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By

**Mohammad Noor Hisham Osman,
Karen A. Van Peurseem and Ian Eggleton**

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AUDIT COMMITTEES AND INTERNAL AUDITORS¹:

USING LMX FOR RELATIONSHIP ANALYSIS

Mohammad Noor Hisham Osman

*Department of Accounting
University of Waikato
Hamilton, New Zealand*

Karen A Van Peurse

*Department of Accounting
University of Waikato
Hamilton, New Zealand*

Ian Eggleton

*Department of Accounting
University of Waikato
Hamilton, New Zealand*

ABSTRACT

The purpose of this paper is to provide a theoretically-informed meaning for the 'quality of the audit committee-internal auditor relationship' construct and to provide a new instrument for its measure. Leader-Member Exchange Theory (LMX theory) is widely accepted in the management communication and management literature as one which can be used to explain the development of a leader-member relationship and the quality of such a relationship. The analysis will be grounded in the LMX literature, and in understanding of the relationship between the audit committee and internal auditors. This paper is a contribution to the literature as such application of LMX is a newly theorised initiative to enable researchers to improve our understandings of this important corporate relationship. The output of this analysis can be used for research which evaluates the quality of the audit committee-internal auditor relationship (AC-IA relationship).

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1. INTRODUCTION

The purposes of this paper are (1) to provide a theoretically-informed meaning for the ‘quality of the audit committee-internal auditor relationship’ construct and (2) to provide an instrument for this construct. Leader-Member Exchange Theory (LMX theory) is widely accepted in the management and management communication literature as a theory that explains the development of a leader-member relationship and the quality of this relationship (Berneth, Armenakis, Feild, Giles, & Walker, 2007b; Makela, 2005; Sias, 2005; van Breukelen, Schyns, & Blanc, 2006). LMX will form the groundwork of this analysis². This paper is a contribution to the literature as such application (of LMX) is a newly theorised initiative to help evaluate and understand this important corporate relationship. Furthermore, the output of this analysis can be used for studies evaluating the quality of the audit committee-internal auditor relationship (AC-IA relationship).

Studies on the quality of the AC-IA workplace relationship, which are few, are important for two reasons. Firstly, the findings of such studies could increase our understanding on this relationship. This is because studies on the quality of the AC-IA relationship extend previous studies in this topic by evaluating characteristics associated with a ‘good’ audit committee-internal auditor relationship. Previous studies in this topic (e.g., Goodwin, 2003; Goodwin & Yeo, 2001; Raghunandan, Read, & Rama, 2001) investigate variables and conditions that associated with the

² The authors also discover communication studies that utilize and test concepts such as ‘subordinate’s satisfaction with their superior’ (Walter, Anderson, & Martin, 2005), ‘nature or type of superior-subordinate communication’ (Miles, Patrick, & King, 1996), ‘superior-subordinate communication satisfaction’ (Pincus, 1986), and the ‘openness of superior-subordinate communication’ (Jablin, 1980). Given that these concepts are not theories and none of the scholars claim that these concepts reflect the goodness or the quality of a leader-member relationship, this study then does not consider these concepts as relevant.

extent and frequency of the AC-IA interactions only. Secondly, studies on the quality of the AC-IA relationship are important because the findings of these studies could benefit policy makers and practitioners. For policy makers, the findings could become an input to the process of developing future corporate governance recommendations, regulations or legislation. As an example, if it is found that the audit committee authority to set internal audit department budget (or other factor) is a determinant of the quality of the AC-IA relationship the authority, then, this could be incorporated in the future corporate governance recommendations, regulations or legislation. For practitioners, the findings could be used as a basis to formulate internal policies regarding the AC-IA relationship.

This paper is developed by referring to materials related to LMX theory which appear mostly in the organizational psychology and communication literature. These materials are searched using University of Waikato's Illumina PsycARTICLES and Waikato Managements School's ABI/INFROM Global (ProQuest), Academic Search Premier (EBSCOHost), Emerald, Blackwell Synergy, and Elsevier Science Direct databases. These six databases are used in order to ensure that relevant LMX theory's materials will not be overlooked. Keywords used in the search are 'leader member exchange theory' and the commonly used abbreviation for the theory which is 'LMX theory'. Relevant citations in each material are followed up.

This introductory section is followed by a section on LMX theory (section 2) in order to reveal the leader-member relationship quality construct and the instrument for this construct. Critiques on LMX theory will be addressed in section 3. This paper will

conclude with how LMX can inform a theoretical meaning for ‘the quality of the AC-IA relationship’ construct and with a discussion its instrument (section 4).

2. LEADER MEMBER EXCHANGE THEORY

The purpose of this section will inform on two key points: (1) the meaning for the quality of the leader-member relationship construct according to LMX theory, and (2) the instrument for the relationship quality construct. These two points are useful given that they will be applied to the AC-IA relationship context.

There is a need for an introduction to LMX theory as this is the first time this theory which is from the organizational psychology literature is utilized in evaluating the quality of the AC-IA relationship:

2.1 Background

LMX theory is developed by Graen and his colleagues more than 30 years ago (Dansereau, Graen, and Haga , 1975). This theory is known as ‘vertical dyad linkage’ or VDL until the 1980s (see Danserau et al., 1975; Graen & Cashman, 1975; Graen & Scandura, 1987; Liden & Graen, 1980). Graen and colleagues abandoned this name and the VDL abbreviation “because of its unexpected connotation of venereal disease” (Graen, 2005, p. 207). This theory’s current name is then formed and this theory is refined in recent decades (Graen, 2005; Graen & Uhl-Bien, 1995; van Breukelen et al., 2006).

Graen and colleagues in Graen and Uhl-Bien (1995) claim that LMX theory can explain the quality of workplace relationships that exists within an organization and “between organizations (e.g., leaders and followers, team members and teammates, employees and their competence networks, joint venture partners, supplier networks, and so forth)” (p. 225). The way this theory can be applied to evaluate the quality of leader-member relationships, member-member relationships, and organization-member relationships had been discussed by Graen and colleagues in Uhl-Bien et al. (2000) and Graen, Hui and Taylor (2004). Even though Graen and colleagues claim that LMX theory can explain almost all types of workplace relationships, most scholars acknowledge that LMX theory is widely accepted as a theory that can inform as to a leader-member relationship and its quality only (see Berneth et al., 2007b; Gerstner & Day, 1997; Makela, 2005; Scherbaum, Finlinson, Barden, & Tamanini, 2006; Sias, 2005; van Breukelen et al., 2006). Sias (2005), for example, acknowledge that LMX theory is widely accepted as a theory that can explain the quality of the leader-member relationship and also point out that Kram and Isabella’s (1985) peer relationship typology, instead of LMX theory, is widely accepted as a framework that can explain the quality of the member-member relationship. LMX theory, as adopted here, refers therefore to the relationship between the ‘leader’ and ‘member’.

The ‘leader-member relationship’ according to Graen and colleagues is a relationship between “leaders and their direct reports” (Graen et al., 2004, p. 38). In a similar fashion, in Schriesheim, Scandura, Eisenbach, and Neider (1992) this relationship is understood to describe as a relationship “between a manager and each of his or her direct reports” (p. 983). These descriptions imply that the term ‘leader-member relationship’ refers to a relationship between a high level personnel and a low level

personnel who reports directly to him or her. The Audit Committee- Internal Audit (AC-IA) relationship can be categorized as one application of the leader-member relationship given that the audit committee is an authoritative subcommittee situated within an organization's governing board; and the internal auditor is a lower or middle level manager who normally reports directly to that committee among others (Van Peurse, 2005).

A review of the literature reveals that LMX theory can explain the quality of the leader-member relationship in many contexts – indicating the robustness of this theory in explaining the quality of this type of relationship. For instance, in the organizational psychology literature (e.g., Berneth, Armenakis, Feild, Giles, & Walker, 2007a; Bhal & Ansari, 2007; Yifeng & Tjosvold, 2008) and in the communication literature (e.g., Fix & Sias, 2006; Lee, 2001; Sias, 2005) LMX is commonly used to evaluate the quality of superior-subordinate relationships, in the sports literature Case (1998) suggested that LMX theory can be used to evaluate the quality of coach-player relationships, and in the equal opportunity literature Makela (2005) suggested that this theory can be used to explain and to evaluate the quality of employer-employee relationships. Also, Duchon, Green and Taber (1986) found that LMX theory offers a valid explanation for the quality of board chairman-board member relationships and, later, this theory has been used to evaluate the quality of such relationship by Hoye (2006) and Hoye (2004).

This indicates that LMX theory, as developed and refined by Graen and colleagues more than 30 years ago, is now widely accepted in the literature as a theory that explains the quality of the leader-member relationship, and is robust in explaining the

quality of this type of relationship. The explanation provided by LMX theory about the 'leader-member relationship quality' construct will be presented in the next section.

2.2 The 'quality of the leader-member relationship' construct

The 'leader-member relationship quality' construct, according to Graen and colleagues, "contains three dimensions – namely respect, trust, and obligation" (Graen & Uhl-Bien, 1995, p. 237). In Graen (2005, p. 209) and Uhl-Bien, Graen, and Scandura (2000, p. 148) Graen and his colleagues still maintain that, even today, an appropriate understanding this construct still contains respect, trust, and obligation dimensions as well. However, it appears in the literature that two of Graen's colleagues, Liden and Dansereau, suggest that the leader-member relationship quality construct contains other dimensions. Specifically, Liden (and his colleagues) suggest that LMX incorporates dimensions of 'affection', 'respect', 'loyalty', and 'contribution' (Dienesch & Liden, 1986; Liden & Maslyn, 1998) and Dansereau (and his colleagues) theorize that this construct contains two dimensions - leader's support of a member's self-worth and member's performance that satisfies a leader (Dansereau, 1995; Dansereau et al., 1995). Graen and colleagues do not recognize these explanations as directly related to their theorization. Graen (2005) classifies these explanations as "different theories of dyadic" relationship namely Multidimensional LMX theory and Individualized Leadership theory (Graen, 2005, p. 205). They argue that these alterations do not apply in the same manner to the relationship between high and low level personnel; accordingly, the Liden and

Dansereau groups' explanations about the dimensionality of the leader-member relationship quality construct do not detract from the original Graen group models.

Definitions for these 'respect', 'trust', and 'obligation' dimensions appear in Uhl-Bien et al. (2000, p. 157-161). The 'respect' dimension, according to Graen and colleagues, refers to one party in the leader-member relationship admiration "for the other's [workplace] capabilities" (Uhl-Bien et al., 2000, p. 157). A leader respects a member who is highly capable and who will not damage his or her reputation. A member respects a leader who is highly proficient about his or her roles and organization, and who is "interpersonally and politically astute" (ibid, 2000, p. 157).

Trust, according to Uhl-Bien et al. (2000), exists when a party in a leader-member relationship believes that the other party will not betray nor manipulate his or her weaknesses, believes that he or she can depend on the other party, and believes that he or she and the other party share a common "set of principles" in dealing with each other (p. 158). The 'obligation' dimension, according to Graen and colleagues, is a reflection of the way parties in a leader-member relationship exchanging "favours" among them (Uhl-Bien et al., 2000, p. 161). If there is a high mutual obligation between a leader and a member then one of these parties will grant favours to another "without being asked and without consideration of payback" (ibid, 2000, p. 161). In a low mutual obligation situation, a favour is granted by one party "because it is requested, and the expectation is almost immediate payback" (ibid, 2000, p. 160).

LMX theory explains that a high quality leader-member relationship reflects a presence of a high degree of mutual trust, respect, and obligation between parties who

are involved in the relationship. When there is a high degree of mutual respect, trust, and obligation between the leader and the member, they then will interact “beyond mechanical compliance with routine directives of the organization” (Uhl-Bien et al., 2000, p. 153). According to Settoon, Bennet and Liden (1996), LMX theory describes this situation as one in which the leaders will provide beyond “employment contract” assistance and the followers will fulfil the leaders’ beyond employment contract “requests” (p. 220). Leaders can be sure that followers will act as reliable assistants; and the followers, in turn, can be sure of the leaders’ protection and help (Graen & Scandura, 1987; Graen & Uhl-Bien, 1995; Uhl-Bien et al., 2000; Wayne, Shore, & Liden, 1997). Applying this particular LMX explanation to the audit committee and internal auditor, a high quality AC-IA relationship therefore would be characterized by a high degree of mutual respect, trust, and obligation between these parties. Also, in a high quality AC-IA relationship the committee will protect and help the auditor, and the auditor, in turn, will become the committee’s reliable assistant.

A low degree of mutual respect, trust, and obligation between a leader and a member, which characterizes a low relationship quality, is related to leaders and members who only comply with “job prescriptions, authority, formal directives, and so forth” (Uhl-Bien et al., 2000, p. 153). According to Uhl-Bien et al.(2000), a leader and a member with a lack of mutual respect, trust, and obligation between them will form a relationship that can be described as a “boss-employee” relationship (p. 153). In this sort of relationship, the leaders act in accordance with their job authority and the followers work in accordance with their job specification only (Graen & Scandura, 1987). This LMX theory explanation about a low quality leader-member relationship implies that in a low quality AC-IA relationship both parties, in relation with each

other, comply with organizational and regulatory requirements only, and the parties do not benefit from the communication that would occur in a (LMX-defined) high quality relationship.

This section reveals an LMX theory's explanation for the leader-member relationship quality construct. The way this construct can be measured will be discussed in the next section.

2.3 The instrument

Many different measurement instruments for the relationship quality construct have been developed and applied in the LMX theory literature (see Berneth et al., 2007b; Dienesch & Liden, 1986; Gerstner & Day, 1997; Keller & Danserau, 2001; Schriesheim, Castro, & Cogliser, 1999; and van Breukelen et al., 2006 for an extensive review and critiques). The earliest version of instrument is the two-item Negotiating Latitude Measure used in a study conducted by Dansereau, Graen, and Haga (1975). Other measurement instruments have been developed since this time. For instance, there is a four-item instrument (Graen & Schiemann, 1978; Liden & Graen, 1980), a five-item instrument (Dunegan, Uhl-Bien, & Duchon, 2002; Graen, Dharwadkar, Grewal, & Wakabayashi, 2006; Graen, Liden, & Hoel, 1982), a six-item instrument (Schriesheim, Neider, Scandura, & Tepper, 1992), a seven-item instrument (Boies & Howell, 2006; Cogliser & Schriesheim, 2000; Graen, Novak, & Sommerkamp, 1982; Lee, 2001; Scandura & Graen, 1984; Seers & Graen, 1984; Sias, 2005; Stringer, 2006; Tekleab & Taylor, 2003; Tepper et al., 2006; Uhl-Bien & Maslyn, 2003; Yagil, 2006), an eight-item instrument (Berneth et al., 2007b), a 12-

item instrument (Liden & Maslyn, 1998; Morrow, Suzuki, Crum, Ruben, & Pautsch, 2005; Wakabayashi & Graen, 1984), and a 14-item instrument (Wakabayashi, Graen, & Uhl-Bien, 1990). Some of these more recent constructs are used to measure the quality of the leader-member relationship construct. The ten most recent LMX studies that appear in ABI/INFROM Global (ProQuest) database and instruments are set out in Table 1:

Table 1: LMX Instruments of Recent Use

Studies	Versions of instrument (developed by)*
1. Kamdar and Van Dyne (2007)	12-item (Liden & Maslyn, 1998)
2. Farr-Wharton and Brunetto (2007)	7-item (Liden & Graen, 1980; Mueller & Lee, 2002; Scandura & Graen, 1984)
3. Jawahar and Carr (2007)	12-item (Liden & Maslyn, 1998)
4. Liang, Ling, and Hsieh (2007)	11-item (Huang, 1999)
5. G. Chen, Kirkman, Kanfer, Allen, and Rosen (2007)	8-item (Bauer & Green, 1996)
6. Erdogan and Enders (2007)	12-item (Liden & Maslyn, 1998)
7. Z. Chen, Lam, and Zhong (2007)	7-item (Graen & Uhl-Bien, 1995)
8. Bhal and Ansari (2007)	10-item (Bhal & Ansari, 1996)
9. Sparrowe, Soetjpto, and Kraimer (2006)	12-item (Liden & Maslyn, 1998)
10. Lapierre, Hackett, and Taggar (2006)	6-item (Schriesheim, Neider et al., 1992)

As at 15th of February 2008

A review of the literature reveals several flaws in the way that a number of these instruments (Table 1) have been developed and/or have been applied in previous studies. Firstly, instruments for the leader-member relationship quality construct often fail to reflect the LMX theory explanation. Specifically, this theory explains that the quality of the leader-member relationship construct contains mutual respect, trust, and obligation dimensions, however, instruments that appear in previous studies are not developed for assessing these three dimensions. So for example, the five-item instrument used in Graen et al. (2006) is not for assessing the degree of mutual respect,

trust, and obligation but for assessing the degree of other categories of dimensions as described in their discussion below:

The quality of the employee's relationship with his or her supervisor was assessed using the LMX approach with the following items on a five-point scale: [1] approachability and flexibility of the supervisor toward the newcomer, [2] the supervisor's willingness to use authority to help the newcomer, [3] clarity of the supervisor's expectations and feedback to newcomers, [4] the newcomer's latitude to influence the supervisor to change his or her role situation, and [5] after-hours interaction between the supervisor and subordinates with respect to social and leisure activities. (p. 153)

Schriesheim et al. (1999) and Schriesheim, Scandura et al. (1992) in their extensive reviews of previous LMX studies also found that there is a lack of instruments that reflect the LMX theory explanation. Specifically, Schriesheim, Scandura et al. (1992) after reviewing previous studies conclude that "LMX scales have typically not been developed using an a priori theoretical definition of its content subdomains" (p. 984).

A second problem encountered in the development and the application of instruments for the leader-member relationship quality construct is a lack of explanation about the validity of the instrument. For instance, Graen and his colleagues typically do not disclose the validity of the instrument that they use but only acknowledge that they develop a particular version of the instrument by referring to their earlier theorizations or earlier studies (see Dunegan, Duchon, & Uhl-Bien, 1992; Graen et al., 2006; Graen & Uhl-Bien, 1995). This flaw had been discovered earlier by Schriesheim et al. (1999) and they emphasize that each time a researcher develops a instrument for the relationship quality construct he or she should conduct a "systematic psychometric study or explicit construct validation" (p. 100). Barge and Schlueter (1991) also discover that there is an absence of explanation about the validity of LMX theory's

instruments and consequently conclude that more studies are needed “to assess the degree of construct, convergent, or predictive validity of these various instruments” (p. 546).

Thirdly, the development and the application of a particular version of an instrument for a study are typically done without providing explanations or reasons for doing so. For instance, in Graen et al. (2006) a five-item instrument is developed and applied to evaluate the quality of the leader-member relationship; however, this was done without providing informed support for choosing this instrument over other instruments that already appeared in the literature (p. 153). In Dunegan et al. (2002), a different version of a five-item instrument developed by Dunegan et al. (1992) is used without clarifying why this instrument suits this particular study. Likewise, Graen and his colleagues in Wakabayashi et al. (1990) use a 14-item instrument without providing explanation except to acknowledge that the instrument is developed by Wakabayashi, Graen, Graen, and Graen (1988).

Even though there are many instruments to measure the leader-member relationship quality construct in the literature, because of these weaknesses there is one instrument that receives stronger support: the seven-item instrument which is frequently referred to as LMX-7. The LMX-7 is composed of a single factor which is measured from seven separate questions. That is, it is a unidimensional instrument for the leader-member relationship construct (Graen, 2005; Graen & Uhl-Bien, 1995). Their description of this instrument is reinforced and its use is supported by the finding of Schyns and Paul (2005) who surveyed 252 employees from German organizations and found in a “factor analyses, LMX-7 turn out to be one-dimensional... (explained

variance by the first factor: 59.37%, loadings between .49 and .97)” (p. 187). The recommended version of LMX-7 is revealed in Graen and Uhl-Bien (1995) and in Figure 1:

Figure 1: LMX-7

1. Do you know where you stand with your leader ... do you usually know how satisfied your leader is with what you do? (Does your member usually know)				
Rarely	Occasionally	Sometimes	Fairly often	Very often
2. How well does your leader understand your job problem and needs? (How well do you understand)				
Not a bit	A little	A fair amount	Quite a bit	A great deal
3. How well does your leader recognize your potential? (How well do you recognize)				
Not at all	A little	Moderately	High	Very high
4. Regardless of how much formal authority he/she has built into his/her position, what are the chances that your leader would use his/her power to help you solve problems in your work? (What are the chances that you would)				
None	Small	Moderate	High	Very high
5. Again, regardless of the amount of formal authority your leader has, what are the chances that he/she would 'bail you out', at his/her expense? (What are the chances that you would)				
None	Small	Moderate	High	Very high
6. I have enough confidence in my leader that I would defend and justify his/her decision if he/she were not present to do so? (Your member would)				
Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
7. How would you characterize your working relationship with your leader? (Your member)				
Extremely ineffective	Worse than average	Average	Better than average	Extremely effective

Notes: Continuous scale of sum of 5-point items (1 left to 5 right). Leader's form consists of same seven items asked about member of (leader in parentheses). Expected agreement between leader and member report is positive and strong and used as index of quality of data.

Source: Graen and Uhl-Bien (1995) p. 237

On close scrutiny of LMX-7 presented in Figure 1, it can be seen that this particular instrument does not appear to directly assess the dimensions of the leader-member relationship quality construct -- 'respect', 'trust', and 'obligation'. Specifically, item 1,2, and 3 in the LMX-7 relate to a member's perception on leader satisfaction,

understanding, and recognition respectively. It can be seen that item 4 and 5 ask about a leader's commitment to help when a member is in a difficult situation and item 6 asks about a member's willingness to defend his or her leader. Item 7, which is described by Graen and his colleagues as a 'centroid item', measures the member's perception of the quality of the relationship in general (Graen & Uhl-Bien, 1995, p. 236; Keller & Danserau, 2001, p. 134). However, Graen and Uhl-Bien (1995) claim that this version of the instrument is nonetheless designed to and can measure the leader-member relationship quality construct adequately. They claim that the "LMX construct has multiple dimensions [namely mutual respect, trust, and obligation], but these dimensions are so highly [positively] correlated they can be tapped into with the single measure of LMX" which is LMX-7 (p. 237).

We note that this particular seven-point instrument is somewhat inexplicably set out on different scales, some questions include – at the lowest end – points indicating 'not at all', 'none' and others 'rarely'. We believe this to be unusual in that it does not reflect the same points on a scale; nor perhaps even the same scale with respect to 'not at all' and 'none' options. While we found nothing in the literature to suggest that this nullifies the effectiveness of this particular instrument, it is something of which to be aware in its further application and use. We also suggest that this is a point on which further study could be fruitful.

Graen and Uhl-Bien (1995) acknowledge the emergence of new instruments to measure the relationship between the leader and member:

We acknowledge that the measure of LMX has changed over the years. Investigations have used the 2-item (Dansereau, et al., 1975), 4-item (Graen &

Schiemann, 1978; Liden & Graen, 1980), 5-item (Graen, Liden, & Hoel, 1982), 7-item (Graen, Novak, & Sommerkamp, 1982; Seers & Graen, 1984), 10-item (Ridolphi & Seers, 1984), 12-item (Wakabayashi & Graen, 1984), and 14-item (Wakabayashi, Graen, & Uhl-Bien, 1990; Uhl-Bien, et al., 1990) LMX scale (p. 236).

They return however to their own seven point instrument after considerable assessment and testing:

This refinement of the measure has occurred from our learning through research and theorizing about LMX. Different measures have involved the use of added experimental items to tap into and test the dimensionality of LMX.... Conclusion from this testing indicates to us that, even though items were added to tap into possible multiple dimensions, the expanded measure was highly correlated with the more concise 7-item LMX and produced the same effects. Moreover, although multiple factors were generated for the larger measures, the Cronbach alphas for the single measure were consistently in the 80%-90% range, and the high correlations among the factor scales made consideration of these factors as multiple measures inappropriate (Cashman, 1975; Schiemann, 1977; Seers, 1981; Schriesheim & Gardner, 1992; Scott, 1993; Bell, 1994) (p. 236).

For our as well as their purposes therefore, the relationship they have discovered to be best measured with LMX-7 appears to be an appropriate one:

Therefore, we conclude that the 7-item LMX, with the centroid item of “How effective is your working relationship with your leader?” is the most appropriate and recommended measure of LMX. Of course, we shall continue to develop psychometrically new and improved versions of LMX... In terms of the use of alternate measures of LMX, we can only postulate that this was due to lack of accessibility of the [7-item] LMX measure. (p. 236)

The findings of Gerstner and Day (1997) and Liden and Maslyn (1998) that LMX-7 is a reliable instrument support Graen and colleagues' recommendation for using this version . Specifically, Gerstner and Day (1997) found that LMX-7 is the most reliable among the many versions of LMX instrument. Through a meta-analytic review they found that the LMX-7 has the highest average Cronbach Alpha compared to other versions of instrument [member's perspective LMX-7 Cronbach Alpha 0.89; other

member's perspective versions of instrument Cronbach Alpha 0.83; leader's perspective LMX-7 Cronbach Alpha 0.78; other leader's perspective versions of instrument Cronbach Alpha 0.76] (Gerstner & Day, 1997, p. 831). Liden and Maslyn (1998) in developing an alternative instrument for the relationship quality construct also found that LMX-7 has a high Cronbach Alpha [0.89 and 0.91 for student sample and employees sample respectively] (p. 53). The Cronbach Alpha statistic indicates a instrument's internal consistency reliability which can be understood as a statistical approximation of the goodness of items in the instrument in assessing a particular construct (Trochim, 2006; Van der Velde, Jansen, & Anderson, 2004).

The findings of Gerstner and Day (1997) that the LMX-7 has a high predictive validity also is a form of support for the use of this version of instrument. Specifically, in their meta analysis study Gerstner and Day (1997) found that "the LMX-7 measure[ment] also tended to obtained higher correlations with outcomes than using other measures"³ (p. 837). In addition, Keller and Danserau (2001) in assessing the predictive validity of four versions of LMX instrument (2-item, 3-item, 4-item, and 5-item instruments) found that instruments that contain a centroid item (the 3-item instrument and the 5-item instrument) have the highest predictive validity. The finding of these researchers implies that LMX-7, which has the centroid item (see Table 3.2 item 7), is also high in predictive validity.

A review of the literature indicates that Graen and his colleagues' recommendation to use the LMX-7 is followed by most researchers. For instance, both Liden and Maslyn

³ Gerstner and Day (1997) conclude that the findings of their study imply "that LMX7 appears to provide the soundest psychometric properties of all available LMX measures. As such, the LMX7 measure is recommended to researchers interested in assessing an overall (i.e., unidimensional) exchange quality" (p. 837).

(1998, p. 52) and Schriesheim, Neider et al. (1992, p. 138-139) in their attempt to develop a instrument for their own version of LMX instrument (an 11-item instrument and 6-item instrument respectively) acknowledge that the LMX-7 is the most frequently use instrument (and use this version of instrument as a benchmark in assessing the convergence validity of their instrument). Likewise, Gerstner and Day (1997) in their meta analysis review on LMX studies found that LMX-7 is “the most frequently used” instrument in the literature (p. 829). Even Schriesheim who criticizes the absence of a universal instrument for the leader-member relationship quality construct (see Schriesheim et al., 1999; Schriesheim, Scandura et al., 1992) and had developed her own version of a six-item instrument for the construct (Schriesheim, Neider et al., 1992), follows Graen and colleagues recommendation to use LMX-7 (Cogliser & Schriesheim, 2000, p. 496).

It is concluded that LMX theory has an accepted explanation for the ‘quality of the leader-member relationship’ construct and furthermore this theory has a recommended, appropriate, and widely accepted instrument for its construct. The question of whether LMX theory can be appropriately applied to study the quality of the AC-IA relationship will be clarified in section 4, after addressing critiques on this LMX theory .

3. CRITIQUES OF LMX THEORY

The purpose of this section is to address critiques of LMX theory. This section is important because it demonstrates that potential flaws of LMX theory have been considered before this theory is used in providing the meaning for the ‘quality of the

AC-IA relationship' construct and in providing the instrument for this construct. A review of the literature indicates that critiques on LMX theory are several and these critiques are discussed below.

Van Breukelen et al. (2006) and Schriesheim, Castro, & Cogliser (1999) criticize that LMX theory has no conclusive dimensions for the 'quality of leader-member relationship' construct (these dimensions indicate what this construct comprises). According to Schriesheim et al. (1999), who conduct an extensive review on LMX studies, in 1990s six concepts which are "mutual support, trust, liking, latitude, attention, and loyalty" were frequently referred by Graen and colleagues and other scholars as the dimensions for the relationship quality construct (1999). In the 1980s, according to Schriesheim et al. (1999), in 13 studies 18 dimensions which include "understanding, latitude, authority, information, influence in decision making, [and] communications" are referred by Graen and colleagues as dimensions for the leader-member relationship quality construct, a reflection that there is no certainty about the dimensionality of this construct (p. 76). Earlier, Grestner and Day (1997) and Dienesch and Liden (1986) in their review of previous studies also criticize that there are no conclusive dimensions for this construct.

It is possible that these critiques on the inconclusiveness of the leader-member relationship quality construct's dimensions may be unfounded. This is there does exist evidence from the LMX theory literature which indicates that there is some evidence to support the dimensionality of this construct. Specifically, Graen and colleagues in Graen (2005), Uhl-Bien et al. (2000), and Graen and Uhl-Bien (1995) acknowledge that they theorize that the leader-member relationship quality construct contains

respect, trust, and obligation dimensions. It is likely that this critique is raised by scholars after they discover that Graen and colleagues, in some of their studies, mention that the leader-member relationship quality construct contains dimensions other than respect, trust, and obligation. This would not necessarily take away from the fact that they continue to be reasonable measures of LMX dimensions and indeed in some cases form, as described by Graen and colleagues, “our own testing of the dimensionality of the LMX construct” (Graen & Uhl-Bien, 1995, p. 237).

In the mid 1980s, Dienesch and Liden (1986) raise their concern about the LMX theory conceptualization alleging that Graen and colleagues offered a “narrow conception of the” leader-member relationship quality as in that particular time Graen and colleagues focussed on categorizing the relationship qualities into ‘low, medium, and high’ only (p. 624). Graen and colleagues had been charged as not describing how a leader-member relationship develops from low to high in term of quality.

Graen and colleagues addressed Dienesch and Liden’s (1986) critique in their introduction of the Role Making Model in Graen and Scandura (1987). This model represents that the development of the quality of the leader-member relationship involves three steps: (1) role taking, (2) role making, and (3) role routinization (Graen & Scandura, 1987, p. 179). A more refined version of Role Making Model appears in Graen and Uhl-Bien (1991), Graen and Uhl-Bien (1995), and Uhl-Bien et al. (2000) and addresses the concerns raised as to categorisation

Another critique is raised by Vecchio and Gobdel (1984). These researchers question the generalization of LMX theory. Specifically, Vecchio and Gobdel (1984) discover

that in the early 1980s, only a small number of studies have tested LMX theory's explanation about the quality of the leader-member relationship on low level personnel in business organizations. They consequently argue that LMX theory cannot be generalized to this group of personnel unless more testing is done. Vecchio and Gobdel (1984) justify the necessity for such testing by claiming that there is a need "to determine empirically the boundary condition of" LMX theory (Vecchio & Gobdel, 1984, p. 6). This critique is now dated however, and recent studies have offered further evidence of the value of the LMX ideas.

Furthermore, it is likely that Vecchio and Gobdel's (1984) critique has no direct effect on the application of LMX theory in studies on the quality of the AC-IA relationship because this is a relationship between high level personnel in business organizations. To note that Vecchio and Gobdel (1984) tested LMX theory's explanation about the relationship quality construct on low level personnel in business organizations and found that this explanation is "demonstrable" for this group of personnel (p. 18). Hence, this finding indicates that their study addressed their own critique.

Critiques on LMX theory have been addressed in this section. The way LMX theory is applied in this study will be revealed in the next section.

4. AC-IA RELATIONSHIP AND LMX

The purpose of this section is to consider the relationship between an audit committee and their internal auditor (AC-IA relationship), and to suggest how a theoretically informed meaning derived from the LMX literature can prove useful in its

understanding. That is, it will be suggested that the AC-IA relationship can be understood through the lens of LMX theory. This section demonstrates the possibility of applicability of LMX theory to the AC-IA situation.

LMX theory's explanation about the leader-member relationship quality construct revealed earlier implies that a degree of mutual trust, respect, and obligation between parties signal an LMX type relationship. Indeed, the audit committee and the internal auditor relationship reflects such qualities as a high quality AC-IA relationship is characterized by a high degree of mutual trust, respect, and obligation. So for example, the high level personnel (in this case, the audit committee members) are generally obligated protect the lower level personnel (in this case, the internal auditor) in circumstances in which the internal auditor raises issues of importance to governance. The internal auditor, in turn, can become the audit committee's reliable (trusted) watchdog when it comes to operational matters.

The internal auditor roughly operates in the role of a 'middle manager', usually held accountable to senior management and ultimately the governing board (and thereby audit committee) (Van Peurseem, 2006). The results of interviews conducted by Mat Zain and Subramaniam (2007) also show that internal auditors' description about a high quality AC-IA relationship is similar to an explanation provided by LMX theory about the characteristics of a high quality leader-member relationship. Specifically, it is reported in Mat Zain and Subramaniam (2007) that an internal auditor who experiences a high quality AC-IA relationship describes it as follows:

We also made enquiries on the more general and affective dimensions of the [AC-IA] relationship by asking how each interviewee would describe his or her relationship with the AC. ... Some regarded the AC in high reverence,

noting the AC to be like “a father”, whereby they are expected to support and guide the IAF. For instance, as stated by one interviewee: “internal auditors will disclose all matters to the AC, and if there is any problem, AC is in the position to give advice, solutions and act like a ‘father’ to internal auditors (p. 903)

These interview results demonstrate that a chief internal auditor explains a high quality AC-IA relationship as one in which the audit committee is in a ‘helpful’ role as they ‘give[s] advice, solutions and act[s] like a father to internal auditors’ and this auditor is a reliable assistant as he ‘disclose[s] all matters to the AC’. This description corresponds with the LMX theory explanation that a high quality leader-member relationship includes a leader who supports and trusts their junior and the junior member (the internal auditor in this case) who, in turn, who becomes a reliable informant.

A low quality AC-IA relationship has a lack of mutual trust, respect and obligation among the two parties. It is noted in the literature that the AC and the IA relate to each other in accordance with their “job prescription, authority, formal directives, and so forth” only (Uhl-Bien et al., 2000, p. 153), thus setting the scene for (either) a low-level or high-level LMX-type relationship. As has been shown, an LMX theory explanation about a low quality leader-member relationship implies that in a low quality AC-IA relationship both parties, in relation with each other, would only comply to the minimum level possible with organizational and regulatory requirements.

These characteristics suggest, therefore, that LMX understandings can be applied to evaluate the AC-IA relationship. This is the case given that the role of the internal auditor is both manager and employee, the audit committee is comprised of senior

governing board representatives and because the relationships attributed to each of these parties seem to reasonably fit within LMX understandings.

An instrument that is appropriate for applying to the AC-IA relationship would therefore also seem to be one that can be derived from the LMX literature. It has been shown that LMX-7 is an appropriate measurement instrument for the 'leader-member relationship quality' construct and is, therefore, one that may be useful for the AC-IA relationship.

5. CONCLUSION

The relationship between the Audit Committee and its Internal Auditor is an important one. Recent internationally-influential legislation, in the form of the U.S. Sarbanes-Oxley Act (2002), has revealed this to be the case. The Sarbanes-Oxley Act (2002) requires the auditor to investigate and report on internal control and governance issues in annual reports of companies that come under its jurisdiction. The importance of the functions of the internal auditor, and the responsibilities of the audit committees and their boards, both exist and are now widely recognised.

The work of internal auditors and their relationship to their audit committee has been an important measure of how well these companies, their systems and management operate. Instruments which have been used thus far to measure and evaluate the AC-IA relationship have relied on objective, and somewhat superficial, measures of, for example, frequency of meetings and formal backgrounds of the parties involved. The potential use of LMX theory in this context, to delve into deeper social interpretations

of this all-important relationship, is seen to be an important step forward. The use of LMX theory is seen to provide a language and measure of that relationship which has not been so served in the past, and its use has the potential to serve management, corporate stakeholders and research. It is with this vision in mind that this paper now concludes.

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