



TRUST, LEADER-MEMBER EXCHANGE AND ORGANIZATIONAL OUTCOMES: A STRUCTURAL EQUATION MODEL IN THE MALAYSIAN WORK SETTING

Kok Fei LIAN*

Abstract

Social exchange theory has been influential in explaining a wide range of organizational outcomes including organizational commitment, performance, turnover and job satisfaction. It has also been combined with other theories such as those on leadership, self-managing teams and human resource management to produce new findings of interest to researchers and practicing managers. However, the fact remains that the majority of such research has been done in a Western context. There is a need to test social exchange theory in non-Western settings. This study tested the reliability and validity of social exchange theory in the Malaysian setting. Data was collected from 252 respondents of 18 Malaysian service and manufacturing sector firms. The results using AMOS 23 showed that trust ($\beta = 0.652$, $p < 0.01$) lead to LMX, explaining 42.5% of its variance. Trust ($\beta = 0.443$, $p < 0.01$) and LMX ($\beta = 0.282$, $p < 0.01$) are positively related to empowerment, accounting for a total variance of 43.9%. Furthermore, LMX ($\beta = 0.616$, $p < 0.01$) is positively related to organization commitment, accounting for 53.6% of its variance. Finally, trust ($\beta = 0.339$) and LMX ($\beta = 0.321$, $p < 0.01$) are positively related to intention to remain in the organization, explaining 52.8% of its variance.

Keywords: Trust, Leader-Member Exchange, Empowerment, Organizational Commitment, Intention to Remain.

1. INTRODUCTION

There is ample research to demonstrate that the organization is a social organism where organizational members work with each other to accomplish their personal goals (Homans, 1961; Blau, 1964; Emerson, 1976). Social exchange harnesses the energies of organizational members toward the achievement of organizational mission and vision.

Social exchange theory has been influential in explaining a wide range of organizational outcomes including organizational commitment, performance, turnover and job satisfaction. The three essential elements of social exchange theory are reciprocity, exchange and development of social relationships. Social exchange is far more complex than economic exchanges. While economic exchanges can be measured in quantitative terms, social exchanges produce emotions, partnerships, trust and obligations. There is no standard of value similar to that found in economic exchange and the obligations among the parties in a social exchange process are seldom clearly spelled out. Since parties are often in different positions of power in an organization, there is bound to be unequal social exchange which sometimes produces negative feelings on the part of parties involved.

It has also been combined with many other theories including those on leadership (Keller and Dansereau, 1995), self-managing teams (Corderoy et al. (1991); Cohen and Ledford (1991) and human resource management (Gould-Williams and Davies, 2005) to produce new findings of interest to researchers and practicing managers.

However, the fact remains that the majority of such research has been done in a Western context. There is a need to test social exchange theory in non-Western settings. For example, Farh et. al. (2006) found that power distance affected the relationship between perceived organizational support and the outcomes of commitment, performance and organizational citizenship behavior whereas Hu et. al. (2016) found that two Chinese culture-related personality traits moderated the relations between reciprocity and work outcomes.

There is therefore a need to test if social exchange theory can be applied in a non-Western setting like Malaysia. This study will test the applicability of social exchange theory in a Malaysian work setting through structural equation modelling.

Blau (1964) emphasized the important role of trust in social exchange theory. The development of social exchange theory has also focused on the relationship between the leader and his subordinates in the form of leader-member exchange (LMX).

* Assist. Prof., Faculty of Accountancy and Management, Tunku Abdul Rahman University, Malaysia



Research has shown that empowerment emerges from trust and LMX. The relationships between these three variables and their impacts on two outcome variables, organizational commitment and intention to remain in the organization, constitute the conceptual framework of this study.

Data was collected from 252 respondents of 18 Malaysian service and manufacturing sector firms. However, 18 cases were deleted to meet assumptions of normality relating to skewness and kurtosis. The results from the final sample of 234 cases, using AMOS 23 showed that trust ($\beta = 0.640$, $p < 0.01$) lead to LMX, explaining 40.9% of its variance. Trust ($\beta = 0.367$, $p < 0.01$) and LMX ($\beta = 0.338$, $p < 0.01$) are positively related to empowerment, accounting for a total variance of 40.7%. Furthermore, LMX ($\beta = 0.635$, $p < 0.01$) is positively related to organization commitment, accounting for 53.8% of its variance. Finally, LMX ($\beta = 0.402$, $p < 0.01$) is positively related to intention to remain in the organization, explaining 48.7% of its variance.

2. LITERATURE REVIEW

2.1 Trust

Trust is one of the most fundamental requirements for organizational functioning. This is because work requires social exchange among organizational members, which is built upon the foundation of trust. In fact, no business transaction can take place in the context where buyers and sellers do not trust each other. The works of Putnam (1993) and Fukuyama (1995) underscore the importance of trust in organizational and societal performance.

Self-directed teams have become one of the dominant organizational form in organizations. Trust is an essential feature in such teams. Organizations need to trust their teams before they can empower them to perform well by giving them more responsibility over their work (Swenson, 1997). Seibert et. al. (2011) found that delegation of authority and responsibility, which requires high levels of trust, lead to empowerment.

McGregor (1960) first highlighted the importance of trust in organizations through his Theory X and Y. Theory X managers do not trust their employees and spend most of their time monitoring and punishing poor performers; on the other hand, Theory Y managers trust their employees and spend time working with them to improve performance. Theory Y managers thus empower their organizational members to higher levels of performance.

Aryee et al (2002) emphasizes the central role of trust as a mediator between organizational justice and work outcomes such as job satisfaction, turnover, organizational commitment, organizational citizenship behavior and task performance.

Dirks and Ferrin (2001) found empirical support that trust has many positive impacts on organizations including job satisfaction, performance and OCB. However, they emphasized that the effects of trust did not always occur in a straightforward manner. In particular, they emphasized the moderating role of trust between two sets of variables.

Wat and Shaffer (2005) found that LMX influenced trust in supervisor to produce organizational citizenship behaviors (OCBs). On the other hand, Dulebohn et al. (2008), Gomez and Rosen (2001) and Scandura and Pellegrini (2008) found that trust had positive relationships with LMX. Other researchers like George and Hancer (2003) and Laschinger et al. (2001) also found trust to be a vital precursor of empowerment. Chiang and Jang (2008) found that trust positively affected empowerment in Taiwan's hotel companies. Thus, we would expect trust to be positively related to organization commitment (OC) and intention to remain (ITR) with the organization.

2.2 Leader-member exchange (LMX)

Leader-member exchange (1975) is based on the work of Dansereau et al. (1975). In LMX, the supervisor and subordinate assess the quality of their relationship based on their interactions. The quality of these interactions has an impact on outcomes, such as OC, job satisfaction, ITR with the organization and job performance.

In LMX, leaders develop two kinds of relationships with his subordinates. They develop *in-group* relationships with those who are close to him and they trust. The remaining subordinates will be in the *out-group*, where the leaders exercise power over them mainly through their authority. Members of the *in-group* enjoy benefits like better assignments, more resources and allocation of rewards. However, members of the *out-group* do not enjoy such benefits and will feel left out.

Much of the research on LMX has found that it is related to many organizational outcomes. For instance, Wayne et. al (1997) found that LMX is related to organization citizenship behavior (OCB), job performance and doing favors for the supervisor. Other research has linked LMX with job satisfaction, trust in supervisor performance and willingness to contribute (Gerstner and Day, 1997; Liden et al, 1997).



Scandura and Pellegrini (2008) found that the quality of LMX was related to identification-based trust and calculus-based trust. As such, there would be a strong relationship between trust and LMX.

Yeo et al (2015) found that LMX mediates the relationship between organizational justice and OCB in a Singapore public sector organization. LMX was also positively correlated to job satisfaction. Adil and Awais (2016) found that LMX is positively related with individual feeling of energy which is in turn, positively related with creative work involvement. Furthermore, LMX is negatively correlated with turnover intention. Martin et al. (2016) in their meta-analytic review of LMX found a positive relationship between LMX and task performance and OCB and negatively with counterproductive performance. Dulebohn et. al. (2012) and Banks et. al. (2014) in their meta-analytic studies also found positive relationships between LMX and individual performance, satisfaction and commitment. In addition, they also found that LMX had negative relationship with turnover.

2.3 Empowerment (EMP)

Empowerment is the process by which the supervisor confers the authority, resources and confidence to his subordinates to perform tasks, for which they will be held accountable. Empowerment is certainly an important variable in social exchange theory because many organizations need to empower their employees to respond more effectively and quickly to their customers.

Central to the idea of empowerment is the issue of trust. Empowerment can only happen when the supervisors trust that their employees can perform the tasks entrusted to them. Supervisors develop trust in employees through LMX. This means that supervisors will chose employees for jobs based on observation of their performance over a certain period of time. Therefore, trust and LMX will be crucial to the process of empowerment. This means that trust leads to empowerment in two ways, first directly and secondly, through empowerment. Empowerment in turn should contribute to organizational commitment and intention to remain in the organization.

The self-managing team can be considered to be an excellent example of work arrangement where the three components of trust, LMX and empowerment are all present at the same time. Indeed, the research by Wall (1986), Corderey et al. (1991), Cohen and Ledford (1991) and Banker (1996) demonstrate that self-managing teams have favorable outcomes like improved productivity, reduced turnover and higher quality.

Does empowerment work equally well in a non-western society like Malaysia where cultural values are different? As a high-power distance society (Hofstede, 2007), would empowerment be perceived differently by organizational members in Malaysia? Perhaps empowerment is weaker and this may lead to lower organizational outcomes.

2.4 Organizational Commitment (OC)

Organizational commitment is the psychological frame of mind of the employee that wants to contribute to the organization. The employee not only feels that the organization is a place to come to work. He feels that he is a part of the organization and he is concerned about its future well-being. We would therefore expect that trust, LMX and empowerment would contribute to OC.

2.5 Intention to Remain (ITR)

Intention to remain (ITR) in the organization is a voluntary act on the part of the employee to continue serving in the organization because he is trusted, has good relationship with his supervisor and is empowered to perform at a high level. As such, we would expect trust, LMX and empowerment to contribute positively to ITR.

Therefore, based on the above information, we hypothesize that:

Hypothesis 1: Trust is positively related to LMX.

Hypothesis 2: Trust is positively related to EMP.

Hypothesis 3: Trust is positively related to OC.

Hypothesis 4: Trust is positively related to ITR.

Hypothesis 5: LMX is positively related to OC.

Hypothesis 6: LMX is positively related to ITR.

Hypothesis 7: LMX is positively related to EMP.

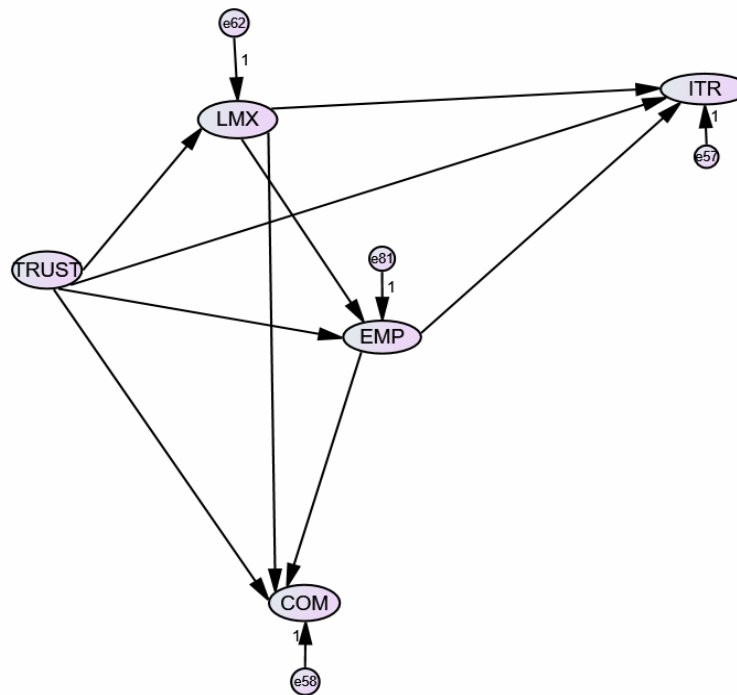
Hypothesis 8: Empowerment is positively related to OC.

Hypothesis 9: Empowerment is positively related to ITR.

3. CONCEPTUAL FRAMEWORK

The conceptual framework for our study is shown in figure 1 below.

Figure 1: Conceptual Framework of Study



Note: LMX = leader_member exchange; EMP = empowerment; COM = organizational commitment; ITR = intention to remain (with the organization)

4. RESEARCH METHODOLOGY

4.1 Data Collection

Data was collected from 252 respondents of eighteen firms from the service and manufacturing companies. A structured questionnaire with seven sections was distributed to respondents. The first section consisted of demographic data including age, gender and years worked in the organization. The remaining six sections requested information on the variables in the study, trust, LMX, empowerment, organizational commitment and intention to remain in the organization. The sampling was therefore non-probability convenient sampling. During the data analysis phase, it was discovered that a total of 18 survey forms contained outliers, based on the Mahalanobis distance. These outliers had contributed to unacceptable values of skewness and kurtosis. They were excluded from analysis. The final number of respondents included in the analysis is 234.

4.2 Measures

Measures were taken from published sources. Trust was measured using four items from Cook and Wall (1980). LMX was measured using items developed by Graen and Uhl-Bien (1995). Empowerment was measured using the three items from Pececi and Rosenthal (1997). Organizational Commitment was measured using the items developed by Cook and Wall (1980) whereas intention to remain in the organization was measured with four items developed previously (Lian, 2001).

4.3 Profile of the Sample

The profile of the respondents is derived from descriptive statistics, using SPSS version 23 and are shown in tables 1A to 1E below. Almost 57% or 133 of the respondents are female whereas the remaining 43 percent or 101 are males. Slightly more than 48% of the respondents come from the 18 - 29 age group, followed by 31.6% from the 30 - 39 age group, 12.4% from the 40 - 49 age group and 7.7% from the 50 - 60 age group. More than half (52.6%) had worked less than 5 years, 29.1% had worked for 5 - 10 years, 5.1% for more than 10 - 15 years and 13.2% for more than 15 years. In terms of education, the majority have a first degree (47.0%), followed by A level or equivalent (19.7%), diploma (18.4%), Masters (10.7%) and PhD (4.3%). In terms of managerial status, slightly more than half (54.7%) are junior managers/executives, 32.9% are middle managers/executives and 12.4% are senior managers/executives.



Table 1A: Gender

Gender	Frequency	Percent
Male	101	43.2
Female	133	56.8
Total	234	100

Table 1B: Age

Age	Frequency	Percent
18 - 29	113	48.3
30 - 39	74	31.6
40 - 49	29	12.4
50 - 60	18	7.7
Total	234	100

Table 1C: Job Tenure

Job Tenure	Frequency	Percent
Less than 5 years	123	52.6
5 - 10 years	68	29.1
> 10 years to 15 years	12	5.1
More than 15 years	31	13.2
Total	234	100

Table 1D: Education

Education	Frequency	Percent
A Level or equivalent	46	19.7
Diploma	43	18.4
First degree or equivalent	110	47.0
Masters	25	10.7
PhD	10	4.3
Total	234	100

Table 1E: Managerial Level

Managerial Level	Frequency	Percent
Junior manager/executive	128	54.7
Middle manager/executive	77	32.9
Senior manager/executive	29	12.4
Total	234	100

5. DATA ANALYSIS

5.1 Tests of Normality



Our analysis uses the maximum likelihood method. Since extreme non-normality can affect the accuracy of structural equation modelling using maximum likelihood estimates, normality of data was tested by examining the values of skewness and kurtosis generated by AMOS. Finney and DiStefano (2006) recommend the use of three measures of normality, univariate skew, univariate kurtosis and multivariate kurtosis.

West, Finch and Curran (1995) recommend cut-off values of 2 and 7 for skewness and kurtosis respectively. While our original dataset of 252 cases had acceptable univariate skewness and kurtosis, its multivariate kurtosis was 7.25, which exceeded the cut-off value of 5 recommended by Bentler (2005). As such, we deleted 18 cases from our dataset and use the final dataset with 324 cases.

The results produced by AMOS is shown in table 2. Our values for skewness range from 0.005 to 0.630, which is much less than the cut-off value of 2. Our values for kurtosis range from 0.056 to 0.572, which is well below the cut-off value of 7. The multivariate kurtosis is 4.861. Therefore, we have satisfied the need for normality.

Table 2: Assessment of Normality

Variable	Skew	Critical Ratio	Kurtosis	Critical Ratio
Trust 1	-0.165	-1.032	0.074	0.231
Trust 2	-0.054	-0.337	0.139	0.435
Trust 3	-0.058	-0.365	-0.258	-0.839
Trust 4	-0.069	-0.430	-0.272	-0.849
LMX 3	-0.141	-0.879	-0.169	-0.528
LMX 4	-0.405	-2.530	0.519	1.622
LMX 5	-0.211	-1.316	-0.056	-0.174
LMX 6	-0.005	-0.031	-0.251	-0.785
EMP 1	-0.630	-3.932	0.287	0.896
EMP 2	-0.265	-1.656	-0.269	-0.839
EMP 3	0.006	0.038	-0.310	-0.968
COM 1	-0.117	-0.733	-0.415	-1.297
COM 3	-0.328	-2.050	0.210	0.656
COM 6	-0.229	-1.427	0.110	0.342
ITR 2	-0.152	-0.949	-0.572	-1.786
ITR 3	-0.021	-0.129	-0.063	-0.196
1TR 4	-0.168	-1.046	-0.279	-0.871
Multivariate			16.152	4.861

5.2 Results of Data Analysis

SPSS version 23 was used to compute means, standard deviations and Pearson's correlations. Subsequently, AMOS version 23 was used to perform structural equation analyses on the nine hypotheses in this study. In the model fitting process using AMOS, only items with factor loadings of above 0.60 are retained. This is to ensure that our Average Variance Extracted (AVE) exceeded 0.50 according to the Fornell-Larcker (1981) criterion, so that discriminant validity is achieved for our model. Furthermore, items with high modification indices, exceeding 15, were permitted to covary with each other.

5.3 Means, Standard Deviations and Pearson's Correlations

We can get a feel for the data by examining the means, standard deviations and correlations. Our results are shown in table 3.

The mean age for the sample in our study is 33 years with a job tenure of 6.6 years. The mean score on LMX, TRUST, EMP, ITR and COM range between 3.2 to 3.8, which means that the mean score is well above average to good, since we have measured these five variables on a 5-point Likert scale.

There are significant correlations between age and gender, job tenure, managerial status and education. This means that males (coded as 1 in the data set) are older than females. It also means that the



older employees have longer job tenure, have higher educational qualifications and hold higher managerial positions. Age is also positively related to ITR. This is to be expected as older employees would find it easier to stay in an organization they are familiar with than to leave for a new organization with its attendant risks.

Age is also positively related to COM, which means that older employees are more committed to the organization. This is again related to the propensity of older employees to commit to their existing organizations due to their age.

Gender is also significantly related to trust. In this sample, males display a lower level of trust than females. Job tenure is related managerial level, ITR and COM. This is logical since employees who have longer job tenure have better opportunities to be manages, prefer to stay in their organizations and feel committed to them.

Education is related to managerial level, trust and COM. The reason for this is unclear but it could be due to better terms and conditions of employment enjoyed by employees with higher educational qualifications, who therefore feel more committed to their organizations and have higher trust in them.

Managerial level is related to EMP, LMX, ITR and COM. This means that senior managers are more empowered, enjoy better leader-member relations, have stronger intention to stay on and feel more committed to their organizations. This is a common phenomenon in many organizations.

The correlations between the five main variables, TRUST, LMX, EMP, COM and ITR are significant and have betas ranging from 0.51 to 0.72.

Table 3: Means, Standard Deviations and Correlations of Variables

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Age	32.65	9.22									
2. Gender			0.16*								
3. Education			0.20**	0.09							
4. Job Tenure	6.58	8.16	0.83**	0.10	0.11						
5. Managerial Level			0.60**	0.14*	0.31**	0.52**					
6. TRUST	3.36	0.68	0.01	-0.14*	0.16*	-0.04	0.07				
7. LMX	3.57	0.66	-0.07	-0.13	0.03	0.07	0.15*	0.63**			
8. EMP	3.38	0.68	0.01	0.02	0.10	0.09	0.19**	0.60**	0.57**		
9. COM	3.80	0.62	0.13*	-0.11	0.18**	0.15*	0.21**	0.51**	0.72**	0.49**	
10. ITR	3.24	0.90	0.21**	-0.07	0.11	0.24**	0.20**	0.61**	0.63**	0.57**	0.59**

^a N = 234 for all variables. Variables 6 to 10 measured on a five-point scale.

* $p < 0.05$, ** $p < 0.01$.

LMX = Leader-Member Exchange. EMP = Empowerment. COM = commitment. ITR = intention to remain. HRP = Human Resource Practices

5.4 Common Method Variance

Since this study report survey findings from the same respondents, common method variance could occur (Podsakoff et. al., 2012). As such, several steps were taken prior to the study to reduce the likelihood of CMV. In addition, we also conduct two statistical tests after the study was completed to ensure that CMV did not affect the results of our study.

The survey questionnaire assures the respondents that their inputs are confidential and anonymous. They are reminded that there are no right or wrong answers and that they should answer as honestly as possible. After data has been collected, the Harman single factor test was administered. It showed that the largest variance explained by an individual factor was 42%, below the cut-off point of 50%. This was followed by a second test, a confirmatory factor analysis, where all items were modelled as indicators of a single factor. The results showed a poor fit.

5.5 Results of Structural Equation Modeling (SEM)

AMOS version 23 was used to test the hypotheses that have been formulated using structural equation modeling (SEM). There are two components in a structural equation model, the measurement model and the structural model (Byrne, 2101; Hair et. al., 2014).

5.6 SEM: The Measurement Model



In the measurement model, we assess convergent and discriminant validity. We assess convergent validity and discriminant validity through Confirmatory Factor Analysis (CFA). Convergent validity is the degree to which a selected set of indicators converge to measure a construct. Table 4 shows the composite reliabilities and average variance extracted (AVE) of the variables in our study. Hair et. al. (2010) specifies a composite reliability of 0.70 and AVE exceeding 0.50 to be acceptable. Our composite reliabilities and AVE are acceptable because they range from 0.772 to 0.855 and 0.531 to 0.663, respectively. Our measurement model has attained convergent validity.

The next step is to examine discriminant validity, which is the degree to which indicators of a construct measure the specific construct, not other constructs in the study. Therefore, the indicators should load highly on the specific construct and have low loadings with other constructs.

Discriminant validity is established through the Fornell-Larcker (1981) criteria, which requires that the square root of the average variance extracted (AVE) is greater than its correlations with all other constructs. We can see from table 5 that the AVE on the diagonal is greater than its correlations with all other constructs. Thus, discriminant validity has also been achieved.

Table 4: Results of CFA for measurement model

Construct	Item	Internal reliability Cronbach's alpha	Factor loading	Composite reliability	Average variance extracted (AVE)
Trust	Trust 1	0.834	0.611	0.820	0.537
	Trust 2		0.674		
	Trust 3		0.830		
	Trust 4		0.794		
LMX	LMX3	0.867	0.772	0.844	0.584
	LMX4		0.859		
	LMX 5		0.724		
	LMX 6		0.725		
EMP (Empowerment)	Emp 1	0.789	0.689	0.797	0.571
	Emp 2		0.688		
	Emp 3		0.874		
COM (Org Commitment)	Com 1	0.768	0.729	0.772	0.531
	Com 3		0.766		
	Com 6		0.689		
ITR (Intention to remain)	ITR 2	0.854	.879	0.855	0.663
	ITR 3		0.793		
	ITR 4		0.767		

Table 5: Discriminant validity of constructs

Constructs	1. Trust	2. LMX	3. EMP	4. COM	5. ITR
1. Trust	0.733				
2. LMX	0.628	0.772			
3. EMP	0.598	0.571	0.756		
4. COM	0.513	0.717	0.485	0.729	
5. ITR	0.613	0.628	0.568	0.587	0.814

Note: Diagonals represent the square root of the average variance extracted while the other entries are the correlations with other constructs. Since the numbers on the diagonals exceed all other numbers, discriminant validity is achieved.

5.7 SEM: The Structural Model

The results of the structural model are presented in figure 2 and table 5. Figure 2 displays the structural model. The model explains 40.9% of the variance in LMX, 40.7% of the variance in empowerment, 53.8% of the variance in organization commitment and 48.7% of the variance in intention to remain with the organization.



Table 6 shows that the fit indices have all achieved the required levels based on the literature and therefore we have a good model fit.

Table 7 shows that six out of the nine hypotheses tested were significant and therefore supported in this study, providing moderate to strong evidence that social exchange theory can be applied in the Malaysian context. Hypotheses 1, 2, 4, 5, 6 and 7 are all in the expected direction. Thus, trust is positively related to LMX, empowerment and intention to remain in the organization. LMX is positively related to intention to remain in the organization, commitment and empowerment. The power of social exchange theory lies in its ability to explain the propensity of employees to contribute more to the organization as a reciprocation for benefits they have already received from the organization.

However, hypothesis 3, 8 and 9 are not supported. The reasons for these are discussed further below.

Figure 2: The Structural Model

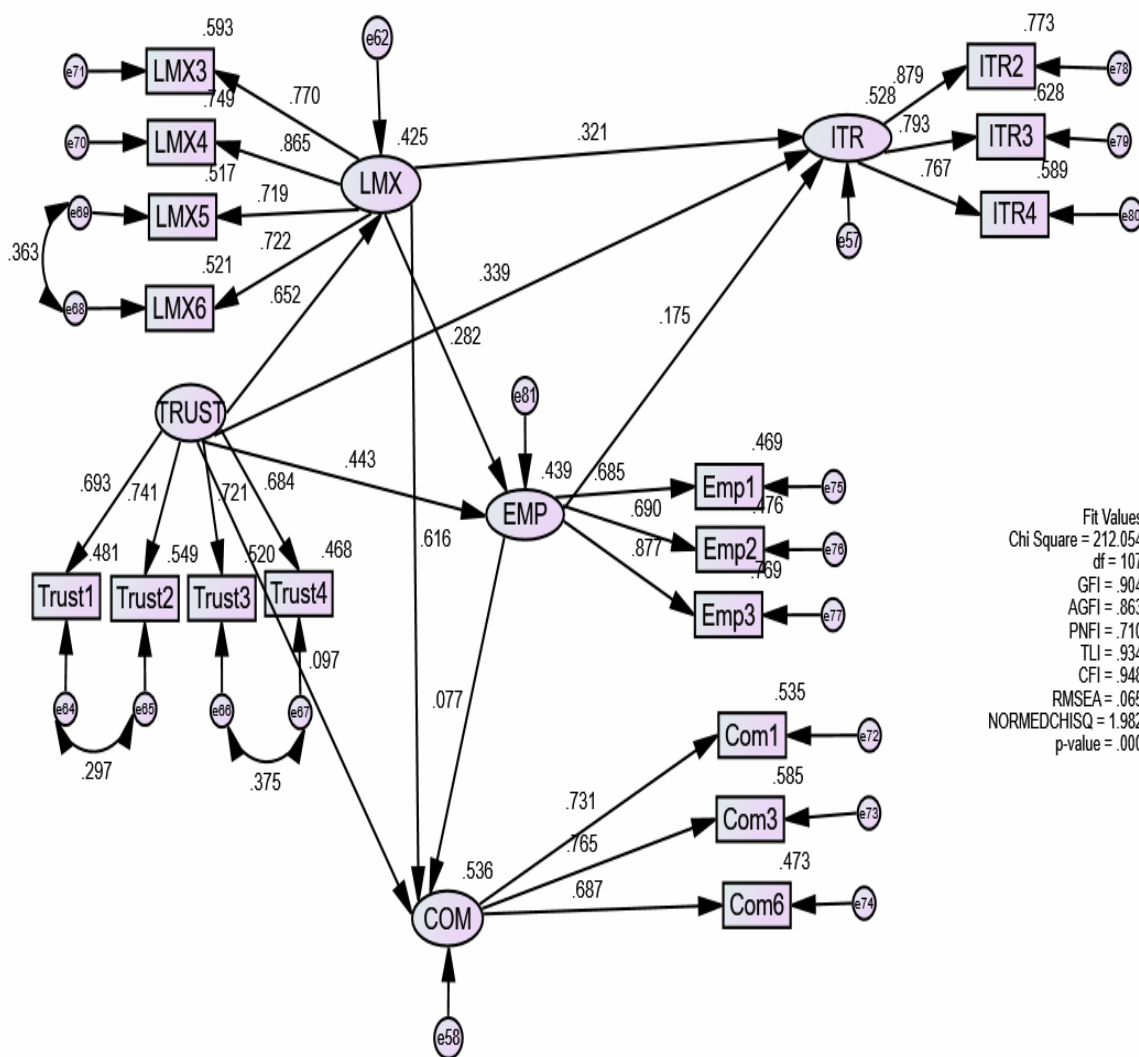




Table 6: Fit Indices

Measure of fit	Study	Recommended values
df	107	
χ^2	212.054	
χ^2/df	1.982	≤ 3
GFI	0.904	≥ 0.90
AGFI	0.863	≥ 0.80
CFI	0.948	≥ 0.90
RMSEA	0.065	≤ 0.08
TLI	0.934	≥ 0.90

Table 7: Results of Hypotheses Tests

Hypothesis	Critical ratio (CR)	p-value	Decision
H1: Trust is positively related to LMX	6.884	<0.01	Supported
H2: Trust is positively related to EMP	3.836	<0.01	Supported
H3: Trust is positively related to OC	0.841	0.400	Not Supported
H4: Trust is positively related to ITR	3.023	<0.01	Supported
H5: LMX is positively related to OC	5.505	<0.01	Supported
H6: LMX is positively related to ITR	3.413	<0.01	Supported
H7: LMX is positively related to EMP	2.760	<0.01	Supported
H8: EMP is positively related to OC	0.793	0.428	Not Supported
H9: EMP is positively related to ITR	1.937	0.053	Not Supported

6. CONCLUSION AND DISCUSSION

This study has been carried out in a non-Western setting. Six out of nine hypotheses are supported in this study, providing moderate to strong evidence that social exchange theory can be applied in the Malaysian context. Hypotheses 1, 2, 4, 5, 6 and 7 are all in the expected direction. Thus, trust is positively related to LMX, EMP and ITR. LMX is positively related to OC, ITR and EMP.

Hypotheses 3 (the relationship between trust and OC), 8 (the relationship between EMP and OC) and 9 (the relationship between EMP and ITR) are not supported. This highlights the fact that commitment is not an easy feeling to cultivate in employees. Trust alone may not be enough to generate feelings of commitment. Empowered employees may also not feel commitment, possibly due to the heavier workload they might have to take on when they are empowered. Finally, empowerment alone cannot keep employees in their organizations as they may be attracted by better terms and conditions of employment elsewhere. Moreover, not all employees value empowerment to the same extent. Some may prefer higher salaries and benefits with less empowerment and lower workload.

The results in figure 2 are a good start, but they indicate that there are other independent variables that need to be included in future research. For example, the inclusion of variables from the resource-based theory would increase the percentage of variance explained. It would also be interesting to see the impact of culture on social exchange theory. This can clarify some of the more complicated relationships between national cultures and the variables in social exchange theory. The inclusion of measures of culture along with social exchange theory variables like trust, LMX and commitment would produce interesting results.

Social exchange theory also has a dark side in the form of LMX. This is represented by the *out-group*, whose members would not enjoy the same benefits enjoyed by those in the *in-group*. This is unfortunately a very common situation in many organizations. It can lead to many negative impacts for organizations in the form of demotivated and disillusioned employees. Hitherto, little research has been done on how to address this very pertinent and serious issue. There is therefore a need for researchers to examine this dark side of LMX and propose recommendations that can assist organizations to reduce, if not, overcome this problem.

Furthermore, the finding that managerial level is related to empowerment, intention to remain and commitment carries with it certain implications. When senior managers are more empowered, have stronger intention to stay on and feel more committed to their organizations, does this mean that the organization is controlled by a small group of senior people and the lower ranking people are just functionaries who perform what they are told to do? This is food for thought and further research could focus on the roles of lower level managers vis-à-vis the senior managers. It is important for every employee to feel he is important to the organization and has a role to play in its success.



In this study, we have only included two outcome variables, commitment and intention to remain. Social exchange theory can also be used to explain other organization outcomes like job satisfaction, employee performance, innovation and creativity. Indeed, there is already research done on combining social exchange theory and other theories like leadership, self-managing teams, human resource management practices and customer service. Such research can produce new findings to help researchers and practicing managers better understand organizational functioning.

There is also a need for comparative studies of social exchange theory in the different sectors and sub-sectors of the economy. Does social exchange theory apply equally in a manufacturing as opposed to a service sector? Does it operate equally well in a non-profit context compared to a profit-oriented setting?

Overall, the findings indicate that organizations need to enhance the level of trust in their organizations through setting policies that promote trust. Managers and subordinates alike need to be more adept and skillful in their interactions with each other. Empowerment will be an important skill that senior managers need to acquire. Training in interpersonal skills will be a key success factor of organizations and research on the most effective methods of conducting such training will become a very important agenda for organizations in the years to come. Human resource divisions will be increasingly called upon to devise new ways of promoting trust, better leader-member relationships and innovative ways of empowering their employees in the years to come.

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