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Citation for published version (APA):

Document license:
TAVERNE

DOI:
10.1080/1359432X.2019.1653853

Document status and date:
Published: 26/08/2019

Document Version:
Publisher’s PDF, also known as Version of Record (includes final page, issue and volume numbers)

Please check the document version of this publication:

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To cite this article: Hai-Jiang Wang, Pascale Le Blanc, Evangelia Demerouti, Chang-Qin Lu & Lixin Jiang (2019) A social identity perspective on the association between leader-member exchange and job insecurity, European Journal of Work and Organizational Psychology, 28:6, 800-809, DOI: 10.1080/1359432X.2019.1653853

To link to this article: https://doi.org/10.1080/1359432X.2019.1653853

Published online: 26 Aug 2019.

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A social identity perspective on the association between leader-member exchange and job insecurity

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ABSTRACT
This study aimed to understand the association between leader–member exchange (LMX) and employee job insecurity. We proposed that LMX quality may foster a sense of organizational insider status, which could reduce the perception of job insecurity. Moreover, the extent to which employees identify their supervisor with the organization (i.e. the extent of supervisor organizational embodiment, SOE) and the variation in LMX quality within the work group (i.e. LMX differentiation) were theorized to be moderators of the effect of LMX quality on perceived organizational insider status. Time-lagged data were collected from a sample of 186 Chinese employees working in 31 work groups. The results indicated that perceived organizational insider status mediated the relationship between LMX quality and job insecurity and that SOE moderated the effect of LMX quality on perceived organizational insider status such that the effect was stronger when SOE was high (vs. low). However, we did not find support for the moderating effect of LMX differentiation. This study provides new insights into the underlying mechanism and boundary conditions of the association between LMX quality and job insecurity, a typical stressor for many present-day workers.

Job insecurity refers to one’s perceptions about potential involuntary job loss (De Witte, 1999; Sverke & Hellgren, 2002). There is ample empirical evidence that job insecurity is associated with a host of negative consequences. Indeed, a recent comprehensive meta-analysis summarized over 40 harmful outcomes of job insecurity (Jiang & Lavaysse, 2018) such as decreased psychological well-being and somatic health, which tend to persist over time (De Witte, Pienaar, & De Cuyper, 2016). Because of the prevalence of job insecurity among current-day workers (Shoss, 2017) and its detrimental consequences, it is imperative to gain insights into the triggers of employee job insecurity to identify effective ways to mitigate it.

However, the antecedents of job insecurity have been far less explored in the literature compared to its outcomes. The limited research on the triggers of job insecurity has focused mainly on the business environment (e.g. economic conditions, technology and policy change), type of employment (e.g. permanent vs. temporary contract) and personal factors (e.g. personality) but has overlooked the social aspects of the work environment (for a review, see Keim, Landis, Pierce, & Earnest, 2014; Shoss, 2017). This omission is regrettable because the social environment may shape and influence employee work stressors (e.g. Glambek, Skogstad, & Einarsen, 2018; Zapf, Knorl, & Kulla, 1996). An employee’s social environment at work essentially consists of various interpersonal work relationships, among which the relationship with one’s supervisor or leader is arguably very important. As an authority figure, a supervisor may influence how employees view their work and thus play an important role in shaping employee perceptions of the stability of their employment (Shoss, 2017). Therefore, our study zoomed in on leader–member exchange (LMX), the dyadic exchange relationship between supervisor and subordinate, and tested whether and through what psychological mechanism it may be related to employee job insecurity. LMX theory is in essence a relationship-based approach to leadership (Dansereau, Graen, & Haga, 1975; Liden, Sparrowe, & Wayne, 1997), which is distinct from other leadership theories that focus on (more general) leadership styles or behaviour (e.g. transformational leadership). Its specific focus on the quality of the relationship between leader and subordinate makes the LMX theory particularly relevant to a study of the effect of social environment on employee perceptions of job insecurity.

We argue that LMX quality is likely to develop employee perceptions of organizational insider status and subsequently shape the experience of job insecurity. From a social identity perspective (Ashforth & Mael, 1989; Hogg & Terry, 2000; Tajfel & Turner, 1985), people tend to categorize themselves and others into various social groups (based on gender, occupation, political affiliation, etc.) in an effort to organize their social information (i.e. a self-categorization process). One possible categorization is whether they perceive themselves as insiders of the organization (i.e. perceived organizational insider status, Stamper & Masterson, 2002). According to social identity theory, an employee’s status perception may be developed on the basis of treatment received from others in the organization, especially from authority figures (e.g.
supervisors). As supervisors represent an important social category for invoking the self-categorization process, high-quality LMX may thus enable employees to define themselves as organizational insiders and in turn affect their job insecurity experience.

Moreover, we examine the contexts in which LMX quality may be more important in developing one’s perception of organizational status and subsequently shaping the experience of job insecurity. Social identity theory assumes that one’s specific social identity becomes contextually salient when the category defining that social identity is relevant and sufficiently accounts for the similarities and differences among people in that context (Hogg, 2001). Accordingly, we argue that an employee would consider the relevance and heterogeneity of LMX quality when judging his or her organizational status on the basis of LMX quality. Here, relevance refers to the extent to which LMX quality is a meaningful and relevant in defining one’s organizational status; whereas heterogeneity refers to the variation in LMX quality between employees within the same workgroup. We suggest that in the context of high relevance and high heterogeneity, LMX quality as a social category best explains the similarities among people of the same organizational status and highlights the differences between people of different organizational status. That is, in such a context, organizational insider status defined by LMX quality becomes more salient.

Specifically, to capture LMX relevance, we include the concept of the supervisor’s organizational embodiment (SOE; Eisenberger et al., 2014), defined as the extent to which employees identify their supervisor with the organization. The greater the SOE, the more employees perceive that their supervisor shares the organization’s identity. In other words, when SOE is high, employees tend to experience the treatment they receive from their supervisor as treatment from the organization. Therefore, SOE represents the relevance of LMX quality in developing employee perceptions of their organizational status. To capture LMX heterogeneity, we use LMX differentiation, defined as the degree of variability in the quality of the exchange relationships between supervisors and their various employees (Liden et al., 1997). Employee LMX quality is more heterogeneous when LMX differentiation is high rather than low. Therefore, as previously indicated, LMX relevance (i.e. SOE) and LMX heterogeneity (i.e. LMX differentiation) may interact with LMX quality to predict a person’s insider status (i.e. a three-way interaction). In other words, LMX quality will contribute most to employee perceptions of organizational status when both SOE and LMX differentiation are high. The overall research model is presented in Figure 1.

Our study makes several contributions to the literature. First, we investigate individual LMX quality as an antecedent of job insecurity. Although researchers have examined the antecedents of job insecurity (Keim et al., 2014), the influence of the social environment on employee job insecurity remains largely unknown. LMX constitutes a significant part of the social environment of one’s job, as supervisors may play a role in protecting their employees from threats to their job security or in increasing their concern about their job future (Shoss, 2017). As such, we argue that job insecurity, people’s subjective perceptions about their job continuity, is likely influenced by the quality of the dyadic relationships between supervisors and their employees (i.e. LMX quality). Our study thus enriches the understanding of antecedents of employee job insecurity.

Second, we reveal a social identity mechanism underlying the relationship between LMX quality and employee job insecurity. LMX theory suggests that supervisors relate differentially to their subordinates and divide them into “in-group” and “out-group” members (Dansereau et al., 1975), which, we argue, may form the basis for employee perceptions of organizational insider or outsider status. In other words, employees may generalize their status perception from their supervisor-led work group to the broader organizational context. Thus, LMX quality may contribute to employee feelings of organizational insider status and thereby attenuate their worries regarding losing their job. By studying this underlying mechanism, our study sheds light on how LMX quality may shape employee job insecurity from a social identity perspective.

Third, we identify factors that influence the process by which employees form their perceptions of their organizational status from the quality of their LMX. Previous research has suggested that leadership can forge employee work identity (Hogg, 2001; Shamir, House, & Arthur, 1993). However, as the effect of leadership is not universal, it is worth investigating the contexts in which leadership matters. Accordingly, we examine how differentiation in SOE and LMX may moderate the relationship between LMX quality and organizational insider status, thereby deepening our knowledge of the boundary conditions of this relationship-based approach to leadership. Our findings provide insights into when leadership effort is more rewarding in fostering a sense of organizational inclusion among employees.

Finally, we contribute to the literature on LMX by offering an alternative to the traditional social exchange view of the impact of LMX. Despite providing many valuable insights, the social exchange view has a limited ability to identify the contexts in which LMX quality is more or less important (Hogg et al., 2005). In other words, it largely assumes that high-quality LMX is always

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**Figure 1.** The proposed research model.  
LMX-D = LMX differentiation, SOE = supervisor’s organizational embodiment.
beneficial for employees irrespective of contextual factors/characteristics. Through the lens of social identity theory, LMX quality may evoke a social categorization process that becomes more salient when LMX quality is contextually relevant and heterogeneous as a social category. In other words, the LMX effect is context dependent. The social identity view of LMX thus goes beyond the social exchange view by shedding light on how and why contextual factors affect the strength of the LMX effect.

**Theory and hypotheses development**

**LMX and job insecurity: a social identity perspective**

LMX theory was initially introduced through the notion of vertical dyad linkage (Graen & Uhl-Bien, 1995). The more recent work on LMX is heavily based on the social exchange perspective (Dulebohn, Bommer, Liden, Brouer, & Ferris, 2012), in which LMX quality is developed through a series of interactions between supervisors and subordinates. Specifically, supervisors and subordinates have expectations about what they can receive from the other party and what they must give in return. Successfully meeting mutual expectations facilitates high-quality exchange relationships between the two parties. High-quality LMX is characterized by mutual obligation, loyalty, support, trust, and commitment, whereas low-quality LMX reflects a leader–member relationship that is purely a form of economic exchange, as noted in the formal employment contract (e.g. Cropanzano & Mitchell, 2005). LMX has been found to influence the attitudinal, motivational, and behavioural outcomes of employees (Graen & Uhl-Bien, 1995; Martin, Guillaume, Thomas, Lee, & Epitropaki, 2016).

We suggest that perceived organizational insider status represents one mechanism to explain the relationship between LMX quality and job insecurity. Following previous research, we define perceived organizational insider status as employee perception of organizational inclusion “representing the extent to which an individual employee perceives him/herself as an insider within a particular organization” (Stamper & Masterson, 2002, p. 876). Perceived organizational insider status thus falls within the range of workplace inclusion variables (Shore, Randel, Chung, Dean, Holcombe, Ehrhart, & Singh, 2011). However, it is not the same as formal status (e.g. job rank) but refers to the subjective perception of one’s social standing in the organization (Chen & Aryee, 2007). LMX is conceptually distinct from perceived organizational insider status. Whereas LMX is related to an employee’s status perception within the work group based on the quality of the exchange relationship with the supervisor, perceived organizational insider status concerns the employee’s perception of status in the organization. Thus, LMX and organizational insider status refer to different levels: the work group level (LMX) vs. the organizational level (organizational insider status). In addition, perceived organizational status differs from perceived organizational support, which refers to employee belief that the organization values their contribution and cares about their well-being (Eisenberger, Huntington, Hutchison, & Sowa, 1986). It is plausible that employees may feel that the organization values their contribution yet not feel like organizational insiders. For example, part-time employees may agree that their employers value their contribution to the organization, but may not view themselves as organizational insider members (Stamper & Masterson, 2002). Being included in the organization is what makes one feel like an organizational insider, and perceived organizational support may contribute to this. Indeed, Stamper and Masterson (2002) provided evidence that perceived organizational support is an antecedent of perceived organizational insider status; that is, their treatment by the organization creates their feeling of belonging.

LMX theory (Dansereau et al., 1975) suggests that an employee with high LMX quality is the supervisor’s in-group member, whereas an employee with low LMX quality is the supervisor’s out-group member. We argue that high LMX quality may also signal organizational insider status for the employee. Tyler and Lind (1992) suggest that individuals determine their social standing in an organization based on how they are treated by the authority figure(s). As a supervisor is often seen as an authority figure in an organization, employee feelings of inclusiveness or insider status in the organization may thus be shaped by how they are treated by the supervisor (Lapalme, Stamper, Simard, & Tremblay, 2009). Moreover, according to the notion of self-categorization, LMX quality may serve as a category for employees to define their organizational status (Loi, Chan, & Lam, 2014; Zhao, Kessel, & Kratzer, 2014). As such, employees may infer their status at organizational level based on their status at the group level. “In-group” or “out-group” status in the work unit led by the supervisor may provide an analogous basis for perceiving “insider” or “outsider” status in the organization.

Moreover, because employees with high LMX quality have more support from the supervisor, they are likely to have access to more organizational resources (e.g. training, pay, career development opportunities). Research has revealed a positive association between LMX quality and perceived organizational support (Eisenberger et al., 2014). Thus, those with high LMX quality may feel that they are more valuable than their counterparts as organizational members, leading to a stronger perception of insider status in the organization. Supporting the above arguments, an empirical study by Zhao et al. (2014) found a positive relationship between LMX quality and employee perception of organizational insider status. Therefore, we propose the following:

**Hypothesis 1**: Individual LMX quality is positively related to perceived organizational insider status.
According to the uncertainty reduction hypothesis of Hogg and Terry (2000), identifying themselves as organizational insiders enables employees to reduce painful uncertainty about their employment (i.e. job insecurity). Moreover, when individuals believe they belong to a social group (e.g. an organizational insider group), this provides them with a definition of themselves (e.g. I am an important member of the organization) and motivates them to maintain and reinforce that social identity. Stamper and Masterson (2002) suggest that employee perceptions of insider status in the organization are central to their view of themselves as important and valued organizational members. Insiders feel that the organization values their contribution (i.e. they matter to the organization) and thus have less concern about the continued existence of their job in the organization. Therefore, we propose the following:

**Hypothesis 2:** Perceived organizational insider status is negatively related to job insecurity.

Taken together, Hypotheses 1–2 suggest a mediating role of perceived insider status: that is, an increase in LMX quality may enhance perceived organizational insider status, reducing job insecurity.

**Hypothesis 3:** Perceived organizational insider status mediates the relationship between individual LMX quality and job insecurity.

The moderating role of the supervisor’s organizational embodiment

Further, we suggest that when employees generalize their status from the group to the organizational level, they consider the relevance of the dyadic relationship. LMX quality is more meaningful and relevant when employees strongly identify their supervisor with the organization. Recent work by Eisenberger and colleagues (e.g. Eisenberger et al., 2014; Shoss, Eisenberger, Restubog, & Zagenczyk, 2013) suggests that the extent to which employees identify their supervisor with the organization (i.e. the supervisor’s organizational embodiment, SOE) may vary. For instance, employees are more likely to consider a compliment from their supervisor as a compliment from the organization if they have a strong perception of SOE. Therefore, the generalization of status is affected by employee perceptions of the supervisor’s degree of alignment with the organization.

When SOE is high, employees are more likely to view their exchanges with their supervisor as exchanges with their organization. In this context, LMX quality thus better explains the organizational status. However, when SOE is low, that is, when the supervisor’s characteristics are perceived to be more distinct from the organization, LMX quality may be less relevant and meaningful in determining employee status in the organization. Consequently, the connection between LMX quality and employee social identity of organizational status may be less salient in this context. In indirect support of the above arguments, Eisenberger et al. (2014) found a stronger relationship between LMX quality and employee perceived organizational support when SOE was high (vs. low). Therefore, we propose that SOE strengthens the effect of LMX quality on perceived organizational insider status.

**Hypothesis 4:** The supervisor’s organizational embodiment moderates the relationship between individual LMX quality and perceived organizational insider status such that individual LMX quality is more strongly positively related to perceived organizational insider status when the supervisor’s organizational embodiment is high (vs. low).

The moderating role of LMX differentiation

When LMX quality is relevant for employees to form the perception of organizational status (in the context of high SOE), they may also have to consider the differences in LMX quality for different employees in the same work group. When these differences are greater within a work group, i.e. there is greater LMX heterogeneity, an individual with higher LMX experiences greater relative advantages and distinguishable treatment (Henderson, Wayne, Shore, Bommer, & Tetrick, 2008), and therefore LMX quality has a greater impact on the perception of organizational status. To capture LMX heterogeneity, we included LMX differentiation in our research model. Supervisors have different relationships with subordinates in the same work group (i.e. LMX differentiation), and the degree of differentiation varies across supervisors (e.g. Henderson, Liden, Gibbonsky, & Chaudhry, 2009). Research has shown that subordinates are aware that their supervisor has differentiated relationships with them (e.g. Van Breukelen, Schyns, & Le Blanc, 2006). LMX differentiation is a group-level variable, and greater LMX differentiation means that LMX quality is more heterogeneous within a work group (Erdogan & Bauer, 2010).

When both SOE and LMX differentiation are high, LMX quality appears to best account for employee organizational status and highlight the differences between people of different organizational statuses. That is, the connection between high LMX quality and organizational insider status seems natural and obvious. In contrast, when SOE is high but LMX heterogeneity is low (i.e. all employees in the work group have a similar relationship with the supervisor), individual LMX quality is less indicative of the perceived organizational status of employees. Any differences in the perceptions of their organizational status by employees within the same work group are likely to be attributable to other factors. The interaction effect of LMX quality and SOE on organizational insider status may thus become weaker when LMX differentiation is low compared to when it is high.

To summarize, when LMX quality is relevant to perceived organizational status, the greater the LMX heterogeneity, the more LMX quality can explain organizational status (insider vs. outsider). However, when LMX quality is not relevant to perceived organizational status, LMX heterogeneity is no longer important. Therefore, we expect LMX quality to have the greatest influence on organizational status when there is high SOE and high LMX differentiation (i.e. a three-way interaction).

**Hypothesis 5:** LMX differentiation strengthens the interactive effect of LMX quality and SOE on organizational insider status such that the interactive effect is stronger when LMX differentiation is high (vs. low).
Method

Participants and procedure

Participants were recruited from a Chinese manufacturing company. A research assistant distributed questionnaires containing measures of LMX, perceived insider status, SOE and demographic variables among 277 manufacturing workers at Time 1. Three months later (Time 2), we asked these 277 respondents to rate their job insecurity. The final matched sample with completed responses included 186 respondents (a 67% retention rate) from 31 work groups. The group size ranged from 3 to 14 with an average group sized of 6.1 (SD = 2.9). Of the 186 respondents, 72% were male (n = 134), and 24% were female (n = 45), with 7 unidentified. The average age of the participants was 28.9 years (SD = 5.4), with 3.2 years (SD = 2.5) of tenure in the current organization.

Measures

LMX

At Time 1, LMX was assessed by employees using a 7-item scale (Graen & Uhl-Bien, 1995). A sample item was, “This team leader and I have an extremely effective working relationship”. Each item was rated on a 6-point Likert scale ranging from strongly disagree (1) to strongly agree (6). Cronbach’s alpha was .83.

LMX differentiation

LMX differentiation was operationalised as the within-group standard deviation in individual LMX quality for each work group (e.g. Liden, Erdogan, Wayne, & Sparrowe, 2006; Ma & Qu, 2010).

Perceived organizational insider status

At Time 1, perceived organizational insider status was measured using four items from the scale developed by Stamper and Masterson (2002). A sample item was, “I feel very much a part of my work organization”. Each item was rated on a six-point Likert scale ranging from strongly disagree (1) to strongly agree (6). Cronbach’s alpha was .83.

Supervisor’s organizational embodiment

At Time 1, SOE was reported by employees using four items (Eisenberger et al., 2014; Shoss et al., 2013). A sample item was, “When my supervisor encourages me, I believe that my organization is encouraging me”. Each item was rated on a 6-point Likert scale ranging from strongly disagree (1) to strongly agree (6). Cronbach’s alpha was .92.

Job insecurity

At Time 2, job insecurity was assessed using four items from the scale developed by Cheng, Huang, Li, and Hsu (2011) in a Chinese setting. A sample item was “I am worried that I might face job loss or layoff”. The items were rated from strongly disagree (1) to strongly agree (6), with higher scores representing higher job insecurity. Cronbach’s alpha was .76.

Control variables

Our study controlled for employee gender, tenure, group size and group-level LMX. Bernerth and Aguinis (2016) recommend that authors provide theoretical justification for the inclusion of controls. Accordingly, we included these control variables primarily because theories suggest that they are related to our focal variables (e.g. LMX, Dulebohn et al., 2012).

The development of LMX is influenced by the relational demographics of employees and supervisors (e.g. gender dissimilarity) and employee competence (e.g. tenure). Group size also affects how a supervisor interacts with group members. The bigger the group, the less time the supervisor can spend with each group member, therefore affecting individual LMX quality. The social comparison theory suggests that employee attitudes and behaviour are influenced not only by their own LMX but also by comparison with other LMX relationships in the group (e.g. the average LMX in the group, Herman, Ashkanasy, & Dasborough, 2012).

Moreover, Bernerth and Aguinis (2016) suggest that even after acknowledging the theoretical role of a control variable, authors need to answer three sequential questions: Has this relationship been empirically established in existing research? What purpose is served by including it in the study? Is the variable measured reliably? Studies have found that gender dissimilarity (Adebayo & Uddegb, 2004) and follower competence (Dulebohn et al., 2012) are related to LMX. Group size was found to be positively related to LMX differentiation (Harris, Li, & Kirkman, 2014), whereas relative LMX (individual LMX minus group-level LMX) has been shown to influence social identification (Herman et al., 2012). Accordingly, we controlled for employee tenure (an indicator of competence), group size and group-level LMX. Unfortunately, despite the reasonable assumption that most supervisors are male in a manufacturing context (that is our research context), we lacked exact information about supervisor gender, so were unable to compute the gender dissimilarity between employees and supervisors, and instead controlled for employee gender. As these control variables were measured reliably in our study, including them may help to eliminate predictor-criterion contamination – purpose of control.

Analysis

As the data in our study had a nested structure, we analysed the between- and within-group variance of the study variables. ANOVA tests showed that between-group variances were not significant for all variables (LMX, organizational insider status, job insecurity and SOE). In addition, the mean $R_{wgr}$, ICC(1) and ICC(2) were, respectively, .90, 0.03 and 0.17 for LMX; .88, 0.05 and 0.29 for organizational insider status; .69, 0.004 and 0.02 for job insecurity; and .72, 0.05 and 0.24 for SOE. These results did not support the aggregation of individual measures at the group level (Bliese, 2000), however; as our theory is based at the individual level, individual-level analysis of the main variables is most appropriate. Thus in the following analysis, all variables are examined at the individual level, except for LMX differentiation (which was a dispersion measure, i.e. the within-group standard deviation), group size and the LMX median (control variables).


Results

Confirmatory factor analysis and descriptive statistics

We conducted an individual-level confirmatory factor analysis (CFA) to test the validity of our measurement model using Mplus 7.4 software (Muthén & Muthén, 1998-2015). The relatively small sample size did not permit us to do a complete item-level CFA because it required estimation of too many parameters. As an alternative, we used item parcels to make the analysis tractable (Little, Cunningham, Shahar, & Widaman, 2002). LMX was modelled as a latent factor with three randomly created parcels (indicators). The results showed that the hypothesized four-factor model (LMX, perceived organizational insider status, job insecurity and SOE) provided an acceptable fit to the data ($\chi^2/df (200.65/84) = 2.39$; SRMR = .058; CFI = .923; TLI = .903; RMSEA = .086). We also compared the hypothesized measurement model with several alternative models in which theoretically related factors were combined (see Table 1). The model comparison results revealed that the hypothesized four-factor model had the best fit.

Table 2 shows the means, standard deviations and correlations of the study variables.

Gender was positively related to job insecurity ($r = .15$, $p < .05$), with insecurity higher among female than male employees. Relevant to our hypotheses, LMX was positively related to perceived organizational insider status ($r = .56$, $p < .01$), which was negatively related to job insecurity ($r = -.19$, $p < .01$). These results provided preliminary support for Hypotheses 1 and 2. LMX was also negatively related to job insecurity ($r = -.16$, $p < .05$).

Testing of the mediation model (hypotheses 1–3)

We centred the group-level predictors (i.e. group size, LMX, differentialization, LMX median) to the sample mean and the person-level predictors (i.e. LMX, SOE, tenure, gender) to the group mean. First, we tested a mediation model that specified the relationships suggested by Hypotheses 1–3. LMX was positively related to organizational insider status ($y = .53$, $p < .01$), which was negatively related to job insecurity ($y = -.16$, $p < .05$). These results again provided support for Hypotheses 1 and 2. Further, we found a significant indirect effect of LMX on job insecurity through organizational insider status (estimate = −0.086, 95% confidence interval [−0.158, −0.015]). Therefore, we found support for the mediating effect of organizational insider status (i.e. Hypothesis 3). It should be noted that the direct relationship between LMX and job insecurity was not significant ($y = -.08$, $p > .05$), suggesting a full mediation model.

Testing of hypotheses 4–5

Second, we tested the moderated mediation model in which LMX differentiation and SOE were included as moderators. As predicted, the interaction of LMX quality and SOE ($y = .14$, $p < .05$) had a significant effect on organizational insider status. We plotted this interaction at the conditional values of SOE (one standard deviation below and above the mean). As shown in Figure 2, the positive relationship between LMX and perceived organizational insider status was stronger when SOE was high (vs. low). We calculated the simple slopes at high and low levels of SOE (Bauer, Preacher, & Gil, 2006). When SOE was high, the simple slope between LMX and organizational insider status was positive and significant ($b = 0.42$, $t = 5.69$, $p < .01$). However, when SOE was low, the simple slope ($b = 0.16$, $t = 1.53$, $ns$) was not significant. Therefore, we found support for Hypothesis 4.

To test the three-way interaction of LMX quality, SOE and LMX differentiation on organizational insider status (i.e. Hypothesis 5),
we specified the random slope effect of the interaction of LMX and SOE on organizational insider status. However, the variance of the random slope was not significant ($t = .001, p > .05$) and LMX differentiation did not predict this slope ($y = -.06, p > .05$). These results do not support Hypothesis 5.2

**Discussion**

In this study, we developed and tested a model linking LMX and employee job insecurity via perceived organizational insider status contingent upon social contexts. Specifically, we proposed that employees perceive themselves as organizational insiders (or not) according to the nature of their social exchange relationships with their supervisor; moreover, their perceived organizational insider status is negatively related to their job insecurity; additionally, LMX quality has greater influence in developing their perception of organizational insider status when it has relevance and heterogeneity (i.e. high SOE and high LMX differentiation). The results showed that organizational insider status mediated the relationship between LMX quality and job insecurity; LMX quality was more strongly related to the perception of insider status when SOE was high (vs. low). LMX differentiation as a group-level variable, however, did not strengthen the interactive effect of LMX quality and SOE.

**Theoretical implications**

As noted earlier, job insecurity is a work stressor with detrimental effects on employee wellbeing, motivation and behaviour. Researchers have devoted attention to attenuating the negative effects of job insecurity by identifying moderators (e.g. Cheng & Chan, 2008; Jiang & Probst, 2014; Näswall, Sverke, & Hellgren, 2005; Schreurs, Van Emmerik, Notelaers, & De Witte, 2010; Wang, Lu, & Siu, 2015). While acknowledging the great value of this line of research, we attempt a more preventative approach by addressing the source of job insecurity rather than mitigating its negative consequences. Identifying and targeting the source of work stressors rather than their negative consequences is highly recommended by organizational scholars as this could potentially prevent stress reactions rather than requiring individuals to develop resistance orcope with work stress (Cooper & Cartwright, 1997).

Our findings suggest that relationships with supervisors indeed play a role in shaping employee perceptions of the stability of their employment. More specifically, high-quality LMX cultivates security among employees because it engenders a sense of status in the organization. Our study therefore provides insights into why individual LMX quality is related to the experience of job (in)security from a social identity perspective. Our investigation of the association between LMX quality and organizational insider status responds to the call by Stamper and Masterson (2002) for more research on how employees develop their perceptions of organizational status. Our study suggests that status gained through the dyadic relationship with the supervisor in the work group may be generalized to the broader organizational context.

LMX theory is seen as one of the most prominent approaches to understanding how dyadic relationships between supervisor and employee influence workplace outcomes. Our research adds to the LMX literature by examining the context of the LMX effect (e.g. Dulebohn et al., 2012). Employees are likely to consider contextual factors when trying to make sense of their exchange relationships with their supervisors. However, the focus of LMX theory on the dyadic relationship between supervisor and subordinate often neglects the broader social context of these personal relationships. Our results show that LMX quality has a stronger effect on employee organizational insider status and subsequently on job insecurity when SOE is stronger (vs. weaker). These findings suggest that the effect of LMX quality on employee work outcomes is contingent on the extent to which employees perceive their supervisor as representative of the organization. Our findings thus extend the knowledge of the LMX effect in organizations.

Interestingly, previous studies by Loi, Ngo, Zhang, and Lau (2011; 2014) on the interplay between LMX quality and job (in)security in predicting employee work outcomes found that job security affects the strength of the relationship between LMX quality and work outcomes such as job satisfaction, altruism and work performance. However, it did not rule out the predictive power of LMX on job insecurity as predicted in this study. Our study found that LMX can significantly and indirectly contribute to feelings of job insecurity because it shapes employee perceptions of their organization status. Thus, the more one’s relationship with the supervisor determines one’s organizational status, the more likely that LMX quality determines one’s perception of job insecurity. Moreover, our sample also offers an appropriate context to test our model. In our study, all participants were manufacturing workers in an organization whose annual performance reviews were provided by their direct supervisor. Further, supervisors also provided other forms of feedback on employee performance. Therefore, supervisors were likely to influence employee job insecurity.

**Practical implications**

Our study raises awareness that social relationships at work should be considered important antecedents of the employee experience of job insecurity. Job insecurity is known from other studies (Jiang & Lavaysse, 2018; Shoss, 2017) to negatively impact both individual (e.g. attitudes, well-being) and organizational outcomes. Leaders should be aware that the quality of their relationships with their subordinates affects how employees perceive their organizational insider status and job insecurity. Although leaders are bound by time and resource constraints, they should make serious efforts to optimize the quality of the relationship with each of their subordinates. Supervisors should also be aware that their subordinates may vary in their perceptions of SOE. When employees perceive their supervisor as a representative of the organization, their perception of organizational insider status induced by LMX quality becomes more salient and will affect subsequent job insecurity. In contrast, in the context of low SOE, LMX quality contributes less to their perception of organizational insider status and subsequent job insecurity.

While we acknowledge that high-quality LMX may not prevent actual job insecurity, which is subject to the “objective” business environment and type of employment, LMX may
influence the extent to which employees perceive and sense a threat to their job continuity, which it turn influences their work attitude, well-being and performance. One may argue that a supervisor could signal a false impression of organizational insider status to an employee via the quality of their LMX-relationship. Nevertheless, as high-quality LMX is characterized by mutual respect, trust, openness and support, we expect that in such relationships the supervisor would also give employees a realistic picture of the objective security of their job.

**Limitations and future directions**

Several limitations of this study should be noted. First, it is possible that the relationships we found might have been inflated by common method variance. To mitigate this, job insecurity was measured with a three-month time lag, as this time separation can reduce the contribution of artificial factors to common method variance. Second, our findings do not allow conclusions about absolute causality. For example, although we found support for the mediating role of perceived insider status in the relationships between LMX quality and outcomes, it is plausible that employee job insecurity could be a predictor of insider status. However, as we did not measure job insecurity at Time 1, our research design did not allow us to test this alternative hypothesis. Thus, while our results revealed a general pattern among variables, they provided weak evidence for causality. Third, the small number of groups (n = 31) in our study was insufficient to perform a multi-level CFA. It should be noted that use of individual-level CFA could potentially bias the reliability estimates due to the nested structure (Hox, 2002). Moreover, because our sample was not randomly chosen from a large population (e.g. Chinese manufacturing workers), our findings may not be well generalized to that population.

Future research could incorporate constructs related to social identity in the relationships between LMX quality and other employee outcomes (e.g. health, behaviour). While we focused on social exchange between employee and supervisor, future research could also address how other social exchanges at work (e.g. team–member exchange) relate to individual job insecurity by shaping social identity at work. We did not find a three-way interaction between LMX quality, SOE and LMX differentiation. Following previous studies (e.g. Liden et al., 2006), LMX differentiation was operationalised as the within-group standard deviation in individual LMX quality for each work group. Prior studies have found that higher LMX differentiation was related to more perceived dissimilarity between team members (e.g. Le Blanc & González-Romá, 2012). Nevertheless, subjectively perceived LMX heterogeneity within the group is more likely to be an effective indicator that strengthens the interactive effect of individual LMX quality and SOE. Researchers could also consider asking employees to report their own LMX compared to that of co-workers (LMX social comparison, Vidyarthi, Liden, Anand, Erdogan, & Ghosh, 2010). Finally, a recent study found that supervisors may differentiate their LMX relationships with employees based on employee task performance or organizational citizenship behaviour (Chen, He, & Weng, 2018). Thus the question of how the basis of LMX differentiation influences the effect of LMX quality on organizational status warrants further examination.

**Conclusions**

As the internal and external organizational environments are becoming increasingly uncertain, it is important to seek effective strategies to make employees feel less insecure so that they remain engaged and productive at work. Our findings reveal that high LMX quality may reduce employee feelings of job insecurity by giving them a sense of organizational insider status. Supervisor organizational embodiment may further influence this process by strengthening the LMX effect. These findings indicate that to reduce one’s job insecurity, it is crucial for employees to build a high-quality relationship with their supervisor, provided that their supervisor is strongly identified with the organization.

**Notes**

1. As a supplementary analysis, we followed Shaver (2005) by correlating the error terms of the mediator (i.e. perceived organizational insider status) and the outcome (i.e. job insecurity). This did not affect the significance of the relationships examined in our study (LMX to organizational insider status: $\gamma = .53, p < .01$; organizational insider status to job insecurity: $\gamma = -.17, p < .05$; the indirect effect: estimate $= -.092$, 95% confidence interval $[-.158, -.026]$).

2. It should be noted that all hypotheses were also supported without controlling for organizational tenure, gender, group size and group-level LMX. As recommended by a reviewer, we also analysed the conditional indirect effect. The results showed that the indirect effect of LMX through organizational insider status on job insecurity was significant at high levels of SOE (estimate $= -.065$, 95% confidence interval $[-.121, -.009]$), but not at low levels of SOE (estimate $= -.027$, 95% confidence interval $[-.062, .009]$). This finding suggests that SOE moderated not only the direct effect of LMX on perceived organizational insider status but also the indirect effect of LMX on job insecurity via perceived organizational insider status.

**Disclosure statement**

No potential conflict of interest was reported by the authors.

**Funding**

This research was supported by the National Natural Science Foundation of China (Project No. 71671006; 71701074; 71832004).

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