

THE INFLUENCE OF LEADER MEMBER EXCHANGE TOWARD WORK ENGAGEMENT AND EMPLOYEE PERFORMANCE

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Abstract

Employee performance is one of the factors that play an important role in achieving organizational and individual goals. This study aims to investigate the relationship of leader member-exchange (LMX) in the values of *Tat Tvam Asi*, on work engagement and employee performance. This study uses quantitative approach, which leads to empirical rational principles with explanatory research. The population of this study are all of full time employees of Village-Owned Enterprises (VOEs) in Bali, with a total sample of 229 employees, analyzed using XSTAT-PLS. The results showed that LMX has a positive and significant influence on work engagement and employee performance, as well as work engagement has a positive and significant influence on employee performance. The theoretical implications of this study have been able to build a theoretical model of the relationship between leaders and subordinates in the values of *Tat Tvam Asi*. The practical implications it can provide more understandings the role of local values practices by leaders and subordinates in enhancing employee performance. Based on the results, theoretical implications for human resource management and recommendations for further research are discussed.

Keyword: Leader Member-Exchange (LMX), Work Engagement, Employee Performance

1. INTRODUCTION

Kreitner, (2010) mentioned that performance management is a continuous cycle in improving employee performance by setting goals, feedback, appreciation, and positive reinforcement. Employee performance is also a result of work achieved by someone in carrying out tasks assigned to them based on quantity, quality, time, and cooperation (Quade et al., 2020). Village-Owned Enterprises (VOEs) as one an independent community business institution in the village which support or strengthen the village economy community. VOEs will be able to develop their potential if the VOEs pay close attention to employee performance, which is one of the factors that play an important role in achieving organizational and individual goals. The optimal employee performance is a picture of quality that reflects the success of a person who will produce an increase in overall performance. In order to improve the quality and quantity employee performance, the VOEs can develop and become a village community economic institution that is competitive in managing and running the economic machinery in rural areas. It is necessary to have leaders who understand the conditions and character of the local community can managing VOEs well. Good leaders are expected to be able to build cooperation between employees and can improve employee performance. One thing that must be considered by leaders is the quality of the leaders' relationship with their subordinates. The theory that governs the relationship between leaders and subordinates is called Leader Member-Exchange (LMX), where there is a relationship of two-way relational leaders.

The results of the previous studies that have examined the relationship of LMX on employee performance indicate that high quality LMX can increase employee efforts to achieve performance that exceeds expectations (Deconinck, 2011). Study conducted by Dulebohn et al. (2012) stated that high quality LMX relationships are based on relationships that have trust between leaders and subordinates. They have a shared sense of responsibility towards each other's responsibilities, respect each other, and provide good reciprocity between leaders and subordinates.

Whereas, low-quality LMX relationships are characterized by the rare meeting between leaders and subordinates, subordinates are often given undesirable tasks, and leaders have less time for their subordinates which resulting in subordinates having less closeness with their leaders. Walumbwa et al. (2011) state that LMX has a positive influence on employee performance. Employees have sufficient resources at work when they have a high level of interaction with their leaders and feel engaged in their job. The employees who have high LMX tend to maximum contribution on their work so that a positive influence on employee performance (Wang et al., 2016).

Wayne and Ferris (2012) argued that there is no significant relationship between LMX and employee performance. One of the antecedents that make the research results of LMX and employee performance become conflicted are because of the influence of situational factors, such as different values, personalities, experiences, organizational context, and background of employees. Therefore, it is necessary to accommodate both individual and organizational factors in explaining the influence of LMX on employee performance. Several studies have shown that mediation variables are appropriate and relevant to LMX implementation, namely work environment. The Affective Event Theory explains that the complex relationship between LMX and performance requires explanatory variables (Sue-Chan, et al., 2011). This theory explains that positive organizational stimulus received by individuals will produce positive attitudes and then produce a consequence of positive behavior. Thus, work engagement is a positive attitude variable that needs to be used to explain the relationship between LMX and employee performance.

Study conducted by Dulebohn *et al.* (2012) explained that work engagement negatively affects employee performance. Likewise, the study conducted by Joushan, *et al.* (2015) also found a relationship that did not have a significant effect between work engagement and employee performance. Insignificant relationship between work engagement and employee performance is caused by the influence of the leader, in which there is a tendency for the leader to interact more and communicate with certain groups. Interaction between leaders and subordinates is not going well, which causing communication gaps and low quality relationship that affect employee performance. Scholar appears that there are contradictions on the results of the influence of LMX and work engagement toward employee performance. This is because LMX is only analyzing the exchange relationships in work-related tasks, while other dimensions which are social exchange rates and affect the relationship of leaders and subordinates such as the balance theory in the context of LMX have not been widely studied. In this context, one thing that is related to social exchange value is *Tat Tvam Asi*, which is a local wisdom of the Balinese that can be used as a trigger in improving employee performance. This study is seen to be able to provide its own color and treasury in the scientific context related to the field of leadership. Therefore, it is necessary to study to obtain the clarity of the local wisdom Balinese values that exist in the *Tat Tvam Asi*, with LMX theory which is mediated by work engagement on employee performance of VOEs.

2. LITERATURE REVIEW

The LMX theory is a reciprocal relationship that involves communication between leaders and subordinates through familiarity between one and the other, contributing to each other, and has mutual loyalty and respect among individuals. The relationship established by each subordinate and leader certainly differ from one another. Truckenbrodt (2000) stated that organization when it is seen from the relationship between leaders and subordinates can be divided into two groups, namely: (1) In-group: subordinates and leaders have a good relationship, and the relationship is based on feelings of the same boat, trust, and affection toward each other. This group consists of team members who have mutual trust with their leaders. (2) Out-group: Leaders are more professional toward their subordinates. This is because there is only a little time available to get closer, so that subordinates have less time for leaders. The relationship between the two is only in the corridor of normal authority interaction.

The measurement of LMX indicators in this study is different from LMX that had been used in previous studies. The Affect dimension refers to the intimacy between one individual and others regardless of social status. A mutual relationship between the leader and subordinates themselves is needed for the sustainability of the LMX. Therefore, this reciprocal relationship is the basis of interpersonal interest rather than just work or professional values. In relation to build personal relationship between leaders and subordinates, it is necessary to understand the

Tat *Tvam Asi*, which views all humans equally and sees humans as brothers and sisters. In implementing the relationship between leaders and subordinates, there is a need for interdependent support in order to maintain the moral, ethical, and values of life. The values of *Tat Tvam Asi*, namely; (1) the principle of joy and sorrow, in which the joy and sorrow felt together; (2) the principle of *paras paros*, which means that someone else is part of oneself and oneself is part of others; (3) the principle of *salunglung sabayantaka*, which means good and bad, life and death are borne together; (4) the principle of mutual love, mutual care, mutual fostering, which means loving each other, giving and correcting, and helping each other. Understanding and practicing of *Tat Tvam Asi* will make individuals able to feel the weight and light of life, so that individuals both leaders and subordinates will always help each other, feel the same fate, and feel to have the same responsibility.

Robinson, et al. (2004) state that work engagement as a positive attitude of employee toward the organization and organizational values. Engaged employees have an awareness of working with colleagues (Ancaran *et al.*, 2018) to improve performance and benefit the organization (Knight et al., 2017). The improvement of work performance will not occur without the work engagement of each individual. Gonzales-Roma & Bakker (2001) defined work engagement as a positive attitude, fulfilling working conditions related to the mind characterized by enthusiasm, dedication, and absorption. It is also showed by psychological security from relationship that has mutual trust especially with leaders, clear roles and belief in order to express themselves, and sensitivity to mistakes that can be applied more for learning (Keating and Heslin, 2015). Schaufeli and Bakker (2004) stated that work engagement is a motivation, a positive thing, fulfillment, a state of work related to the mind that is characterized by vigor, passion, dedication, and absorption.

Dulebohn *et al.* (2012) stated that high quality LMX relationships are based on trusting relationships between leaders and subordinates, with leaders who trust their subordinates to engage in important activities, have a shared sense of responsibility towards each other's responsibilities, respect each other, and provide mutual reciprocity for both leaders and subordinates. Whereas, low quality LMX relationships are characterized by economic exchange relationships that rarely meet with leaders, and subordinates are often given undesirable tasks, leaders have less time for subordinates which resulting in subordinates having less intimacy with their leaders. The study conducted by (Walumbwa, et al., 2011; Choy *et al.*, 2010) explained that LMX has a positive influence on employee performance. Employees have sufficient resources at work when they have a high level of exchange with their leaders and feel engaged in their job. Scholars (Audenaert *et al.*, 2019; Reb *et al.*, 2019) clarified that LMX is positively related to employee performance. Higher LMX relationship is higher employees performance.

Sears & Holmvall (2010) found that when support is given by the leader, subordinates will respond by serving the organization as best as possible. This is in accordance with the concept of LMX, relating to the reciprocal relationship between leaders and subordinates. Markos and Sridevi (2010) added that employees with high engagement can be identified with one of the LMX dimensions, namely Contribution. Thus, it can prove that LMX has a positive effect on work involvement. Oliveira and Fernanda (2015) stated that HPWS (High Performance Work System) and LMX quality has a positive relationship on employee work engagement. Engaged employees tend to perform better and are less likely to leave the organization. According to Chaurasia and Shukla (2013), the level of employee work engagement depends on employee perceptions of the quality of the leaders and subordinates exchange.

The study conducted by Rich, et al. (2010) showed that work engagement has a positive influence with employee performance. When employees are engaged in a job, the employee's performance will be good. Brunetto et al. (2014) stated that work engagement has a direct positive influence on employee performance. The results from Keyko (2014) also showed that high work engagement will result in greater effort and responsibility related to tasks which ultimately results in high employee performance. When employees are given the opportunity to contribute through ideas and suggestions in making decision, it will be able to improve the performance of the employees who are involved (Kemelgor, 2002). Kim *et al.*, (2019) stated that there is a positive relationship between work engagement on employee performance. If employees are engaged in their job, then the performance for the organization will be better. Work engagement is the most comprehensive attitude variable in explaining the relationship of LMX toward employee performance. Therefore, work engagement is a comprehensive predictor of

performance compared to other attitude variables (Rich, *et al.*, 2010). Schaufeli and Bakker (2004), mentioned that employees who are engaged tend to have greater attachment to their organization and have a lower tendency to leave the organization. Therefore, the relationship between leaders and subordinates of LMX requires work engagement in improving employee performance. The relationship between variables in this study is compiled based on the previous studies, and based on the foundation in the preparation of research hypothesis.

H1: LMX has a positive and significant influence on employee performance.

H2: LMX has a positive and significant influence on work engagement

H3: Work engagement has a positive and significant influence on employee performance

H4: Work engagement has mediated influence of LMX on employee performance

3. RESEARCH METHOD

This study is designed to answer the problems that have been formulated in the problem formulation and use the causality characteristic based on the existing problems. The method used in this study is a survey method, which is done by gathering information from the existing population. The data collection is done in stages. The research design is using positivism (quantitative) approach, which leads to empirical rational principles with explanatory research types. To ensure the feasibility of each question in the questionnaire, it is necessary to test the validity and reliability. Thus, the quantitative approach will be able to prove the hypotheses proposed by statistical techniques (Malhotra, 2010).

Determination and Data Collection Method

This study uses two data sources related to the study to obtain the desired results. The data sources used are primary and secondary sources. The primary data of this study are obtained directly from the VOEs employees. The primary data are included the respondents characteristics (gender, age, and education), and the perception of employees to the questionnaire distributed about LMX, work engagement, and employee performance. The data in this study were collected by: (1) interviews; (2) documentation; (3) observations, which are done by conducting direct observations at the VOEs that become research locations; and (4) questionnaire. Population is a generalization area consisting of objects and subjects that have certain qualities and characteristics determined by researchers to be studied and drawn conclusions (Sugiyono, 2015). The population of this study is VOEs which was established from 2010 to 2015, which is 73 VOEs with 537 employees. The sample is part or representative of the population studied (Sugiyono, 2015). The number of research samples is a portion of VOEs employees in Buleleng Regency in each district which is taken by proportional random sampling using Slovin formula. The result done by taking 229 samples from 9 Districts. The data measurement in this study uses Likert scale from score 1 = strong disagree until score 5 = strong agree, which is used to measure respondents' attitudes, opinions, and perceptions of the objects.

Analysis Technique

The data that has been collected, it is then analyze with the descriptive and inferential analysis technique. Descriptive analysis is used to describe respondents' characteristics. From the data collected, the instrument is tested with validity test using Pearson Product Moment (Gujarati, 2000), in which the questionnaire item is considered valid with the provision of r count >0.3 with the $df= 5\%$. Reliability test is done by looking at the Cronbach's Alpha value which has a provision if the Cronbach's Alpha value is ≥ 0.6 , the construct used is considered reliable (Hair *et al.*, 2010). Furthermore, inferential analysis is done by multivariate analysis using Structural Equation Modeling (SEM) based Partial Least Square (PLS). PLS is a powerful analysis method because it is not based on many assumptions. Besides being able to be used to confirm theories, PLS can also be used to explain the presence or absence of relationships between latent variables. PLS can analyze constructs formed with reflective and formative indicators. The SEM-PLS used in this study is XLSTAT-PLS that is carried out in two stages of evaluation, namely: (1) Evaluation of Outer Model which is done by looking at the value of (a) Convergent Validity, (b) Discriminant Validity, and (c) Composite Reliability; and (2) Evaluation of Structural Model or Inner Model by looking at (a) Q-

Square Predictive Relevance (Q^2), (b) Effect Size, (c) hypothesis test, and (d) mediation test using the criteria from Hair et al. (2010).

4. RESULT

Respondents’ Characteristics

Respondents’ characteristics used in this study include gender, age, education, and work period. These four demographic aspects are assumed to have an important role in providing employee performance perceptions. The respondents’ characteristics by gender are dominated by male employees for 124 people with a percentage of 54.1%. The respondents’ characteristics based on age showed that the highest proportion of employee ages is between 26 to 33 years old, with a percentage of 36.7%. As for the respondents’ characteristics by the level of education is dominated by high school/vocational school education level with the number of 142 people, with a percentage of high school graduate of 62.0% and vocational school graduate of 26 people with a percentage of 11.4%. The most dominant work period are respondents with work period of 4 to 6 years as many as 119 people, with a percentage of 52.0%.

Validity and Reliability Test

The results of the instrument test conducted using Pearson Product Moment shows that all indicators are declared valid because the r count value is > 0.3 . As for the reliability of all constructs are declared reliable because it has the Cronbach’s Alpha value of > 0.6 .

Outer Measurement Model (outer model)

Convergent validity

Convergent validity test that is done shows that the indicator of each variable has an outer loading value of > 0.50 (Lathan & Ghozali, 2012). The results show that all indicators have a high level of validity; therefore it meets the requirements of convergent validity.

Table 1. Convergent Validity, Composite Reliability

Indikator	Outer Loading	Composite Reliability	Cronbach’s Alpha	Remarks
Leader member exchange		0,870	0,870	reliable
<i>Tat Tvam Asi</i> (X1)	0,770			valid
Loyalty (X2)	0,653			valid
Contribution (X3)	0,753			valid
Professional Respect (X4)	0,642			valid
Work engagement		0,916	0,917	reliable
Vigor (Y1.1)	0,817			valid
Dedication (Y1.2)	0,831			valid
Absorption (Y1.3)	0,753			valid
Employee Performance		0,891	0,892	reliable
Job Quantity (Y3.1)	0,709			valid
Job Quality (Y3.2)	0,734			valid
Punctuality (Y3.3)	0,744			valid
Presence (Y3.4)	0,622			valid
Teamwork Ability (Y3.5)	0,667			valid

Based on the results of data processing, it shows that Composite Reliability and Cronbach’s Alpha value are > 0.70 . Therefore, it can be concluded that the construct has good reliability because it meets the prerequisite value.

Discriminant Validity

The model has better discriminant validity if the square root AVE for each construct is greater than the correlation between the two constructs in the model. The root value of AVE for the LMX variable of 0.638 is greater than the correlation coefficient between the other variables, namely: Y1 0.329 and Y2 0.394. The AVE root for work engagement is 0.743 greater than the correlation between other variables, namely: X 0.329 and Y2 0.465. As for the AVE root for employee performance is 0.656 greater than the correlation coefficient between other variables, namely: X 0.394 and Y1 0.394.

Table 2. The Discriminant Validity

Variable	AVE	AVE Root	Correlation between variables		
			X	Y1	Y2
Leader Member Exchange (X)	0,407	0,638	1,000		
Work Engagement (Y1)	0,553	0,743	0,329	1,000	
Employee Performance (Y2)	0,430	0,656	0,394	0,465	1,000

Evaluation of Measurement Model (Inner Model)

Table 3. R² Variable Communality Coefficient

Variable	R ²	Communality
Leader member-exchange (X)	0,0000	0,407
Work Engagement (Y1)	0,329	0,553
Employee Performance (Y2)	0,548	0,430

Q-Square predictive relevance is calculated with the following formula:

$$Q^2 = 1 - (1-R^2y1) (1-R^2y2)$$

$$Q^2 = 1 - (0,671) (0,452)$$

$$Q^2 = 1 - 0,15784 = 0.8422 \text{ (Q-square predictive relevance)}$$

The results of the calculation that is performed indicate the value of Q-square predictive relevance of 0.8422, which means that the model has a good prediction level. From the value that is obtained, it can be interpreted that 84.22% of the influence between variables is explained in the model as a whole, while 15.78% is influenced by errors or other variables that are not explained or used in this study.

Goodness of Fit (GoF)

Goodness of Fit (GoF) is used to validate model as a whole, because it is a single measure of the measurement model (outer model) and measurement of the structural model (inner model). Goodness of Fit (GoF) values range from 0 (zero) to 1 (one). The formula used to determine the Goodness of Fit (GoF) value is as follows:

$$GoF = \sqrt{\frac{\sum R^2}{n}}$$

$$GoF = \sqrt{\frac{(0,407+0,553+0,430)}{3} \times \frac{(0,329+0,548)}{2}}$$

$$GoF = \sqrt{\frac{(0,463)}{3} \times \frac{(0,439)}{2}} = 0.4131$$

The calculation results of Goodness of Fit (GoF) show a value of 0.4131. Based on the criteria regarding the value of GoF according to Lathan and Ghazali (2012), there three criteria, namely: 0.10 (GoF small), 0.25 (GoF moderate), and 0.36 (GoF large). Therefore, the model formed by these constructs belongs to large model category.

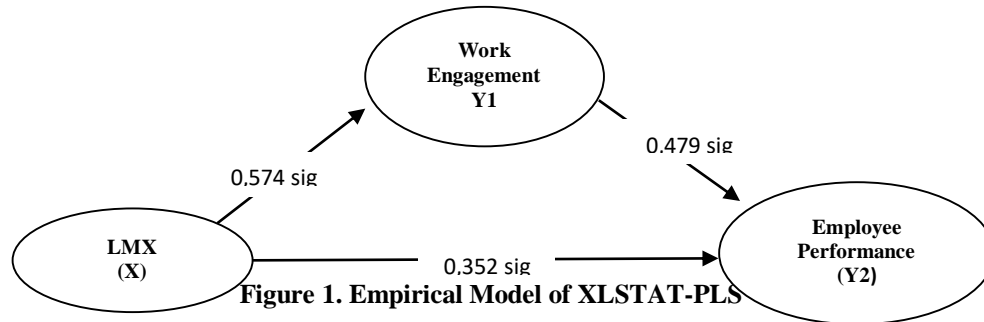
Effect size

Hair et al. (2013) mentioned that the effect size measurement results can be grouped into three categories, namely weak with a value of 0.02, moderate with a value of 0.15, and strong with a value of 0.35.

Table 4
Effect Sizes for Path Coefficients

Variable	Leader Member Exchange	Work Engagement	Employee Performance
Work Engagement	0,352	0	0,479
Employee Performance	0,574	0,479	0

Based on Table 4, it can be known that the estimation results of effect size show the LMX value on Employee Performance is 0.574, LMX on Work Engagement is 0.352, and Work Engagement on Employee Performance is 0.479. This means that the LMX and Work Engagement variable has an estimated effect size in strong category toward Employee Performance. Therefore, it can be explained that LMX and Work Engagement has a very important role in improving employee performance.



Hypothesis Test

The hypothesis test aims to find out whether the proposed hypothesis is accepted or rejected. This study tests 3 direct influence hypotheses which consist of 1 hypothesis with indirect influences between variables. The results of relationship between variables in the model can be known from the path coefficient of each relationship between variables comparison with the level of significance based on t-statistics and critical ratio (CR > 1,96).

Table 5. Hypothesis Test Results in the Research Model

Relationship between Variables	Path Coefficient	t-Statistics	Critical ratio (5%)	Remarks
LMX (X) → WE (Y1)	0,574	10,560	1,96	Significance
LMX (X) → EP (Y2)	0,352	6,451	1,96	Significance
WE (Y1) → EP (Y2)	0,479	8,775	1,96	Significance

*LMX = leader member exchange, WE = eork engagement, EP = employee performance

Table 5, presented the results of hypothesis test can be described as follows: (1) Hypothesis 1 which stated that LMX has a positive and significant effect on employee performance, is supported. This result indicates that a higher relationship between leaders and subordinates will be able to improve the performance of VOEs employees (2) Hypothesis 2 which stated that LMX has a positive and significant effect on work engagement, is supported. This shows that the better the relationship between leaders and subordinates, the higher the engagement of VOEs employees; (3) Hypothesis, which stated that work engagement has a positive and significant effect on employee performance, is supported. This result indicates that the higher the work engagement of employees, the higher the employee performance of VOEs employees. Besides test the direct effect, this study also test the indirect effect (mediation). The test of mediation is done to detect the position of mediating variables in the research model. The

result can determine the nature of the relationship between variables, both as complete mediation and partial mediation, or un-mediation. The testing mediating variables is done using the criteria by Hair, *et al.* (2010).

Table 5. Mediation Test Result

Relationship Between Variable	Remark	Type of mediation
LMX (X) → WE (Y1)	Significant	Partial Mediation
WE (Y1) → EP (Y2)	Significant	
LMX (X) → EP (Y2)	Significant	

From the test that is conducted, it is found that work engagement is a partial mediation variable of the influence of LMX on employee performance. The analysis results show that work engagement in VOs employees has a role in helping the relationship of leaders and subordinates in improving employee performance. Furthermore, LMX is significant indirect relationship on VOs employees through work engagement.

5. DISCUSSION

Employee performance is a condition that must be known and confirmed to certain parties to understand the level of achievement of an agency’s results associated with the vision carried by an organization or company; and to understand the positive and negative impacts of an operational policy. Employee performance is a function of effort and abilities. Walker (2010) stated that there are some variables that influence employee performance and can be controlled by the management, namely: work design (tasks or activities that must be completed); job content; organizational context (for example: supervision style of work organization, physical condition of the workplace); rewards, work time, and performance objective. All of these variables have direct influence on the level of effort of individuals in carrying out the office tasks. Another important variable is individual competence. A hard worker, without the support of the necessary skills, cannot be expected to have good performance. Thus, an employee will have a high level of performance if there is a match between work and abilities. If these things are fulfilled, then there will be a feeling of responsibility towards his work and a willingness to participate in achieving organizational goals through the implementation of tasks to the maximum. Therefore, organization needs to pay attention to human resource management to produce high employee performance in order to improve overall organizational performance (Riana *et al.*, 2020).

This study is a development and a study of the relationship between the influences of LMX, in which the measurement of ‘Affect’ dimension is an individual relationship, with the values of Tat Tvam Asi on employee performance. The understanding and practices of Tat Tvam Asi at the workplaces can make individuals able to feel the weight and light in life, so that the individuals always help each other, feel the same fate, and feel to have the same responsibility. Tat Tvam Asi that are implemented in daily life organizations as a whole and truly in the nature and behavior of life will make life become very harmonious, mutually protect each other and meaningful. This will ultimately achieve the balance of life in togetherness. One reason why work engagement is such a popular concept is that it is a very good predictor of important employee, team, and organizational outcomes. Higher work engagement tend to strong dedication all the employees to and focus on their work activities, engaged workers show better in-role task performance (Christian *et al.*, 2011). Several trends in the work engagement literature, probably one of the most important trends is that engagement is studied as a phenomenon that may fluctuate within persons–across time and situations (Bakker, 2014; Sonnentag *et al.*, 2010) so that employees become more creative at the workplace (Gawke *et al.*, 2017).

The finding of this study also inform that LMX models with local wisdom *Tat Twam Asi* values can enhancing employees performance (Audenaert *et al.*, 2019; Xie *et al.*, 2019; Clarke & Mahadi, 2017) as well as intensify work engagement (Kwon *et al.*, 2019; Nas, 2019; Radstaak, & Hennes, 2017). Scholars also mentioned that work engagement is the essential role on supporting employees maximum contribution to the organization so that intensify employees performance (Olugbade & Karatepe, 2019; Cesário & Chambel, 2017). This study

emphasized that higher employees performance can create with work engagement. Therefore, work engagement is the essential role on mediating the relationship between LMX on employees performance.

6. CONCLUSION

The leader–member exchange (LMX) theory is a relationship-based approach to leadership that focuses on the two-way relationship between leaders and followers. Previous research shows that better LMX results in more resources being available to subordinates and restricted information. Employees with higher LMX, characterized with a high degree of mutual trust, were more willing to share their knowledge tend to higher of work engagement and higher employees performance. Moreover, higher work engagement intensify the employees performance. The development of the leader and subordinate relationship construct which is called LMX is based on the modification and development of the LMX theory that has been developed in the previous studies. The former of LMX is consisted of four dimensions, namely: affect, loyalty, contribution, and professional respect dimension. This study development of LMX concept is included in the value of *Tat Tvam Asi* in the Affect dimension. LMX can encourage the work engagement of employees. The development of LMX construct with the value of *Tat Tvam Asi*. This study offer novelty that is useful in developing knowledge related to the field of employee performance studies. The use of *Tat Tvam Asi* values as replacing affect in the LMX is the novelty that is offered, because so far the LMX has only analyze the relationship of work-related exchanges. There have not been many studies done with other indicators that are a social exchange value that influences the relationship between leaders and subordinates (LMX), especially those with local wisdom nuances. LMX *Tat Tvam Asi* values has a positive and significant influence on employee performance. This indicates that in improving the employee performance in VOs, both leaders and subordinates must continue to develop a feeling that everything and everyone is basically the same. This can be done through respecting fellow human beings and all creatures created by creator that we are all brothers, or “*Vasu Daiva Kutumbaka*”. in the affect dimension can enhance the work engagement of VOs employees. LMX also indirectly intensify the employee performance through work engagement.

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