The Art of Making Workplace Innovative: Conceptual Integration of Leader-Member Exchange, Workplace Innovation and Employee Creativity

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Abstract

An increased engagement in innovative activities has become an essential requirement for modern ventures to respond to the threats and opportunities they face. Due to increased globalisation and digitalisation, SME ventures are currently looking for ways to cultivate innovation at different levels such as individual, team and organisational levels to remain competitive. SME ventures need to focus on employee creativity in order to stimulate innovation at the individual level. Moreover, a favourable working environment is required for such cultivation. This short commentary aims to conduct an extant literature review proposing that Leader-Member Exchange (LMX) impacts employee creativity and workplace innovation mediates the relationship between them. Based on the social exchange theory, the literature on LMX, employee creativity, and workplace innovation is reviewed. This study's conceptual model opens new avenues for empirical studies and may help leaders cultivate innovation for improved organisational performance. The current study suggests that SME ventures should implement better LMX

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practices and better interaction with employees to cultivate ideas aimed to improve employee creativity.

Keywords. employee creativity, leader-member exchange (LMX), workplace innovation

1. Introduction

Unique factors, work process, and creativity may help an SME venture stand out among its competitors and acquire the competitive edge required to achieve its goals. Arguably, creativity can be enhanced by establishing an innovative workplace (Agarwal, 2014; Montani, Vandenberghe, Khedhaouria, & Courcy, 2020). Leaders play a significant role in improving their employees' creativity and innovation to improve their performance (Jyoti & Dev, 2015). The leaders should draft a systematic approach and mechanism to enhance creativity and innovation; indeed, leader-member exchange (LXM) could be a crucial factor in this regard (Imam, Naqvi, Naqvi, & Chambel, 2020; Pan, Sun, & Lam, 2020; Tierney, 2008). The primary objective of every venture is to earn a higher profit and to achieve this purpose, ventures need to be more creative and innovative. Qu, Janssen, and Shi (2017) proposed a relationship between LMX and creativity. The researchers empirically tested the relationship between leadership, innovation and creativity and argued for a significant positive relationship among them (Khalili et al., 2016). However, there still exists a gap in the literature, and no previous research has examined the relationship between LMX, workplace innovation and employee creativity, simultaneously. Therefore, this study conceptualises workplace innovation's mediating role between LMX and employee creativity in SME ventures.

This study contributes to the literature about LMX, employee creativity and workplace innovation by extracting and linking the relationships already found in the existing literature. Past studies investigated the leader's effect on creativity and innovation (Imam et al., 2020; Tierney, 2008), yet arguments lack how leaders can become essential predictors of employee creativity and workplace innovation. Leaders need to learn how to create an environment of innovation and creativity for employees to enhance their performance (Qu et al., 2017). It is important to know how the
followers should be trained to maintain a high-quality relationship with the leaders in an innovative working environment (Imam et al., 2020; Qu et al., 2017).

2. Literature Review

2.1. Leader-Member Exchange (LMX)

LMX is a relationship-based approach to leadership with a focus on the followers' engagement. LMX suggests that leaders maintain different levels of relationship with the employees, such as low and high level relationships (Han & Bai, 2020). Low and high level relationships can be developed by implementing career-oriented strategies (Graen & Uhl-Bien, 1998), as relationships involve interaction, trust, support and reward (Day & Miscenko, 2016). It is said that leadership can be more efficient when it establishes a healthy relationship with followers (Day & Miscenko, 2016; Graen & Uhl-Bien, 1998). It can best be achieved with transactional and transformational leadership styles, and it can be emotional rather than behavioural. LMX has a positive impact on employees' attitude and usually results in better performance (Cropanzano, Dasborough, & Weiss, 2017; Liden, Wayne, & Stilwell, 1993). The concept of LMX revolves around creating two groups of members. The first is the "in-group" which receives more attention and has more interaction with the leader, while the other is the "out-group" which receives less attention and has less interaction with the leader (Lunenburg, 2010). Therefore, LMX can be defined as the leaders' tendency to share decisions and information with their followers (Paglis & Green, 2002).

2.2. Employee Creativity

Creativity is defined as the generation of new ideas related to services, procedures and products (Leone, 2020; Parnas, Sandsten, Vestergaard, & Nordgaard, 2019). It can generate new ideas and plans, which is considered the most important component in achieving a sustainable competitive advantage (Oldham & Cummings, 1996). SME ventures want creative workers to achieve sustainable competitive advantage. Therefore, goals can be modified, and creative action expectations should be improved, since better goal-setting enhances creativity by influencing motivation through a self-regulatory mechanism.
Creativity in SME ventures is the mutual function of the individual, group and organisational characteristics as it is aimed at the creation of valuable services, products and procedures (Kauppila, Bizzi, & Obstfeld, 2018). On the other hand, teamwork increases creative work involvement (Shih & Wijaya, 2017), leading to improved employee creativity and generating new actionable ideas (de Vasconcellos, Garrido, & Parente, 2019).

2.3. Workplace Innovation

Every venture has to be unique and competitive in its products and services to survive and achieve a sustainable competitive advantage (Kindström, Kowalkowski, & Sandberg, 2013). It is not sufficient to focus on standard procedures and products to succeed in this hyper-competitive environment; indeed, ignoring novelty in products, services, and practices can lead to destruction. Therefore, SME ventures need to be creative to achieve a competitive edge (Bereznoy, 2019; Porter & Stern, 2001). Workplace innovation makes employees more involved at all levels where change can occur, such as changing how ventures manage, organise, and deploy people, technology, and other resources (Putnik et al., 2019). It is essential to continuously review a venture's strategic goals to improve and renew its products, processes and services continuously. It helps an organisation maximise the return on investment in automation and digitalisation by integrating workforce competencies, capacities and workplace innovation (Oeij, Dhondt, Rus, & Van Hootegem, 2019).

Furthermore, workplace innovation outcomes are to improve organisational performance and enhance the quality of working life (Pomares, 2020; Totterdill & Exton, 2014). Previous studies showed that creativity and leadership styles are connected with innovation in different ways; indeed, self-leadership and self-goal setting increase the creativity of employees which in turn increases workplace innovation (Mittal & Dhar, 2015). When workplace innovation and workplace partnership are combined, it results in sustainable and tangible production and changes (Totterdill & Exton, 2014). It is a vital source of success, leading
to creativity and competitiveness (Ferreira, Coelho, & Moutinho, 2020). Even in the educational sector, different classroom practices are very effective in developing those competencies, resulting in workplace innovation (Soriano, Vila, Perez, & Morillas, 2012).

2.4. Conceptual Propositions

LMX is the dyadic relationship between the follower and the leader (Lee, Thomas, Martin, Guillaume, & Marstand, 2019). It is positively related to attitude and performance (Lee, Thomas, Martin, & Guillaume, 2019) and arguably related to creativity (Upadhyay & Kumar, 2020). Creativity relates to an individual's unique characteristics, such as intuition, self-confidence, and attraction to complexity (Cai, Lysova, Bossink, Khapova, & Wang, 2019). Employees' contextual and personal characteristics influence their creativity at the workplace (Zhou, Wang, Song, & Wu, 2017). Nokia is an unforgettable example of those ventures which did not prioritise creativity and innovation and lost its market share (Kurikka, Kolehmainen, & Sotarauta, 2018). Workplace creativity can enhance organisational performance by creating novelty in products and technology, while the organisational process is crucial for survival (Pot, 2011).

Social exchange theory is a theoretical model essentially used for understanding workplace behaviours (Berg, 2019). It involves a series of interactions and responsibilities. Social exchanges include tangible as well as intangible exchanges between parties (Zoller & Muldoon, 2019). Social exchange is the foundation of a valuable relationship between employees and their leaders (Zagenczyk, Purvis, Cruz, Thoroughgood, & Sawyer, 2020). LMX includes social interaction between leaders and members in which the leaders show a supportive behaviour for their employees as social exchange takes place between them directly (Casimir, Ng, Wang, & Ooi, 2014).

LMX is considered the social exchange of obligations, ideas, and trust between leaders and employees (Graen & Uhl-Bien, 1998). Leaders' behaviour encourages employees to be creative and innovative, as the higher exchange between them improves the tendency to generate creative ideas (Magnini, Hyun, Kim, & Uysal, 2013). Social exchange relationship motivates the
employees to perform better and be more creative (Fu, Bolander, & Jones, 2009). LMX has a positive influence on employees, and it increases their emotional attachment. Social exchange theory suggests that leaders must establish an exchange relationship with employees to improve the venture's work environment (Lorinkova & Perry, 2017). It argues that when leaders have a good exchange relationship and delegate authority, they perform better creatively and show reciprocal behaviour (Wu & Lee, 2017).

Making decisions with mutual discussion and interaction increases employee creativity (Guo & Wang, 2017; Zhao, 2015). Joint decision making encourages employees to develop creative ideas (Chen & Hou, 2016; Guo & Wang, 2017). Work-life balance and LMX have a considerable impact on the creativity of employees at work (Aleksić, Mihelič, Černe, & Škerlavaj, 2017). LMX enhances the performance of employees, while motivation and creativity mediate this positive relationship. LMX affects creativity and, in turn, creativity improves employees' performance, while motivation mediates the relationship between creativity and LMX (Wang, 2016). As far as creativity and innovation are concerned, these are essential elements for SME ventures to become more competitive (Slåtten, 2014). Innovation and creativity are related concepts, employees with more innovative potential are more creative (DiLiello, 2006). Employee creativity, creative climate and workplace orientation are significantly related (Ghosh, 2015). When these concepts were studied in SME ventures, it was found that employee creativity is strongly and positively related to workplace innovation (Khalili, 2016; Liu, Gong, Zhou, & Huang, 2017). The perception of a supportive climate for innovation plays a significant mediating role between transformational leadership and employee creativity (Khalili, 2016).
Table 1. Operational Definitions of Key Variables

<table>
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<tr>
<th>Variable</th>
<th>Definition</th>
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<tr>
<td>LMX</td>
<td>LMX is defined as the reciprocal exchange between employees and their leaders based on trust, respect, and obligation (Graen &amp; Uhl-Bien, 1998)</td>
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<tr>
<td>Workplace Innovation</td>
<td>Workplace innovation is defined as the implementation of new and combined interventions in the fields of work organisation, human resource management and supportive technologies (Pot, 2011)</td>
</tr>
<tr>
<td>Employee Creativity</td>
<td>Employee creativity is defined as the generation of novel and useful ideas, products and processes (Zhou &amp; Hoever, 2014)</td>
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Workplace innovation has a substantial relationship with the leader and member interaction and exchange. Leaders can influence self-efficacy and encourage employees' team reflection processes to make their performance better and more innovative (Somech, 2006). Research in the field of organisational behaviour identified that LMX has a significant positive impact on employees' creative behaviour (Aryee, Walumbwa, Zhou, & Hartnell, 2012). Innovative behaviour and job engagement are significantly affected by LMX; however, organisational engagement remains unaffected by it (Kim & Koo, 2017). Social environment enhances employees' innovative behaviour at the workplace (Volmer, Spurk, & Niessen, 2012), while engagement at workplace plays a crucial mediating role in this relationship (Garg & Dhar, 2017). LMX, organisational work engagement, and perceived organisational support have a significant positive impact on employees' innovative workplace behaviour. Studies have indicated that LMX also serves as a moderator between innovative employee behaviour and perceived organisational behaviour (Agarwal, 2014). Therefore, the above arguments lead to the articulation of the following propositions:

Proposition 1: LMX has a significant positive impact on workplace innovation.
Proposition 2: LMX has a significant positive impact on employee creativity.

Proposition 3: Workplace innovation has a significant positive impact on employee creativity.

Figure 1. Conceptual Model

For conducting this conceptual study, the researchers consulted various journals of management and psychology. Empirical and conceptual papers published in high and good impact factor journals were acquired from various popular databases. The researchers searched Emerald Insight, JSTOR, Science Direct, ResearchGate and ELSEVIER to identify the extant literature. The researchers mainly consulted high impact factor journals including Management Decision, Academy of Management Review, Academy of Management Journal, Personnel Review, Leadership Quarterly, Journal of Applied Psychology and International Journal of Hospitality Management for literature review.

3. Discussion

Transformational leadership has a positive impact on the dimensions of LMX and the innovativeness of employees (Lee, 2008). LMX affects the organisational engagement of employees, which in turn positively relates to their innovative behaviour. It
has a negative relationship with job quitting behaviour, which decreases the turnover intentions of employees. Moreover, there is a positive relationship between LMX and innovative work behaviour (Agarwal, 2014). LMX provides a helping hand to employees for getting approval and social support for their ideas to implement them successfully (Schermuly, Meyer, & Dämmer, 2013). Due to LMX, employees perceive to enjoy the support of their leaders. Concerning social exchange theory, Schermuly et al. (2013) stated that employees become more engaged in return to such support, which results in positive outcomes. Furthermore, Zhou and Hoever (2014) posited that high-quality exchange relationships improve creative conditions at the workplace and encourage employee creativity. Researchers have argued that high-quality dyadic relationships positively impact employee performance, innovative behaviour, and creativity. It is argued that LMX has a positive impact on innovative behaviour (Kim & Koo, 2017).

Another study showed that in SME ventures where a high relationship exists, employees are more creative and efficient, which results in high performance (Li, Sanders, & Frenkel, 2012). Employees who have better work relationships get psychologically encouraging climate and support from their supervisors and work more creatively. Employee creativity is higher when employees have a high LMX relationship with their direct supervisors (Pan, Sun, & Chow, 2012). Chaubey, Sahoo, and Khatri (2019) suggested that leadership is a crucial factor that plays a vital role in influencing employee creativity within a venture. Ventures are always busy in doing something creative to attain their goals. When innovation, creativity, learning and reflection are combined, they can bring change in organisational culture. An organisation can benefit from improved performance, commitment, better leader-member engagement and customer care (Totterdill & Exton, 2014). A climate of creativity explains the variation in perceived innovation (Lin & Liu, 2012), where employees are likely to be more creative. The said propositions are aligned with the findings of Wang, Tsai, and Tsai (2014), who argued for the relationship between innovation, climate and employee creativity. Chen and Hou (2016) argued that employees who work in an innovative environment are more encouraged to
work creatively. A contributive business environment is essential to enhance the creativity level and creative efforts of employees. It also adds motivation and creative engagement to encourage creative efforts because it motivates and engages creative workers (Tsai, Horng, Liu, & Hu, 2015).

In the past, different researchers measured LMX, creativity and innovation differently. Most studies found a significant positive relationship between these variables. The current study proposes an explicit relationship between LMX and employee creativity with workplace innovation's mediating role. Agarwal (2014) and Janssen (2000) measured LMX using seven items, and nine items were used to measure innovative behaviour, which was found to have a positive relationship with each other. Lee (2008) found a negative impact of transactional leadership on innovation, yet transformational leadership was positively impacted. Many past studies empirically confirmed that there is a significant positive relationship between LMX and innovation that ultimately enhances employees' creativity. The hypothesis results showed that the perception of a supportive climate for innovation has a significant positive effect on creativity. Ghosh (2015) measured the relationship between creativity and workplace innovation and identified a positive relationship between innovation and employee creativity. Previous studies have proved that LMX has a significant positive impact on creativity; when there is more interaction between leaders and employees, the latter feel free to share their ideas and encourage creativity. Another study hypothesised that there is a significant positive relationship between LMX and creativity (Aleksić et al., 2017) and measured creativity through an eight-item scale developed by Zhou and Hoever (2014), while LMX was measured through a seven-item scale developed by Graen and Uhl-Bien (1998). The results showed that the relationship between these two variables is positive and significant. Wang (2016) also measured the relationship between LMX and creativity. The results showed that there is a significant positive relationship between LMX and creativity. Thus, it is argued here that the propositions suggested in this study are aligned with the past research findings and offer new avenues for future research.
4. Conclusion

The literature review indicates that LMX can increase the creativity of employees. When leaders have good interaction with their employees, the latter can easily communicate and share their ideas with the former regarding achieving their goals. Workplace innovation motivates employees to be more unique and different in their working, which enhances the creativity of employees.

These are conceptualised ideas based on extant literature, and future studies can empirically test these relationships. Future researchers have the opportunity to find out the impact of LMX on employee creativity by taking employee self-value as the moderator, or they can take leaders' and followers' expectations of creativity as the mediator instead of workplace innovation. This study can be conducted in different cultures and countries. It can be explicitly carried out in an educational context to explore the importance of LMX and to know how it impacts employees' creativity with workplace innovation as the mediator. Future studies can be conducted in the service and manufacturing sectors and compare their results regarding how LMX and workplace innovation boost employees' creativity in these sectors. Future researches can also be conducted to explore the relationship between creative leadership and workplace innovation with the mediating role of employee creativity.

This study aimed to find out the relationship between LMX and employee creativity with the mediating role of workplace innovation. The main aim was to propose a relationship between LMX and employee creativity and know how LMX can establish an innovative work environment. Qu et al. (2017) suggested that future studies can determine the relationship between LMX and employee creativity through the mediating role of innovation. In this study, it was conceptualised that LMX has a significant impact on employee creativity and workplace innovation mediates the relationship between them. The current study's conceptual model can help the managers manage employees' creativity, innovation, and LMX in the ventures to enhance creativity. Supportive leadership helps to minimise uncertainties, and SME ventures can implement better LMX practices. Better
interaction with employees helps in cultivating ideas aimed to improve employee creativity.
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