EXAMINING TEAM AND CUSTOMER RESPONSES TO LMX DIFFERENTIATION CONFIGURATIONS

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Abstract

This paper examines the effects of perceived LMX configurations on procedural justice climate, and subsequently on customer-oriented service behavior and customer spending. Results based on multisource data from 29 stores measured at six points in time (i.e., 1,857 frontline employees and 13,005 customers) of a large Canadian retailer highlight the paradoxical nature of LMX configuration. More specifically, teams with higher proportion of perceived minority LMX configuration, compared to teams with higher proportion of perceived shared LMX configuration, experience lower level of procedural justice climate, but higher level of customer-oriented service behavior, and even customer spending. Conversely, teams with higher proportion of perceived fragmented LMX configuration, compared to teams with higher proportion of perceived shared LMX configuration, experience lower level of customer-oriented service behavior and lower annual customer spending. This study also shows that procedural justice climate mediates the effects of LMX configurations on customer-oriented service behavior, and customer-oriented service behavior mediates the relationship between justice climate and customer spending. Specifically, this study indicates that a one-point increase of customer-oriented behavior is associated with an 18% increase in customer spending.

Key words: LMX differentiation, procedural justice, customer service orientation behavior, customer spending.

1. INTRODUCTION

The main tenet of leader-member exchange (LMX) theory is that, through different types of exchanges, leaders differentiate in the way they treat their followers (Dansereau, Graen, & Haga, 1975; Liden, Erdogan, Wayne, & Sparrowe, 2006). Whereas exchanges in low-quality relationships are mostly limited to employment contracts, exchanges in high-quality relationships are characterized by high levels of trust, respect, affection and obligation (Dansereau et al., 1975; Dienesch & Liden, 1986; Graen & Uhl-Bien, 1995; Scandura, 1999). To date, most of the empirical research in LMX literature has focused on testing the relationships between LMX quality and work-related outcomes at the individual level (Gerstner & Day, 1997; Graen & Uhl-Bien, 1995; Ilies, Nahrgang, & Morgeson, 2007). The results of these studies highlight the positive aspects of LMX quality such as positive job attitudes, enhanced organizational citizenship behavior (Ilies et al., 2007), and job performance (Gerstner & Day, 1997; Wayne, Shore, & Liden, 1997).

Recently, LMX scholars have extended the idea of LMX to the group level by introducing LMX differentiation, defined as a process "by which a leader, through engaging in differing types of exchange patterns with subordinates, forms different quality exchange relationships (ranging from low to high) with them" (Henderson, Liden, Glibkowski, & Chaudhry, 2009). LMX differentiation provides an important platform for understanding the group-level consequences of the coexistence of high- and low-quality exchange relationships within the work groups (e.g., Boies & Howell, 2006; Henderson, Wayne, Shore, Bommer, & Tetrick, 2008; Le Blanc & González-Romá, 2012; Stewart & Johnson, 2009; Naidoo, Scherbaum, Goldstein, & Graen, 2011; Yu, Matta, & Cornfiled, 2018). This nascent line of research has, however, provided inconclusive findings (Anand, Vidyarthi, & Park, 2016; Erdogan & Baur, 2015; Martin, Thomas, Legood, & Dello Russo, 2018). Some studies show that LMX differentiation is beneficial to individuals, groups and organizations (e.g., Erdogan & Bauer, 2010). Conversely, others indicate that it is dysfunctional (e.g., Boies & Hoswell, 2006; Yu et al., 2018), or has no significant influence on work group outcomes (e.g., Gooty & Yammarino, 2016; Kaupplila, 2016; Li & Liao, 2014; Le Blanc & González-Romá, 2012; Seo, Nahrgang, Carter, & Hom, 2018).

One reason behind such inconsistencies is that scholars have often focused on the construct of *LMX dispersion*, i.e., the degree of variation of LMX scores in a work group, to capture LMX differentiation. However, LMX dispersion, measured by variance (Erdogan & Bauer, 2010) or standard deviation (Boies & Hoowell, 2006) of LMX scores, cannot alone capture the nature of LMX differentiation within teams (Buengeler, Piccolo, & Locklear, 2020; Martin et al., 2018). In many cases, different teams can have similar LMX dispersion scores, but different "distribution shapes" or configurations. Yet, LMX configurations are an understudied topic in LMX literature.

In this article, we attempt to further the theoretical understanding of LMX configurations by exploring their effects on the financial performance of work groups. Particularly, we examine the outcomes of the four types of perceived LMX configurations: shared LMX configuration (lack of LMX variability), fragmented LMX configuration (most members hold different LMX quality), minority LMX configuration (only a few members hold high LMXs), and solo LMX configuration (only one member holds high LMX). To this purpose, we draw on justice theories and present both the positive and negative effects of the mentioned LMX configurations. Specifically, we explain how these different configurations influence procedural justice climate (shared perception of team members) regarding the extent to which decision-making processes conform to rules such as consistency, accuracy, bias suppression, correctability, representativeness, and ethicality

(Naumann & Bennett, 2000). We also look at the mediating role of procedural justice climate (PJC) and customer-oriented service behavior (COSB) in the indirect relationship between LMX configuration and customer spending.

Our paper contributes to the literature on LMX and customer service behavior. First, while the majority of LMX studies have focused on LMX dispersion to the exclusion of LMX configurations, we show that LMX configuration influences work group outcomes, and these effects are above and beyond the effects of LMX dispersion. Second, we take the first steps to operationalize LMX configurations via subjective measures. Researchers have mainly used "actual" rather than "perceived" differentiation to operationalize LMX configurations (e.g., Li & Liao, 2014). However, scholars have called for more subjective measures of LMX differentiation (Choi, Kraimer, & Seibert, 2020; Martin et al., 2018) since perceptions of the environment are typically more influential on attitudes and behaviors compared to objective reality (Kristof-Brown, Zimmerman, & Johnson, 2005). We answer this call by measuring leaders' and members' perceptions of LMX configuration.

Finally, our findings add to the growing number of studies that examine the role of leadership in shaping customer-oriented behaviors. While customer-oriented behaviors have been associated with a wide variety of positive customer and organizational outcomes, such as customer satisfaction, customer willingness to pay and financial performance (Homburg, Wieseke, & Hoyer, 2009; Podsakoff, Whiting, Podsakoff, & Blume, 2009; Schneider, Macey, Barbera, & Martin, 2009), our knowledge about their antecedents is limited.

2. THEORETICAL DEVELOPMENT AND HYPOTHESES

2.1 The Importance of LMX Configuration in LMX Differentiation Research

LMX differentiation (LMXD) refers to the process of developing high-quality relationships with some group members and low-quality relationships with other group members (Maslyn & Uhl-Bien, 2005). Scholars have proposed many factors that explain why LMX differentiation occurs. These factors can be categorized at the individual (e.g., leadership style), team (e.g., aggressive culture), and organizational (e.g., organizational structure) levels (Henderson et al., 2009). Due to one of these reasons or another, empirical studies show that LMX differentiation is very common in work groups; indeed, over 90 percent of work groups experience it (Dansereau et al., 1975; Liden & Graen, 1980), and it influences individual and team level outcomes.

While scholars have mainly used the *dispersion* model of composition (Chan, 1998) to conceptualize LMX differentiation, we focus on LMX configurations. In the dispersion model, which captures the variability of individual-level attributes, within-group variance of individual-level attributes is used to operationalize the group-level construct. Accordingly, LMX scholars have often operationalized LMXD with variance or standard division of LMX scores (Boies & Hoowell, 2006; Erdogan & Bauer, 2010). However, one critical issue that can limit the use of variance of LMX scores in LMX research has been overlooked by LMX scholars.

Chan (1998) maintains that an important prerequisite for using the dispersion model is the absence of multimodality in the within-group distributions of individual-level scores:

Multimodality in the distribution of scores within a group indicates that substantively meaningful subgroups may exist within the group, with low individual differences within each subgroup (i.e., high within-subgroup agreement) and high individual differences across subgroups

(i.e., low inter-subgroup agreement). When there is multimodality, it is possible that the variance or dispersion along the original grouping variable does not represent a meaningful dispersion construct. (p. 240)

Yet, the existence of subgroups (in-groups and out-groups) is one of the core propositions of LMX theory, and, therefore, the use of the dispersion model may not be appropriate for operationalizing LMX differentiation.

In light of this issue, we maintain that research on LMXD can be advanced by using the construct of LMX configuration. The LMX configuration construct, which captures the distribution patterns of LMX, has the power to account for potential LMX subgroups. Thus, our focus is to explore how work group outcomes are influenced by LMX configurations.

2.2 Distinct Configurations of LMX Differentiation

We draw from previous studies (Li & Liao, 2014; Buengeler et al., 2020) and examine the effects of four important configurations including shared LMX configuration, fragmented LMX configuration, minority LMX configuration, and solo LMX configuration. Shared LMX configuration indicates the absence of LMX differentiation among subordinates. Fragmented LMX configuration refers to a distribution of LMX quality where most team members have meaningfully different LMX quality, hence causing a high degree of heterogeneity in LMX quality. Minority LMX configuration represents a situation in which only a few members hold relatively higher LMX than the other members. Finally, in solo LMX configuration, leaders have a high LMX relationship with only one subordinate.

We also focus on perceived LMX configurations rather than actual LMX configurations. Researchers have mainly focused on actual LMX configuration to capture LMX differentiation (e.g., Boies & Howell, 2006; Le Blanc & González-Romá, 2012; Li & Liao, 2014), and much less attention has been paid to perceived LMX differentiation (Epitropaki et al., 2016; Hooper & Martin, 2008). Actual LMX differentiation refers to the statistical calculation of variation of subordinates' LMXs in a work group. Anand et al. (2016) raise the issue that the vast majority of LMX studies have measured actual LMX differentiation rather than perceived LMX differentiation. They call on LMX scholars to develop valid constructs that capture perceived LMX differentiation since "perceptions are more powerful than reality" (p. 273). Yet, a few rare studies are an exception as they measured the perception of LMX differentiation (Choi, Kraimer, & Seibert, 2020; Epitropaki et al., 2016; Hooper & Martin, 2008). Among these studies, only the one conducted by Choi et al. (2020) is a team-level study. However, their focus was on the team-level construct of perceived amount of LMX differentiation, not on perceived LMX configurations.

We introduce the team level construct of perceived LMX configuration as a configural construct. Theory and research on organizational constructs suggest that not all employees share the same perception of a specific climate variable, and thus employees can differ in their appraisal of how much an LMX configuration occurs. For instance, Kozlowoski and Klein (2000) have proposed that group-level constructs can be organized along a bipolar continuum ranging from a high shared group construct (very small dispersion on a specific LMX configuration perceptions) to a high dispersion in perceptions of the LMX configuration. Research suggests that considering divergences in perceptions among team members may be meaningful in itself (Kesseler, 2019) and can help to elucidate mixed findings in climate studies (De Jong & Dirks, 2012). Our team level

construct of perceived LMX configuration reflects the proportion of perceived configurations of shared, fragmented, minority, and solo.

2.3 LMX Differentiation Configurations and Procedural Justice Climate

Organizational justice refers to individual perceptions of fairness in organizations and has been considered a multi-dimensional construct including four dimensions of distributive, procedural, interpersonal and informational justice (Colquitt, Conlon, Wesson, Porter, & Ng, 2001). The rules used to evaluate fair treatment vary among different dimensions. Distributive justice displays the extent to which decision outcomes follow the equity rule (Greenberg, 1987; Leventhal, 1976). Procedural justice reflects the extent to which decision-making processes conform to rules such as consistency, accuracy, bias suppression, correctability, representativeness, and ethicality (Leventhal, 1980). Interpersonal justice represents the degree to which the enactment of procedures follows the rules of respect and dignity, and informational justice emphasizes truthfulness and justification (Colquitt et al., 2001).

Recently, justice scholars realized that work groups also develop shared cognitions of justice (Dietz, Robinson, Folger, Baron, & Schultz, 2003; Naumann & Bennett, 2000). Shared perceptions are created as group members share and discuss their experiences of fair or unfair treatment with each other (Roberson, 2006). The team-level construct of justice has mainly been termed justice climate. Justice climate refers to the degree of fairness perceived by the team as a whole (Naumann & Bennett, 2000). The focus of this study is on procedural justice because empirical research shows that it is the experience of fair allocation process—operationalized as supervisory procedural justice—rather than perceived distributive justice that explains the effects of justice on OCB (Konovsky & Pugh, 1994; Pillai et al., 1999) and customer-oriented behavior (Maxham III & Netemeyer, 2003; Tremblay et al., 2018). Furthermore, there is a high degree of conceptual overlap among interactional justice, distributive justice and LMX because leaders rely on LMX relationships when they distribute resources among subordinates (Erdogan & Bauer, 2010; Tse, Lam, Gu, & Lin, 2018).

It is our contention that responses to LMX configuration will influence procedural justice climates. Early instrumental models of procedural justice argue that individuals perceive more procedural justice if they have control or influence over the outcome. This may happen when fair process criteria, like consistency, lack of bias, correctability, representation, accuracy, and ethicality (Leventhal, 1980) are respected, or when individuals are able to participate in a decision-making process (Thibaut & Walker, 1975). Moving beyond these instrumental models, Lind and Tyler (1988) have emphasized the role of non-instrumental (i.e., relational) factors in affecting perceptions of justice. They propose that individuals care about their long-term social relationships with authorities, and from this perspective, the neutrality of procedures, trust in authority, and their social standing influence perceptions of procedural justice (Lind & Tyler, 1988).

These studies suggest that by differentiating among their subordinates, leaders decrease members' feelings of procedural justice because treating subordinates differently violates the neutrality principle (Hooper & Martin, 2008). Related to this, Tyler and Lind (1992) argued that concerns about neutrality arise when some employees receive fewer benefits than others. Thus, LMX differentiation, which creates a context in which subordinates do not uniformly benefit from leaders' resources, should decrease subordinates' perceptions of leader neutrality and, therefore, procedural justice in general (Hooper & Martin, 2008).

The negative effects of LMX differentiation on procedural justice can also be supported by the theory of allocation preferences (Leventhal, Karuza, & Fry, 1980; Yu et al., 2018). The theory of allocation preferences is based on the assumption that leaders' resource allocation can have both beneficial and detrimental effects (Leventhal et al., 1980; Yu et al., 2018). In particular, allocating resources based on an equity rule is beneficial for group performance, because more resources accrue to high performers (Leventhal, 1976b, 1976a; Leventhal et al., 1980). However, it is not desirable for achieving harmony, or agreement in feelings and actions between group members, because it creates feelings of jealousy and antagonism (Leventhal, 1976b; Steiner, 1972). Therefore, leaders who try to promote performance by differentiating among their subordinates may actually harm the team's emergent states such as justice climate. A recent meta-analytic study (Yu et al., 2018), built on the theory of allocation preferences, provided evidence that LMX differentiation was negatively related to justice climate.

Thus, we posit that compared to work groups with higher proportion of perceived shared configuration, which is driven by equality rule, work groups that are dominated by perceived minority or solo LMX configuration would experience lower levels of procedural justice climate because a disproportionate concentration of resources in one or very few team members is more likely to spur concerns about the neutrality of decision-making procedures and social status standing among low LMX members (Buengeler et al., 2020). On the other hand, in work groups with higher proportion of perceived fragmented configurations, the leaders treat each team member in a different way based on their unique knowledge, skills, and performance. When variety in LMX relationships is high, most individuals may feel they are not being treated equitably and experience a relative deprivation, similar to in groups with high LMX disparity (Buengeler et al., 2010). Furthermore, research reveals that distributive injustice prompts concerns of procedural injustice because the unfair distribution of resources is largely determined by the decision-making procedures (Tremblay et al., 2018).

Thus far, we have articulated how LMX differentiation would be negatively associated with individual perceptions of procedural justice. Yet, through processes of contagion, social comparison, and the shared interpretations of organizational experiences (Salancik & Pfeffer, 1978), individuals' perceptions of procedural justice would converge and be transformed into group procedural justice climate (Naumann & Bennett, 2000; Rupp, Bashshur, & Liao, 2007). Therefore, it is likely that subordinates' perceptions of low procedural justice, caused by LMX differentiation, will gradually converge and determine the procedural justice climate within the work group.

Taking the above arguments together, we posit that compared to work groups with higher proportion of perceived shared configuration, work groups that are dominated by perceived minority, solo, or fragmented LMX configurations experience lower levels of procedural justice climate. Thus, we hypothesize that:

> *Hypothesis 1: Teams with higher proportion of perceived fragmented, minority or solo LMX configurations experience a lower procedural justice climate than teams with higher proportion of perceived shared LMX configuration.*

We expect that the negative effects of minority and solo LMX configurations on justice climate are stronger than the effects of fragmented LMX configuration. The high degree of heterogeneity and lack of coalitions in fragmented configurations reduce concerns about injustice (Fu, Flood, Rousseau, & Morris, 2018). In contrast, the fact that, in solo and minority

configurations, one or very few members benefit from high-quality exchanges makes justice highly salient as these configurations introduce a clear stratification hierarchy that creates feelings of being treated inequitably due to having relatively lower status standing (Buengeler et al., 2020). Established asymmetries between "privileged" and "deprived" subgroups can lead to lower procedural justice climate in work groups because most team members may feel that they do not have the opportunity to be heard by the leader.

In support of our arguments, Zhang, Waldman, Han, and Li (2015) showed that leaders positively influence attitudinal and behavioral outcomes when they treat their subordinates uniformly. In addition, Seo et al. (2018) demonstrated that disagreements in fragmented teams are less problematic compared to disagreements in teams with minority configuration because the formation of subgroups in minority configurations reduces the likelihood that low LMX members receive fair treatment. Furthermore, in a recent study, Buengeler et al. (2020) showed that *disparity LMX*, which denotes an inequality in the concentration of valued social assets or resources and is analogous to minority and solo LMX configuration, elicits justice concerns in groups. We thus propose the following hypothesis:

> *Hypothesis 2: Of the three forms of LMX configuration (i.e., solo, minority, and fragmented), teams with higher proportion of perceived solo or minority LMX configuration experience lower levels of procedural justice climate compared to teams with higher proportion of fragmented LMX configuration.*

2.4 The Mediating Role of Procedural Justice Climate

We propose that the effects of LMX configuration on customer-oriented behavior is mediated by procedural justice. In the retail industry, service employees are frequently in contact with customers and represent the organization; therefore, their behaviors play a vital role in shaping customer outcomes (Dean, 2004; Liao & Chuang, 2004). Customer-oriented behavior refers to the actions of salespeople that help customers achieve their goals and reach satisfaction (Stock & Hoyer, 2005). Examples would include discussing customers' needs and sharing relevant and necessary information with them. Customer-oriented behavior has been considered as a particular type of extra-role behavior directed at customers because it captures an additional discretionary effort from employees that goes beyond the strict customer service behavior normally expected from them (Podsakoff & MacKenzie, 1997; Somech & Drach-Zahavy, 2018). Research on extra-role behaviors, and particularly research on organizational citizenship behavior (OCB), suggests that the levels of individuals' OCB often converge among members of organizational units because members of the same units are exposed to the same organizational context that promotes or impedes OCB (Tremblay, 2019). Furthermore, the emergence of collective OCB can happen through implicit workplace norms (Chun, Shin, Choi, & Kim, 2013; Tremblay et al., 2018; Tremblay, 2019). These implicit norms are reinforced when more members in a team perform such behaviors (Ehrhart & Naumann, 2004). OCB, in particular, can become a norm when team members or leaders directly communicate the importance of displaying OCB, and when social sanctions are used if team members do not conform to the normative expectations of performing OCB (Naumann & Ehrhart, 2011). Accordingly, since our model is on the group level, we elaborate the effects of PJC on unit-level customer-oriented behavior.

First, we argue that PJC positively influences customer-oriented service behavior. Employees consider fair procedural treatment from authorities as a benefit that deserves reciprocation, and they will repay fair treatment by performing more customer-oriented service behavior (Gounaris & Boukis, 2013). In contrast, when team members perceive that they are being treated unfairly, they may contribute less to their organization and reduce their level of customer-oriented service behavior. Indeed, there is pervasive evidence that a high PJC is associated with higher team OCB (Colquitt, Noe, & Jackson, 2002; Cole, Carter, & Zhang, 2013) and customer-focused service behavior (Maxham III & Netemeyer, 2003; Netemeyer & Maxham III, 2007).

Hypothesis 3: Perceived procedural justice climate is positively associated with unit-level customer-oriented service behavior.

Next, given Hypothesis 1, 2, and 3 and the general model underlying this research, we specify a mediation hypothesis. For this purpose, we draw on the input-mediator-outcome (IMO) framework (Arrow, McGrath, & Berdahl, 2000; Ilgen et al., 2005; Mathieu et al., 2008; McGrath, 1964). According to the IMO model, the relationship between inputs (e.g., resource allocations) and outcomes (i.e., productivity) is transmitted through mediating mechanisms. Procedural justice climate represents a proximal mediating variable that is salient to group members. Therefore, our mediation hypothesis captures our argument that solo, minority and fragmented LMX configurations negatively affect PJC. Lower levels of PJC, in turn, are expected to decrease customer-oriented service behavior. Similarly, the relatively negative association between solo and minority configurations (compared to fragmented configuration) and customer-oriented service behavior is mediated by procedural justice climate:

Hypothesis 4: Procedural justice climate mediates the relationship between the three forms of perceived LMX configurations (i.e., solo, minority, and fragmented) and unit-level customer-oriented service behavior.

2.5 Customer-Oriented Service Behavior and Customer Spending

The service-profit chain model (Heskett et al., 1994) suggests that retail employees' behaviors play a pivotal role in determining customers' behaviors. This category of behaviors refers to intentional actions aimed at improving service quality and customer purchase experience (Somech & Drach-Zahavy, 2018). Employees who perceive they are treated procedurally fairly and who adopt these behaviors are more likely to meet customer expectations (Koys, 2001) and show diligence in solving problems (Bell & Menguc, 2002). Therefore, customer-oriented behaviors that go beyond basic duties are likely to be appreciated by customers. Existing research reveals that work groups in which frontline employees display customer-oriented service behaviors are more likely to elicit positive attitudes and behaviors in customers (Koys, 2001; Maxham III & Netemeyer, 2003; Netemeyer, Maxham III, & Pulling, 2005; Tremblay, Chênevert, Vandenberghe, & Parent-Rocheleau, 2018). Furthermore, customer-oriented service performance strengthens social bonds with customers by building trust, confidence, and gratitude, and increases customer commitment (Mangus, Bock, Jones, & Folse, 2017) and customer spending (Palmatier et al., 2009). Building on these existing studies, we expect that these customer-oriented behaviors will result in more customer spending.

Hypothesis 5: Unit-level customer-oriented service behavior is positively associated with customer spending.

Given that we have postulated that procedural justice will promote customer-oriented service behavior, which in turn will foster customer spending, we predict the following mediation hypothesis.

Hypothesis 6: Unit-level customer-oriented service behavior mediates the relationship between procedural justice climate and customer spending.

3. METHOD

3.1 Sample and Procedure

This study was conducted using a sample from a national Canadian retailer. We collected data using a longitudinal survey that included six assessments at 12-month intervals. For each survey, emails were sent by the human resources department to store managers and employees, requesting their participation in the study. These invitations described the objective of the study, ensured participants that responses would be kept confidential, and contained a link to a web survey. Reminder memos were sent one week after the initial invitations. To reduce common method bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003), we gathered data from several sources, namely customers, employees and supervisors. All variables were measured by six wave surveys. The number of participants in the six waves was respectively 594 (with a response rate of 95%), 497 (with a response rate of 86%), 530 (with a response rate of 89%), 525 (with a response rate of 85%), 592 (with a response rate of 91%), and 615 (with a response rate of 88%). Overall, the sample included repeated assessments of 1,787 employees' individual perceptions. These individuals were repeated between 2 and 6 times, resulting in a total of 3,343 individual observations. These employees were nested in 29 different stores, each of them being repeated six times in the data set. On average, the stores comprised 21.6 individuals, with a standard deviation of 8.1. The average age of subordinates was 31 years, and average tenure was four years. The employees worked an average of 29 hours per week. Of these respondents, 43% worked full time, 22% part-time over three days per week, and 35% part-time less than 3 days a week. Seventy-two percent were female.

To gather data from customers, a person in each store was chosen to hand out questionnaires to customers as they left the store, regardless of whether or not they purchased something. Questionnaires were distributed on all days of the week, including weekdays, evenings, and weekends. Customers completed the survey on site. In the first year, 2,849 customers were surveyed, and in the following years, 3,000; 3,426; 3,730; 3,986 and 3,533 were subsequently surveyed. The overall sample comprised 20,524 customers. This represents an average of 118 customers per year per store.

3.2 Measures

All items for substantive variables collected from employees were measured using a seven-point Likert-type scale ranging from 1 (strongly disagree) to 7 (strongly agree).

T1-T6 Perceived LMX Differentiation Configurations. Building on the work of Harrison and Klein (2007), we developed a new measure of perceived LMX differentiation configurations

within the team (see Appendix 1). Team members were invited to choose, among the four LMX configurations, a configuration that was most representative of their store. Figure (a) represents the situation of a lack of differentiation in which all individuals are treated equally by the superior, no matter whether LMX quality is high or low (shared LMX). Figure (b) shows the case of maximum heterogeneity in which all individuals are treated differently by the leader, ranging from low to high (fragmented LMX). Figure (c) displays the case where a minority of people receive better treatment from their leader than the majority of the other group members (unbalanced bimodal or minority LMX). Finally, Figure (d) illustrates the case where one individual has a relatively superior LMX quality, compared to the others (token or solo LMX).

To analyze the data at group level, we calculated for each team the proportion of team members who selected each of the figures, creating a team score of each configuration strength. On average, 59% of team members chose shared LMX configuration as the most representative of their store; 18% chose fragmented; 15% chose minority. Our analyses showed that the last scenario (solo) was chosen by less than 1% of respondents. Because of this, we decided to remove the solo configuration from analysis. The results needed to be interpreted to compare the proportion of team members within the unit that experienced fragmented or minority LMX differentiation with the shared referent group.

T1-T6 Procedural Justice Climate. Procedural justice (PJ) was assessed by seven items from the scale developed by Colquitt et al. (2002). Examples are: "Were you able to express your views and feelings during these procedures?" and "Have these procedures been applied consistently?" The Cronbach α reliability coefficient for this scale was .94. The average r_{wg} over time was .80. The ICC (1) values ranged from .12 to .20, with an average across scales of .18. The ICC (2) values ranged from .78 to .85, with an average of .82. Taken together, the $r_{wg,}$ and ICC (2) values provided enough justification for aggregating the procedural justice data at the store level in this study.

T1-T6 Customer-Oriented Service Behavior. Our measure of customer-oriented service behavior reflects customers' perceptions of salespeople's behaviors. Specifically, we asked customers to assess the customer-oriented service behavior of the frontline employees during their store visit. COSB was measured using a four-item scale developed by Stock and Hoyer (2005). This measure assessed how store employees helped customers achieve their goals and meet their needs without pressure. These items were: "Influenced me, giving information rather than pressure"; "Told me exactly what the product could do for me"; "Was willing to disagree with me in order to help me make a better decision"; and "Tried to help me to achieve my goals." The reliability coefficient for this scale was .90. The average r_{wg} over time was .73, suggesting moderate interrater agreement (LeBreton & Senter, 2008). The ICC (1) values ranged from .02 to .25, with an average of .03 (across scales). The ICC (2) values ranged from .10 to .78, with an average of .70. Taken together, these results provided enough justification for aggregating the service performance data at the store level in this study. We aggregated individual level perceptions of customers to build the store-level construct of customer-oriented service behavior.

T1-T6 Customer Spending. We asked customers to assess how much (in Canadian dollars) they spent on average each year in the store.

Control Variables. As the main focus of the current study is the influence of LMX configurations, we controlled for the influence of LMX mean and variance in LMX differentiation ratings (LMXSD). Each store employee independently evaluated the quality of their relationship

with their team manager using the LMX-MDM scale developed by Liden and Maslyn (1998). Consistent with previous studies on the group level (e.g., Erdogan & Bauer, 2010; Li & Liao, 2014; Liden et al., 2006; Nishii & Mayer, 2009), we assessed the amount of LMX differentiation by calculating the within-group variance (SD) of LMX scores. We also controlled for change in supervisor (a dummy coded variable indicating whether the manager had changed since the last measurement point) and the store turnover since the last measurement. This accounts for the stability in managers and staff members. We also controlled for group size, operationalized with the number of employees in each store, as well as for age, gender and number of hours of work because these demographic characteristics influence most of the variables. However, the analysis revealed that average team size, age, number of hours of work, and gender composition did not significantly predict the outcomes or improve the fit of models. Following recommendations and research findings (Carlson & Wu, 2012; Vogel, Rodell, & Lynch, 2016) regarding superfluous inclusion of control variables, they were removed from the analysis.

3.3 Analytical Approach

To analyze the influence of store-level predictors (over the six periods), we used hierarchical linear modeling (HLM) with IBM SPSS (Heck, Thomas, & Tabata, 2013), version 23. Hierarchical linear modeling (HLM) is particularly recommended when individual-level data are nested within units (Aguinis, Gottfredson, & Culpepper, 2013). HLM provides some model fit statistics (-2 log likelihood ratio statistic), allowing us to test a series of nested models. According to Bliese and Ployhart (2002), these tests provide more accurate estimates of variance differences. Models with large deviance statistics are worse than models with small deviance statistics. Deviance statistics are used to compare the goodness of fit of estimated models (Bliese & Ployhart, 2002; Ployhart, Holtz, & Bliese, 2002). This mixed model approach is also particularly well suited to handle repeated individual observations, allowing to control for the within-person nested nature of data.

To evaluate the indirect effect of LMX configurations on customer-oriented service behavior via procedural justice climate, and of the indirect effect of PJC on customer spending via customer-oriented service behavior perceived by customers, we used the PRODCLIN technique developed by MacKinnon, Fritz, Williams, and Lockwood (2007). This approach produces asymmetric confidence intervals for indirect effects and has a more accurate evaluation of type 1 error as well as more power than the Sobel test (1982).

4. RESULTS

Measurement invariance. The measurement invariance of the multi-item scales (procedural justice and customer-rated behaviors) across multiple waves was tested using a CFA framework, as recommended by Vandenberg and Lance (2000). The fit of two models was assessed with MPLUS using the chi-square statistic ($\chi 2$) combined with fit indices: CFI (Comparative Fit Index), TLI (Tucker Lewis Index), and RMSEA (Root Mean Square Error of Approximation). Model 1 assessed configural invariance, in which items were constrained to load on the factor of the corresponding wave. This model presented an excellent fit to the data (χ^2=1893.540*, df=543, CFI= 0.907, TLI=.892, RMSEA=0.049). Metric invariance was then evaluated with Model 2, which constrained factor loadings to be equal across waves. This constrained model did not significantly change the model fit (χ^2=2000.134*, df=563, Δ χ^2=106.594, Δ df=20, CFI=0.901, TLI=0.889,

RMSEA=.050), indicating that the measurement model was invariant (configural and metric invariance) across the six waves.

4.1 Hypotheses Testing

Descriptive statistics including internal consistency reliabilities and intercorrelations are reported in Table 1.

Insert Table 1 about here

Hypothesis 1 proposed that stores with a highly fragmented LMX configuration experience a lower level of procedural justice climate compared to the ones with shared LMX configuration. As shown in Table 2 (Model 2), PJC in units with fragmented configuration was not significantly different from PJC in the ones with shared LMX configuration (team: b= -.10, p>.05). Indeed, PJC in units with a high minority configuration was significantly higher compared to PJC in units with shared configuration (b= .21, p<.01). Therefore, H1 was not supported because we hypothesized that PJC would be worse.

Insert Table 2 about here

Hypothesis 2 posited that teams with high minority LMX configuration experience lower levels of PJC compared to units with a high fragmented LMX. This hypothesis was not supported because, compared to fragmented LMX configuration, minority LMX configuration was significantly positively related to PJC (b=.31, p<.05). In other words, procedural justice climate is perceived as higher in units with a high minority LMX configuration when compared to units with a fragmented LMX configuration.

Regarding the mediation hypothesis, procedural justice climate was found to be positively related to customer-oriented service behavior (Model 3 in Table 3, b= .09, p<.01). This provided support for Hypothesis 3. Furthermore, results in Model 2, Table 3 show higher customer-oriented service behaviors in teams with a high minority configuration, as compared to units with a high shared configuration (b= .25, p<.01). Furthermore, customer-oriented service behaviors are lower in units with a high fragmented LMX configuration, compared to teams with a shared configuration (b= -.81, p<.01). Model 4 in Table 3 indicates that customer-oriented service behaviors are higher in units with a minority LMX configuration than in units with fragmented LMX (b= .62, p<.01). Indeed, the results of bootstrapping with 20,000 resamples presented in Table 5 indicated that the indirect effect of LMX configuration was only significant for the minority configuration (estimate: .0192, 95% CI: .0023; .0405) Therefore, H4 was partially supported.

Insert Table 2, 3, 4 and 5 about here

Hypothesis 6 proposed that customer-oriented service behavior mediates the relationship between PJC and annual customer spending. The results are presented in Table 4. Customer-oriented service behavior was positively associated with customer spending (Model 4, b= 26.77, p<.01), supporting Hypothesis 5. The results in Table 5 indicate that the mediation hypothesis (H6)

was supported because 95% confidence intervals did not include zero (estimate: 2.4117, CI: .9546; 4.1968).

We also examined whether LMX configurations predicted customer spending via customer-oriented service behavior. Bootstrapping tests with PRODCLIN indicated that the indirect positive effect of minority LMX configuration (estimate: 6.2582, CI: 2.0897; 11.4452) on customer spending was significant (the 95% CIs did not include 0). With respect to the indirect effect of fragmented LMX configuration on customer spending, a significant effect was also observed (estimate: -21.5614, CI: -32.7221; -11.0554).

The final noteworthy finding is that fragmented LMX configuration (Model 3 in Table 4: b= 83.88, p<.01) was significantly and positively related to customer spending when compared to shared LMX configuration, while minority LMX configuration (b= -34.56, p<.01) was negatively related. This effect was above and beyond the effect of average LMX and LMX differentiation. Furthermore, customer spending is lower in units with high minority (Model 5, b= -78.51, p<.01) and shared configurations (b= -45.54, p<.05) when compared to stores with fragmented LMX configuration. These results suggest that customers spend less when LMX minority or shared LMX configuration perceptions are higher.

5. DISCUSSION

5.1 Theoretical Implications

Our paper makes several theoretical contributions. First, we extend the recent emerging research on LMX configurations (Li & Liao, 2014; Seo et al., 2018). We take the first steps to explore the outcomes of perceived LMX configurations, and we show that three LMX configurations, i.e., shared, fragmented, and minority, predict work group outcomes differently. We also explain the links between LMX configurations and customer behavior. We show that PJC is an important mechanism through which LMX relationship configurations may affect customer-oriented service behavior. The mediating role of PJC in the relationship between LMX configurations and customer-oriented service behavior received strong support. Our study provides further empirical evidence for the direct effect of justice on customer service behavior (Maxham III & Netemeyer, 2003; Netemeyer & Maxham III, 2007; Tremblay et al., 2018) and for the determinant role of customer service behaviors in amount of customer purchase (Palmatier et al., 2009).

Furthermore, contrary to our expectations, a positive relationship between the minority LMX configuration and customer-oriented service behavior was found, above and beyond the effect of procedural justice climate, when compared either to shared or fragmented configurations. This finding suggests that too much heterogeneity in LMX differentiation is not better. It is probable that a high minority LMX configuration allows for a fair balance between equity and equality principles by reducing the frequency of resource allocation decisions while increasing resources to the most deserving followers. This counterintuitive finding suggests that this LMX differentiation was probably based on fair and efficient criteria such as customer knowledge, customer service experience or customer service orientation disposition. We found that this organization employs a minority of employees as full time (43%), while a large subgroup work part-time (57%). Therefore, it is possible that store leaders have decided to invest their resources in full-time and more experienced employees.

Next, we found a negative relationship between fragmented LMX configuration and customer service behavior, above and beyond the effect of procedural justice, when compared to shared LMX. This indicates that customers' perceptions of service quality increase more when employees perceive that all employees are treated equally by their managers, rather than when managers treat each unit member differently. Therefore, an LMX variety configuration may also indicate a moderate separation configuration (Buengeler et al., 2010). We do not rule out the possibility that our respondents interpreted the fragmented configuration as a large difference of LMX opinions in the group, and thus as a separation configuration. An LMX separation may reduce attraction, increase relationship conflicts, and undermine willingness to help others provide better customer service quality.

We also show the significant effect of customer-oriented service behavior on customer spending. Previous research has revealed that customer-orientated service behaviour is related to various customer outcomes including customer satisfaction (Brown & Lam, 2008; Homburg, Wieseke, & Hoyer, 2009; Hong, Liao, & Kaifeng, 2013; Raub & Liao, 2012; Schneider et al., 2009; Stock & Bednarek, 2014) and intent to purchase (Cronin, Brady, & Hult, 2000; Gounaris & Boukis, 2013; Maxham III, Netemeyer, & Lichtenstein, 2008; Netemeyer, Maxham III, & Puling, 2005). Our results provide empirical support to the chain value theory by showing that customer-oriented service behavior is an important determinant of customer spending. This means that customers place great value on the quality of the service provided by frontline employees. Our data suggest that raising COSB by one point on a seven-point scale is associated with an 18% increase in store sales per customer annually.

We made no prediction regarding the potential quadratic effects of customer-service rating on customer spending. Supplemental analysis showed a significant negative quadratic effect for customer spending ($b = -1.99$, $p < .01$), suggesting an inverse U-shape, and the decreasing return of customer-oriented service behavior by frontline employees. Netemeyer and Maxham III (2008) found that supervisor-rated customer-directed extra-role performance quadratic term was positively related to favorable word of mouth (WOM), while supervisor-rated customer-directed in-role performance quadratic term was negatively related to WOM. Our COSB construct mainly reflected a measure of normal service behavior (in-role performance), rather than customer behavior that goes beyond job requirements (extra-role performance). Our findings are thus consistent with those of Netemeyer and Maxham III (2008) showing that customer-oriented behavior may be conceptualized as a satisfaction-maintenance performance attribute rather than a satisfaction-enhancing performance attribute.

5.2 Practical Implications

This study has important practical implications. Our findings, aligned with those of several other studies (Seo et al., 2018; Yu et al., 2018), reveal that LMX differentiation places leaders in a paradoxical position. Leaders need to be aware that some tradeoffs are associated with LMX differentiation. Procedural justice climate was promoted and external service quality increased when leaders did not treat employees equally, or when they did not differentiate too much. In other words, a moderated LMX differentiation, specifically treating a minority of followers better, appears to be the most efficient way to enhance perceptions of procedural justice, which in turn influence customer perceptions of service quality.

Moreover, despite the considerable value of frontline service employee behaviors on customer spending, store leaders must be aware that too much of such behaviors may have potential drawbacks for customers. Managers and practitioners are advised to assess when such helpful customer service behaviors become detrimental to customer outcomes before they affect the service-profit chain value. Finally, the direct effect of LMX differentiation and PJC on external service quality calls for a close collaboration between HR and marketing departments. Human resource managers could use surveys to assess the actual nature of LMX configurations in each business unit, as well as procedural fairness climate levels. Human resource departments could also provide training and support to store managers to help them manage their relationships with followers in a fair manner. Considering the beneficial effect of positive customer perceptions of service quality on customer purchase, marketing managers should support HR investments in training store managers.

5.3 Limitations and Future Research Directions

Like most studies, this one has both strengths and limitations. First, precautions were taken to limit the risk of common method variance. We measured actual LMX differentiation of team members and LMX configuration perceptions of team members. For PJC, we used data provided by team members, and for customer-oriented service behavior and customer spending, we used data from the customers.

However, this study is not completely exempt of bias. For example, LMX differentiation and procedural justice were measured by the same respondents at the same time. We also should not neglect to mention that our operationalization of LMX configuration is not fully protected against common variance bias, although we consider the risk low. First, as recommended by Podsakoff et al. (2003), we used different scales and separated the measures of LMX configuration in the questionnaire. We also believe that measuring LMX configuration using visual graphic shapes, as suggested by Harrison and Klein (2007), may have limited the opportunities for causal inferences. One other possible limitation is related to the unbalanced LMX configurations. We explored three different LMX configurations, but our data did not allow us to examine token or bimodal configuration. Finally, although not unusual, the data were collected from stores in a single retail organization. One important advantage to studying a single firm is the exclusion of potential confounding factors (e.g., human resources practices, customer service policies). However, this sample imposes some restrictions or concerns regarding the generalization of our findings to other sectors and countries.

Future research should examine the criteria based on which leaders develop high quality LMX. Followers may prefer a leader to differentiate between subordinates based on their ability or performance, rather than their personality or demographic similarities (Van Breukelen, Van der Leelen, Wesselius, & Hoes, 2012). It would also be useful to conduct research on contextual factors that may influence the outcomes of LMX configuration. Group power distance and group collectivism have recently been proposed as relevant contextual variables (Anand et al., 2016).

This study examined procedural justice perceived by employees as a potential mechanism through which LMX configuration may affect customer spending. However, we did not explore the mechanisms that explain why PJC drives the effects of LMX differentiation on customers. We encourage future research to examine why PJC influences customer-oriented service performance.

Two potential mechanisms are employee emotions (Cropanzano, Anthony, Daniels, & Hall, 2017) and customers' perceived justice (Maxham III & Netemeyer, 2003). Finally, we encourage scholars to examine the influence of LMX configuration on other team behaviors and customer outcomes.

6. CONCLUSION

This study sheds light on the consequences of LMX configurations on employees and customers. Responding to recent research calls (Buengeler et al., 2020; Martin et al., 2018), this study provided new insights on the differential effects of LMX configurations perceived by subordinates on procedural justice climate. Our findings reveal that procedural justice climate, and even customer service quality perceptions, are higher when minority LMX perceptions in units increase, in comparison to shared and fragmented LMX configurations. Treating all employees equally or differently appears to not always be the best solution. This study also extends leadership research by integrating the theory of allocation preferences with procedural justice theory and introducing perceived LMX configurations. Finally, consistent with the service-profit chain model, we found that customers spend more when external service quality is perceived as high.

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Table 1. Two-tailed correlations among time-averaged variables

Average variable across time 1-6	M	SD	1	2	3	4	5	6	7	8	9	10
1. Store size	21.59	8.09										
2. Manager tenure	9.36	10.6	-.08									
3. Turnover rate	.27	.11	-.01	-.04								
4. LMX	5.64	.86	.08	-.09*	-.22**							
5. LMX SD	1.06	.19	.14**	.11**	.11**	-.70**						
6. LMX shared %	59.44	12.48	-.29**	.04	-.16**	.11**	-.11**					
7. LMX fragmentation %	18.46	6.77	-.21**	.01	-.13**	.01	.01	.69**				
8. LMX minority %	14.59	5.14	-.11**	.01	-.03	-.02	.03	.52**	.72**			
9. Procedural justice climate	5.45	.61	-.05	-.03	-.14**	.44**	-.39**	.28**	.10*	.09*		
10. Customer-oriented behaviors	5.75	.23	-.18**	.07	.03	.03	.15**	.14**	.08	.14**	.02	
11. Customer spending	235.01	50.98	.29**	.08	.29**	.18**	-.20**	-.10*	-.06	-.03	.04	-.01

Note. SD: Standard deviation. **: p<.01. *: p <.05

Table 2. HLM results for procedural justice climate

	Model 1	Model 2	Model 3
Constant	4.81**	4.75**	6.47
Team size	-.01**	-.01**	-.01**
Manager tenure	-.02**	-.02**	-.02**
Turnover rate	-.30**	-.24**	.23**
LMX (mean)	.32**	.32**	.32**
LMX differentiation (SD)	-.62**	-.63**	-.62**
% Shared LMX			.10
% Fragmented LMX		-.10	
% Minority LMX		.21*	.31*
-2LL	302.9	339.0	338.9

Note: SD: Standard deviation. -2LL: -2 Log Likelihood.

**: p<.01; *: p<.05.

Table 3. HLM results for customer-oriented behavior

	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	5.50**	5.54**	5.13**	5.07**	4.64**
Team size	-.01**	-.01*	-.01**	-.01**	-.01**
Manager tenure	-.01	.01	.01*	.01	.01
Turnover rate	.14*	.23**	.25**	.19**	.21**
LMX (mean)	.03	.03	.01	.04*	.01
LMX differentiation (SD)	.13**	.14**	.19**	.15**	.21**
% Shared LMX				.39**	.38**
% Fragmented LMX		-.81**	-.81**		
% Minority LMX		.25**	.23**	.62**	.59**
Procedural justice			.09**		.09**
-2LL	-.34.7	-132.32	-138.1	-56.9	-64.0

Note: SD: Standard deviation. -2LL: -2 Log Likelihood. Model 2 & 3 compare to shared LMX configuration. Model 4 & 5 compare to fragmented LMX configuration. **: p<.01; *: p<.05.

Table 4. HLM results for customer spending

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Constant	93.01**	79.09**	147.87**	146.67*	133.08**	202.89**	120.76**
Team size	1.55**	1.56**	1.48**	1.61**	1.65**	1.56**	1.67*
Manager tenure	1.05**	1.08**	.83**	.82*	1.17**	.91*	.92*
Turnover rate	154.47**	150.67**	148.96**	148.25**	154.43**	157.72**	153.06*
LMX (mean)	12.53**	13.06**	16.60**	17.45**	12.18**	15.91**	16.39**
LMX differentiation (SD)	-16.33*	-14.70	-24.57**	-29.26**	-16.39	-26.52**	-30.18**
% Shared LMX					-45.54*	-44.42**	-55.49**
% Fragmented LMX		85.35**	83.88**	107.56**			
% Minority LMX		-37.95	-34.56**	-44.11*	-78.51**	-73.98**	-90.35**
Procedural justice			-13.54*	-16.43**		-14.06*	-16.07**
Customer focused behaviors				26.77**			17.68**
-2LL	9489.1	9453.0	9442.66	9425.6	9466.2	9455.5	9444.65

Note: SD: Standard deviation. -2LL: -2 Log Likelihood. Model 2-4 compare to shared LMX configuration. Model 5-7 compare to fragmented LMX configuration. **: p<.01; *: p<.05.

Table 5. Direct and indirect effects

	Direct						Indirect		
	A→B		B→C		A→C		95% CI		
	Estimate	SE	Estimate	SE	Estimate	SE	Estimate	Lower	Upper
Fragmentation → PJC → COB	-.0960	.1069	.0901	.0256	-.8055	.0799	-.0086	-.0266	.0070
Minority → PJC → COB	.2141	.1116	.0901	.0256	.2338	.0806	.0192	.0023	.0405
PJC → COB → Customer spending	.0901	.0256	26.7677	6.1027	-16.4331	6.1027	2.4117	.9546	4.1968

Fragmentation → COB → Customer Spending	-.8055	.0799	26.7677	6.1027	107.5651	19.7615	-21.5614	-32.7221	-11.0554
Minority → COB → Customer Spending	.2338	.0806	26.7677	6.1027	-44.1145	21.5823	6.2582	2.0897	11.4452

Note: SE: Standard error. CI: Confidence Interval. Results are based on models comparing Fragmented and Minority configurations to shared configurations.

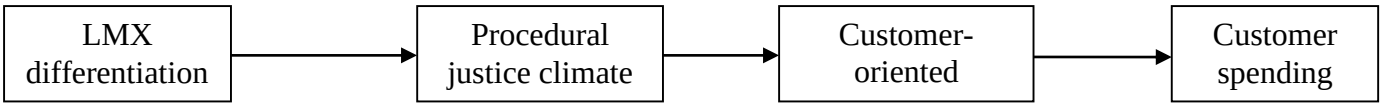
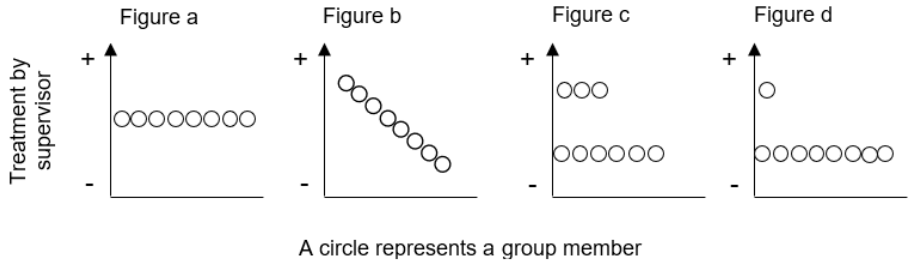


Figure 1. Theoretical model

APPENDIX 1

LMX configurations measurement



How much does treatment by the supervisor differ among the store employees?

Figure a = Nearly all the store employees are treated the same way by the supervisor, regardless of the treatment received.

Figure b = The supervisor maintains different relations with nearly every store member.

Figure c = A minority of the store members receive significantly better treatment by the supervisor than do all the other members of the group.

Figure d = One store member receives substantially better treatment by the supervisor than all the others.