et al., 1975; Carneval et al., 2017).
Within the workplace, high-quality LMX relationships enjoy high levels of mutual trust and respect, whereas low-quality relationships are characterized by the inverse (Carneval et al., 2017). These differences in relationship quality create an environment where leaders give some employees more trust, autonomy, development time, and personal engagement than others. Many studies have looked at the effect of this phenomenon on a number of different variables, one critical one being follower creative self-efficacy.

Four Categories that Constitute Creative Self-Efficacy

Other researchers have used social cognitive theory as the framework for looking more in-depth at self-efficacy and how to enhance it by identifying four categories that constitute self-efficacy. These are social persuasion, physiological state, vicarious experience, and mastery experience (Bandura, 1982; Liao et al., 2010; Mathisen, 2011).

1. Social persuasion refers to providing encouragement. Encouragement allows a person to hold higher self-efficacy beliefs about themself and can effectively and enduringly boost self-efficacy (Bandura, 1982).

2. Physiological state is the emotional relationship that a person has with performing a task which influences a person's self-efficacy by how they perceive their external circumstances to impact their abilities. Phrases like “I don’t perform well under stress” would be an example of a negative physiological state.

3. Vicarious experience is insight gained by learning from others. Watching other similar people either successfully or unsuccessfully try to accomplish a task first affects a person’s confidence as to whether or not they themself will be able to accomplish that task.
4. *Mastery experience* is previous success. If a person has been successful in a task before, they believe they can do it again. This can also refer to a large and daunting task being broken down into smaller steps that the person can first succeed at, resulting in higher self-efficacy when it comes to accomplishing the whole task (Bandura, 1982).

While these four categories originally referred simply to self-efficacy, when applied in an organizational setting with a creativity context, they also become the drivers of creative self-efficacy. LMX relationships provide the necessary environment to encourage and strengthen employees in each of these four categories and thus leads to employee creative self-efficacy.

**LMX and Employee Creative Self-Efficacy**

*Pygmalion Effect & Leader Creative-Supportive Behavior*

One way LMX relationships encourage employee creative self-efficacy is the Pygmalion effect. The Pygmalion effect is the idea that “positive external expectations about someone’s performance or capabilities produce higher performance,” where high-quality LMX relationships provide the “positive external expectations” that allow for enhanced performance (Tierney and Farmer, 2004, p. 414). In the context of creativity, the Pygmalion effect is the leaders’ own faith in the ability of the follower to achieve creative results. Employees who have high-quality LMX relationships with their leaders are more likely to feel that their leader holds high creativity expectations of them, and also receive more support, resources, and ongoing encouragement from them. Simply holding high expectations for employee performance will not generate employee self-efficacy, the relationship is critical. For instance, an employee who is given a challenging goal and receives continuous personalized feedback, encouragement, and faith from their manager is much more likely to believe that they are capable of achieving the desired
results than an employee who is simply given a challenging goal and told “you can do it” with no further support. Thus, high-quality LMX relationships are crucial to the successful enactment of the Pygmalion effect.

Tierney and Farmer, recognized as experts in this field, found that supervisor expectation for creativity led to supervisor creative-supportive behavior, which fostered employee creative self-efficacy (Tierney and Farmer, 2004). While they use different words, their import is largely the same: the Pygmalion effect paired with high-quality LMX relationships generates employee creative self-efficacy. Their study shows that to gain the greatest benefit from the Pygmalion effect, leaders must provide ongoing support via resources, encouragement, and feedback (Tierney and Farmer, 2004).

Another study added to this, showing that high-quality LMX relationships naturally foster an environment for employee creativity to take place, but best results are achieved in those relationships where both the leader and the follower have expectations of creative output (Qu et al., 2017). If only the follower or leader has expectations for creativity, while it will still improve creative performance, it will not have as great an effect as if both held these high expectations (Qu et al., 2017).

Supervisor creativity-supporting behavior, similar to LMX relationships, favors some employees over others. Tierney and Farmer describe this saying that “upon establishing expectation levels for employees, supervisors direct more energy toward those they believe have the most potential…[thus] supervisors are more likely to engage in higher levels of behavior supportive of creativity with employees they anticipate or expect to be more creative in their work” (Tierney and Farmer, 2004). After setting a goal of creative performance, leaders foster
higher-quality LMX relationships and engage in the Pygmalion effect with those followers who they believe have the potential to attain higher levels of creativity. This results in “those employees for whom supervisors held higher creativity expectations report[ing] that their supervisors rewarded and recognized their creative efforts, provided more resources, encouraged the sharing of information, collaboration, and creative goal setting, and modeled creativity in their own work” (Tierney and Farmer, 2004, p. 426). Not only did these high-quality LMX relationships allow followers to feel a greater sense of creative self-efficacy, but they also provided more resources and support that allowed for follower creativity to occur.

This relationship between the Pygmalion effect and strong LMX relationships attend to the employee’s need for social persuasion and physiological state and mastery experience in order to hold self-efficacy views. For instance, this could look like a manager assigning an employee to a community outreach project where they had to build relationships and develop new skills (e.g. creating visually appealing fliers, coordinating meetings and events, etc.). The manager would provide time for one-on-one sessions with employees to provide encouragement, any training and resources that they/employee or employees verb agreement needed for success, and verbalizing the belief that the manager believed the employees capable of completing the task. The manager would, however, allow employees to be creative and complete projects however they choose. By cultivating a strong LMX relationship and engaging in the Pygmalion effect, the manager gives employees responsibility, autonomy, and a safe environment for them to experiment and take risks, some the most powerful motivators for self-efficacy and performance (Chirayath et al., 2009; Mathisen, 2011). Together, this allows employees to have a positive physiological state about the project, receive ongoing social persuasion, and further
encouragement when they successfully complete the project, which additionally enhances creative self-efficacy through *mastery experience*.

**Empowerment**

The relationship between LMX and employee creative self-efficacy is also mediated by empowerment (Zhang and Bartol, 2010). Zhang et al (2018) define empowering leadership as “leaders’ deliberate behaviors to share power with employees and to provide them with additional responsibility for and control over their own work” (p. 896). For empowerment to be successful, it requires more than a “one size fits all” plan (Zhang and Bartol, 2010). It must be tailored to each individual, which requires the dyadic nature of a strong LMX relationship. Similar to the Pygmalion effect, empowering leadership includes supplying an employee with the tools, support, and encouragement that they need, and then allocating them the autonomy and trust for them to accomplish the task. In order for empowerment to have the desired effect, however, the employee must feel empowered. This may seem obvious, but it means that unless empowering leadership is formatted in a way that is receptible by the employee, it will not have the desired effect (Zhang and Bartol, 2010). Hence there is a need for an LMX relationship that provides personalized empowerment to each employee. When employees do feel a strong sense of empowerment, they have higher creative self-efficacy, allowing them to take risks, tackle challenges, and seek out opportunities for growth (Zhang et al., 2018).

Empowering leadership also enhances employee feelings of energy, which can be defined as “the feeling that a person is capable of and eager to engage in a particular behavior or undertake a task” (Atwater and Carmeli, 2009). Acting and thinking creatively is more demanding than conforming to the status quo because it requires going beyond the established
way of doing things and forging a new path. Being micromanaged, having a lack of resources, stumbling against red tape, and facing the dismissal or lack of support from leadership all stifle energy and intent toward creative action. As the opposite of these, empowering leadership energizes employees to feel capable of pursuing creativity.

Similarly, empowering leadership provides psychological empowerment, a state of heightened employee self-efficacy due to high levels of employee perceived meaning, competence, self-determination, and impact (Zhang and Bartol, 2010). Other studies refer to the combination of these four factors as thriving, where employees experience “both a sense of vitality and a sense of learning at work” (Christensen-Salem et al., 2021, p. 4821). When employees are empowered, they persist in tasks even when things are challenging because they “believe they can achieve their goals using new and useful strategies, [and] they are likely to thrive by continually trying to improve and looking forward to each new day as a chance to do better” (Christensen-Salem et al., 2021, p. 4825).

For instance, a manager for a research and development team for a footwear company might cultivate an environment where they know each employee on their team on an individual level, to the extent where they can tailor work activities to fit employees’ unique strengths. The manager would also allow employees to take risks, make decisions about the products, and even choose the course of what they want to work on. This allows the employees on this team to be excited about their work, show up with energy to tackle problems, and feel supported by the manager. Thus, like the Pygmalion effect, high-quality LMX relationships engage in empowering leadership which attends to an employee’s need for both social persuasion and positive physiological state, thus increasing employee creative self-efficacy.
**LMX and TMX**

LMX is a dyadic relationship between a leader and a follower, but because of the collaborative nature of the modern-day workplace, this relationship does not exist in a vacuum. Because LMX represents a difference in relationship quality between a leader and each employee, we can expect this inequality to naturally create some conflict, especially for teams. Within teams, leaders naturally cultivate stronger relationships with certain team members, creating an ‘in-group’ and an ‘out-group’ (Estel et al., 2019). LMX differentiation refers to the level of relational difference between these two groups within the team. While teams with high LMX differentiation result in the ‘in-group’ having somewhat higher levels of job satisfaction and performance, overall, the team will have higher team turnover and conflict because of the detrimental effects on the ‘out-group’ (Estel et al., 2019).

However, within a team, there is not only a vertical relationship between members and leader, but there is also a horizontal relationship between the members themselves. This horizontal relationship is called Team-Member Exchange (TMX), which refers to the different quality of relationships that team members cultivate with each other within a team setting. Similar to LMX, high-quality TMX relationships are characterized by high levels of trust, communication, and sharing of resources, while low-quality ones are characterized by the inverse. High-quality TMX relationships also provide the context for team members to learn from each other (Liao et al., 1093). Interestingly, studies have shown that “in highly interdependent team-based structures, these types of horizontal relationships may be just as important as vertical relationships with one’s leader, especially if leadership responsibilities are increasingly distributed more widely within the team” (Wang and Hollenbeck, 2018, p. 272).
This provides an environment within team settings where high-quality TMX relationships can provide the same motivation and support that strong LMX relationships do, and even counterbalance these relationships. This can occur to such a degree that “there may not be any other source that can replace a high LMX leader quite as well as a high TMX relationship with one's team” (Wang and Hollenbeck, 2018, p. 284). Like teams with high LMX differentiation, teams with extremely high TMX differentiation may also experience negative outcomes because the high variation in communication quality between team members results in social loafing and less cohesion (Chen and Liu, 2020). In these instances, however, strong LMX relationships can mitigate the adverse effects of high TMX differentiation on team success by providing a high level of outside support and generating an environment where team members feel like “trusted assistants of the leader” (Chen and Liu, 2020, p. 211). This allows teams to work together to achieve a common goal and still be creative despite the high TMX differentiation (Chen and Liu, 2020). Thus, depending on the type of team, LMX or TMX relationships might be more effective, but both provide the necessary motivation and support for employees' creative self-efficacy (Wang and Hollenbeck, 2018).

Further studies expand on this, showing that both TMX and LMX can cultivate employee self-efficacy in teams but do so differently. Citing the four categories that make up self-efficacy, one study gives an example that “employees may attend more to social persuasion under the LMX relationship but more to vicarious experience under the TMX relationship. Thus, the respective qualities of LMX and TMX may engender unique contributions to self-efficacy” (Liao et al., 2010, p. 1092 italic added). This means that LMX and TMX relationships have different
effects on self-efficacy, so they complement each other and indeed can substitute for one another within team settings (Liao et al., 2010).

For instance, a college group project team with high TMX differentiation would cause an uneven distribution of communication and resources, leading to internal cliques and social loafing. This team could be supported through team meetings with the course instructor to provide additional resources and structure. The instructor could also foster strong LMX relationships with the team members by providing one-on-one support and social persuasion for their individual parts of the team assignment. The strong LMX relationships would contribute to the team members feeling of creative self-efficacy and energy to accomplish the group project, in spite of the high TMX differentiation. On the other hand, a group project team where there is high LMX differentiation would result in some students receiving more instructor support than others. The negative effects of this could be offset by developing strong, evenly distributed TMX relationships that allowed for high levels of information sharing, collaboration, trust, and cohesion. This would allow team members to learn from each other and feel creative self-efficacy through vicarious experience.

**Implications**

LMX relationships develop organically in most organizational settings. Every employee falls somewhere on a sliding scale with regard to their levels of engagement, competence, and proactivity, and managers naturally develop stronger relationships with some employees over others. LMX theory simply highlights this and draws attention to the power that these relationships can have for employee success. Indeed, “it is possible for supervisors to either stimulate or stifle employees’ creative efforts by their beliefs and associated actions” (Tierney...
and Farmer, 2004, p. 428). So, it is important for managers to be aware of how they have developed LMX relationships with their employees, ascertain where there are strong relationships and where there are weaker ones, and adjust accordingly. Employers should continue to invest in the already strong LMX relationships, engaging in the Pygmalion effect, holding high creativity expectations, and practicing empowering leadership. For those employees with which they do not hold a strong LMX relationship, leaders should determine which employees have the potential to grow towards higher levels of achievement if provided with support, and which employees are completely disengaged and unmotivated. While it is impractical to assume that leaders will be able to have strong LMX relationships with all employees, it is important to proactively work towards increasing the number and quality of these relationships. Within team settings where developing high-quality LMX relationships with all members is no longer feasible, leaders can encourage TMX relationships to fill the void.

Once these relationships are developed, one of the most important ways of fostering employee creative self-efficacy is through providing resources, encouragement, and support, but then giving employees the autonomy to accomplish a task as they see fit. It is the Pygmalion effect: giving an employee a challenging task and watching them rise to the occasion. As employees experience successful creative tasks, it builds their mastery experience and with it, their creative self-efficacy will increase (Mathisen, 2011).

Employees also develop and maintain higher levels of creative self-efficacy when they feel encouraged and supported. To support this, leaders can create an environment of feedback and encouragement, which can include using verbal encouragement in the moment when employees pursue creative behaviors as well as written feedback and support through employee
logs. Another way of supporting employees is by normalizing failure which allows employees to release themselves from the negative emotions that could hamper their creative self-efficacy. Some industry examples of this include P&G’s “heroic failure award” and Google X’s employee awards for failing (Morgan, 2015). Normalizing failure and even encouraging it removes the fear of failing and provides both the social persuasion and positive physiological state needed to engage in creative self-efficacy.

**Conclusion**

Creativity is critical to innovation, and innovation, in turn, is critical to company growth and long-term success. However, when motivating employees to pursue creativity, it is more effective to focus on enhancing employee creative self-efficacy. When employees have creative self-efficacy, they are motivated, satisfied in their jobs, and pursue creative action. Leaders can appeal to employees through the four categories of self-efficacy by developing and maintaining high-quality LMX relationships that create an avenue for leaders to employ the Pygmalion effect, high expectations for creativity, and empowering leadership. Within team settings, leaders can encourage TMX relationships among employees which work in tandem with LMX relationships to satisfy employee self-efficacy needs.

Future research could continue to expand from creative self-efficacy and explore more thoroughly the topic of employee creativity and how it relates to organizational success. Studies could determine which sectors or roles benefit most from creative employees, versus those which are better served by employees with more focus on organizational conformity. Because creativity is so subjective, it is difficult to study, but further research could focus on incorporating objective measures and criteria so that research results can be more meaningfully reviewed and analyzed.
Examples might include use of measuring employee satisfaction through surveys, identifying the quantity and nature of time spent developing LMX and TMX relationships, and measuring improved outcomes as employee creativity measures are implemented. Creativity and employee creative self-efficacy are increasingly important topics, and will continue to shape how managers lead and motivate employees.
Works Cited


https://doi.org/10.5465/amj.2010.54533207

https://doi.org/10.1111/j.1467-8691.2011.00606.x


https://doi.org/10.5465/AMJ.2011.64870100


PwC. (2017). Global Talent Trends and Issues for the CEO: Key findings from the 20th annual CEO survey. PwC.


