



# Linking customer-employee exchange and employee innovative behavior



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## ABSTRACT

Employee innovative behaviors lay the foundation for organizational innovation and are of importance to business success, especially for service firms. Although these innovative behaviors are performed at the individual level, employees still need to have frequent exchanges with others, such as customers. As there is little research investigating customer-employee exchange (CEX) and its influence on employee innovative behavior in services, this study aims to fill this gap in a hotel context. The results of a survey with 180 respondents indicate that both the solidarity and harmonization components of CEX have positive effects on employee innovative behavior, yet the information exchange between customers and employees does not significantly influence employee innovation. Also, higher level of CEX leads to higher level of perceived social psychological climate for innovation. The mediating effect of social psychological climate in the relationship between CEX and employee innovative behavior is partially supported. The findings contribute to the understanding of the role of social exchanges in facilitating employee innovative behavior and provide implications for the management of employee innovative behavior in hospitality firms.

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## 1. Introduction

The importance of employee innovative behavior to hospitality firms is widely accepted. As a foundation for organizational innovation, employee innovative behavior is a key factor for service firms' performance and long-term survival (Campo et al., 2014; Tajeddini and Trueman, 2012). It brings about new products for restaurants (Ottenbacher and Harrington, 2007), improves hotels' service processes (Orfila-Sintes and Mattsson, 2009), and enhances service quality and even customer satisfaction (Pivcevic and Petric, 2011). Although not innovation oriented traditionally, hotels nowadays highlight innovation as countermeasures to growing competition (Campo et al., 2014; Pivcevic and Petric, 2011). Most innovation of hotels is service-oriented or based on technology application (Su, 2011). Thus, compared with manufacturing firms, innovation in hotels relies more on employees (especially customer-contact employees) than professionals in the research and development department (Ottenbacher, 2007). Generally, compared with manufacturing companies, service firms suffer from difficulties in

applying for patents and identifying infringement of intellectual property rights (Hipp and Grupp, 2005). These problems could be solved by employee innovative behaviors, which may erect barriers to duplication by competitors and maintain competitive advantage over others for hospitality firms (Ottenbacher, 2007).

Employee innovative behavior by its nature requires employees' exchanges with others. Employee innovative behavior brings actual benefits to hospitality firms because it is required to result in final outputs (Kim and Lee, 2013). This final output requirement is one of the differences between innovative behavior and creativity. Creativity refers to development of novel ideas, while innovative behavior involves not only idea generation but also idea implementation (Kim and Lee, 2013). To implement new ideas, employees must seek support and resources from others. Thus, although employee innovative behavior is a type of individual innovation, it still requires certain resources from others (Foss et al., 2011). As a result, frequent information and emotion exchanges run through the process of idea implementation (Scott and Bruce, 1994). From a social perspective, creativity is an individual-level construct bringing about novel ideas, thus it is usually adapted to weak social ties as weak ties foster autonomy, allowing employees making decisions that may be different from the approaches and views of their contacts (Perry-Smith, 2006). Yet weak ties do not foster innovative behavior because of the importance of support from others in idea promotion and realization (Janssen, 2000).

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In other words, employees' exchanges with others are important factors influencing their innovative behaviors.

Exchanges with others may be potential innovation facilitators for employees because of the social network opportunities. Research found that employee innovative behavior is influenced by not only individuals' cognitive skills, but also social capital, which refers to the potential benefits employees receive from the relationships with others (Shalley and Gilson, 2004). Employees' cognitive skills facilitate innovative behaviors by discovering the connections among various similar yet different concepts, flushing out the old approaches or ideas and creating different responses to a single problem (Perry-Smith, 2006). Social capital, as opportunities for employees' learning from others, would make this innovative cognitive process more successful because of the diversity of ideas and information provided by their social relationships (Zhou et al., 2009). Thus, much research has explained the impact of employees' relational exchanges on their innovative behaviors, such as leader-member exchange (LMX) and co-worker exchange (Scott and Bruce, 1994; Sparrowe, 1995). For example, Volmer et al. (2012) found that as long as job autonomy is provided, the higher level of LMX would lead to more innovative behaviors. To date, LMX and its influence on employee innovation in hospitality firms have been well studied (Sparrowe, 1995; Volmer et al., 2012). However, little research has been conducted to investigate the impact of customer-employee exchange on employee innovative behavior in services. This study attempts to fill this gap.

Customer-employee exchange (CEX) may influence employee innovative behavior differently from other exchanges (e.g., LMX). Customer-employee exchanges are essential parts of the services because of the inseparability of service production and consumption (Ma and Qu, 2011). They could enrich the service experience of customers and subsequently enhance customer satisfaction (Namasivayam and Mattila, 2007). In this way, customer-employee exchanges are important to hospitality firms who find themselves increasingly difficult to meet the expectations of customers with escalating demand (Lee et al., 2006). However, although customers are increasingly actively involved in services and become collaborators with employees, their exchanges with employees are different from that of employees' leaders and co-workers. Customer-employee exchanges in hospitality services are indispensable, but also characterized by temporal duration of interaction (Solnet, 2007). Unlike leaders and co-workers, the customers employees serve may be constantly changing. This makes customer-employee relationships relatively unstable. Employees may thus behave differently (from that to leaders or co-workers) as responses to customers (Sierra and McQuitty, 2005). In addition, leaders tend to dominate the LMX and influence employees through management actions and role expectation, essentially for Chinese culture, where employees are accustomed to following their leaders (Scott and Bruce, 1994; Shao and Skarlicki, 2014). In contrast, CEX is more based on emotions and both parties exert influence on the exchange, sharing some responsibilities (Solnet, 2007). For example, restaurant employees in China may take managers' casual advice as orders, while they may share their personal experiences and emotional feelings with customers because customers do not determine their income (tipping practice is unusual in China). Therefore, using the results based on LMX to explain the effect of CEX may be inappropriate. Furthermore, much research indicates that customers are becoming external resources for hospitality firms and they exert beneficial influence on service innovation (Duverger, 2011; Sjödin and Kristensson, 2012). These studies tend to regard customers as innovators or contributors to innovation directly. However, whether customers' exchanges with employees could be facilitators for employees' innovative behaviors still remains unexamined.

To examine the effect of CEX on employee innovative behavior, the climate for innovation cannot be ignored. Climate describes employees' perceptions of service settings where they work in terms of psychological interpretation (Schneider et al., 1996). It is found to mediate the relationship between LMX/co-worker exchange and employee innovative behavior, as high quality of LMXs/co-worker exchanges makes employees perceive that they are in a positive and supportive climate, which may further encourage employees' innovative behaviors (Schneider et al., 1996; Scott and Bruce, 1994). This climate involves support for innovation and resources supply (Scott and Bruce, 1994). Similarly, customer-employee exchanges involve interdependence between the two parties and may thus result in closer relationships between them (Kim and Cha, 2002). Better relationships make employees perceive that their decisions and behaviors are more likely to be supported by customers (Sigala, 2005). The support for innovation and resources provided by customers are important as customers are the final evaluators of some innovation outcomes (such as new services). However, climate for innovation created by customers receives little attention from researchers. Thus, this study adopted psychological climate, which was originally used for firms, to investigate the role of support and resources from customers in the relationship between CEX and employee innovative behavior. Based on the aforementioned analysis, two objectives were set for this study: to examine the effect of CEX on employee innovative behavior and to investigate the role of social psychological climate in the influence of CEX on employee innovative behavior.

## 2. Theory and hypothesis development

### 2.1. Customer-employee exchange and employee innovative behavior

Customer-employee exchange (CEX) relates to employees' behaviors essentially. CEX involves both information and emotional interactions between the two parties (Ma and Qu, 2011). It defines how a service is transacted, which is very important for customers' service perceptions as well as employees' well-being (Groth and Grandey, 2012). Hospitality services are highly interactive and it is the main job of employees to serve customers (Victorino et al., 2005). The process involves frequent exchanges, which are found to influence employees' job stress, job satisfaction and turnover intentions (Karatepe et al., 2009). Customers are external to hotels, thus their exchanges with employees may exert influence outside the service setting and also affect employees' extra-role behaviors such as organizational citizenship behavior (Groth and Grandey, 2012; Ma et al., 2013). Customers as external factors and employee turnover make customer-employee exchanges in hotels dynamic (Duverger, 2011) Yet hotels are increasingly paying attention to customer loyalty as retaining existing customers costs much less than finding new customers (Agarwal et al., 2003), and customer-employee exchanges in hotel services are expected to be more stable with loyal customers (Agarwal et al., 2003). On the other hand, customers nowadays are no longer passive service recipients. They more actively participate in hotel services and are viewed as partial employees (Bendapudi and Leone, 2003). Therefore, although CEXs are more unstable than LMXs and co-worker exchanges, their influence on employees' behaviors should not be underestimated.

CEX may stimulate employees' motivation and provide inspiration for innovative behaviors. Frequent customer-employee exchanges in hospitality service transactions may improve the relationships between the two parties (Ma and Qu, 2011). The emotional components of CEX, such as the politeness of the two parties, not only play an important part in creating a successful

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