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Leader–Member Exchange and the Operating Model: A Resource-Based Comparison of In-sourced and Outsourced Delivery

Michael Mncedisi Willie[1]✉, **Ummul Khaeri Masna**[2], **Irfan Jamal Passalowongi**[3]

[1]Policy Research and Monitoring, Council for Medical Schemes, Pretoria, South Africa
[2,3]Department of Information Technology and Computer Science, Universitas Negeri Makassar, South Sulawesi, Indonesia

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Abstract

This paper aims to examine the influence of outsourcing on leader–member exchange (LMX) relationships and its implications for organisational resources from a resource-based view (RBV) perspective. LMX theory has largely focused on relationships between leaders and members within the same organisation. However, outsourcing arrangements increasingly separate formal employment from operational supervision, creating challenges for maintaining effective leader–member relationships across organisational boundaries. This paper adopts a conceptual approach integrating LMX theory and RBV to examine LMX as a relational resource based on value, rarity, inimitability and non-substitutability. In-house and outsourced operating models are compared in terms of relational continuity, credible reciprocity, discretionary latitude and clarity of authority. The analysis considers the South African institutional and legal context, with medical scheme administration serving as an illustrative setting. The analysis suggests that outsourcing may weaken the conditions supporting high-quality LMX, particularly through fragmented managerial authority, limited reciprocity and reduced relational continuity. These relational constraints may affect the strategic value of leader–member relationships and introduce organisational costs that are not adequately captured in conventional outsourcing evaluations. This paper contributes to LMX theory by extending its consideration beyond conventional organisational boundaries and offers an RBV perspective on the relational consequences of outsourcing. The proposed conceptual framework and testable propositions provide a basis for future empirical research and the evaluation of organisational sourcing decisions.

✉correspondence Address:
Block A, Eco Glades 2 Office Park, 420 Witch-Hazel Avenue, Eco Park, Centurion 0157, South Africa
E-mail: m.willie@medicalschemes.co.za

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INTRODUCTION

The sourcing decision is treated in most organisations as a question of cost, capacity and control. A function is assessed against the price of performing it internally, the scalability of an external provider, and the risk of surrendering oversight. What is almost never assessed is the effect of the decision on the relationships through which work is actually coordinated. Leader–member exchange theory holds that the quality of the dyadic relationship between a supervisor and a subordinate predicts performance, citizenship behaviour, commitment and turnover intention more reliably than most leadership constructs. If that relationship is a genuine source of organisational advantage, then any decision that reconfigures who reports to whom is a decision about that advantage, whether or not it is recognised as such.

The difficulty is that LMX theory was built on a workforce that no longer describes many organisations. The original vertical dyad linkage

studies observed managers and subordinates inside a single firm, bound by a single employment contract and a single chain of authority (Dansereau et al., 1975). Outsourced, contracted and agency-mediated work breaks that structure apart, because the authority governing the employment relationship and the authority governing the daily work no longer reside in the same organisation. The person doing the work has a legal employer who determines pay, discipline and career progression, and a client organisation that determines daily priorities, allocates tasks and observes performance. Neither party holds the full set of resources that the LMX exchange assumes a leader can offer. The theory does not fail in this setting so much as become indeterminate, because its central construct has no single referent.

This paper argues that the indeterminacy matters strategically, and that the resource-based view supplies the language for saying why. If high-quality exchange relationships are valuable, rare, difficult to imitate and hard to substitute, they satisfy the conditions under which the resource-based view predicts sustained advantage (Barney, 1991). Relationships of that kind are socially complex and path-dependent: they accumulate through repeated interaction and cannot be purchased ready-made. An operating model that systematically prevents them from forming therefore does not merely change the cost base. It converts a potentially inimitable resource into a contractible service that any competitor can buy on the same terms.

The argument is motivated by three gaps, one in each of the literatures on which it draws. The LMX literature has examined differentiation within work groups extensively (Buengeler et al., 2021) but has treated the employment boundary as given, so that dyads spanning organisational boundaries are largely absent from the evidence base. The outsourcing literature has examined transaction costs, capability effects and performance outcomes (Lahiri et al., 2022), but has treated the workforce as a factor input rather than as a party to relationships that generate capability. The resource-based view has been applied to sourcing decisions at the level of firm capabilities without descending to the dyadic level at which human capital is actually managed (Gerhart & Feng, 2021; Ray et al., 2023). Each of these literatures holds precisely what the other two are missing, which is why the contribution lies in connecting them rather than in extending any one of them on its own terms.

The contribution is accordingly integrative rather than empirical, and it should be judged on whether the connection it draws is coherent and testable rather than on whether it reports new data. The paper theorises LMX as a relational resource, specifies the conditions under which the operating model either accumulates or dissipates it, derives testable propositions from that specification, and grounds the analysis in a regulatory environment where the boundary between in-sourced and outsourced labour has been the subject of explicit legislative and judicial intervention. The choice of the South African case is deliberate rather than incidental. Few jurisdictions have legislated as directly on the status of the outsourced worker, and the resulting arrangements make visible what is elsewhere left to contract.

Leader–Member Exchange: Development, Evidence and Unresolved Problems

LMX began life as an empirical anomaly rather than as a theory of leadership. Studies of supervision in the early 1970s assumed that managers adopted a consistent style towards subordinates, and the vertical dyad linkage studies found instead that managers formed markedly different relationships with different members of the same work group (Dansereau et al., 1975). Some members received trust, latitude, information and influence; others received the formal employment contract and little beyond it. The theory that grew from this observation treats the dyad, rather than the leader or the follower, as the unit at which leadership occurs (Graen & Uhl-Bien, 1995).

The mechanism that drives the relationship is social exchange rather than formal authority (Madison et al., 2025). Where the employment contract specifies obligations in advance, social exchange operates through unspecified reciprocity: one party confers a benefit without a defined return, and the relationship develops as the other reciprocates over time. Three conditions are therefore necessary for high-quality exchange to form. The parties must interact repeatedly over a period long enough for reciprocation to be observed. The leader must control resources worth reciprocating for, including discretion over assignments, development, information and advocacy. And each party must expect the relationship to continue, since reciprocity without a future has no enforcement mechanism. These conditions are ordinarily satisfied inside a firm and are the ones that the sourcing decision disturbs.

The empirical record accumulated over five decades of research is substantial by the standards of the leadership literature. Meta-analytic estimates place the corrected correlation between LMX quality and task performance at .30, citizenship performance at .34, and counterproductive performance at −.24, with trust in the leader the strongest mediator (Martin et al., 2016). Earlier syntheses established associations with satisfaction, organisational commitment and turnover intention, and a later

synthesis mapped antecedents across leader characteristics, follower characteristics, interpersonal similarity and contextual variables. The association is robust across measures and settings (Latifoglu et al., 2023; Mulligan et al., 2021), though it attenuates when LMX and performance are obtained from different sources (see also Yuan et al., 2023), which is what one would expect if part of the observed relationship reflects shared perceptual variance.

Table 1. Meta-analytic associations between LMX quality and work performance

Outcome	Corrected correlation	Independent samples
Task performance	.30	146
Citizenship performance	.34	97
Objective task performance	.24	20
Counterproductive performance	−.24	19

Martin et al. (2016) found that trust in the leader had the largest mediating effect, while the association between LMX and performance was weaker when measured using different sources or methods.

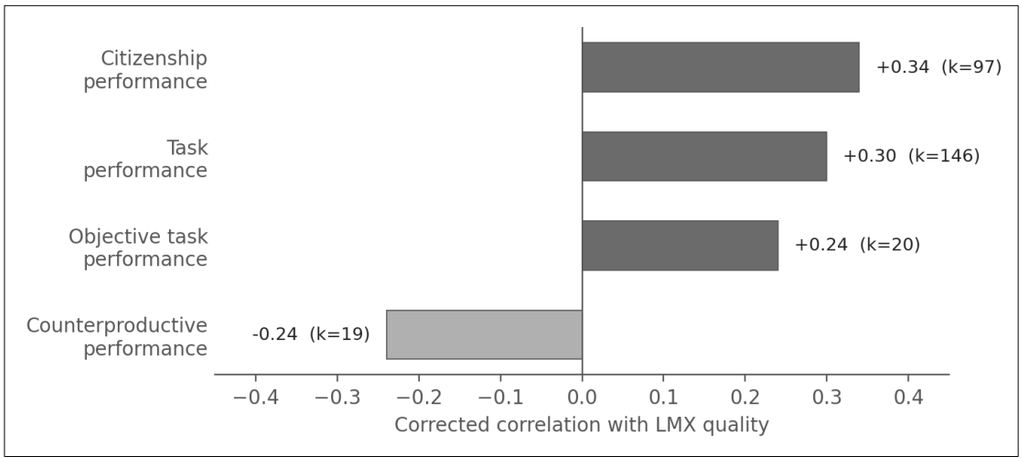


Figure 1. Meta-analytic associations between LMX quality and work performance (k = number of independent samples)

Figure 1 is the empirical warrant for treating LMX as a candidate strategic resource rather than a descriptive construct. The magnitudes are moderate rather than large, and they should be read as such: an association of .30 with task performance leaves the great majority of variance unexplained. What makes the relationship strategically interesting is not its size but its consistency across 146 independent samples and its resistance to substitution by formal control, a point developed in section 3.

Three problems in this literature remain unresolved, and each of them bears directly on the argument developed here. One of them concerns the definition of the construct itself and the instruments built on it. A sustained critique argues that the dominant instruments measure an amalgam of leader attributes, relationship attributes and outcomes rather than exchange behaviour itself, so that studies using different measures cannot be meaningfully aggregated (cf. Manata & Grubb, 2022). A second concerns the distinction between social and economic exchange. Relationships built on calculative, short-horizon, quid pro quo terms behave differently from those built on open-ended obligation, and treating both as points on a single quality continuum obscures the difference (Andersen et al., 2020). A third concerns the direction of causality between relationship quality and performance. Most evidence is cross-sectional, and the possibility that performance drives relationship quality rather than the reverse is not excluded by the available designs.

These problems are ordinarily treated as methodological housekeeping, to be acknowledged in a limitations paragraph and then set aside. In the argument developed here they are substantive rather than procedural. If economic and social exchange are qualitatively distinct, then an operating model that structurally favours calculative exchange is not producing weaker LMX but a different kind of relationship, and measuring it on a single continuum will understate the difference. And if the construct conflates relationship quality with leader attributes (Zare & Flinchbaugh, 2026), then studies comparing in-sourced and outsourced settings risk attributing to the sourcing arrangement what is in fact a difference in who

supervises. Both problems argue for specifying the mechanism carefully before predicting the outcome.

The Resource-Based View and the Relational Asset

The resource-based view locates competitive advantage in the firm's own bundle of resources rather than in the structure of its industry. Advantage persists where a resource is valuable, rare, imperfectly imitable and without close substitutes (Barney, 1991), and where the conditions that generate the associated rent are not competed away by ex ante or ex post limits to competition. The criterion doing most of the work in this paper is inimitability, because the sources of inimitability causal ambiguity, path dependence and social complexity are precisely the properties of relationships built up over time between particular people.

Read against these criteria, high-quality exchange relationships are a plausible candidate for a strategic resource. They are valuable, given the meta-analytic associations with task and citizenship performance summarised above. They are rare, because differentiation within work groups means that even inside a single firm such relationships are the exception rather than the rule. They are imperfectly imitable in the strong sense: a competitor observing superior coordination in a rival cannot identify which relationships produce it, cannot purchase them, and cannot reconstruct the history of reciprocation that produced them. And they are difficult to substitute, since formal control systems reproduce compliance but not discretionary effort.

The qualification is that relationships are not owned by the firm. Human and relational assets are co-specialised: the value created depends jointly on the employee and the organisational context, and the employee can withdraw their contribution or leave. This is the appropriability problem identified in the human-asset strand of resource-based theory, which holds that the very attributes making human assets hard to imitate, namely tacit knowledge and social complexity, simultaneously create dilemmas that prevent firms from capturing the resulting advantage (Coff, 1997). The firm's claim on the rent generated by an exchange relationship is therefore always contingent. What the firm can own is the architecture the employment arrangements, reporting structures and continuity conditions that make such relationships more or less likely to form. That architecture is precisely what the operating model determines, which is why the sourcing decision reaches further into the organisation than its cost case would suggest.

The human resource architecture literature has already made this point explicit. Employment modes should be differentiated according to the strategic value and uniqueness of the human capital involved, generating four configurations: internal development, acquisition, contracting and alliance. Empirically, the four modes are associated with distinct human resource configurations, described as commitment-based, productivity-based, compliance-based and collaborative. The alignment with LMX is direct but unremarked in either literature: commitment-based configurations create the conditions social exchange requires, while compliance-based configurations create the conditions under which calculative exchange is the rational response for both parties.

The resource-based view has attracted serious criticism that should not be passed over. It has been charged with tautology, since resources are often identified as valuable by observing the performance they are invoked to explain; with indeterminacy, since it offers limited guidance on how resources are assembled or renewed; and with neglecting the managerial processes through which resources are deployed (Ployhart, 2021; Shaw, 2021). The dynamic capabilities extension responds in part by shifting attention from resource stocks to the capacity to reconfigure them, and subsequent restatements have sought to narrow the theory's claims (Barney et al., 2021). This paper takes the criticism seriously by specifying the mechanism rather than asserting the resource: the claim is not that relationships are valuable because high-performing organisations have them, but that particular structural conditions permit or prevent reciprocity from accumulating, and that those conditions are observable independently of performance.

The Operating Model and the Boundary Decision

An operating model specifies how an organisation converts strategy into delivery: which activities it performs, how those activities are grouped, who holds decision rights over them, and how they are resourced. The sourcing element of that specification which activities are performed by employees and which by contracted providers is the aspect that determines the structure of authority under which work is done, and therefore the aspect that bears on leader–member exchange.

Three bodies of theory have addressed the boundary decision, and they answer different questions. Transaction cost economics asks which governance arrangement economises on the costs of contracting, and predicts internalisation where asset specificity is high, uncertainty substantial and transactions frequent, because these conditions expose the parties to opportunism that contracts cannot cheaply constrain. The core competence argument asks which activities

constitute the basis of the firm's distinctiveness, and counsels retaining those and outsourcing the rest. The resource-based view asks which activities generate or depend on resources that satisfy the criteria for sustained advantage, and treats outsourcing as beneficial only where the activity does not.

These frameworks converge on a familiar prescription: retain what is strategic and specific, contract what is generic and standardised. What none of them addresses is that the boundary is drawn through people who occupy positions in relationships, and that redrawing it dissolves those relationships regardless of how the activity is classified. An activity may be correctly classified as non-core while nonetheless being performed by individuals whose accumulated understanding of the organisation is not non-core at all. The practitioner literature on outsourcing failure has identified this directly. In a survey of nearly a hundred outsourcing arrangements across Europe and the United States, overlooking personnel issues was one of seven recurrent causes of failure, alongside losing control of the outsourced activity and overlooking its hidden costs. What that diagnosis lacks is a mechanism: personnel issues are treated as an implementation problem to be managed better, rather than as a structural consequence of dividing the employment relationship.

A relational specification of the same problem is both more precise and more readily testable than a knowledge-based one. Outsourcing an activity does four things at once to the exchange conditions set out in section 2. It shortens the expected horizon of the relationship to the term of the contract. It divides the resources a leader can offer between two principals, so that the client manager who directs the work cannot promote, develop or protect the worker, while the provider's manager who can do those things does not observe the work. It replaces the diffuse obligation of the employment relationship with a specified deliverable, which is the definition of economic rather than social exchange. And it introduces a third party whose commercial interest is served by the interchangeability of the individuals concerned.

The last point deserves emphasis because it is structural rather than incidental. A provider's margin depends on its ability to redeploy staff, substitute cheaper labour and spread fixed costs across clients. Every one of those capabilities is reduced by the formation of durable client-specific relationships. The provider therefore has a legitimate commercial interest in preventing precisely the relational specificity from which the client would benefit. This is not opportunism in the transaction cost sense, because no contract is being violated. It is a straightforward divergence of interest that the contract does not address, and it explains why relational erosion under outsourcing is persistent rather than a matter of poor vendor selection.

A corollary follows that is worth stating separately, because it qualifies the conventional advice in a way that is easily missed. The conventional advice to retain core activities protects the organisation against the loss of capability, but it does not protect it against the loss of relationships in activities that are genuinely non-core yet interdependent with core ones. Where an outsourced function must coordinate continuously with retained functions as claims administration must coordinate with clinical risk management, or facilities with operations the relational cost falls on the interface rather than on the outsourced activity itself, and is therefore invisible in an appraisal conducted activity by activity.

Leader–Member Exchange Under an In-Sourced Operating Model

The in-sourced model satisfies the structural conditions for social exchange, and this is its principal and least-recognised advantage. The leader and the member share an employer, so the horizon of the relationship is open-ended rather than contractual. The leader controls the currencies that reciprocity trades in: assignment of interesting work, access to information, developmental opportunity, advocacy in promotion decisions and protection when things go wrong. Observation and reward are held by the same person, so that what is seen can also be repaid. Under these conditions the member who invests discretionary effort has a reasonable expectation of return, and the leader who extends trust can expect it to be honoured, because both parties anticipate continued interaction.

It does not follow from any of this that in-sourcing produces high-quality exchange relationships. It produces the conditions under which high LMX becomes possible, which is a weaker and more defensible claim. The differentiation literature shows that in-sourced organisations routinely generate wide variation in relationship quality within a single work group (Buengeler et al., 2021), and that members falling outside the leader's inner circle may experience the arrangement as arbitrary (Sajadi & Vandenberghe, 2022; Wang et al., 2024; Yu et al., 2024). Differentiation carries costs of its own, including perceptions of injustice, reduced group cohesion and relative deprivation among those in lower-quality dyads. Those costs are conditional rather than automatic: differentiation makes fairness concerns salient, and employees look to the prevailing justice climate to resolve them, so the same degree of differentiation produces different outcomes depending on the climate in

which it occurs (see He et al., 2021). The in-sourced model therefore offers the possibility of a valuable resource and the simultaneous possibility of an inequitable one.

The resource-based reading of the in-sourced model turns on accumulation. Relationships built over years of shared work embed knowledge that is causally ambiguous and socially complex, and that is not written down anywhere: which colleague to approach for an exception, which figures are reliable, which risks are worth escalating. This is the organisational memory on which routine operation silently depends. Its value is usually revealed only when it disappears, which is why the cost of losing it is systematically underestimated at the point of decision.

There are costs on the other side of the ledger that are equally real. In-sourcing carries fixed labour costs that do not flex with demand, exposure to skills obsolescence where the internal labour market is narrow, and the risk that long-tenured relationships harden into arrangements that suppress challenge. High-quality exchange is not uniformly benign: a leader and member bound by mutual obligation may collude in avoiding scrutiny, and the same relational density that transmits knowledge can also transmit bad practice. Any claim that in-sourcing preserves a strategic resource must be set against the possibility that what is preserved is inertia. The balance depends on whether the organisation has mechanisms that refresh relationships without dissolving them, such as internal mobility, rotation and external recruitment into senior positions.

The design implication is that in-sourcing is not a decision to stop managing, but a decision to manage a different risk. The in-sourced operating model creates the possibility of relational advantage and simultaneously the possibility of relational capture. Realising the first while containing the second requires deliberate attention to the fairness of differentiation, which is a leadership task rather than a structural one.

Leader–Member Exchange Under an Outsourced Operating Model

The outsourced model replaces the dyad on which LMX theory rests with a triangle (Schneider, 2024). The worker stands in a relationship with a legal employer, who determines remuneration, discipline and advancement, and in a second relationship with a client manager, who determines daily priorities and observes performance. LMX theory has no account of this structure, because it assumes the two sets of resources are held by the same person. Figure 2 places the two arrangements side by side for comparison.

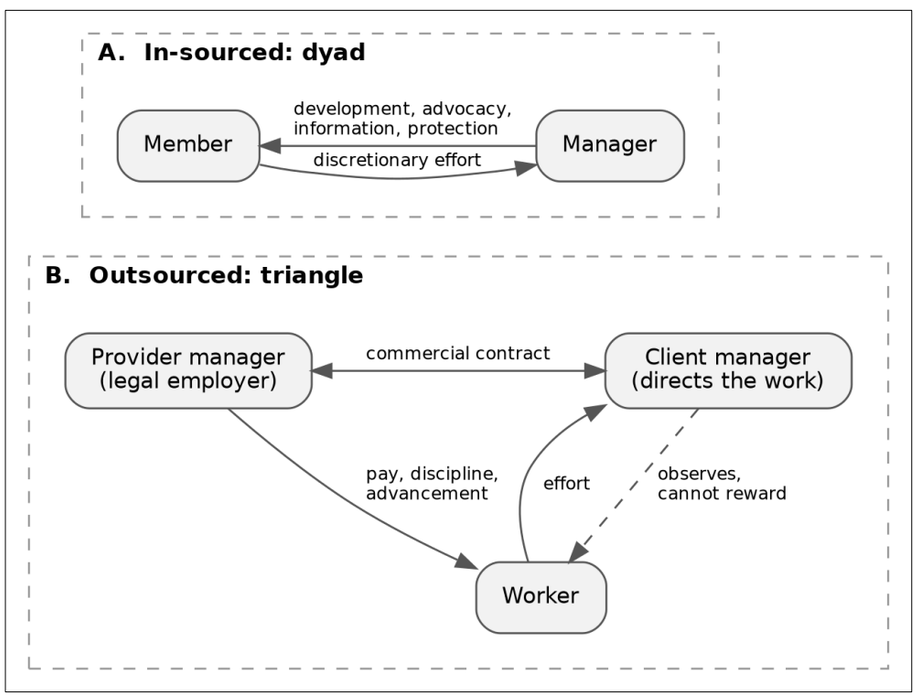


Figure 2. Exchange structures under the two operating models

In a dyadic relationship, the exchange of contributions and rewards forms a reciprocal loop within the same relationship. In a triangular arrangement, however, this loop is disrupted because the client manager who observes the worker's performance and the provider manager who controls rewards belong to different organisations. Consequently, the client manager can recognise good performance but cannot directly reward it, while the provider manager can

allocate rewards but lacks direct access to the worker's day-to-day performance. This separation creates uncertainty for workers when deciding where to invest their effort, as contributions recognised by the client may not translate into career advancement within the provider organisation.

The predictable equilibrium under these conditions is calculative exchange on both sides of the relationship. The worker meets the specification and withholds discretionary contribution, since discretion is unrewarded (Yang et al., 2023). The client manager relies on contractual monitoring rather than trust, because trust cannot be enforced across an organisational boundary. This is not a failure of either party's good faith. It is the efficient response to an incentive structure in which reciprocity has no mechanism, and it corresponds closely to the economic rather than the social pole of exchange discussed in section 2.

The contingent work literature supplies an account that complements this structural argument. Agency and outsourced workers form simultaneous employment relationships with the placement organisation and with the client, and the commitment they develop towards each has been shown to depend on the treatment and support each is perceived to provide (Cicellin et al., 2022; Liden et al., 2003). Two features of that literature bear directly on the argument being made here. Commitment to the two parties is not zero-sum, since support from one has been found to relate positively to commitment towards the other, which suggests the structure permits dual attachment rather than forcing a choice. But commitment is being predicted by perceived support and treatment, which are precisely the currencies that section 4 identified as divided between the principals. Whether the triangular structure produces dual commitment or dual detachment is therefore an empirical question that the structure alone does not settle, and the evidence is mixed rather than uniformly pessimistic.

That qualification matters, because the pessimistic reading can be overstated in three ways. One qualification is that some outsourced arrangements are long-lived, with the same individuals assigned to the same client for years, in which case the continuity condition for social exchange is met in substance if not in form. A second is that where the provider's own management is capable and proximate, the worker may develop high-quality exchange with the provider's supervisor, which benefits the client indirectly through the provider's performance. A third is that outsourcing removes the differentiation problem discussed in section 5: a purely contractual arrangement cannot generate in-group and out-group resentment, because there is no in-group. Clarity of expectation has its own value, and some workers prefer a relationship in which obligations are stated rather than inferred.

The resource-based reading of the same arrangement is nonetheless unambiguous. Whatever relational quality develops under outsourcing is not appropriable by the client. It resides in an individual whom the provider may redeploy, in a contract that will be retendered, and in an arrangement that any competitor can replicate by approaching the same provider. The relationship may still be valuable, but it fails the rarity and inimitability tests, and it therefore cannot support sustained advantage in the sense the theory specifies. Outsourcing converts a potential strategic resource into a market transaction, and the conversion is the point of the exercise rather than an unintended by-product. The question for the organisation is whether it is converting something it was actually using.

Comparative Synthesis and Propositions

The two models differ systematically on the conditions that social exchange requires. Table 2 sets out the comparison on the dimensions derived in sections 2 to 4, and Figure 3 states the argument as a causal chain.

Table 2. Exchange conditions under in-sourced and outsourced operating models

Condition	In-sourced	Outsourced	Consequence for LMX
Relationship horizon	Open-ended	Contract term	Reciprocity has no enforcement beyond the contract
Locus of authority	Single	Divided between client and provider	Neither principal holds the full exchange currency
Observation and reward	Held by same manager	Separated	Discretionary effort is visible but unrewardable
Exchange currency	Development, advocacy, information, protection	Specified deliverables	Calculative exchange is the rational equilibrium

Third-party interest	None	Provider gains from interchangeability	Client-specific relational investment is discouraged
Appropriability of the relationship	Firm-specific, retained	Resides with provider or individual	Fails rarity and inimitability
Differentiation risk	High within work groups	Low, no in-group exists	Injustice perceptions concentrate in the in-sourced model

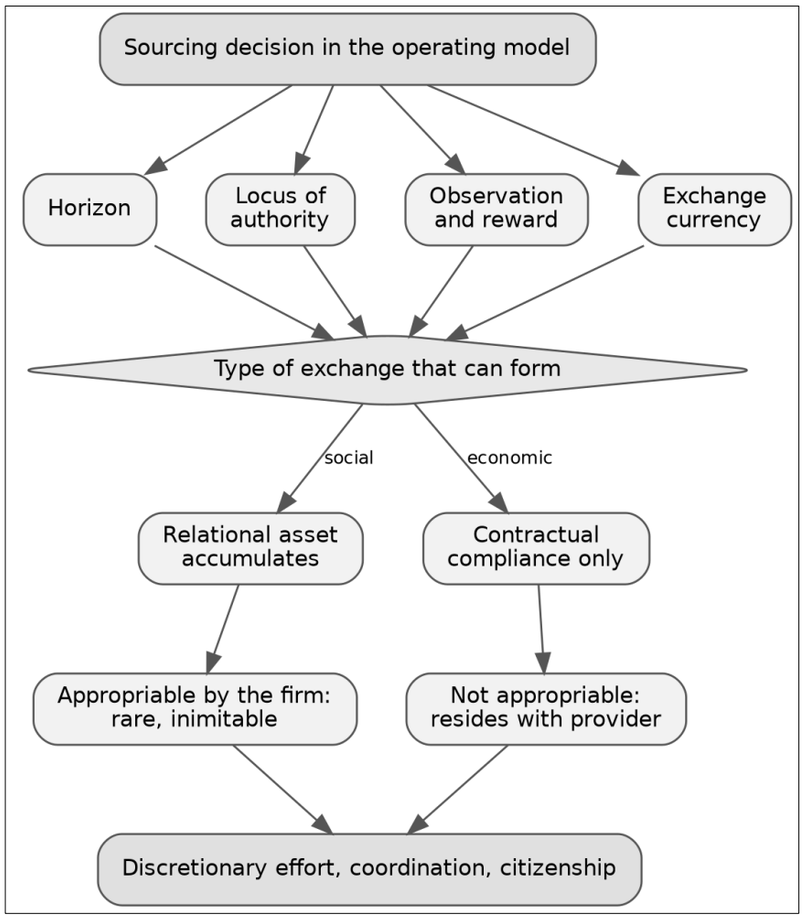


Figure 3. The argument as a causal chain, with the propositions located

It is the chain, rather than any proposition taken on its own, that makes the argument falsifiable. P1 and P5 test the link from the operating model to the type of exchange; P2 tests the consequence of separating observation from reward; P3 tests the horizon condition by exploiting variation in assignment tenure; P4 tests the final link, and P6 tests the chain in reverse by asking whether restoring the conditions restores the relationship.

The comparison set out in the table does not establish that in-sourcing is superior. It establishes that the two models generate different kinds of relationship, and that the resource-based value of the in-sourced arrangement is conditional on relationships actually forming, which differentiation research shows is uneven. The practical question is not which model is better in general, but whether a particular activity depends on relational assets that the outsourced form cannot sustain.

Six propositions follow from this specification, each formulated in a falsifiable manner. P1 predicts that mean LMX quality will be lower in outsourced than in-sourced arrangements, with a larger difference in social than economic exchange. P2 proposes that, within outsourced arrangements, LMX with the client manager will be more strongly associated with task performance, whereas LMX with the provider's manager will be more strongly associated with retention and citizenship behaviour. P3 predicts that assignment tenure will moderate this relationship, such that long-term outsourced workers will exhibit LMX quality closer to that of in-sourced employees as continuity compensates for separate employment.

P4 proposes that the performance penalty associated with outsourcing will be greater for activities requiring continuous coordination with retained functions than for separable activities, as relational costs concentrate at organisational

interfaces. P5 predicts greater within-group variance in LMX quality under in-sourced than outsourced arrangements, with perceptions of distributive injustice associated more strongly with this variance than with the mean. P6 proposes that legal reform granting outsourced workers employee status within the client organisation will increase LMX quality with client managers over time by restoring the continuity and reward conditions disrupted by triangular employment structures.

The sixth proposition is particularly relevant to the South African context, which offers an important setting in which to examine the effects of legal reform on LMX quality. Section 8 explains why this context is especially well suited to testing P6.

The South African Institutional Setting

South Africa has legislated on the outsourced employment relationship more directly than most jurisdictions, which makes it an unusually informative site for the argument. The Labour Relations Amendment Act 6 of 2014 inserted section 198A into the Labour Relations Act 66 of 1995, providing that an employee placed by a temporary employment service with a client, who earns below the prescribed earnings threshold and is not performing a genuinely temporary service, is deemed after three months to be the employee of the client (Mello, 2025). The Constitutional Court resolved the competing interpretations of that provision in *Assign Services (Pty) Ltd v NUMSA* [2018] ZACC 22, holding that the deeming provision creates a sole employer relationship rather than a dual one: for the purposes of the Act, the client becomes the employer, and the placement agency is, in the Court's characterisation, the third party that delivers the employee to the client.

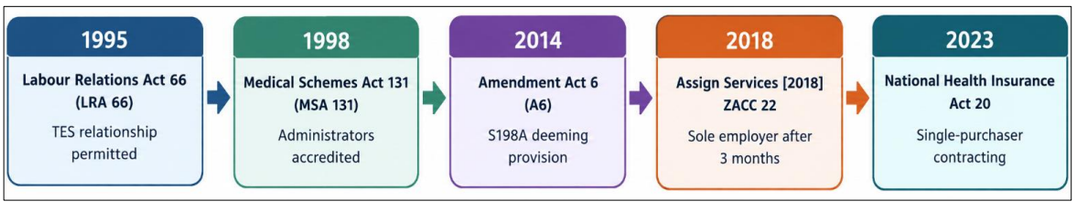


Figure 4. The South African regulatory sequence bearing on the sourcing of labour and of medical scheme administration

The judgment is ordinarily read as a labour rights decision. Read against the framework developed here, it is also a decision about the structural conditions for leader–member exchange. The triangular arrangement analysed in section 6 has, for a defined category of workers, been collapsed back into a dyad by operation of law. Authority, reward and observation are reunited in the client organisation after three months. If the argument of this paper is correct, that legal change should produce a measurable relational change, and proposition P6 is testable in South African workplaces in a way it is not in jurisdictions that leave the matter to contract.

Two boundaries limit that claim and should be stated before it is relied upon. The deeming provision applies only to workers earning below the prescribed threshold. Higher-earning contractors therefore remain within the triangular structure, limiting the natural experiment to lower-paid work. Moreover, legal reclassification does not necessarily translate into relational change. An organisation may comply with the deeming provision while continuing to manage the affected workers as an external category. In such cases, the formal employment dyad is restored without necessarily restoring the underlying conditions of exchange. That gap between legal form and managerial practice is itself worth studying, and it is where the interesting variation is likely to lie.

Medical scheme administration offers a second and cleaner comparison within a single regulated industry. Medical schemes registered under the Medical Schemes Act 131 of 1998 either administer their own operations or contract a third-party administrator, and the Council for Medical Schemes accredits administrators and managed care organisations in terms of that Act. The two arrangements deliver the same statutory functions membership administration, claims adjudication, chronic benefit management under the same regulatory standards, to comparable member populations, with the sourcing of the workforce as the principal structural difference. Self-administered schemes employ the staff who adjudicate their claims; administered schemes do not, and their principal officers direct work performed by the employees of another entity whose contract is periodically retendered.

The comparison is analytically valuable precisely because the confounds that usually defeat such studies are reduced. Benefit design is regulated through prescribed minimum benefits, solvency requirements are common, and reporting obligations are identical, so differences in operational performance cannot easily be attributed to differences in product or compliance

regime. Existing supervisory data already capture outcomes plausibly sensitive to relational quality, including complaint resolution turnaround, the accuracy of statutory returns and the consistency of chronic disease programme administration. Linking those outcomes to the sourcing model, with scheme size and beneficiary profile controlled, would constitute a direct test of P4.

The wider policy setting sharpens this question considerably, and gives it a scale it would not otherwise have. The National Health Insurance Act 20 of 2023 contemplates a single purchaser with contracting relationships extending across a large provider and administrative network, which is an operating model decision of considerable scale (Murphy & Moosa, 2021; Roll et al., 2021). Whether the capabilities on which such a purchaser will depend clinical risk judgement, fraud detection, provider negotiation can be sustained through contracted arrangements, or whether they require the continuity that only an in-sourced arrangement provides, is not a question the enabling legislation settles. The framework set out here suggests that the answer should turn on the interdependence of each function with the purchaser's retained activities rather than on its apparent separability, and that the assessment should be made before the contracts are let rather than after.

Methodological Implications and Research Agenda

Testing the propositions requires departures from standard LMX measurement practice, and the first is unavoidable. Conventional instruments ask the member to rate the relationship with "my supervisor", a referent that has no determinate meaning in a triangular arrangement. Outsourced respondents must be asked to rate two relationships separately, with the client manager and with the provider's manager, and the two ratings analysed as distinct variables rather than averaged. Without this, comparisons between in-sourced and outsourced groups measure different constructs while appearing to measure the same one.

The social and economic exchange distinction should also be measured directly rather than inferred from position on a quality scale. If the argument in section 6 is right, the difference between the two operating models lies more in the composition of the exchange than in its rated quality, and an instrument that collapses the two dimensions will understate the effect. Instruments developed to separate social from economic exchange are available and are better suited to this question than the general quality measures (Andersen et al., 2020; Manata & Grubb, 2022).

Three research designs are worth pursuing, set out here in ascending order of difficulty. A matched cross-sectional comparison within a single industry, using the medical scheme administration setting described above, would test P1, P4 and P5 with the confounds of sector, regulation and product held reasonably constant. A longitudinal design following workers through a transition either an outsourcing transaction or the operation of the deeming provision would test P3 and P6 and would address the causal ordering problem that weakens most of the existing LMX evidence. A dyadic design collecting data from both the member and each manager would address the common method concern (Yuan et al., 2023) and would allow the observation–reward separation to be examined from both sides.

Table 3. Research designs, the propositions each can test, and the threat each addresses

Design	Setting	Propositions Tested	Principal Threat Addressed	Principal Threat Remaining
Matched cross-sectional comparison	Self-administered against third-party-administered medical schemes	P1, P4, P5	Sector, regulation and product confounds held constant	Selection into sourcing model
Longitudinal transition study	Outsourcing transaction, or operation of the deeming provision	P3, P6	Causal ordering between relationship quality and performance	Attrition of those who leave at transition
Dyadic multi-source design	Any setting with both managers identifiable	P2	Common method variance; both sides of the exchange observed	Access to provider-side managers

The three designs are complementary rather than competing alternatives, and each answers a question the other two leave open. The cross-sectional comparison establishes whether a difference exists, the longitudinal design establishes its direction, and the dyadic design establishes whether the mechanism is the one proposed.

The outcome measures used in any of these designs should extend beyond self-report. The most persuasive test of the resource-based claim would link relational measures to operational indicators that the organisation already collects for other purposes, such as error rates, turnaround times, rework and escalation frequency. This would also answer the criticism that the resource-based view identifies resources by their association with performance: if relational conditions are specified structurally in advance and then shown to predict operational outcomes, the tautology objection does not apply.

Two limitations of the proposed agenda should be acknowledged at the outset. Selection is a serious threat, because organisations that outsource are unlikely to be randomly different from those that do not, and workers who accept outsourced positions may differ systematically from those who do not. And the argument may be less generalisable than it appears: professional contractors with scarce skills occupy a bargaining position quite unlike that of placed workers in routine roles, and the triangular structure may impose few costs where the individual's market power is high. The propositions are stated for the general case and should be tested with those conditions as moderators rather than assumed away.

Implications for Practice and Policy

The practical implication is that sourcing appraisals should include a relational assessment alongside the cost comparison, and that the assessment can be made concrete. Four questions capture the conditions derived in sections 2 to 4. Does the activity require continuous coordination with retained functions, or can it be specified as a discrete deliverable? Does performance depend on judgement exercised in ambiguous situations, or on the execution of defined procedures? Does the activity accumulate knowledge about the organisation that is not recorded anywhere? And would the organisation be able to resume the activity internally within a reasonable period if the provider failed?

An activity answering yes to the first three and no to the fourth is one where outsourcing dissipates a resource the organisation is currently using, whatever its classification as core or non-core. An activity answering the other way is a genuine candidate. The point of the framework is not to discourage outsourcing but to make the relational cost visible at the point where it can still influence the decision.

Table 4. Relational diagnostic for the sourcing decision

Diagnostic Question	Answer Favouring Retention	Answer Favouring Contracting	Condition Tested
Does the activity require continuous coordination with retained functions?	Yes, continuously	No, specifiable as a deliverable	Interface cost (P4)
Does performance depend on judgement in ambiguous situations?	Yes	No, defined procedures	Value of discretionary effort
Does the activity accumulate unrecorded organisational knowledge?	Yes	No, fully documented	Inimitability and path dependence
Could the activity be resumed internally within a reasonable period?	No	Yes	Reversibility of the decision

The diagnostic does not produce a score, and it is not intended to: its purpose is to force the relational question into an appraisal that would otherwise record only cost. Figure 5 arranges the same judgement on the two dimensions that carry most of the weight.

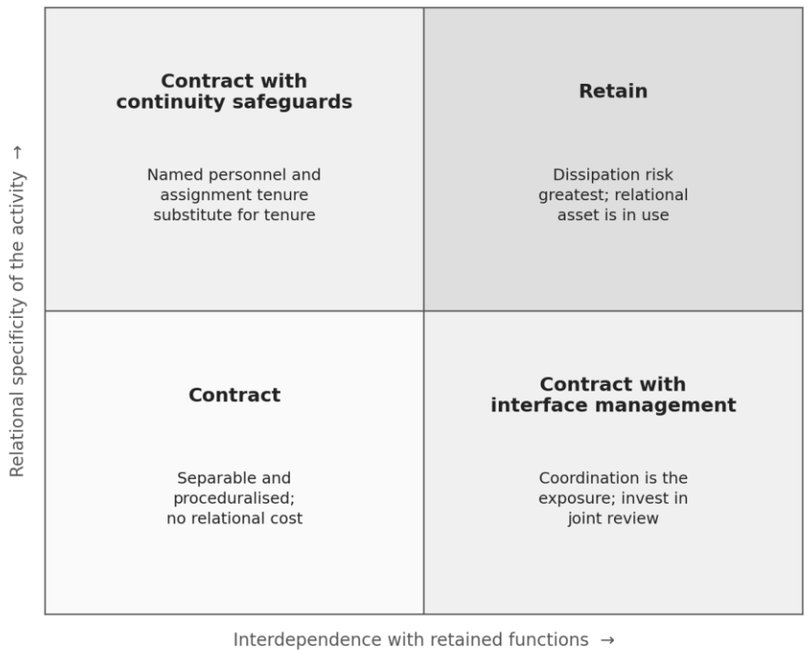


Figure 5. Sourcing positions by interdependence and relational specificity

The two axes are not equivalent in what they imply. High relational specificity with low interdependence is the case that contractual design can substantially mitigate, through named personnel and assignment tenure, because the exposure is confined to the activity itself. High interdependence is harder to contract around, since the cost falls at the interface with retained functions rather than within the outsourced activity, and no provider can be held to a standard the client has not specified. The upper right quadrant is where the argument of this paper bites: it is also the quadrant into which activities are most often misclassified, because an activity can be non-core by every conventional test and still sit there.

Where a function is outsourced, the relational deficit can be partly mitigated, though not eliminated. Contractual provisions on assignment continuity and named personnel restore some of the horizon condition. Joint performance review, in which the client manager's assessment carries weight in the provider's own reward decisions, partly reconnects observation to reward. Including outsourced staff in client induction, communication and improvement forums restores some of the exchange currency (Su et al., 2023). These measures cost money and restrict the provider's flexibility, which is the point: they purchase back part of what was sold, and their cost should be recognised in the business case rather than discovered afterwards.

For regulators the implication runs in a different direction from the one facing an individual organisation. Supervisors that accredit or license service providers including the Council for Medical Schemes in respect of administrators and managed care organisations assess financial soundness, systems capability and compliance capacity. They do not generally assess the stability of the relationships through which the accredited entity delivers. Staff turnover in key operational roles, assignment continuity, and the ratio of contracted to employed staff in functions requiring judgement are observable, and they bear on the sustainability of the service in ways that a solvency test does not capture. Adding them to accreditation would be a modest extension of existing practice with a clear rationale.

The implication for health system reform is more consequential still. A single purchaser operating at national scale will make sourcing decisions that determine whether it develops the relational capabilities on which effective purchasing depends, or contracts them from entities whose interests are not aligned with its own. The framework here suggests that the decision should be made function by function, against the interdependence test rather than the separability test, and that capabilities such as provider negotiation and clinical risk assessment are poor candidates for outsourcing precisely because their value lies in accumulated, organisation-specific judgement. This is a contested position and should be argued rather than assumed: the counter-argument, that a new institution can acquire capability faster by contracting for it than by building it, has considerable force in the short run. The framework's contribution is to make explicit what is being traded away in the longer one.

CONCLUSION

This study examined the conceptual relationship between sourcing decisions and the development of leader–member exchange (LMX)

as a relational resource in organisations. The findings, however, remain theoretical, as the propositions advanced in this paper have not yet been empirically tested. The argument rests on the assumption that the structural conditions identified in Section 2 are necessary for social exchange to develop, an assumption that is well supported in theory but has not been examined directly in boundary-spanning dyads. It also extends resource-based criteria, traditionally applied to assets and capabilities, to relational resources, a defensible but not uncontested proposition. Furthermore, the paper treats in-sourcing and outsourcing as a dichotomy, although organisational practice encompasses a continuum of arrangements, including joint ventures, managed services, embedded providers, and hybrid models in which individuals may move between categories over time. These intermediate arrangements represent a significant limitation of the framework and warrant further theoretical and empirical investigation.

The applicability of the argument is also bounded by context. It is most relevant to sustained operational work performed by identifiable individuals over time, and less directly applicable to project-based professional services, platform-mediated work in which supervision is algorithmic rather than personal (Immonen, 2023), and arrangements in which the scarcity of contracted workers reverses the conventional balance of dependence. In such contexts, the relational costs associated with triangular employment arrangements may be limited or may operate differently (Varma et al., 2022). Future research should therefore examine how the proposed framework applies across different sourcing arrangements and organisational settings. The South African context provides a valuable opportunity for empirical investigation because the deeming provision in Section 198A of the Labour Relations Act, together with its interpretation by the Constitutional Court, has legally transformed triangular employment relationships into dyadic ones for a defined category of workers. Medical scheme administration also offers a useful comparative setting in which to examine in-sourced and outsourced delivery of identical regulated functions.

The principal contribution of this study is the specification of a theoretical framework rather than the establishment of an empirical finding. It conceptualises LMX as a relational resource, identifies four structural conditions necessary for its development, explains how sourcing decisions may alter these conditions simultaneously, and derives falsifiable propositions and a diagnostic framework that can inform decisions before implementation. The central argument is that organisations evaluate sourcing options using criteria that capture contractual costs and benefits but often overlook the relational resources that may influence organisational performance. If high-quality exchange relationships satisfy the conditions for a strategic resource, and if outsourcing structurally constrains their development, sourcing decisions may have implications for competitive advantage beyond the direct costs of service delivery. Whether the relational costs of outsourcing outweigh its contractual savings remains an empirical question that is likely to vary across activities and organisational contexts. Nevertheless, the potential relational consequences of sourcing decisions warrant explicit consideration in both theoretical models and managerial assessments.

AUTHOR CONTRIBUTIONS

Michael Mncedisi Willie: Conceptualization, Methodology, Formal analysis, Investigation, Data curation, Writing – original draft, Visualization, Project administration.

Ummul Khaeri Masna: Supervision, Validation, Resources, Writing – review & editing, Funding acquisition.

Irfan Jamal Passalowongi: Investigation, Resources, Validation, Writing – review & editing, Visualization.

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The authors declare that they have no conflicts of interest that could have influenced the conduct, analysis, or publication of this research.

DECLARATION OF ARTIFICIAL INTELLIGENCE USE

The authors declare that generative artificial intelligence was not used to produce the content, develop the arguments, or construct the conceptual framework of this article.

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