Leader-member Exchange Differentiation and Team Performance: The Role of Affective Climate and Team-member Exchange

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ABSTRACT

In this study, we propose a team-level moderated-mediation model examining how team-member exchange (TMX) and team affective climate serve as an important psychological mechanism and boundary condition to simultaneously influence the relationship between leader-member exchange (LMX) differentiation and team performance. We tested this model using data collected from a sample of 627 employees and their immediate managers working in 99 branches of a large bank in the People’s Republic of China (PRC). Our findings provided support for the model showing that TMX mediated the relationship between LMX differentiation and team performance, and the mediation effect only occurred when team affective climate was strong but not when team affective climate was weak.

(Words 111)
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With growing interest in emphasizing the use of work teams for organizational effectiveness, understanding the implication of different supervisor-subordinate relationships - leader-member exchanges (LMX) for team processes and outcomes has become increasingly important because LMX relationships operate in a border social network that influences other exchange relationships within work teams (see Liden et al., 2006; Tse et al., 2008). LMX differentiation refers to the degree of within-team variability in the quality of LMX relationships between a supervisor and members within a work team (Erdogan & Liden, 2002). LMX differentiation can be viewed as a norm rather than an exception within organizations (Liden & Graen, 1980). Research has demonstrated that employees are aware of their relative standing in a set of differentiated LMX relationships in their work team (Henderson et al., 2008; Tse et al., 2012). Thus, the degree of within-team LMX differentiation is present within the vast majority of work teams, and has been observed as playing a crucial role in shaping team processes and outcomes.

While House and Aditya (1997) note that the extant research has failed to specify the effect of LMX differentiation, the majority of LMX studies have tended only to look at the relationships between high-quality LMX relationships and employee work outcomes from an individual perspective (Gerstner & Day, 1997). Thus, research examining the surrounding social context of individual LMX within work teams has not been thoroughly investigated (Vidyarthi et al., 2010). LMX differentiation has been regarded as an important avenue of research in the literature and it has recently attracted more attention to examine its implication for both individual and team outcomes (see Boies & Howell, 2006; Liao et al., 2010; Stewart & Johnson, 2009). For individual-level outcomes, Hooper and Martin (2008) reported that perceived LMX variability is negatively associated with job satisfaction and well-being, but it is positively related to team conflict. However, while Liden et al. (2006) did not find such a relationship between LMX differentiation and individual performance, they found that it is only significant in situations where team members experience a low-quality LMX relationship. Erdogan and Bauer (2010) also revealed that LMX differentiation is negatively related to organizational commitment and satisfaction with coworker relations,
but it is positively associated with helping behavior, targeting coworker and withdrawal behaviors only when justice climate is low in work teams. With respect to team-level outcomes, LMX differentiation is not directly related to team performance (Liden et al., 2006), team potency and team conflict (Boies & Howell, 2006), but the same relationships are significant only when boundary conditions of task interdependence and team mean of LMX are taken into consideration. Consequently, an integrated theoretical framework exploring both the underlying processes and boundary conditions of LMX differentiation is theoretically and practically important in order to provide a better understanding of its potential effect on team outcomes (see Boies & Howell, 2006; Liden et al., 2006).

The goal of this study is to develop and test a moderated-mediation model to account for the relationship between LMX differentiation and team performance. Specifically, we propose two mechanisms that are theoretically significant and relevant to our inquiry: 1) team-member exchange (TMX) (team members’ perceptions of their relationships with other members in terms of the reciprocal contribution of ideas, feedback and assistance) (Seers, 1989; Seers et al., 1995) is conceptualized as a psychological process mediating the LMX differentiation-team performance relationship, and 2) team affective climate (a shared positive perception among members or overall interaction patterns in work teams) (Choi et al., 2003) is theorized as a boundary condition moderating the link between LMX differentiation and TMX (See Figure 1 in Appendix).

THEORY AND HYPOTHESIS DEVELOPMENT

LMX Differentiation and TMX

As stated earlier, leaders develop different LMX relationships with subordinates within work teams (Dansereau et al., 1975). Leaders often offer greater levels of work-related benefits and emotional support to high-LMX members than to low-LMX members, in the expectation that the high-LMX members would reciprocate with commensurate attitudes and behaviors (Henderson et al., 2008). The quality of LMX relationships is perceived by team members as a conduit through which they receive tangible resources (e.g., salary increments and/or job promotion) and intangible benefits (e.g., psychological support and/or emotional comfort) from their supervisor (Graen & Uhl-Bien, 1995). The differential quality of LMX
relationships also represents differences in psychological status because high-LMX members feel “special” and are more likely to receive additional resources and benefits than low-LMX members in their work team (Tse et al., 2012). Low-LMX members may experience feelings of inferiority and neglect because they are unable to enjoy the tangible resources and intangible benefits as compared to other high-LMX members in the same work team (Tse et al., 2012).

In respect of this, Heider’s (1958) balance theory is a useful lens within which to explain why and how LMX differentiation may influence employee perceptions of TMX relationships. The premise of balance theory in the LMX context between the social relationship triad of supervisor, subordinate and coworker needs to be of equal balance so that all parties feel comfortable about their relationship with one another. The theory implies that if two individual coworkers experience a different relationship with their supervisor, then they are more likely to form a bad relationship with each other. On this basis, we argue that low-LMX members are unlikely to develop high-quality TMX relationships with high-LMX members because they experience a different quality of LMX relationship with the same supervisor. When the differentiation is high, team members are less likely to get along well because low-LMX members are often neglected or mistreated in the receipt of less tangible resources and intangible benefits from their supervisor (Erdogan & Bauer, 2010). Therefore, low-LMX members’ perceptions of LMX differentiation are seen as unfair, and will elicit experiences of negative emotions such as envy or contempt toward their supervisor and toward high-LMX members (Anand et al., 2010). Low-LMX members are also unlikely to provide instrumental support in the form of exchanging information and offering constructive feedback, as well as psychological support in the form of listening to problems and showing concern to other high-LMX members (Tse & Dasborough, 2008). As a result, high-LMX members may feel that they do not get any instrumental and psychological support from low-LMX members, leading to TMX relationships.

**Hypothesis 1**: LMX differentiation is negatively related to TMX.

**TMX and Team Performance**

Team-member exchange (TMX) refers to the relationships between a team member and his/her team mates (Seers, 1989). TMX reflects an individual’s willingness to help other members, to suggest
ideas and provide comments, exchange information, and to receive recognition and assurance from other team members (Seers, 1989; Seers et al., 1995). In this respect, Liden et al. (2000) argued that TMX quality may vary in terms of the content and process of exchange among team members. For example, low-quality TMX is limited to economic exchanges based on formal job requirements, whereas high-quality TMX involves the social exchange of resources and support that goes beyond formal role requirements. This suggests that the nature and characteristics of TMX relationships are important for overall effective team performance (Tse & Dasborough, 2008). Underpinned by social information processing theory (SIP) (Salancik & Pfeffer, 1978), social context influences individuals’ conscious expectations regarding their attitude and behavior working in teams. The exchanges within the quality of TMX relationships can be perceived as social contexts in which team members attempt to understand social cues and to determine the extent to which behaviors are expected for team effectiveness (Tse et al., 2005). We argue that the social cues may originate from the unique characteristics of the TMX relationships and the behaviors of other members within the same work team. On this basis, we contend that high-quality TMX relationships become important social contexts in which team members are more likely to facilitate information exchange, knowledge sharing and interpersonal learning within work teams (Liu et al., 2011). Individual members also tend to choose other high-TMX members (i.e., who are closer to them) as social models to observe and learn from, which help contribute to their role definition and formation of attitudes and behaviors associated with team performance (Ford & Seers, 2006; Liao et al., 2010). For example, high-TMX members may be more proactive in providing instrumental support to other members by offering them constructive feedback, important information and necessary assistance on how they can perform better. Once the characteristics of high-quality TMX relationships are made prevalent in the work team, members will learn and act upon them appropriately. Team members are therefore likely to be motivated by the existence of an overall relationship that is conducive in assisting others and to share information and feedback which are important elements for team performance.

Hypothesis 2: TMX is positively related to team performance.
The Mediating Role of TMX

As stated earlier, Hypothesis 1 predicts a negative relationship between LMX differentiation and TMX, and Hypothesis 2 examines a positive relationship between TMX and team performance. These two hypotheses together specify a model in which LMX differentiation indirectly diminishes team performance by contributing to overall TMX relationships. The above arguments and discussion regarding Hypotheses 1 and 2 propose and support that the degree of within-team variation of LMX relationships influence the quality of TMX relationships among members, and thus, diminishes the effectiveness of overall team performance.

*Hypothesis 3: TMX mediates the relationship between LMX differentiation and team performance.*

The Moderating Role of Team Affective Climate

There is growing interest in recognizing affective climate as an important factor in determining individual and team level effectiveness (Ashkanasy et al., 2000). De Rivera defines affective climate as the collective property of work teams – an objective team phenomenon that can be “palpably sensed” (1992: 197). Affective climate can also be described as an overall interaction pattern or a shared positive perception among team members where the work atmosphere becomes conducive in characterizing the various types of interactions within a work team (Choi et al., 2003). Consistent with SIP theory, the characteristics of affective climate include warmth, support, acceptance, sincerity and enthusiasm. These characteristics act as social control mechanisms influencing team members’ attitudes and behaviors in response to external stimulus, such as within-team LMX differentiation created by their leader (Choi et al., 2003; Tse et al., 2008). Choi et al. (2003) note that a prevalent affective climate will provide all team members with a strong sense of warmth, support and acceptance which influences their cognitive, emotional and motivational processes. We therefore argue that affective climate moderates the negative relationship between LMX differentiation and TMX, and such a relationship is amplified when team affective climate is strong rather than when the climate is weak. Because employees expect that their rights and concerns are recognized and acknowledged in a strong team affective climate, employees are likely to get confused about the characteristics of affective climate when their supervisor differentiates...
among relationships, showing favoritism to other team members (Tse et al., 2005, 2012). A degree of within-team LMX differentiation may be interpreted by employees as a serious violation of strong team affective climate, making them concerned about what attitudes and behaviors they should have in order to enhance their relative status in their work team. The negative effect of LMX differentiation may become even more salient in work teams with a strong affective climate because small violations may greatly impair overall TMX relationships (Tse et al., 2008). Thus low-LMX members are likely to experience inequities among relationships, as they feel that their rights and concerns are not equally protected that would exacerbate the adverse implication of LMX differentiation for TMX (Tse et al., 2005).

Conversely, it is arguable that LMX differentiation plays a less important role in determining the overall quality of TMX relationships within work teams when affective climate is weak. The effect of LMX differentiation on TMX is likely to be less salient because the supervisor is not expected by employees as effective in promoting the strong characteristics of warmth, support, acceptance, sincerity and enthusiasm of an affective team climate (Choi et al., 2003). Because team affective climate is weak, employees are less concerned about their relative status in a set of differentiated LMX relationships that reduce their tendency of interpersonal comparison (Tse et al., 2005). Team members may tend to be less sensitive and more relaxed about the way their supervisor differentiates among relationships because LMX differentiation is interpreted as a kind of reinforcement to the characteristics of the weak team affective climate they are experiencing (Tse et al., 2005). In this case, LMX differentiation may be less likely to evoke a strong sense of mistreatment and exploitation among team members when not receiving the same amount of tangible resources and intangible benefits from their supervisor (Tse et al., 2012).

Hypothesis 4a: Team affective climate moderates the relationship between LMX differentiation and TMX, such that the relationship is stronger for work teams high in affective climate than for work teams low in affective climate.

Consistent with the hypothesized relationships specified in our model (Figure 1), it is logical to predict that team affective climate interacts with LMX differentiation to influence TMX and which, in turn, will determine team performance. Thus, it is likely that team affective climate will conditionally
influence the strength of the indirect relationship between LMX differentiation and team performance, thereby demonstrating a moderated-mediation between the study variables as depicted in our model. Our earlier discussions and arguments supporting Hypotheses 1 to 4 suggest:

Hypothesis 4b: Team affective climate moderates the indirect effect of LMX differentiation on team performance (through TMX). Specifically, TMX mediates the indirect effect when team affective climate is high, but not when it is low.

METHODS

Sample and Procedure

All hypotheses of this study were tested with data obtained from the employees of a large bank located in a major province in the PRC. The sample comprised 627 front-line employees and 99 managers, representing 99 work teams (branches). The sample was appropriate for this research because each work team consisted of three to eleven members as well as an organizationally appointed manager working together to provide a variety of banking and customer services. Two sets of questionnaires were designed; one to collect data from branch managers, and the other to collect data from branch members. Each manager was asked to provide general performance ratings for their branch, and each branch member was asked to indicate their perceptions of the branch climate and their relationships with the manager and other team members. Out of 124 branches that were surveyed, 108 branches returned both member and manager questionnaires. From these, we only included questionnaires from branches that achieved a 70% or above within-group response rate. Due to this criterion, nine work teams totaling 88 members and 9 managers were excluded from this study. A final sample of 627 members and 99 managers representing 99 work teams was included for the subsequent analyses. This represented an 80% team response rate and an 86% employee response rate. The number of members in each work team ranged from three to eleven, with a median of seven. In terms of the demographic distribution, 72% of the managers were women, and had been employed in the organization for between 1 to 22 years (M =14.5 years). Among branch members, 78% were women who had worked in the bank for an average of 3.5 years.

Measures
Leader-member exchange. LMX-7 scale (Graen & Uhl-Bien, 1995) was employed to measure the relationship quality between an employee and his/her manager in each team. The seven items were assessed on a five-point scale ranging from 1 (“Not at all”) to 5 (“Extremely”).

Leader-member exchange differentiation. In line with Chan’s (1998) dispersion model of aggregation, and in being consistent with the operationalization procedure undertaken by Henderson et al. (2009), Liden et al. (2006), and Liao et al. (2010), we calculated the within-team variance in individual-level LMX scores across all members to capture LMX differentiation for each of the work teams.

Team affective climate. In accordance to Chan’s (1998) compositional model of aggregation, we measured affective climate using Choi et al.’s (2003) five-item positive group perception scale using a direct consensus approach. This scale assesses participants’ overall perceptions of their team climate, and is also specifically designed to identify a collective schema of affective climate among team members. Items were assessed on a five-point scale, ranging from 1 (“Not at all”) to 5 (“Extremely”).

Team-member exchange. This was measured using the 10-item TMX scale developed by Seers et al. (1995). Participants were asked to evaluate the quality of relationships with their team members. This scale is designed to capture group property, using the collective entity as the focal point in assessing TMX perceptions. The 10 items were assessed on a seven-point scale ranging from 1 (“Strongly disagree”) to 7 (“Strongly agree”).

Team performance. We followed studies by Schaubroeck et al. (2007) and Lam et al. (2004) to modify an individual competence measure (Heilman et al., 1992) to evaluate overall team performance. This scale is also designed to capture group property, using the collective entity as the focal point to obtain a team performance rating. Each manager was asked to provide a general performance rating for their branch using a five-point scale ranging from 1 (“Strongly disagree”) to 5 (“Strongly agree”).

Controls. Four control variables have been identified as being related to team processes and team performance in past research (Liden et al., 2006; Tse et al., 2008). Team size was measured as the number of persons on a team. Organizational tenure of team members and managers were measured as the length of time in months that both team members and managers had worked in the organization. Finally, team
median of LMX was operationalized based on the aggregation of the individual-level LMX median scores for each team (e.g., Liden et al., 2006). Coding for the categorical control variables are shown in Table 1.

Data Analysis

We followed the analytical procedure used by Cole, Walter, and Burch (2008) to examine our hypotheses and the overall model in two steps. We first tested a simple mediation model (Hypotheses 1 to 3) and then examined the overall moderated-mediation model (Hypotheses 4a and 4b) by integrating the proposed moderating variable – team affective climate into the LMX differentiation → TMX → team performance mediation model. The moderated-mediation mode was tested using SPSS macro developed by Preacher and Hayes (2004) and Hayes (2012).

RESULTS

Descriptive Statistics

Table 1 shows descriptive statistics, reliabilities and intercorrelations among all control and main variables in the study at the team-level. As predicted, LMX differentiation was negatively associated with team affective climate ($r = -.29$), TMX ($r = -.32$), and team performance ($r = -.32$). Furthermore, TMX was positively related to team performance ($r = .54$).

Test of Mediation and Moderated-Mediation Models

All results concerning Hypotheses 1 to 3 are reported in Table 2. As Hypothesis 1 predicted, LMX differentiation was negatively associated with TMX ($B = -.32$, $SE = .10$, $t = -3.36$, $p < .01$), and Hypothesis 1 therefore received support. Further, TMX was found to significantly influence team performance ($B = .30$, $SE = .06$, $t = 5.48$, $p < .01$). Hence, Hypothesis 2 was also confirmed. Finally, LMX differentiation was found to have a significant indirect effect on team performance ($B = -.10$, $SE = .03$, $p < .05$). The formal two-tailed significance test (as assuming a normal distribution) also showed that the indirect effect was significant (Sobel $z = - 2.86$, $p < .05$). Results of the bootstrapping sample further supported the Sobel test, with a bootstrapped 99% confidence interval around the indirect effect not containing zero ($-.20 < - > -.03$). All these results together confirmed the support of Hypotheses 1 to 3.
With respect to Hypothesis 4a, we predicted that the negative relationship between LMX differentiation and team performance would be stronger when team affective climate is high rather than when it is low. Results indicated that the interaction of LMX differentiation and team affective climate on TMX was significant ($B = -.25$, $t = -2.71$, $p < .01$). We plotted the interaction following Aiken and West’s (1991) suggestion to operationalize high and low values of team affective climate using one standard deviation above or below its mean. Figure 2 reveals that the slope of the negative relationship between LMX differentiation and TMX was relatively stronger for work teams high in affective climate (simple slope = -.33, $t = -1.50$, $p < .05$), whereas, the slope was relatively weaker for work teams low in affective climate (simple slope = .11, $t = -.50$, n.s). Thus, Hypothesis 4a received support.

To test Hypothesis 4b, we examined the moderated-mediation model. The lower part of Table 3 reports the results of the conditional indirect effects at different values of team affective climate. It reveals that at high levels of team affective climate, the indirect effect of LMX differentiation on team performance (through TMX) was negative and significantly different from zero ($B = -.10$, $p < .05$). Bootstrapping results also indicated that a 99% bias corrected confidence interval did not contain zero (-.31 < - > -.05). At low levels of team affective climate, the indirect effect of LMX differentiation on team performance was not significant (though TMX) ($B = .03$, n.s). The bootstrapping result revealed that a 99% bias corrected confidence interval contained zero (-.07 < - > .11). Hypothesis 4b was supported.

**Theoretical Implications**

Our findings provide insights into the mediating role of TMX in the LMX differentiation-team performance relationship. Although LMX researchers have tended to suggest that the degree of within-team LMX relationship variability among team members can be related to team process variables such as team-member relationships, this claim has not yet been tested systematically. For instance, the degree of LMX differentiation shapes the way low-LMX members feel and react to the relationships they form with high-LMX members, and this directly influences how they work together in relation to team effectiveness (Erdogan & Bauer, 2010). Our results suggest that TMX plays a critical role in transmitting the effect of LMX differentiation on team performance.
Practical Implications

As team performance remains a critical factor for organizational success, this study offers important a practical implication. With respect to the implication of LMX differentiation for TMX and performance, managers seem to be faced with a dilemma. On one hand, our results showed that where managers develop different LMX relationships with different team members, this becomes disruptive for team-member relationships and overall performance in work teams. However on the other hand, managers forming similar LMX relationships with all team members may not be possible due to time and effort constraints as well as the lack of access to resources (Garen & Uhl-Bien, 1995). The key strategy in dealing with this dilemma is to create and maintain a strong team affective climate (Choi et al., 2003). Managers also need to make sure that the norm of LMX differentiation is compatible with the characteristics of shared perceptions of team climate; otherwise such incompatibility of situational factors may lead to the enhanced negative effect of within-team variation of LMX relationships on team processes and outcomes. This may also help employees form TMX, minimizing unfavorable perceptions regarding the effect of LMX differentiation, and will ultimately lead to better team performance.

Limitations and Future Research Directions

The main limitation of this study is related to the common method variance inflating the relationships between the variables in our study (Podsakoff et al., 2003). Common method variance may have potentially inflated the relationships between our measures of the moderating variable of team affective climate and the mediating variable of TMX from the same source. Nonetheless, as recommended by Posdakoff et al. (2003), a few strategies were employed to deal with this problem through the use of different data sources. First we measured the dependent variable – team performance (from a manager’s perspective). Second, our main variable of interest – LMX differentiation was operationalized by calculating and aggregating the within-team variance in individual LMX for each team (Liden et al., 2006). It is therefore unlikely to induce any common method variance in the LMX differentiation-performance relationship. Hence, we believe that common method variance should not have unduly influenced the relationships specified in the model.
REFERENCES


Table 1. Means, Standard Deviations and Correlations and Reliabilities of Study Variables

<table>
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<tr>
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<td>5. LMX differentiation</td>
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<td>-.11</td>
<td>-.00</td>
<td>-.25*</td>
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<td>(.84)</td>
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<td>.35**</td>
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<td>.55**</td>
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aN = 99. Internal consistency reliabilities appear in parentheses along diagonal. 
Managers’ tenure = length of time in months managers had worked in their organization. 
Team members’ tenure = length of time in months team members had worked in their organization. 
LMX differentiation = Leader-member exchange differentiation; TMX = team-member exchange relationships 
*p < .05 ** p > .01
Table 2. Regression Results for Simple Mediation

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<th>$M$</th>
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<tr>
<td>Effect</td>
<td>-.11</td>
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Note. $N = 99$ teams. Unstandardized regression coefficients are reported.
Bootstrap sample size = 1000. LL = lower limit; CI = confident interval; UL = upper limit.
LMX differentiation = Leader-member exchange differentiation; TMX = team-member exchange relationships.
Table 3. Regression Results for Conditional Indirect Effect

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<td>Constant</td>
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<th>Boot LL 95%CI</th>
<th>Boot UL 95%CI</th>
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Note. N = 99 teams. Unstandardized regression coefficients are reported.
Bootstrap sample size = 1000. LL = lower limit; CI = confident interval; UL = upper limit.
LMX differentiation = Leader-member exchange differentiation; TMX = team-member exchange relationships.
Figure 1. Hypothesized Model of Processes Linking Leader-member Exchange Differentiation and Team Performance
Figure 2. Moderating Effect of Team Affective Climate on the Relationship between LMX Differentiation and Team-member Exchange Relationships