Why does transformational leadership matter for employee turnover? A multi-foci social exchange perspective ☆

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ABSTRACT

Drawing on social exchange theory, the present study investigates the underlying mechanisms through which transformational leadership influences employee turnover. Leader–member exchange (LMX) and affective commitment (AC) are proposed as supervisor-based and organization-based social exchange mechanisms respectively, exemplifying how social exchange processes occur between an employee and his/her supervisor, and between the employee and his/her organization as a whole to underpin the effect of transformational leadership on turnover outcomes. Results of structural equation modeling on a sample of 490 full-time employees working in a large telecommunication company in the PRC provided support for the notion that transformational leadership is related to both social exchange mechanisms – LMX and AC – turnover intention and turnover behavior. Furthermore, the results revealed that AC rather than LMX mediated the link between transformational leadership and turnover intention. Turnover intention also only mediated the relationship between AC and turnover behavior over time.

1. Introduction

Over the last few decades, a great deal of research attention has been devoted to exploring factors that influence voluntary employee turnover in organizations (Allen, Shore, & Griffeth, 2003; Hancock, Allen, Bosco, McDaniel, & Pierce, 2013; Shaw, Duffy, Johnson, & Lockhart, 2005). This widespread interest stems from the fact that employee turnover is detrimental and expensive (Mueller & Price, 1989). Recruiting, selecting and training new employees to cover production deficiencies, human capital development and employee well-being are very costly (Mossholder, Settoon, & Henagan, 2005; Shaw et al., 2005). Recent research has revealed that voluntary employee turnover is associated with a great variety of negative effects, including depressing financial performance, declining employee work attitudes and undermining workforce productivity (see Park & Shaw, 2013). An understanding of how to manage employee turnover will therefore provide organizations with valuable and unparalleled resources for operational effectiveness and employee well-being (Griffeth, Hom, & Gaertner, 2000; Hancock et al., 2013).

Given the growing interest in utilizing work teams in organizations, effective leadership has become increasingly important (Tse & Chiu, in press). Work team supervisors are not only required to maximize individuals' contributions for organizational effectiveness, but must also retain their skills and capabilities for their organization's competitive advantage (Harris, Wheeler, & Kacmar, 2011; Waldman, Carter, & Hom, in press). Indeed, a review of research has indicated that social exchange theory has been used to underpin the implication of transformational leadership for important work outcomes including job satisfaction, task

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performance, helping behavior, creativity, job-related stress and burnout (see Judge & Piccolo, 2004; Lowe, Kroeck, & Sivasubramaniam, 1996; Wang, Oh, Courtright, & Colbert, 2011). This line of research has suggested that transformational leadership is effective in engaging subordinates in social exchange processes based on interpersonal trust, mutual loyalty, strong identification, and ongoing reciprocity with their supervisors. Subordinates thus feel indebted and obliged to repay their supervisors and organizations in kind over time (Walumbwa, Cropanzano, & Hartnell, 2009). Although this theoretical perspective of transformational leadership has been made explicit in the literature, it has not yet been used to explain whether transformational leadership can deter subordinates from forming intentions to leave and acting on those intentions (Martin & Epitropaki, 2001; Waldman et al., in press).

Research to date has focused on understanding the relationship between transformational leadership and employee turnover rather than providing an integrated framework to better understand the underlying process of the relationship (e.g., Bycio, Hackett, & Allen, 1995; Hughes, Avey, & Nixon, 2010; Waldman et al., in press). It is therefore important to understand how and why social exchange theory is useful for exploring the underlying mechanisms through which transformational leadership induces retention of employees. Employees engage in social exchange relationship with their immediate supervisor and/or with the organization as a whole (Maertz, Griffeth, Campbell, & Allen, 2007). Strong identification, interpersonal trust, and mutual support between the employee and these two social entities may increase employees' propensity to stay in their organization.

Building on the target-similarity framework (Lavelle, Rupp, & Brockner, 2007), we propose to test a multi-foci social exchange model of transformational leadership and employee turnover. Specifically, we propose two social exchange mechanisms that are significant to our inquiry: 1) leader–member exchange (LMX) (i.e., an individual's perception of the quality of the dyadic relationship he/she develops with his/her supervisor; see Dansereau, Graen, & Haga, 1975) is conceptualized as a supervisor-based social exchange mechanism that exemplifies how an employee engages in a social exchange with his/her immediate supervisor; and 2) affective commitment (AC) (i.e., an individual's perception of his/her emotional attachment and affective identification with his/her organization; see Meyer & Allen, 1991) is conceptualized as an organization-based social exchange mechanism that reflects how an employee engages in a social exchange with his/her organization as a whole (for evidence supporting this framework, see Lavelle et al., 2007; Rupp & Cropanzano, 2002).

We contribute to the transformational leadership and turnover research by addressing the repeated calls for exploring the underlying mechanisms through which transformational leadership is effective in managing turnover processes (Griffeth et al., 2000; Hancock et al., 2013; Park & Shaw, 2013). This study is the first to adopt social exchange theory as an overarching framework to examine LMX and AC as the supervisor-based and organization-based social exchange mechanisms linking transformational leadership to employee intention and turnover, and turnover behavior over time (Colquitt et al., 2013; Waldman et al., in press).

Our study also provides insights into the relative importance of supervisor-based and organization-based social exchange mechanisms on the transformational leadership-turnover relationship. It remains largely unclear in the literature whether transformational leaders reduce employee turnover through enhancing LMX or AC or both. On the one hand, transformational leaders are able to induce employee staying by expressing individualized consideration to develop a strong personalized exchange relationship with their employees (Hughes et al., 2010). On the other hand, transformational leaders can transcend employees' self interests to organizational interests by inducing a social exchange between the organization and employees to mitigate their turnover intention and behavior (see Martin & Epitropaki, 2001). We therefore attempt to empirically test the relative strengths of the mediating roles of LMX and AC in order to advance a more nuanced understanding of the specific influencing processes of transformational leadership.

Moreover, little research on transformational leadership and employee turnover has been conducted in non-western contexts, such as China (Waldman et al., in press). This study thus intends to increase the external validity of the implications of transformational leadership for turnover processes across cultures, according to the global management perspective. An understanding of the applicability of transformational leadership in different cultural contexts could help develop universal practice for global leadership training (Kirkman, Chen, Farh, Chen, & Lowe, 2009).

In the following section, we provide a rationale underlying our model development, and develop theoretical arguments supporting each of the hypothesized relationships. We begin by discussing why and how social exchange theory can be used as an overarching framework in this study, based on a review of turnover literature. We then explain how LMX and AC can be conceptualized as the supervisor-based and organization-based social exchange mechanisms which influence the relationship between transformational leadership and employee turnover intention. Finally, we present arguments explaining the theoretical basis of the mediating role of turnover intention in the relationships between both social exchange variables and turnover behavior over time.

2. Theoretical background and hypothesis development

2.1. Social exchange theory applied to transformational leadership and turnover

The fundamental issue in the turnover literature is "Why do employees decide to leave their organization?" (see Lee & Mitchell, 1994). Multiple models have been proposed to understand the complexity of employees' decision making processes (Hancock et al., 2013; Hom & Griffeth, 1995; Lee & Mitchell, 1994), many of which were developed based on March and Simon's (1958) seminal work — a decision making framework of perceived ease and desirability of movement. In this framework, March and Simon proposed that employees' decision to participate in, as well as withdraw from, their organization can be classified into two types of force — "push-to-leave" and "pull-to-leave". A large volume of research has focused on exploring "push-to-leave" factors such as