Blocking Psychological Contract Breach and Improving Leader-Member Exchange through Innovative Leadership

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Abstract

This theoretical paper investigates the role of innovative leadership in enhancing leader-member exchange (LMX) and mitigating psychological contract breach (PCB). The focus is on how innovation in leadership strengthens the quality of relationships between leaders and employees, subsequently impacting employee behavior positively. The characteristics of innovative leadership are examined to elucidate its potential in fostering trust, commitment, and mutual respect within organizations. Furthermore, this paper addresses how improved LMX through innovative leadership influences employees' organizational citizenship behavior (OCB), leading to enhanced overall organizational performance. By exploring the dynamics between innovative leadership, LMX, and PCB, the paper provides a comprehensive understanding of the mechanisms through which innovative leadership can prevent PCB and improve LMX. This analysis offers valuable insights for both scholars and practitioners in the fields of organizational behavior and leadership, highlighting practical implications for fostering a positive organizational environment.

1. Introduction

The concept of leader-member exchange (LMX) refers to the dynamic relationship between leaders and their members within an organization. Developed by Graen & Uhl-Bien (1995), this theory emphasizes the significant impact of the quality of this relationship on organizational performance. Tziner et al., (2017) highlight that a high-quality relationship between leaders and members is characterized by shared values, trust, respect, and loyalty, which fosters a bilateral influence between employees and leaders. In contrast, a low-quality relationship is often based on formal job requirements and employment contracts, leading to a distance and psychological contract between the parties involved.

Leaders, as representatives of the organization, play a crucial role in maintaining this relationship. Saboor et al., (2017) notes that the failure of the organization to fulfill its obligations and commitments to employees can lead to a psychological contract breach (PCB). PCB is defined as the disparity between an

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employee's expectations and their actual experience within the organization. This breach can create an imbalance in the relationship between the leader, employee, and organization, ultimately affecting the employee's perception of the organization.

Employees expect a reciprocal relationship with their organization, where their contributions are recognized and valued. Lu et al., (2015) emphasize that the failure to maintain this balance can lead to a lack of trust and commitment from employees. The consequences of PCB include decreased organizational citizenship behavior (OCB), which is characterized by an employee's willingness to go beyond their job requirements to contribute to the organization's success. Abu-Doleh & Hammou (2015) and Allen & Halkias (2020) confirm that PCB discourages OCB, which in turn can lead to low job satisfaction, high turnover intentions, and decreased work commitment. Positively, psychological contract breach (PCB) can also lead to the growth of self-employment and entrepreneurship (Abord de Chatillon et al., 2023).

The implications of decreased OCB are significant, as they can negatively impact organizational performance. Williams & Anderson (1991) highlight that low job satisfaction and high turnover intentions can hinder the organization's ability to achieve its goals and maintain productivity. Tziner et al., (2017) also note that decreased work commitment can negatively impact productivity. Therefore, maintaining a high-quality leader-member exchange and fulfilling organizational commitments to employees is crucial for achieving organizational success.

2. Innovation and innovative leadership: definitions, theoretical, and conceptual frameworks

Innovation is a crucial component of long-term growth and success, as it seeks to improve top-line performance and achieve sustainable growth (Day & Shea, 2020). Effective leaders play a vital role in driving innovation within their organizations by orchestrating resources, including idea creation, allocation, and strategic implementation (Pisano, 2015). They must also oversee various processes, such as supply chain management, HR and staffing, technology adoption, and quality control (Krajewski et al., 2018). In addition to these responsibilities, leaders must also innovate their approach to their people, altering their behavior and values to foster a culture of innovation (Zhang, 2024). This mind-set approach requires leaders to induce change, alter values, and provoke employees to think differently. The challenging nature of leading people demands innovative leaders who can adapt and innovate their methods, working styles, and operations to achieve productive outcomes (Siyal et al., 2021). Furthermore, Yu & Liang (2004) strongly suggested that from the manager's viewpoint, serving as the organization's representative, there is a strong incentive to reduce the risk of opportunistic behavior through engaging in LMX relationships with subordinates. Acting as an agent, the manager also has a motivation to minimize the risk of task non-completion and inadequate compensation by fostering LMX relationships with subordinates.

Innovative leadership involves inventiveness, often accompanied by anxiety and fears when implementing new ideas (Khalili, 2017). At this stage, leaders play a critical role in creating an uncertain environment that encourages staff to tolerate change and participate in the implementation of new ideas (Karreinen et al., 2023). Innovation leadership also involves the interaction between those who innovate and those affected by innovation, influencing actions to create change and novelty (Agusthina Risambessy, 2023). A high-quality relationship between leaders and employees provides employees with decision-making privileges, access to greater resources, and protection from pressures. This social exchange process fosters a sense of pleasure and concern for the organization's well-being, increasing employee willingness to engage in work behaviors that benefit the organization (Montani et al., 2017).

3. Character traits of innovative leader

Scholars have extensively defined the key traits of innovative leadership, which significantly influence leader-member exchange and block psychological contract breach within the organization. Innovative leaders exhibit several critical characteristics:

a. Delegation and shared authority: Innovative leaders are willing to delegate tasks and share authority with their employees. This fosters an environment where employees feel empowered to generate creative ideas and translate them into positive behaviors (Khalili, 2016). Delegation is inherently linked to trust, which forms the foundation for effective leader-member exchanges (Tziner et al., 2017; Saboor et al., 2017).

b. Influence on work behavior: Innovative leaders possess the power to influence their followers towards improved work behaviors (Agusthina Risambessy, 2023). As influencers, they can motivate employees to perform optimally within their work environment. Employees influenced by these leaders often demonstrate enhanced skills and increased loyalty to the organization (Saboor et al., 2017). Moreover, these leaders motivate and encourage their followers, fostering efficient work relationships. Consequently, employees are more inclined to contribute their best efforts to implement creative ideas voluntarily, achieve company goals with optimal performance (Zhang, 2024), and attain high levels of outcomes (Montani et al., 2017).

c. Availability and openness: Innovative leaders are accessible and open to their employees (Siyal et al., 2021; Carnevale et al., 2017; Mascareño et al., 2020). This accessibility facilitates two-way communication, idea-sharing, and easy access for problem-solving, reporting, and discussing daily operations. Openness also ensures clarity regarding the organization's vision and mission, encouraging employee engagement and contributions towards achieving shared goals (Carnevale et al., 2017). Leaders who foster openness in their teams promote continuous improvement and alignment with organizational strategies, objectives, and values (Montani et al., 2017).

d. Support for employees: Innovative leaders actively support their employees (Mascareño et al., 2020). Employees who receive support from their leaders gain influence and positive recognition within the organization. Khan et al., (2020) assert

that innovative leadership cultivates innovative work behaviors through robust support for subordinates. Recognition, appreciation, and encouragement from leaders are crucial for fostering a supportive environment.

e. Knowledge sharing: Innovative leaders are committed to sharing their knowledge with their followers (Montani et al., 2017; Agusthina Risambessy, 2023). This commitment is evident in problem-solving and decision-making processes, where leaders teach effective strategies and foundational knowledge to their teams (Pundt, 2015). Knowledge-sharing enhances team capabilities and ensures alignment towards achieving organizational goals.

4. The effect of innovative leadership

Innovative leadership profoundly influences employees, thereby benefiting the organization. Ambidextrous leadership, a critical component of innovative leadership, involves balancing flexibility, exploration, and exploitation in various organizational contexts (Alghamdi, 2018; Zacher et al., 2016). Leaders' adept in ambidextrous approaches effectively orchestrate situations and empower employees to think independently, fostering autonomy and exploration within the organization (Zacher et al., 2016). Gad David et al., (2023) highlight the importance of ambidextrous leadership in navigating innovation complexities, guiding employee behaviors to align with organizational strategies. This approach, underscored by Siyal et al., (2021), emphasizes empowering employees to engage in both exploratory and exploitative behaviors to drive innovation.

As previous stated that the leaders are the agent that represent the organization, an innovative leader plays a vital role in preventing psychological contract breaches within organizations. By creating an atmosphere of trust, open communication, and mutual respect, innovative leaders ensure that organizational commitments are honored and employee expectations are met (Caesar Azeem & Hanoum, 2024). Through proactive leadership strategies that prioritize employee well-being and engagement, innovative leaders can effectively reduce instances of psychological contract breaches. This approach not only strengthens the bond between leaders and employees but also enhances organizational stability and performance by promoting a supportive and collaborative work culture (Montani et al., 2017). Therefore, innovative leadership serves as a preventive measure against psychological contract breaches, fostering a positive and productive organizational environment.

Innovative leadership impacts employees in several significant ways:

a. Employee commitment: Cultivating strong leader-follower relationships enhances employee commitment to the organization (Montani et al., 2017). Employees perceiving supportive relationships with their leaders are more likely to stay with the organization and dedicate themselves to achieving its goals (Martin et al., 2016; Carnevale et al., 2017).

b. Stimulating innovative and creative work behavior: Trusting relationships between innovative leaders and employees stimulate innovative thinking and creativity (Martin et al., 2016; Zacher et al., 2016). Empowering employees with autonomy

reduces anxiety and encourages novel idea generation, leading to active contributions to organizational success (Zhou et al., 2014).

c. Enhancing Organizational Citizenship Behavior (OCB): Innovative leadership fosters collaborative behaviors among employees, enhancing OCB (Zhou et al., 2014; Montani et al., 2017). Leaders who innovate in managing their teams promote a cooperative work environment crucial for effectively implementing innovation strategies, thereby improving overall employee performance (Martin et al., 2016).

D. Reducing stress: Supportive work environments facilitated by innovative leaders reduce employee stress levels and enhance commitment (Alghamdi, 2018). Lower stress levels enable employees to withstand pressure and remain committed to their roles within the organization (Carnevale et al., 2017).

e. Facilitating enhanced communication: Innovative leaders encourage active employee participation and open communication, fostering idea sharing and problem-solving (Zhou et al., 2014; Carnevale et al., 2017). Employees who feel heard by their leaders demonstrate improved communication skills and effectively utilize communication channels, contributing to organizational effectiveness (Carnevale et al., 2017).

f. Shaping positive organizational culture: Organizational culture has the potential to foster positive outcomes such as innovative work behavior and enhanced employee performance, while innovative leadership plays a pivotal role in shaping this organizational culture (Caesar Azeem & Hanoum, 2024).

5. Conclusions

In conclusion, LMX is pivotal in organizational dynamics, influencing both employee behavior and organizational performance. The quality of these relationships, as posited by Graen and Uhl-Bien (1995), hinges on shared values, trust, and reciprocal influence, contrasting starkly with transactional, contract-based engagements. Saboor et al. (2017) underscores that breaches in the psychological contract, where employee expectations are unmet, can erode trust and commitment, dampening organizational citizenship behaviors and overall productivity.

In response to these challenges, innovative leadership emerges as a critical mitigator. By fostering an environment of trust, open communication, and mutual respect, innovative leaders prevent PCBs. They empower employees through delegation, influence, accessibility, support, and knowledge-sharing (Khalili, 2016; Yukl, 2010; Siyal et al., 2021; Mascareño, Rietzschel, and Wisse, 2020; Kheng and Mahmood, 2013), stimulating innovative work behaviors and enhancing OCB (Montani, Courcy, Vandenberghe, 2017; Guillaume, Lee, and Epitropaki, 2015; Zhou et al., 2014). This proactive approach not only strengthens the leader-follower bond but also fortifies organizational stability and performance.

Furthermore, innovative leadership intersects with ambidextrous leadership, which balances exploration and exploitation to navigate complexities in innovation (Alghamdi, 2018; Zacher et al., 2016; Wang et al., 2020). By cultivating autonomy and encouraging novel ideas, innovative leaders drive employee engagement and

organizational success (Miller and Wedell-Wedellsborg, 2013; Simmons and Sower, 2012). In essence, innovative leadership serves as a linchpin in mitigating PCBs and enhancing organizational outcomes. By promoting a supportive and collaborative work culture, innovative leaders empower employees to contribute effectively, thereby shaping a positive organizational environment conducive to sustained success and growth.

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