RELATIONSHIP BETWEEN LEADER-MEMBER EXCHANGE AND INNOVATIVENESS: MODERATING ROLE OF PSYCHOLOGICAL CAPITAL OF EMPLOYEE

Abstract
Innovativeness / creativity are key success factors for organizational health. Since the developments in field of technology mostly eliminated the complex business models, organizations are easily copying successful business models from each other. In such a challenging environment, organizations should create value add that will make a positive difference in business outcome. There are multiple ways of creating differences but the most sustainable way is to create an organization culture based on innovation and creativity. This study aimed to examine the relation between leader-member exchange (LMX) and innovativeness with the moderating role of Psychological Capital. Structured survey questions addressed to 157 employees of different companies in Turkey to gather the research data.

Keywords: LMX, Creativity, Innovativeness, Psychological Capital

Introduction
Innovativeness and creativity are the highly mentioned concepts in recent years. Innovation and creativity are 2 concepts that stick to each other, creativity can be evaluated as front-end of a process that possibly will result in innovation. Creativity is about discovering new ideas that will possibly make difference in related field; and innovation is successful implementation of those ideas, in this article, individual innovativeness and creativity are used as synonyms to mention same behavior of employees. Beyond their theoretical importance, practically, they are providing great value add to organizations in such a challenging business environment. Technology is helping companies to close the gaps between opponents by reducing costs and creating easily accessible best practices, guidelines. Game is changing; “thinking continuously out-of-the-box” is becoming key asset to maintain sustainable business models. As an umbrella concept “innovation culture” is reflecting the idea of continuous development and differentiation, it is widely evaluated as a starting point to change the game because it has important impact on both sides of golden triangle: people, process and technology. It is clear that result of having innovation culture in the organization is valuable but the question is how can we control or create innovation culture and find the employees that will fit and ecosystem with their innovativeness approach. This study aims to explain some pillars and analyzes relations between them under the innovation concept to take steps towards controlling innovation culture and these pillars are “Leader-Member Exchange”, “Psychological Capital” and “Individual Innovativeness”.

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In recent researches, some explanations put forth to explain the relationship between parameters. In a healthy leader–follower exchange environment, followers are mostly show their creative side and committed to innovation (Basu and Green 1997). Dyadic relationship is essential for the behavior of creativity, but on the other hand all attached followers and leaders are wouldn’t be successful. It also shows another parameter like charisma or psychological capital that moderates the relationship between dyads and creativity behavior. As stated by (Rego et al., 2012), employees with higher psychological capital seem to be more creative. Thereby, article focuses on investigating the relation between LMX and individual innovativeness with moderating role of psychological capital. Paper outlines as follows, first individual innovativeness and creativity concepts are reviewed, then the relations with Leader-Member Exchange and Psychological Capital are explained theoretically and concluded with analysis results.

1. Individual Innovativeness / Creativity

Innovation should be first defined to understand the “Individual Innovativeness”. Innovation is broad concept and has different definitions that proposed by different researchers. Some researchers explain the concept over risk taking, innovation seemed as the proportional amount of risk taking in an uncertain situation using financial resources and social status (Hurt, Jose, & Cook, 1977). Innovativeness are highly related with the risk, because concept is about changing the status-quo or doing different activities than operational daily activities and it requires some resources and abilities. It is risky because activities may not result in success and they are not predictable like operational activities. The people who cannot able to see the value may see it as waste of resources. History is full of that kind of stories. “Ability” is also highly mentioned concept in the literature relating with the innovativeness. Ability is also subject to discussions but highly accepted descriptor of ability is “cognitive ability”. So that, in some researches risk taking evaluated function of cognitive ability (Donnelly & Etzel, 1973). In case of changing the game, to be able to do something is very important but researches are proved that it is not the finishing line. As explained in famous story, creating computers weren’t changed the world selling computers to individuals opened the new era. Similarly, Amabile (1988) mentions importance of intrinsic motivation in his study. Snowball becomes giant with individual actions. Roger & Shoemaker also see innovation as an individual action, relating with risk taking and personal characteristics (Everett M. Rogers & Shoemaker, 1971). Beyond all these definitions, there is a “must-clause” to talk about innovativeness; making something “new”. Thing that was created should be accepted as “new” by the society (Everett M Rogers, 1995). Tarde as a father of “Innovation Diffusion” seeks to explain how and why the new ideas spread and put-forth S-curve to show the speed of adoption of an innovation(Kinnunen, 1996). Kirton is summarizing well with his definition, cognitive abilities help employees to change status-quo under suitable conditions that permit risk taking, operational autonomy and the freedom (Kirton, 1989).

Business ecosystem sees innovativeness as a key success factor for sustainability and continues development. Creating something new and becoming pioneer in the market, requires products led by creative performance (individual level) and organizational innovation (successful implementation of the products) (Oldham & Cummings, 1996). Researches on the field of innovation are also supporting the idea and mentions creative performance of employees as an important success factor for organizations (Teresa M. Amabile, 1988). Creative performance can be seen as a product of creative employees that is ready for the use of companies as a raw material (Kanter, 1988). This raw material makes companies more flexible in challenging markets. Products
of creative employees may also be procedures or ideas and they must satisfy two conditions: to be novel, original and to be useful to the organization. There are different determinants for creative performance of employees and we can group them under two main concepts; personal factors and contextual factors (Tierney, Farmer, & Graen, 1999).

Personal factors are highly investigated by the researchers and with those efforts we are able to define factors. Broad interest, attraction to complexity, intuition, aesthetic sensitivity, tolerance of ambiguity and self-confidence are personal characteristics that define the traits of innovative employees and these traits affect innovativeness positively (Tierney et al., 1999). Contextual factors are also focused by large body of literature and most of them are related with Leader Member Exchange theory, some important factors are: working with goals and deadlines, job complexity, supervision and feedback, these factors are also affecting innovativeness positively (Oldham & Cummings, 1996). Between contextual and personal characteristics, intrinsic motivation has special place, motivation is partially shaped by the environment (Teresa M. Amabile, 1983) and at same time relates with personal characteristics (Teresa M Amabile, Hill, & Tighe, 1994). Being excited about the work activity itself, means loving the working part of the work than secondary benefits, helps employees on taking risks, exploring different dimensions of cognitive areas, becoming playful with the ideas, products and study on them, extending office hours. It is hard to bound creativity with office hours or other limitations.

Limitations are other important concept for creativity and they mostly are the attention point for leaders since innovativeness don’t like limitations. Leaders should provide a healthy setup for self-determination and support employee initiatives at work. Because these skills differentiate employees from the crowd, skills requires extra time and extra performance and they can only live under healthy conditions (Oldham & Cummings, 1996).

Simply, innovation is willingness to change (Hurt et al., 1977) and employees can be grouped under five groups according to their level of innovativeness (Everett M. Rogers & Shoemaker, 1971);

- Innovator: considers themselves as adventurous in relation to people like them
- Early Adopter: They take responsibility in at least one of the groups that they belong to
- Early Majority: They make decisions deliberately and methodically
- Late Majority: They like stability and consistency
- Laggard: They are suspicious of new inventions and new ways of thinking

In this study, innovativeness assessed with the creative performance and relations with LMX and psychological capital are examined. While some researchers are indicating there are no relation observed between LMX and innovativeness (Taştan & Davoudi, 2015), some others are proved that there is positive relationship (Tierney et al., 1999).

2. The Relation of Leader Member Exchange with Innovativeness
Leader-member exchange theory evaluates leaders and their followers at the same time, unlike in the most of the leadership theories; it focuses on dyads that is developed by leaders and followers. LMX theory explains the situation of establishing special and high quality interactions, there would be different level of interaction between leader and employees. Same leader may rely on the basics of employment with other group members and there would not be any dyad relationship. In successful dyadic relationship, some positive consequences arise for both sides, leaders may get form of status, esteem, loyalty, potential for more influence and on the other hand follower can get
authority, freedom, promotion, bonuses, favorable job assignments (Basu & Green, 1997). Leader-member exchange theory also helps other organizational criteria to be conveyed and develops relationships through social exchanges (George B Graen & Uhl-Bien, 1995) and it shows that there are multiple dimensions of LMX. Liden and Maslyn (1998), explain the multi-dimensional approach define 4 sub-dimensions and also put forth LMX scale which is also used in this study. Identified 4 sub-dimensions are affect, loyalty, contribution and professional respect, which are used to explain socio-emotional and professional exchanges between dyads.

Quality of the exchange between dyads can affect innovativeness in different ways. High quality interactions make followers to take more challenging tasks (R. C. Liden & Graen, 1980). Challenging jobs are support higher level of motivation on employees with suitable characteristics and it encourages them to focus on different dimensions of the work, which may result in a creative performance. On the other hand, high quality exchange makes employees to take more risks for the sake of the job (George Bear Graen & Cashman, 1975) which is also essential part of the innovativeness. High LMX employees get recognition from their supervisors, and these loyal employees are working more on non-routine tasks than the others (George Bear Graen & Cashman, 1975), and liking from supervisors is creating trust, freedom, comfort and at the end autonomy, which is essential for creativity (Oldham & Cummings, 1996). Autonomy can create a healthy setup for innovativeness supporting free thinking, information exchange, excitement and encouragement to explore new ideas, find the new solutions for problems (Basu & Green, 1997). Breaking the chain of command and enhancing boundaries give freedom of choosing the own tasks to employees and employees who are permitted to choose tasks and time become more successful (Zuckerman, 1978).

There are different researches that examine relation between the LMX and creativity/innovation. Olsson et al. (2012) analyze the effect of sub-dimensions of LMX on creative research performance and find positive relationship with creative performance. Taştan & Davoudi (2015) focused on the influence of perceived LMX quality to the innovative work behavior and couldn’t find strong relation between the concepts on Turkish employees while Tierney et al. (1999) suggest positive relation between LMX and employee creativity. Based on the literature review, positive relation between LMX and innovativeness is hypothesized as follows:

**Hypothesis 1: LMX will be positively related to innovativeness of employee.**

3. The Relation of Psychological Capital with Innovativeness

Corporates are maintaining daily operations while using their financial capital. Mostly, the human capital becomes the neglected part of the big picture because of its intangible nature but human capital is important as financial capital. Positive effect of the human capital on corporate performance highly studied in the literature (Harter et al., 2002). Luthans et al. mentions the positive effect of tangible and intangible capitals on the competitive advantage and categorizes them within 4 categories:

- Traditional Economic Capital: Shows “what you have”; tangible assets
- Human Capital: Shows “what you know”; experience, skills, education, ideas
- Social Capital: Shows “who you know”; relationships and networks
- Positive Psychological Capital: Shows “who you are”; self-efficacy, hope, optimism, resilience
“Psychological Capital (PsyCap)” is a state-like approach and states are measurable, so performance improvements (satisfaction of job, organizational commitment, increase in work performance) can be made by feeding self-efficacy, hope, optimism and the resilience of the employees (Luthans et al., 2007). Research also shows that 4 core factors of PsyCap are effective when they considered at the same time rather than focusing each other separately.

Self-efficacy, has same meaning with confidence, it is about awareness of employees about their skills, abilities, cognitive resources, experience on the topic; such awareness will positively affect employee’s self-confidence. People who has self-confidence can take challenging tasks and decide on actions to accomplish the task properly (Luthans & Youssef, 2004). Employees with self-confidence creates a space for innovativeness and some other researches are also supporting the idea (Tierney et al., 1999).

Hope is about future and having strong believe on becoming part of the future. It is a powerful concept that has important assets under it. Motivation is one of these concepts (Luthans, et al., 2004) and motivation is key concept for innovativeness, it gives energy to employee for continuous development. Motivated people who are aware of their cognitive abilities can find alternative ways to accomplish their tasks and it would result in an innovation (Rego et al., 2009).

Optimism has two different dimensions (Seligman, 2002); permanence (about time) and pervasiveness (about space). Two dimensions can be distinguished while interpreting good and bad events. Optimists see bad events as temporary, they believe bad/good experiences are limited in time and do not affect the future. Another important attribute of pervasiveness of optimists are limitations on the field. Optimists believe that good/bad occurrences are related with the specific area of interest. Generalizing occurrences on related field is meaningless. Positive interpretations on event keep employees’ morale high and energy to accomplish the tasks. Employees who has positive interpretations on event do not like giving up and it guides them through creating new ways which feed innovativeness (Rego et al., 2012).

Resilience is about healing fast, making U-turns for personal or corporate success. Employees are facing with failures, it is impossible to accomplish all tasks without failures and resilience is about learning from failures to accomplish bigger ones. Employees, who are able to stand up when they fail, increase their pace rather than keeping it in parallel with the popular saying, what doesn’t kill you, makes you stronger. Employees’ high pace on returning from bad situations show their strength of positive emotions (Rego et al., 2012) and literature shows that it is highly related with creativity (Philippe et al., 2009).

In this research, relation between psychological capital and innovativeness are examined. Some researches partly examined this relationship with different parameters like Authentic Leadership (Rego et al., 2012) and search for direct relationship (Sweetman et al., 2011), found positive relation.

**Hypothesis 2: PsyCap will be positively related to innovativeness of employee.**

4. **The Moderating Role of Psychological Capital on the relationship between LMX and creativity**

In literature PsyCap has been investigated as a moderating variable between different variables like “Leader Member Exchange” and “Follower Performance” (Wang et al., 2014), Work Stress and
Burnout (Zhao & Zhang, 2010). PsyCap represents also the motivational level of the employee, and related with researches show that PsyCap has positive impact on creativity (Sweetman et al., 2011). Therefore as also proposed in (Wang et al., 2014) research influence of LMX would be lesser:

“Low PsyCap followers should be more receptive to, and further seek out the benefits and favors conveyed by their exchange relationship with the leader, in order to accomplish their work. In summary, when followers have relatively low PsyCap, their performance is more likely to be affected by LMX than their higher PsyCap counterparts.”

Based on the literature review, it assumed that LMX and innovativeness are related and PsyCap moderates the relation. Therefore, hypothesis is proposed as follows:

**Hypothesis 3: PsyCap moderates the relationship between LMX and Innovativeness.**

Combining hypothesis 1, 2 and 3 study proposes a moderated model as shown in Figure 1.

![Figure 1: Conceptual model of the study](image)

**Method**

**Sample and Procedure**
A total of 156 participants who are currently working in different industries attend survey on an online platform. Since the study aims to get a conclusion independent from the sector, limitation did not adapt to data gathering process. Participants answered three different surveys to measure LMX, Psychological Capital of Employees and Innovativeness of employees.

Among the participants, 55% of them were male. The mean age was 30 years (ranges between 23 to 60 years old) and average of the organizational tenure were 7.25 years (SD=6.3) (ranges between 0.5 years to 40 years old) and the average of working life tenure were 3.82 years (SD=3.97) (ranges between 0.5 years to 23 years).
**Measures**

**Leader-Member Exchange:** Turkish version of the 12 items scale developed by Liden and Maslyn (1998) was used to measure LMX. Responses were based on a 5-point scale ranging from 1 (totally disagree) to 5 (totally agree). Turkish version of the questionnaire has taken from a doctoral thesis (Kaygısızel, 2015). The calculated coefficient alpha for this study was 0.933.

Validation of scale is analyzed with Principal Component Analysis and Varimaks Rotation method. Analysis results give “Kaiser-Meyer-Olkin Measure of Sampling Adequacy” value as 0.914 (>0.60) which proves eligibility of the samples for factor analysis and “Bartlett’s Test of Sphericity” value (Sig=0.000) is significant (p<0.05) which proves eligibility of the component matrix for factor analysis.

Communalities of LMX are greater than 0.2 and there is no need to extract any of the items. 3 eigenvalues are more than 1, but after rotation 4. Factor explains the 18% of the variances. Using information above, 4-factor structure of the scale was proved, factors are affect, loyalty, contribution and professional respect. Using component matrix and rotation matrix, it also proved that all items’ factor loadings are more than 0.6, and there is no overloading (differences are more than 0.1).

**Psychological Capital:** Turkish version of the 24 items scale (or PCQ) developed by Luthans, Avolio, Avey, & Norman (2007) was used to measure PsyCap and scale has 4 factors; hope, resiliency, optimism, self-efficacy. Responses were based on a 6-point scale ranging from 1 (totally disagree) to 6 (totally agree). Turkish version of the questionnaire has taken from Erkus and Findikli (2013). The calculated coefficient alpha for this study was 0.929.

Analysis results give “Kaiser-Meyer-Olkin Measure of Sampling Adequacy” value as 0.903 (>0.60) which proves eligibility of the samples for factor analysis and “Bartlett’s Test of Sphericity” value (Sig=0.000) is meaningful (p<0.05) which proves eligibility of the component matrix for factor analysis.

Communalities of PsyCap are greater than 0.2 and there is no need to extract any of the items. 4 eigenvalues are more than 1.0 and 4 factors explains 60% of the total variance also after rotation 4 factor explains the 60% of the variances. Using information above, 4-factor structure of the scale was proved; factors are self-efficacy, hope, optimism and resiliency. Using component matrix and rotation matrix, it also proved that all items’ factor loading are more than 0.6 and there is no overloading (differences are more than 0.1).

**Innovativeness:** Turkish version of the 20 items scale developed by (Hurt et al., 1977) was used to measure “Individual Innovativeness” and scale has 5 factors. Responses were based on a 6-point scale ranging from 1 (totally disagree) to 5 (totally agree). Turkish version of the questionnaire has taken from Kılıç (2015). The calculated coefficient alpha for this study was 0.770 (>0.7).

Analysis results gives “Kaiser-Meyer-Olkin Measure of Sampling Adequacy” value as 0.807 (>0.60) which proves eligibility of the samples for factor analysis and “Bartlett’s Test of Sphericity” value (Sig=0.000) is meaningful (p<0.05) which proves eligibility of the component matrix for factor analysis. Communalities for Innovativeness are greater than 0.2 and there is no need to extract any of the items. 5 eigenvalues are more than 1.0 and 5 factors explains 65% of the total variance also after rotation 5 factor explains the 65% of the variances. Using information above, 5-factor structure of the scale was proved. Using component matrix and rotation matrix, it
also proved that all items’ factor loading is more than 0.6 and there is no overloading (differences are more than 0.1).

Results

Data gathered from participants was analyzed using IBM SPSS Statistics 20. Firstly correlations between LMX, PsyCap and Innovativeness were analyzed. Secondly two different hierarchical regression models were established. In the first model, effects of independent variables (LMX, Psychological Capital) on dependent variable (Innovativeness) were investigated, then control variables were used instead of independent variables and their effect on Innovativeness were investigated.

Table 1 Mean, Standard Deviation, Correlations

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>LMX</th>
<th>PsyCap</th>
<th>IN</th>
</tr>
</thead>
<tbody>
<tr>
<td>LMX</td>
<td>3.74</td>
<td>0.88</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>PsyCap (PC)</td>
<td>3.70</td>
<td>0.63</td>
<td>0.34**</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Innovativeness (IN)</td>
<td>4.73</td>
<td>0.35</td>
<td>0.20*</td>
<td>0.48**</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: LMX; Leader-Member Exchange, PsyCap; Psychological Capital
*p<0.05; **p<0.01

Hypothesis Testing

Table-2 shows all variables and their means, standard deviations and inter-correlations between them and according to Table-2 LMX is significantly and positively correlated with PsyCap (.32, p<0.01) and innovativeness (.20, p<0.05). PsyCap is also positively and significantly correlates with innovativeness (.48, p <0.05).

Hypothesis 1, 2 and 3 were tested with hierarchical regression with moderator variable. As shown in Table-2, significant relation found between the independent variables and dependent variable and regression models are statistically significant in the first phase. “R square” variable shows that LMX explains the 4% of variation on innovativeness and then it increases to 23%. In second phase, while PsyCap become significant, LMX could not keep significance. Hypothesis 1, 2 are supported with the results. Because of the change on LMX variable, it was pretended as the effect of moderation, and good faith on hypothesis 3 continued, to understand their relations new hierarchical regression test adapted to understand moderation.
Table 2 Effect of PsyCap and LMX on Innovativeness

<table>
<thead>
<tr>
<th></th>
<th>First Phase</th>
<th>Second Phase</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>t</td>
</tr>
<tr>
<td>LMX</td>
<td>0.2*</td>
<td>2.5</td>
</tr>
<tr>
<td>PsyCAP</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>R Square</td>
<td>0.041</td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.04</td>
<td></td>
</tr>
<tr>
<td>F Change</td>
<td>6.6*</td>
<td></td>
</tr>
</tbody>
</table>

Note: LMX; Leader-Member Exchange, PsyCap; Psychological Capital
*p<0.05; **p<0.01

Hierarchical regression analysis repeated with some configurations to show the effect of moderating effect and to analysis Hypothesis 3. ANOVA analysis showed the significance (p<0.01) of the models and as shown in Table-3, interaction between LMX and PsyCap is not significant (β=-0.017, p>0.05) and also LMX lost its significance while PsyCap keeping its significance without change. As a result, hypothesis 3 is rejected. Moderating variable (LMX) and independent variable (PsyCap) produced a significant effect in predicting the dependent variable (individual innovativeness).

Table 3 Moderating Effect of Psychological Capital on the relation between LMX and Innovativeness

<table>
<thead>
<tr>
<th></th>
<th>First Phase</th>
<th>Second Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>T</td>
</tr>
<tr>
<td>LMX</td>
<td>0.045</td>
<td>0.59</td>
</tr>
<tr>
<td>PsyCAP</td>
<td>0.47**</td>
<td>6.27</td>
</tr>
<tr>
<td>LMX x PsyCAP</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>R Square</td>
<td>0.24</td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.23</td>
<td></td>
</tr>
<tr>
<td>F Change</td>
<td>23.805**</td>
<td></td>
</tr>
</tbody>
</table>

Note: LMX; Leader-Member Exchange, PsyCap; Psychological Capital
*p<0.05; **p<0.01

Discussion
This study examined the role of Leader Member Exchange and Psychological Capital on Individual Innovativeness. Positive relation between LMX - Innovativeness and PsyCap – Innovativeness are found, but moderating effect of PsyCap are not supported by the model. Results showed that Psychological Capital dominated the relation and variables are defined the dependent variable significantly. Followers’ performances are important for LMX but psychological capital of followers is more effective on innovativeness. Theoretical implications are not supported by practical implications. In this context, it shows that findings are partially consistent with the literature on LMX, PsyCap and Innovativeness. Moderating effect of PsyCap was not proved as mentioned in related work (Wang et al., 2014). Since inconsistency appeared, this result can be
explained with cultural differences of Turkish employees stem from characteristics or organizational factors.

Turkish business practices culturally in between eastern and western practices and from the managerial perspective paternalism is salient (Aycan, 2006). Participants of the survey age are ranging from 23 to 60 years old, and the mean age is 30 years old. So, it can be said that age participants quite enough to relate with paternalistic management practices. On the other hand, Turkey still has power distance and collectivist culture. Current research do not considers the effect of paternalism and it is the limitation of this work. In some research, it is shown that paternalism has an effect on quality of LMX and paternalism mediates the relationship between job satisfaction and LMX (Pellegrini et al., 2006). In future research, adding paternalism may create more meaningful result.

Companies in developing countries, like Turkey, are aware of the value of creativity, they make investments related field to make a change on status quo. Big Turkish companies are changing their way of working and applying agile techniques, for example. Agile principles recommend plain organization and more initiatives for the sake of working unit. Working unit aims to increase productivity and their level of knowledge, which means increasing psychological capital. In future research, group creativity may also be analyzed to understand the value of small organizations in innovation process.

Current research focuses on follower insights and behaviors but for innovation process leader’s capabilities and behaviors are also very important. Paternalism may also take important part for that kind of research, because in this case leader’s behaviors may have significant effect on the health of process. In future research, leaders should be analyzed to understand full picture.

Consequently, for practical implications leaders establish a healthy relationship with their followers to increase employee’s individual innovativeness. On the other hand, it would more effective to create healthy environment that supports psychological capital of employees positively, because it has more powerful effect on individual innovativeness than LMX.

References


