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To Link this Article: http://dx.doi.org/10.6007/IJAREMS/v12-i2/17813 DOI:10.6007/IJAREMS/v12-i2/17813

Received: 06 April 2023, Revised: 08 May 2023, Accepted: 23 May 2023

Published Online: 13 June 2023

In-Text Citation: (Di et al., 2023)


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Vol. 12, No. 2, 2023, Pg. 562 – 573

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The Determinants of Employees’ Innovative Behavior in China SMEs: Leader-Member Exchange (LMX) Theory Perspective

Jiang Ming Di, Nor Intan Adha Hafit, Suhaila Mohamed
UiTM Selangor, Puncak Alam Campus, 42300 Bandar Puncak Alam, Selangor
Corresponding Author’s Email: intan520@uitm.edu.my

Abstract
Today's Chinese SMEs are dynamic and subject to constant challenges. Demonstrating employees' innovative behavior (EIB) to help Chinese SMEs to create a competitive advantage, attract customers, and build a loyal client base. Based on the literature review, the study utilizes theoretical, and hypothesis constructed, and employs Leader-member Exchange Theory to identify the key elements influencing employee innovative behavior (EIB) in the Chinese context. We propose that transformational leadership (TL) and organizational justice (OJ) would be the positive factors that significantly impact EIB. Transformational leadership (TL) is essential in fostering an innovative environment. Studying TL's influence on EIB could provide insights into how leaders can encourage and support innovation in SMEs. In addition, organizational justice will influence employees' motivation, engagement, and commitment to innovation. Therefore, studying the role of transformational leadership (TL) and organizational justice (OJ) in promoting EIB in Chinese SMEs could help identify strategies organizations can utilize to promote innovation. Based on the literature review, we further argue that high levels of knowledge sharing (KS) among employees can strengthen this mechanism.

Keywords: Leader-member Exchange Theory, Transformational Leadership, Organizational Justice, Employee Innovative Behavior, Knowledge Sharing, Chinese SMEs

Introduction
Employee innovative behavior (EIB) is crucial for organizations to maintain competitiveness, improve efficiency, increase productivity, and enhance customer satisfaction. Encouraging and supporting innovative behavior can ultimately contribute to an organization’s long-term success, and it can also lead to a more positive work environment and culture, fostering greater employee engagement and job satisfaction. Moreover, innovation is significant for small and medium-sized enterprises (SMEs) as
they often face more resource constraints and intense competition. In addition, employees' innovative behavior can help SMEs to differentiate themselves from competitors, develop new markets, and improve efficiency.

While there is a growing understanding of the importance of EIB for SME success, research on this topic in the Chinese context is relatively limited and fragmented (Ali et al., 2022; Hoi et al., 2019; Tian et al., 2020). Considering the deep-rooted concept of hierarchy in traditional Chinese culture, which strongly emphasized harmony and power separation, usually on a sacrifice of debate, trial, and error experimentation, and innovation (Cheng, 1999; Wei et al., 2015; Zhang & Zhong, 2016; Hubner et al., 2022; ). Given the unique cultural, economic, and institutional contexts in China, it is crucial to investigate the factors that influence employees' innovative behavior in Chinese SMEs. Compared with large firms, SMEs have limited resources, which is a critical gap, as employee innovative behavior is an essential driver of organizational innovation and survival. Therefore, it is necessary to understand how SMEs can promote originality, inspire creativity, and encourage innovative behavior among their employees. This research can help SMEs allocate limited resources to key success factors and can provide insights for improving SMEs' innovation capabilities in China.

**Literature Review and Hypotheses Development**

Leader-member Exchange Theory is a framework that suggests that individuals engage in social relationships according to the reciprocity principle (Blau, 1964); that is to say, people participate in social interactions to gain specific benefits or rewards. For example, in the workplace, employees expect various social and material rewards, such as recognition, respect, job security, and financial compensation. In return, employees are expected to contribute to the organization by engaging in productive behaviors, such as innovative behaviors.

Transformational leadership (TL) and organizational justice (OJ) are two factors that influence the social exchange process within organizations. Employees who perceive their leaders as supportive, trustworthy, and fair are more inclined to develop favorable social exchange connections with peers and leaders, increasing their confidence and ability to engage in innovative behavior. In addition, Leader-member Exchange Theory suggests that knowledge sharing can facilitate positive social exchange relationships among employees. When employees share knowledge, they engage in social exchange, which can lead to increased individual ability and innovative behavior. Therefore, by adopting a social exchange perspective, this study has the potential to enhance our comprehension of the intricate connections between Transformational Leadership (TL), Organizational Justice (OJ), Knowledge Sharing (KS), and Employee Innovative Behavior (EIB) in Small and Medium Enterprises (SMEs).

**Leader-member Exchange Theory**

The LMX hypothesis, which focuses more on dyadic connections between leaders and members, indicates that leaders influence the strength of these relationships among members (Dansereau et al., 1975). A vital aspect of the Leader-Member Exchange (LMX)
theory is the recognition that employers have different relationships with their employees since employers tend to differentiate themselves from their employees. LMX development can be viewed as a process of developing trust (Blau, 1964), which provides a sound theoretical foundation for both LMX development and how LMX quality influences member and leader activities. According to the social exchange theory, when individuals favor their exchange partner, the other party will be motivated to reciprocate within a reasonable period. As both parties show preference towards each other, they establish a sense of confidence, transitioning from an "economic exchange" to a "social exchange" relationship. This implies they will be motivated to go above and beyond their work requirement when their bond reaches a certain level. Consequently, social exchange theory is frequently used to explain why leaders provide challenging tasks and resources to high-quality LMX members and why members are encouraged to perform and engage in voluntary activities that surpass minimum expectations (Cropanzano et al., 2007). Reciprocity is critical in LMX theory, but high-quality interactions rely on generalized instead of immediate reciprocity (Sparrowe & Liden, 1997). Employees prefer to receive long-term benefits through the state of reciprocity. The relationship quality between leaders and members will influence their attitudes and behaviors.

According to Sparrowe and Liden (1997), other LMX-related elements, including time, knowledge, and mental support, may encourage innovative behavior. The more time members spend with their leaders, the more opportunities they have to discuss new ideas, provide feedback, and benefit from their leaders. In turn, it stimulates innovative behavior among members, characterized in this study paradigm as "knowledge sharing." Members with high LMX are regarded as more powerful and influential than those with low LMX since they have more access to resources and information from the leaders (Sparrowe et al., 2001). More information can spark new ideas, and the implementation can be accelerated by additional support, particularly under challenging circumstances, which is why more knowledge and mental support from leaders can encourage innovative behavior (Schermuly et al., 2013). Additionally, employees with higher LMX are more likely to persuade other participants to accept innovative concepts and gain the backing and cooperation to realize them (Scott & Bruce, 1994).

In conclusion, utilizing social exchange theory, research has revealed that employees who feel a high level of LMX may feel obligated to work harder, leading to positive organizational outcomes. Given the leader's support, individuals with a high LMX tend to be more aggressive about promoting and executing innovative ideas inside the team (Sparrowe & Liden, 2005). Hence, other team members will respect and trust the one with a high LMX. Moreover, recent meta-analyses have shown a substantial positive correlation between transformational leadership and LMX quality in various studies (Dulebohn et al., 2012; Howell & Higgins, 1990; Piccolo & Colquitt, 2006; Wang et al., 2005). In addition, LMX was investigated in various papers in terms of organizational justice and knowledge sharing (Aryee & Chen, 2006; Kim et al., 2017; Liden et al., 2000; Pan et al., 2012; Laschinger et al., 2009). The LMX theory could connect with independent and
dependent variables in this research, which is why it was chosen as the main theoretical underpinning.

**Transformational Leadership and Employee Innovation Behavior**

Transformational leaders create a positive work environment by inspiring and motivating their employees, which can stimulate employee creativity and innovation. By providing employees with a sense of purpose, challenging assumptions, and encouraging creativity, transformational leaders can increase employees' willingness to create and practice innovative ideas (Bass, 1999; Nemanich & Keller, 2007; Seltzer & Bass, 1990; Yukl, 1999). Leader-member Exchange Theory (Blau, 1964) suggests that employees are more inclined to engage in innovative behavior if they feel their contributions are valued and recognized by their leaders. Transformational leaders who provide support, recognition, and opportunities for growth can create a positive social exchange that increases employees' motivation to engage in innovative behavior. By building a relationship-based work environment and encouraging individual consideration of each other, transformational leadership (TL) helps employees shift their attention away from personal interests and criticism. This approach helps create an organizational culture that is conducive to innovation. As a result, TL provides employees with a valuable opportunity to build cooperative and learning competencies that promote innovative behavior at the individual level, as highlighted by research conducted by Bass in 1999 and Bass & Riggio in 2006. Research has consistently shown that TL was positively related to EIB. For example, many studies found that TL directly predicts EIB in the public sector (Tayalet al., 2022; Liet al., 2022; Azingaet al., 2023). Hence, drawing from the existing literature, the following hypothesis is proposed:

**H1:** There is a positive relationship between TL and EIB.

**Organizational Justice and Employee's Innovative Behavior**

Through the Leader-Member Exchange (LMX) theory, individuals establish relationships based on mutual benefits, and the extent to which they perceive their relationship to be equitable influences their willingness to engage in cooperative behavior. Organizational justice pertains to how employees view fairness and equity in their work environment. Organizational justice (OJ) comprises three dimensions: distributive, procedural, and interactional. Distributive organizational justice pertains to the fairness of outcomes, procedural organizational justice to the fairness of decision-making procedures, and interpersonal organizational justice to the fairness of interpersonal treatment (Cohen-Charash & Spector, 2001; Colquitt, 2001; Lee et al., 2010). When employees perceive their organization as fair, they are more likely to feel valued and believe their contributions are significant. This perception, in turn, can lead to increased employee innovative behavior (EIB) as they are motivated to make further valuable contributions to the organization. Conversely, employees are more likely to feel angry and frustrated when they believe their organization is unfair, which might reduce their desire to engage in cooperative activities, including innovative behaviors.
In addition, Leader-member Exchange Theory provides a theoretical framework to explain why organizational justice may influence EIB. According to Leader-member Exchange Theory, individuals participate in a social exchange relationship with their company, offering their efforts, expertise, and time in exchange for benefits like income, reward, and recognition. Research has shown that employees are more likely to engage in behaviors that are advantageous to the firm when they perceive their employer as fair and reasonable, which creates a sense of equity in the exchange relationship. Studies have found an indirect relationship between OJ and EIB through perceived organizational support (Nazir, 2019; Young, 2012). For instance, research by (Lee et al., 2010) found that when employees perceived high levels of distributive organizational justice (fairness of outcomes), they were more likely to engage in innovative behavior. Similarly, a study (Koys & DeCotiis, 1991) found that employees who perceived higher procedural, organizational justice (the fairness of the decision-making procedures) were more likely to engage in innovative behavior as well.

H2: There is a positive relationship between OJ and EIB.

Knowledge Sharing and Employee’s Innovative Behavior

This study aimed to formulate theoretical predictions regarding the effect of KS on EIB. Knowledge creation, transfer, and retention are essential functions of organizations (Kogut & Zander, 1992), and knowledge sharing (KS) is the whole process. Knowledge is shared among units within the organization. It is an important area of organizational learning. Norman (2002) suggests that knowledge can be shared more openly and effectively between different organizational units without needing knowledge protection, leading to more successful learning outcomes.

Based on the Leader-member Exchange Theory, reciprocity plays a crucial role in facilitating knowledge sharing (Cabrera et al., 2006). When employees receive relevant information from others, they are more willing to reciprocate by sharing their information. This reciprocal exchange helps to establish trust, which is vital for sustainable knowledge sharing (Lui & Ngo, 2005). As employees reciprocate and share knowledge, they increase each other's awareness of what is relevant to the specific task, which can result in valuable knowledge transfer for innovation. Within an organization, knowledge sharing is a mutually beneficial interaction between different units, and reciprocity helps to establish the norms of exchange (Rank, 2015; Marie & Mitchell, 2005), both parties involved in the exchange take calculated and deliberate steps to increase their investment in the process, carefully giving and receiving signals at each stage. This means that an employee will evaluate the actions of their colleagues and determine their next move based on the actions of others. The process can be seen as a strategic game, where each party weighs their actions' potential benefits and risks and responds accordingly. A bias toward one aspect of the process (the inflows or the outflows) is detrimental to further knowledge sharing and could affect an employee's innovative behavior. Through the preceding discussion, it can be inferred that knowledge sharing
is likely to result in the highest level of innovative behavior. Therefore, a positive correlation is expected between knowledge-sharing and innovative behavior.

H3: There is a positive relationship between KS and EIB.

The Mediating Role of Knowledge Sharing between Transformational Leadership and Employee Innovative Behavior

Based on Leader-member Exchange Theory, we propose that the connection between TL and EIB is not direct and that KS mediates this relationship. TL is the leader’s behavior and specific style that changes employees' perception and ability processes. They attend to be more positive in intellectual stimulation can lead to their innovative behavior. Our proposal is based on the systematic approach that the output will only occur through a specific input if there is a process. The TL is the leader’s behavior that initiates a cognitive capability process of KS. This process further leads to an outcome behavior that is EIB.

Knowledge sharing refers to an individual's awareness of their work, willingness to share relevant information, and belief that their sharing behavior has a meaningful impact (Almeida & Phene, 2004). On the other hand, Employee Innovative Behavior (EIB) encompasses creating and implementing novel concepts, procedures, and techniques within the workplace (Janssen, 2000). Leader-member Exchange Theory suggests a reciprocal relationship between employees and their organizations (Kieserling, 2019). We argue that TL makes employees feel the power of personal cognition; they perceive their organizations as fulfilling their obligations and offering them the resources and assistance they require to succeed. As a result, they may be more devoted to the company and motivated to go above and beyond in their job. When employees feel that knowledge is being shared effectively within their organization, they are more likely to feel confident and empowered to take control of their work and engage in innovative behaviors. This confidence stems from the belief that they have the necessary skills and knowledge to contribute to the organization's success. Additionally, when employees view their work as a means to improve their skills and value, they will be more motivated to come up with new ideas and solutions that benefit the organization. Building on the theoretical and empirical evidence, we hypothesize:

H5: The relationship between TL and EIB is positively mediated by KS.

The Mediating Role of Knowledge Sharing Between Organizational Justice and Employees' Innovative Behavior

Defined by Tsoukas and Vladimirou (2001), KS is an evolving human information exchange procedure involving searching and applying new experiences, values, and insights to business practices, procedures, and innovative techniques within a specific enterprise. In this research, knowledge sharing is viewed more broadly, consisting of two primary sub-dimensions: knowledge donating and knowledge collecting. Knowledge donating refers to the act of "communicating one's intellectual capital to others," while knowledge collecting involves "consulting colleagues to get them to share their
intellectual capital” (Hooff & De Ridder, 2004, p. 118). We propose knowledge sharing as a mechanism that mediates the connection between organizational justice and innovative behavior. We argue that when people feel that knowledge sharing creates a positive work atmosphere due to perceptions of organizational justice, they are more willing to behave innovatively at work. Leader-member Exchange Theory also suggests that employees engage in social relationships with their organization based on reciprocity (Blau, 1964). Organizational justice is one form of social exchange that can influence employees' innovative behavior, and knowledge sharing is one mechanism that mediates this relationship.

A recent study supports this argument by showing a positive relationship between OJ and EIB (Jiun & Jeng, 2015). On the other hand, many studies have proven that knowledge sharing positively affects employees' innovative behavior (T. T. Kim & Lee, 2013; Lai et al., 2016; Yu et al., 2013). The main reason for a person who is unwilling to share knowledge is that he or she perceives being treated unjustly by the company. However, there is no empirical evidence to support this mediation model, which is a gap in theoretical research. Therefore, we hypothesize that:

H6: The positive relationship between OJ and EIB is mediated by KS.

Conceptual Framework
This research aims to ascertain whether EIB, as a dependent variable, is significantly related to TL and OJ, with KS as a mediator influencing the overall mechanism model. The conceptual framework for this study is depicted in Figure 1.

Figure 1. The Conceptual Research Framework

Significance of the Study
Specifically, the study aims to contribute to the existing research in the following aspects. First, it can provide insights into how transformational leadership (TL) and organizational justice (OJ) can enhance innovative behavior in SMEs. By analyzing how knowledge sharing (KS) acts as a mediator, the study can help identify how leaders can stimulate employees to engage in innovative behavior. Second, the study will provide
empirical evidence for the leader-member exchange theory, which is rarely used to explain the antecedents of employee innovative behavior (EIB) in the context of Chinese SMEs. Third, the research will fill the gap by investigating the mechanism of EIB in SMEs in China, related research result will be applied in developing countries. Overall, this study can provide important insights for SMEs to promote a culture of innovation by enhancing transformational leadership (TL) and organizational justice (OJ) and knowledge sharing (KS) among employees. By doing so, SMEs can improve their competitiveness and achieve long-term success.

Conclusion
Based on the literature review of innovative employee behavior (EIB), the researcher found this conceptual framework of transformational leadership (TL) and organizational justice (OJ) and employee innovative behavior (EIB) for Chinese SMEs. Knowledge sharing (KS) is the mediator of this mechanism. Chinese SMEs depend on employees' innovative behavior, and this research tries to find the conceptual framework to stimulate internal innovation with limited resources. Based on the Leader-member Exchange Theory, employees need to be given a challenging and fair work environment in Chinese SMEs so that they can feel proactive to follow their leaders to take relevant responsibility for their work or willing to stimulate their innovative behavior. Nevertheless, relying only on transformational leadership and organizational justice is insufficient as their competence or technical level is insufficient to meet the challenges. Therefore, a mediating variable is added: knowledge sharing is to cultivate their innovative competence. Meanwhile, knowledge sharing creates a positive learning atmosphere for SMEs, which helps employees to be more willing to implement innovative behavior. In the future, the researcher will use more empirical data to provide relevant support for this theoretical framework.

Reference


