



Effect of Leader-Member Exchange (LMX) on Job Performance: The Role of Innovative Work Behavior among MSME Employees in Indonesia's Creative Economy

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ABSTRACT

This study aims to investigate the influence of two pivotal leadership concepts Leader-Member Exchange (LMX) on employee performance, mediated innovative work behavior. The research sample comprises 160 employees from MSMEs in the creative economy sector, in Indonesia using a multi-stage sampling technique and a sample size calculator. Data were collected through structured questionnaires and analyzed using Structural Equation Modeling with Partial Least Squares (SEM-PLS). The research results prove that all hypotheses are accepted. The paper concludes with theoretical and empirical contributions that underscore the importance of these constructs in enhancing employee performance within the creative industry context

INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) sector is the backbone of the Indonesian economy, contributing 61.07% to GDP and absorbing 97% of the workforce in 2023. In the context of an innovation-based creative economy, the quality of leader-member exchange (LMX) is a critical factor to encourage employees' innovative behavior as a prerequisite for improving performance, both employee performance and organizational performance. However, recent studies show that 79.87% of LMX practices in the work environment in Indonesia, especially in MSMEs, are in the medium and even low categories, this is characterized by limited participation, empowerment, and collaboration of leaders with members (Alifah et al., 2021; Mufidah & Satwika, 2020). This phenomenon has the potential to hamper employee innovation capacity, especially in MSMEs that face global competition and the demands of technological adaptation. Furthermore, Hanim et al. (2019); Sa'adah, N., & Rijanti, T. (2022), emphasize the importance of employee performance management that has an impact on increasing the operational efficiency of organizations/companies and encouraging a culture of continuous improvement.

Theoretically, this research is rooted in Leader-Member Exchange (LMX) Theory and Self-Determination Theory. Leader-Member Exchange (LMX) theory, coined by Dansereau, Graen, and Haga (1975) explains the dynamics of the two-way relationship between leaders and members; leaders form distinct dyadic relationships with each team member, resulting in the formation of in-groups and out-groups (Dansereau, F. Graen, G. B., & Haga, W. J. (1975); Laga, W. J. (1975), Graen, G. B., & Haga, W. J. (1975); Liden, R. C., Wayne, S. J., & Sparrowe, R. T. (2000); Jansen, J. J., Van den Bosch, F. A., & Volberda, H. W. (2006); The quality of the leader-member relationship is determined by the level of trust, support, loyalty, and resource exchange. In-groups receive more access to information, influence, and development opportunities, while out-groups are limited to formal contract-based transactional relationships; In-group members tend to show higher performance, initiative, and engagement, whereas out-groups only fulfill minima job demands Liden, R. C., Wayne, S. J., & Sparrowe, R. T. (2000); Kuvaas, B., & Dysvik, A. (2010).

The creative sector demands innovation and rapid adaptation. LMX explains how high-quality leader-member (in-group) relationships create an environment that empowers employees to innovate. Kuvaas, B., & Dysvik, A. (2010) study. conducted on technology MSMEs in Spain, proved LMX enhances creativity through increased engagement, while Prabowo, H., & Suharto, S. (2020), conducted a study in the creative economy sector in Bandung increased showed LMX plays a crucial role in teacher creativity despite the challenges of leader participation; LMX theory provides a framework for understanding how social exchanges (trust, reciprocity) in leader-member relationships motivate employees beyond formal tasks. In-group employees are more likely to take risks and propose new ideas, which are at the core of innovative work behavior (Kuvaas, B., & Dysvik, A., 201). LMX explains how the quality of vertical relationships in organizations affects intrinsic motivation, psychological

resources, and work behavior. Prasetyo and Waskito (2022) proved that LMX contributes significantly to job satisfaction which in turn encourages innovation in the workplace. Hoggi Putra's (2023) research findings found that LMX can increase employee engagement in Indonesian manufacturing companies.

This research has practical and theoretical urgency. From the managerial aspect, MSMEs need adaptive leadership strategies to optimize innovative work behavior in the midst of limited resources. Theoretically, this study enriches empirical evidence on the linkage mechanism of LMX, IWB and employee performance in the context of the creative economy of developing countries including Indonesia. Findings from Widya and Kurnianto (2021) also show that the quality of LMX relationships can reduce employee burnout levels, thereby improving overall employee and organizational performance. The implication is expected to be the basis for recommendations for the need for leadership training based on resource exchange and IWB in the MSME sector in Indonesia.

Although many studies have been conducted on the effect of Leader-Member Exchange (LMX) on employee performance, there are still some research gaps that have not been filled: (1) The majority of previous studies focused on large industries and not on MSMEs, so specific information about MSMEs in Indonesia is still limited (Sharifkhani et al., 2016; Yang, 2019); (2) there are still few studies that explore the mediation of innovative work behavior, in the context of creative industry MSMEs in Indonesia (Purwanto et al., 2019; Na-Nan et al., 2019; Al-Zoubi et al., 2020).

Practically, the findings of this study can provide insight into the unique challenges faced by creative industry SMEs in Indonesia as well as how LMX can influence employee innovative behavior and employee performance. The results of this study contribute to the development of strategies and policies to improve employee performance of creative industry SMEs in Indonesia.

LITERATURE REVIEW

Leader-Member Exchange (LMX) theory was first introduced by Dansereau, Graen, and Haga in 1975. This theory explains that leaders and team members develop exchange relationships that vary in quality, which can affect various aspects of employee behavior and performance. High-quality LMX relationships can create a climate of mutual trust, motivation, and support between leaders and employees (Huang, 2017; Qureshi & Hassan, 2019); Siregar, Z. M. E., Suryana, Ahman, E., & Senen, S. H. (2019). Research shows that LMX is positively related to innovative work behavior (IWB), which in turn can affect employee performance (Jiang & Yang, (2015); Min-Seong Kim & Dong-Woo Koo (2019); Rahman, K., & Arwiyah, M. Y. (2019).

Knowledge Sharing

Knowledge sharing is the behavior of individuals in sharing useful information with others voluntarily. Research shows that knowledge sharing can improve employee performance by increasing adaptation to the work environment and creating innovative ideas (Na-Nan et al., 2019; Cakir, 2020). Research by Munir & Beh (2019) also confirms that shared knowledge can stimulate creative thinking processes among team members.

LMX, Innovative Work Behavior, Employee Performance

Innovative work behavior (IWB) is an individual's ability to generate and implement useful new ideas in their work (Ahmed et al., 2018). Studies show that IWB is positively related to employee performance, where innovative behavior can improve overall work outcomes (Min-Seong Kim & Dong-Woo Koo, 2017).

This presentation highlights the importance of employee performance in the context of organizational success, especially in the creative industry sector in Indonesia. By adopting the theories of Leader-Member Exchange (LMX) and knowledge sharing as frameworks, this study seeks to understand how these two variables influence employee performance through the mediation of work engagement and innovative work behaviors (Ogunmokun, O. A., Eluwole, K. K., Avci, T., Lasisi, T. T., & Ikhida, J. E. (2020); Nugroho, B. S., Utami, H., Ayuwardani, M., & Adie Setyawan, N. (2022).

The similarities of this research with previous research: (1) Focus on LMX: Many previous studies, such as those conducted by Jiang and Yang (2015) and Min-Seong Kim and Dong-Woo Koo (2019), show that LMX has a significant influence on innovative behavior. Differences with other studies:

1. **Research Context:** This research focuses on SME employees in the creative industry sector in Indonesia, which is a relatively under-researched area in the context of LMX, IWB and employee performance. Most previous research has been conducted in other sectors, such as the oil and gas industry (Sharifkhani et al., 2016) or the hospitality sector (Min-Seong Kim & Dong-Woo Koo, 2019). This makes a novel contribution to the literature by highlighting the unique challenges faced by creative industry SMEs.
2. **Mediating Variables:** This study highlights innovative work behavior in the relationship between LMX and employee performance. Although some previous studies have also touched on these variables, not many have explicitly tested this model in the same context.

Hypothesis developed:

- H1. LMX has a significant positive effect on job performance
- H2. LMX has a significant positive effect on Innovative work behavior.
- H3. Innovative work behavior has a significant positive effect on job performance
- H4. LMX has a significant positive effect on job performance through IWB

Overall, this research not only broadens the understanding of the effect of LMX on employee performance but also makes a significant contribution to managerial practice in the creative industry sector. By understanding the factors that influence innovative behavior, leaders can design more effective strategies to improve the performance of MSME employees in Indonesia

METHODOLOGY

This research uses a qualitative approach with an explanatory research type. The quantitative approach was chosen to dig deeper into the phenomena that occur in MSME employees in the creative industry sector, as well as to understand the relationship between the variables studied, namely Leader-

Member Exchange (LMX), innovative work behavior, and employee performance. Explanatory research aims to explain the causal relationship between these variables (Creswell & Poth, 2018).

The research conceptual model is described:

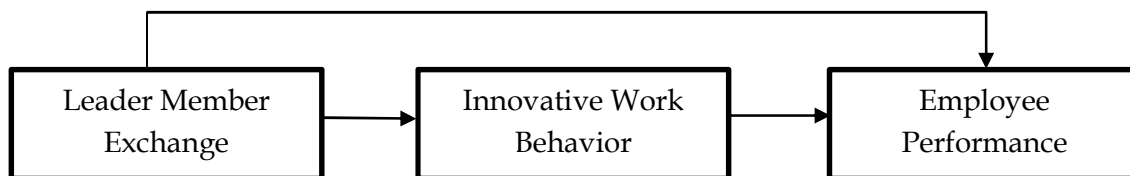


Figure 1. Conceptual Framework

Variable Measurement

There are 3 variables used in this study, namely LMX (X1) IWB (Z) and Job performance variables (Y). LMX adapted from Graen & Uhl-Bien (1995), with 3 indicators (respect, trust and obligation); Innovative Work Behavior (IWB) adapted from Jankelová et al., (2021), with 2 indicators (IWB for individual interests and IWB for the benefit of the organization); Job Performance / JP, adapted from Na-Nan et al., (2019), with 3 indicators (quantity, quality and time).

Population, Sample and Sampling Techniques

The population of this research is MSME employees in the creative industry sector spread across 20 cities / regencies in Indonesia. Referring to Hair et al. (2017), the sample size can be calculated by multiplying 15 or 20 of the number of indicators, so the sample size was 288, out of 300 questionnaires distributed. The sampling technique used is multi-stage sampling, which allows researchers to select sampling units in stages from a larger population (Fowler, 2014). This approach ensures that the sample taken represents the population well.

Data Collection Techniques And Data Analysis

Data were collected through a questionnaire using a Likert scale with 5 alternative answers, where a value of 5 was given to respondents who gave a rating of "strongly agree" and a value of 1 for "strongly disagree". The questionnaire was designed to measure respondents' perceptions of LMX, innovative work behavior, and employee performance. The validity and reliability of the instrument were tested prior to data collection (Sekaran & Bougie, 2016). The data analysis was conducted using Structural Equation Modeling - Partial Least Squares (SEM-PLS). The SEM-PLS method was chosen because of its ability to handle complex models with many latent variables and indicators (Hair et al., 2019). In SEM-PLS analysis, there are two stages of testing: Outer Model Test and Inner Model Test.

The use of SEM-PLS in this study is also supported by previous studies that show its effectiveness in understanding technology adoption by users in various countries (Al Kurdi et al., 2021).

RESULT

The results of the study will be presented starting from the characteristics of the respondents, the results of descriptive statistical analysis and the results of SEM PLS analysis. The following results:

1. Respondent characteristics

This study used a total of 160 respondents. Respondent criteria as in Table 1 contain information, namely age, latest education, domicile, occupation, and expenditure in one month.

Table 1. Demographics of Research Respondents.

No.	Variable	Item Instrumen	Presentase
1.	Age	< 17 Year	6 % (10 People)
		18-28 Year	24% (38 People)
		29-39 Year	25% (40 People)
		40-49 Year	26% (42 People)
		> 50 Year	19% (30 People)
2.	Gender	Male	40% (64 People)
	Last Education	Female	60% (96 People)
3.		Junior High School/ Equivalent	40% (64 People)
		High School/ Equivalent	45% (72 People)
		College	15% (24 People)
4.	Work Experience	< 5 Year	21% (34 People)
		6-16 Year	19% (30 People)
		17-27 Year	20% (32 People)
		28-39 Year	28% (45 People)
		>40 Year	12% (19People)

2. Results of Descriptive Statistical Analysis

The results of descriptive statistical analysis are presented in the following table:

Table 2. Frequency Distribution of Leader Member Exchange Variables

No. Item	5 (SS)		4 (S)		3 (N)		2 (TS)		1 (STS)		Mean
	F	%	F	%	F	%	F	%	F	%	
X1	56	35	74	46,25	24	15	5	3,13	1	0,63	4,12
X2	44	27,5	68	42,5	28	17,5	12	7,5	8	5	3,8
X3	40	25	61	38,13	41	25,63	16	10	2	1,25	3,76
X4	50	31,25	68	42,5	27	16,88	13	8,13	2	1,25	3,94
Grand Mean											3,9

Table 3. Frequency Distribution of IWB Variables

No. Item	5 (SS)		4 (S)		3 (N)		2 (TS)		1 (STS)		Mean
	F	%	F	%	F	%	F	%	F	%	
Z1	22	13,75	80	50	45	28,13	5	3,13	8	5	3,64
Z2	46	28,75	76	47,5	29	18,13	7	4,38	2	1,25	3,98
Z3	49	30,63	79	49,38	23	14,38	9	5,63	0	0	4,05
Z4	57	35,63	71	44,38	29	18,13	1	0,63	2	1,25	4,13
Grand Mean											3,98

Tabel 4. Distribusi Frekuensi Variabel Employee Performance

No. Item	5 (SS)		4 (S)		3 (N)		2 (TS)		1 (STS)		Mean
	F	%	F	%	F	%	F	%	F	%	
Y1	37	23,13	77	48,13	39	24,38	5	3,13	1,25	5	3,89
Y2	66	41,25	66	41,25	20	12,5	6	3,75	2	1,25	4,18
Y3	44	27,5	81	50,63	27	16,88	7	4,38	1	0,63	4
Y4	56	35	73	45,63	27	16,88	2	1,25	2	1,25	4,12
Y5	66	41,25	66	41,25	20	12,5	6	3,75	2	1,25	4,18
Y6	37	23,13	77	48,13	39	24,38	5	3,13	1,25	5	3,89

Grand Mean

4,05

Table 2 above explains: (1) the grand mean of LMX is categorized as high (3.9), meaning that employees perceive that employees' ideas, opinions, contributions are well appreciated by the leadership, employees feel safe and fully trust their superiors, there is mutual support between employees and leaders, employees feel obliged to fully support their superiors. (2) Table 3. Explains that the grand mean of IWB is categorized as high (3.98), it means: employees actively propose new work methods/techniques to be able to improve skills and personal satisfaction, employees take the initiative to develop creative ideas to increase organizational competitiveness, find new solutions to help the organization achieve its goals. (3) Table 4 shows the grand mean Employee performance is categorized as high (4.05). This means that employees are able to carry out their duties / obligations well in quantity and quality and time and even exceed the standards set by the Company.

3. Results of SEM PLS Analysis

Measurement Model Analysis (Outer Model)

Uji Validitas

1. Convergent Validity

Tabel 5. Nilai Convergent Validity

Kode Item	Nilai <i>Convergent Validity</i>	Keterangan
LMX1	0.850	Valid
LMX2	0.852	Valid
LMX3	0.859	Valid
IWB1	0.908	Valid
IWB2	0.847	Valid
EP1	0.854	Valid
EP2	0.868	Valid
EP3	0.859	Valid

Table 5 shows the results that all question items meet the validity standards with the criteria for the Loading Factor value above 0.7. A question item is considered valid if its value exceeds 0.7 (Ghozali & Laten, 2015).

2. Average Variance Extracted (AVE)

Table 6. Average Variance Extracted (AVE) Value

Variabel	Nilai AVE	Keterangan
Employee Performance (EP)	0.740	Valid
Innovative Work Behavior (IWB)	0.771	Valid
Leader Member Exchange (LMX)	0.729	Valid

Based on the results of testing the AVE value in table 6, it concludes that all constructs have a value of more than 0.5 so that it can be stated that all research variables are declared valid (Ghozali & Laten, 2015).

3. Discriminant Validity

Table 7. Discriminant Validity Value

Variabel	Employee Performance (EP)	Innovative Work Behavior (IWB)	Leader Member Exchange (LMX)
Employee Performance (EP)	0.860		
Innovative Work Behavior (IWB)	0.532	0.879	
Leader Member Exchange (LMX)	0.479	0.462	0.854

The results in Table 7 show that all variables studied are declared valid, based on the square root value of AVE based on the Fornell-Lacker Criterion which is greater than the correlation between constructs.

Uji Reliabilitas

Tabel 8. Nilai Composite Reliability dan Cronbach's Alpha

Variabel	Cronbach's Alpha	Composite Reliability	Keterangan
Employee Performance (EP)	0.825	0.895	Reliabel
Innovative Work Behavior (IWB)	0.707	0.871	Reliabel
Leader Member Exchange (LMX)	0.815	0.890	Reliabel

Source: Processed by Researchers (2025)

Table 8 shows that all question items in this study are declared reliable. Because the Composite Reliability value on all variables is > 0.7 and the Cronbach's Alpha value on each variable is > 0.6 (Ghozali & Laten, 2015).

Structural Model Analysis (Inner Model)

1. R-Square

Table 9. R-Square Value

Variabel	R-Square	R-Square Adjusted
Employee Performance (EP)	0.352	0.344
Innovative Work Behavior (IWB)	0.214	0.209

Based on the results of table 9, the Adjusted R-Square value of the Employee Performance variable of 0.344 means that the Leader Member Exchange and IWB variables are able to influence the Employee Performance

variable by 34.4%. The R-Square Adjusted value of the Innovative Work Behavior variable is 0.209 so it can be concluded that the Leader Member Exchange variable is able to influence the Innovative Work Behavior variable by 20.9%.

2. F-Square

Table 10. F-Square Value

Variabel	Employee Performance (EP)	Innovative Work Behavior (IWB)	Leader Member Exchange (LMX)
Employee Performance (EP)			
Innovative Work Behavior (IWB)	0.189		
Leader Member Exchange (LMX)	0.107	0.272	

Based on the results of table 10, it shows that there is an influence of the Leader Member Exchange variable on Employee Performance of 0.107 which is included in the moderate category, the influence of the Leader Member Exchange variable on Innovative Work Behavior is 0.272 which is included in the moderate category, and the Innovative Work Behavior variable on Employee Performance is 0.189 which is included in the moderate category (Ghozali & Laten, 2015).

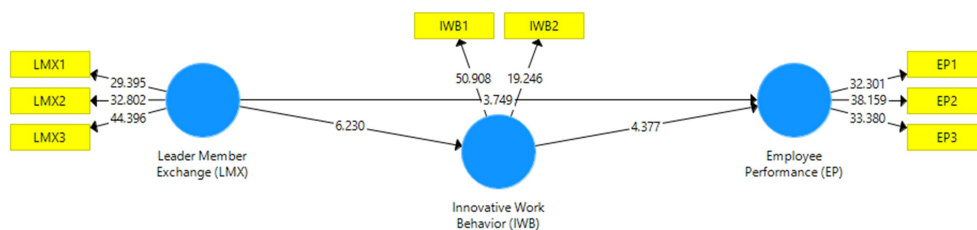


Figure 2. Bootstrapping Results

3. Uji Hipotesis

Table 11. Recapitulation of Hypothesis Test Results

Variabel	Original Sample	T Statistics	P Values	Keterangan
Leader Member Exchange → Innovative Work Behavior	0.462	6.230	0.000	H1 Diterima
Leader Member Exchange → Employee Performance	0.297	3.749	0.000	H2 Diterima
Innovative Work	0.394	4.377	0.000	H3 Diterima

Behavior → Employee Performance				
Leader Member Exchange → Innovative Work Behavior → Employee Performance	0.182	3.759	0.000	H4 Diterima

Based on Table 11, the following results were obtained:

1. Leader Member Exchange → Innovative Work Behavior obtained p values of 0.000, so H1 is accepted, namely Leader Member Exchange affects Innovative Work Behavior.
2. Leader Member Exchange → Employee Performance obtained p values of 0.000, so H2 is accepted, namely Leader Member Exchange has an effect on Employee Performance.
3. Innovative Work Behavior → Employee Performance obtained p values of 0.000, so H3 is accepted, namely Innovative Work Behavior has an effect on Employee Performance.

Leader Member Exchange → Innovative Work Behavior → Employee Performance obtained p values of 0.000, then H4 is accepted, namely Leader Member Exchange affects Employee Performance through Innovative Work Behavior.

DISCUSSION

Significant positive effect of LMX on Employee Performance

The results of the study which show that there is a significant positive effect of Leader-Member Exchange (LMX) on Employee Performance (EP) in MSMEs in the creative economy sector in Indonesia have deep implications in the context of theory and practice. This research is based on the LMX theory developed by Graen and Uhl-Bien (1995), emphasizing the importance of reciprocal relationships between leaders and team members. The quality of this relationship can affect various aspects of individual performance. In the context of this study, LMX serves as a key factor that facilitates positive interactions between leaders and employees; high LMX is characterized by mutual trust, appreciation, and commitment between leaders and members. When employees feel valued and supported, they tend to exhibit higher IWB, which leads to improved employee performance (Gottfredson et al., 2020); Martin et al. (2015) in the context of the creative economy, where innovation is very important, the positive relationship between LMX and JP can be explained through increased innovative behavior. Employees who have good relationships with leaders tend to be more courageous to propose new ideas and take the risks necessary for innovation (Jansen et al., 2006). Furthermore, Taqiuddin et al. (2018); Alifah et al. (2021); Widya and Kurnianto (2021); Hoggi Putra (2023) prove that LMX has a significant positive effect on employee performance because leaders are able to recognize the potential of their subordinates and provide the necessary support to achieve work goals. Nurtjahjono et al. (2020); Hermanto et al. (2023) added that

LMX quality has a positive impact on employee performance by emphasizing the importance of support from superiors in improving individual work outcomes.

The results of this study have practical implications for MSME management in Indonesia: (1) it is necessary to develop training programs for leaders to improve their skills in building good relationships with team members. (2) Creating a work environment that supports open communication and trust can improve the quality of LMX, thereby encouraging improved performance, (3) encouraging innovative behavior through support from leaders, MSMEs can adapt better in facing challenges in the creative market.

Significant positive influence of LMX on Innovative Work Behavior

The results of this study are relevant to LMX Theory (Graen & Uhl-Bien, 1995) which emphasizes the importance of high-quality relationships between leaders and team members, characterized by trust, respect, and mutual obligations. These relationships create a conducive work environment for employees to feel emotionally and professionally supported. This support allows employees to be more confident in exploring new ideas, taking risks, and innovating (De Jong, 2007); innovative behavior involves three main stages: introduction of a new idea, promotion of the idea, and implementation of the idea in the organization (Scott & Bruce, 1994). High LMX provides the social support and resources employees need to go through these three stages. The results of this study are supported by Aulia (2019); Putri et al. (2020); Soepangkat (2020) who examined PT X employees showed that LMX has a significant influence on IWB. Further research results: Atitumpong and Badir (2018); Dar et al. (2023); Alsughayir (2017); Sander et al. (2010) also show the same results as this study.

The practical implications of this research: (1) Improving the Quality of Leader-Employee Relationships of MSMEs in the creative economy sector. (2) Leaders can provide support in the form of innovation training or provide special time for employees to explore new ideas without the pressure of routine tasks.

The results of this study confirm that LMX has a significant positive influence on IWB among MSME employees in Indonesia's creative economy sector. This finding is consistent with LMX theory and supported by various empirical studies. By improving the quality of relationships between leaders and team members, organizations can create a more innovative work environment.

Significant Positive Effect of Innovative Work Behavior on Employee Performance

According to De Jong and Den Hartog (2010), IWB includes individual behaviors that aim to introduce, promote, and implement new ideas, products, or processes that benefit the organization. This innovative behavior is key in improving work efficiency, quality of results, and organizational competitiveness.

The results of this study are based on Social Exchange Theory (Blau, 1964), innovative behavior often arises as a form of reciprocity for the support received from the organization or leader. Employees who feel supported are likely to exhibit extra-role behaviors such as innovation, which ultimately improves their performance. IWBs enable employees to explore new ways of working, improve

process efficiency and produce high-quality output (Scott & Bruce, 1994). Thus, innovative behavior is a major catalyst in achieving optimal performance.

Empirically, the results of this study are supported by research by Rahmah et al. (2024) which examined printing companies in East Java showed that the higher the innovative behavior of employees, the better their performance. Lahtifah & Kurniawati (2021) prove that innovative attitudes significantly affect employee performance in the government sector. Zain et al. (2024) examining employees of the Bantul Regency Transportation Office showed different research results that although IWB did not have a direct effect on JP in some cases, coworker support could strengthen the relationship. Research results: (Hermina, 2024; Aryee et al., 2012); Suardana and Arthana (2023) support the results of this study.

The practical implications of this research are: (1) MSMEs need to encourage a culture of innovation by providing creative training and exploration space for employees to develop new ideas. (2) Support from leaders and coworkers can be a major supporting factor for innovative behavior resulting in increased JP. (3) By providing incentives to employees who are able to produce innovative solutions to operational challenges, organizations can increase efficiency as well as the quality of work output.

The results of this study confirm that IWB has a significant positive influence on JP among MSME employees in Indonesia's creative economy sector. These findings are consistent with key theories such as Social Exchange Theory and previous empirical studies that emphasize the importance of innovative behavior in supporting the achievement of optimal work outcomes.

Significant positive effect of LMX on Employee Performance through Innovative Work Behavior

The results of this study are relevant to the theory of LMX Theory and IWB LMX theory (Graen & Uhl-Bien, 1995) emphasizes the importance of high-quality relationships between leaders and team members characterized by mutual trust, respect, and obligation. These relationships create a conducive work environment for employees to feel emotionally and professionally supported. This support allows employees to be more confident in exploring new ideas, taking risks, and innovating (Scott & Bruce, 1994). IWB acts as a mediating mechanism linking leader-member relationship quality with work performance. Based on Social Exchange Theory (Blau, 1964), a good LMX relationship provides intrinsic motivation for employees to exhibit extra-role behaviors such as innovation. This innovative behavior then contributes directly to improving individual performance through work process efficiency, creativity, and adaptation to changes in the work environment.

The results of research by Putri et al. (2023) showed that the positive relationship between LMX and IWB lies in the intrinsic motivation resulting from leader-member interactions. This motivation encourages employees to show innovative behavior that contributes directly to improving work performance. Kim et al. (2021) conducted a two-wave study in South Korea finding that LMX increases IWB through the mediation of self-efficacy. Janssen & Van Yperen (2004); Garg and Dhar (2017); Agarwal et al. (2012); Putri et al. (2020); shows that

members' perceptions of the quality of LMX encourage innovative behavior that benefits the organization and leads to improved employee performance. Sparrowe & Liden (2005) found that high-quality leader-member interactions provide greater job autonomy to employees, including in decision making and implementation of new ideas.

Practical implications of this study: (1) MSMEs need to train leaders to build high-quality relationships with their team members through open communication, respect for individual contributions, and empowerment. (2) Leaders can create a work environment that supports innovation by providing space for the exploration of new ideas and incentives for employees who successfully implement creative solutions. (3) By encouraging innovative behaviour through high-quality LMX relationships, organizations can improve the efficiency of work processes as well as the quality of output.

The results of this study confirm that LMX has a significant positive influence on JP through the mediation of IWB among MSME employees in Indonesia's creative economy sector. This finding is consistent with key theories such as LMX, Social Exchange Theory and supported by various previous empirical studies. By improving the quality of relationships between leaders and team members and encouraging innovative behaviour, organizations can achieve optimal work results while promoting business sustainability.

CONCLUSION AND RECOMMENDATION

This study aims to investigate the effect of LMX on employee performance through innovative work behavior. The results showed the results that: (1) there is a Significant Positive influence of LMX on Job Performance means that employees with high quality LMX tend to achieve better work results. (2) There is a significant positive effect of LMX on IWB, meaning that good LMX encourages high innovative behavior in MSME employees, increasing their involvement in the innovation process. Employees who feel supported by their leaders are more willing to explore new ideas. (3) There is a significant positive effect of IWB on Job Performance, meaning that IWB serves as the main driver in improving employee performance. Employees who actively innovate are able to improve the quality of their work. (4) IWB acts as a partial mediation in the effect of LMX on Job Performance: IWB acts as an important mediator in the relationship between LMX and Job Performance, indicating that increasing LMX and innovative work behavior has an impact on improving employee performance.

Theoretical Implications

The findings of this study enrich the literature on leadership and innovation theory by confirming the importance of leader-member relationships as a key factor in driving innovative behavior and performance of MSME employees. This supports Social Exchange Theory, which suggests that relationships based on trust and mutual support can increase employee motivation and contribution to further innovate at work. In addition, this finding also emphasizes the importance of the Knowledge-Based View, where knowledge generated through quality interactions between leaders and members can be converted into productive actions.

Practical Implications

From a practical perspective, MSMEs need to develop leadership that is able to build high-quality LMX relationships with employees. Training and development is needed for MSME leaders/owners to improve communication skills, and constructive feedback for employee empowerment. In addition, creating a culture of innovation that supports experimentation of new ideas as well as providing autonomy to employees to innovate will be crucial in maximizing the potential of IWB and employee performance. Going forward, MSMEs are expected to design strategies that not only enhance harmonious relationships between leaders and employees but are also expected to encourage innovative work behaviors as an integral part of their work culture, resulting in improved overall MSME performance. These findings confirm that investing in leadership development and a culture of innovation is a strategic move to achieve competitive advantage in an increasingly dynamic market.

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