Social Exchange Theory: Supporting Frameworks for Innovation

By
Paul Tripp, University of South Florida

In their efforts to remain competitive, organizations are routinely faced with the challenge of adapting to changeable environments and ensuring employees possess the necessary skills to compete. However, businesses often must contend with forces, whether internally or externally generated, that tend to discourage or undermine innovation, leaving practitioners to question how their organizations may effectively and practically promote employee innovation in the face of countervailing forces. This article is intended to present social exchange theory as a ready tool for practitioners to assess the effectiveness of potential answers to that question. The question posed in this paper is how can social exchange theory be used to encourage employee innovation? By contrasting social exchange theory with principles of economics, this article aims to answer this question, providing practitioners not only a deeper understanding of theory but a means of evaluating the applicability of social exchange theory to proposed pro-innovation frameworks. In addition, by considering particular resources employers might offer their employees in exchange for innovative work behavior, this article also offers examples of how social exchange theory may be applied in practice to explain workplace behavior and, thereby, test proposed pro-innovation frameworks.

An organization’s competitiveness may depend on its ability to effectively promote innovation in the workplace. The principles underlying social exchange theory may serve as tools to assess the effectiveness of organizational frameworks designed to promote workplace innovation.

In his reflection on large business enterprises titled “Termites, group behaviour, and the loss of innovation: conformity rules!”, Pech (2001) cited Peter Drucker for the proposition that “[m]arketing and innovation produce results and the ‘rest’ should simply be viewed as costs to the organization.” However, despite this call to innovate, organizations often find themselves challenged by circumstances or lacking resources, complicating innovation efforts. Organizations may find it necessary to exert control over their workforce through mandatory policies designed to avoid or minimize liability arising from violations of government regulations that prescribe how businesses must and must not operate. Other organizations dedicate scarce resources to seek out efficiencies rather than innovative solutions to company inefficiencies. Nevertheless, whether they are beset by an inhospitable climate for innovation or simply determined to allocate resources elsewhere, businesses must compete to remain viable and produce results, and they must have the skill to adapt to rapid economic changes (Bos-Nehles et al., 2017). While employee control may be a necessary component of business operations and efficiency produces results, if Mr. Drucker is to be believed, organizations must still innovate.

However, the individual, not the organization, is the source of new ideas (Farrukh et al., 2023), and new ideas are the genesis of innovation (Bos-Nehles & Veenendaal, 2019). Whether a company enforces policies aimed at complying with governmental regulations or chooses to invest its capital for purposes other than innovation, the result is the same: the organization limits its capacity for employees to create and implement novel ideas, to innovate (Van den Hoed et al., 2022). The questions for organizations become how to effectively and practically promote employee innovation in the face of such countervailing forces, be they externally or internally generated, and how can academic theory be employed to encourage employee innovation.

Social exchange theory (SET) provides the conceptual foundation for organizations to help answer questions of employee innovation. Embodying one of the major theoretical perspectives on social interaction and structure (Cook et al., 2013), academics have used SET to explain and understand various human relationships, including the relationship between employee and employer (Farrukh et al., 2023). At its core, the theory envisions the reciprocal exchange of resources between parties, including employees and employers (Cook et al., 2013).

The aim of this article is to inform business practitioners about SET and its potential use in addressing questions of employee innovation and to assist in developing frameworks within their organizations to promote innovation. Specifically, this article seeks to describe the history and evolution of the modern view of SET and the components that comprise it. And the article supplies business practitioners with a means of assessing the applicability of SET as an analytical structure to understand and predict workplace behavior and offers them observations from academia to aid in the practical application of SET as an explanatory tool in the design of pro-innovation frameworks.

**History and Evolution**

The groundwork for the modern view of SET was laid in the late 1950s and early 1960s, although studies trace its roots as far back as the 1920s (Ahmad et al., 2023). Its basic principles were established by notable contributors in the field of sociology. First and primary among them was George Homans, a preeminent sociological theorist. In his works, Homans investigated the interaction of two individuals called dyads. From the perspectives of sociology and behavioral psychology, he studied their behavior during the social exchange process and considered how such exchanges might become mutually reinforcing over time and how the underlying behavior in such exchanges was motivated by rewards and punishments (Cook et al., 2013).

Homans’ propositions about such processes and exchanges formed the basis of today’s prevailing view of SET. But his research also paved the way for others to test SET’s boundaries, applying its principles to other forms of social interactions and infusing the theory with new approaches. For example, in his

**Methodology**

According to AlEssa & Durugbo (2022), social science theories are the most utilized theories in research, and SET is used to explain behavior in more than half of social science-based studies. However, despite the theory’s frequent application in academia, SET and its usefulness to practitioners in evaluating proposed frameworks for innovation in practice may not be as well considered. To address this possible gap in knowledge, from August 2022 to March 2023, this author undertook literature reviews of peer-reviewed scholarly publications about SET. Papers published more recently were given greater focus, unless the article was heavily cited (as a relative matter) or otherwise identified as seminal. The databases searched included ABI-INFORM Global, Business Source Premier, Google Scholar, and JSTOR. Relevant articles were selected from such databases using Boolean and natural language queries, and research was focused on the history and evolution of IWB, various antecedents and moderating variables involving IWB, and alternate theories and principles used to explain workplace behavior.
influential 1964 paper titled “Exchange and power in social life,” Peter Blau, a renowned sociologist, supported the view that SET could explain social systems and group behavior larger than the dyad. Notably, Blau approached SET from a decidedly economic and utilitarian perspective (Cook et al., 2013). Blau and others further contributed to the scope and breadth of SET, introducing ideas of power, fairness, and justice in the exchange. And Richard Emerson, another well-regarded researcher in the field of SET, combined the works of Homans and Blau in charting the unexplored territory of SET (Cook et al., 2013). His research is referenced further below.

Since Blau’s contributions, researchers have enlisted SET to explain behavior in the employer-employee context, but SET has not been the only theory invoked to explain causes and effects involving workplace behavior. Alternate theories abound, including those posited by theorists versed in various academic disciplines. For instance, in the same manner as sociology and behavioral psychology have contributed to building SET, the fields of economics and organizational psychology have also played a part in developing theories designed to explain human relationships. In the following paragraphs, two of the more well-known theories stemming from these disciplines, agency theory and the job demands-resources (JD-R) model, are described, and compared to SET.

Alternate Theories

Like SET, agency theory stands as a significant theoretical framework in academia. Tracing its origins to research conducted in the 1960s and 1970s, it has been used to suggest explanations about individual relationships across multiple scientific disciplines and in a wide variety of scenarios, e.g., clients and service providers, citizens and politicians, stockholders and company managers, and employers and employees (Kiser, 1999). Agency theory is predicated on the assumption that a principal who delegates work to an agent and an agent who performs the work will form a relationship, a contract, and will make rational choices under such contract in their own self-interest (Bottom et al., 2006). The theory in application addresses the challenge of how to optimize such a contract, i.e. how to most efficiently fashion each party’s conduct and obligations to one another, particularly in cases where their interests diverge or when the amount of information available to each of them to assess the work performed differs (Eisenhardt, 1989). While researchers utilizing SET have adopted economic principles in discussing their findings (Zafirovski, 2005) (as further described below), SET remains bound to a decidedly sociological and psychological point of view. On the other hand, agency theory is firmly established in economics (Eisenhardt, 1989) and the notion that human behavior can be understood through a rational choice model, featuring ideals of economic rationality and individual self-interest (French, 1995).

Unlike SET, the JD-R model is of more recent vintage, having been first proposed in the early 2000’s by psychologists Evangelia Demerouti, Friedhelm Nachreiner, Arnold Bakker, and Wilmar Schaufeli. It was offered as a means of understanding certain employee behaviors in the workplace. (Demerouti et al., 2001). The theory has since been widely adopted by organizational psychologists investigating such behavior. Its central tenet is that working conditions can be classified as either job demands or job resources (Lesener et al., 2019; Demerouti et al., 2001). Job demands might include physical, social, or organizational aspects of a job that require sustained physical or mental effort. Job resources, on the other hand, might include physical, social, or organizational aspects of the job that may assist in achieving certain work goals or reducing job demands.

Although agency theory and the JD-R model have been empirically shown to have the capacity to effectively explain phenomena in the workplace setting, SET may be better suited than agency theory and the JD-R model to address the question central to this article and perhaps social exchange in the workforce in general: how to effectively and practically promote employee innovation in the face of interests generated internally or externally that may limit innovation. As more particularly described in the following section, in the same manner as agency theory, SET may have evolved from economic principles of rational choice and self-interest, attributes of the rational choice model. However, such principles may stand as limitations in the context of continuing social interactions, and SET may have transcended these limitations (or was never subject to them), to which agency theory, however, remains inextricably bound, with Bottom et al. (2006) concluding, at least within behavioral psychology circles, that SET could potentially explain the empirical failures of agency theory in the social exchange context.

Despite its attraction, the JD-R model has been criticized as being too general and overly descriptive.
Social Exchange Theory

SET may be understood as comprising three components: (i) the rules applicable to the exchange, (ii) what the parties to the exchange are exchanging, and (iii) the relationship that either comprises a series of exchanges or their result.

Mapping Social Exchange Theory to an Innovative Framework

These three components of SET provide a means for business practitioners to explore and explain employee behaviors when developing frameworks aimed at promoting workplace innovation. Generally, the components map as follows to such a framework:

Expecting the employer and employee to engage in reciprocal, interdependent behavior (the rule), the employer would initiate the exchange by offering the employee a certain resource or resources designed to promote innovative or creative behavior (a benefit or resource). In exchange, as predicted by SET, the employee ought to then reciprocate by displaying certain elements of innovative work behavior (the exchanged benefit or resource, which is described in more detail below). This exchange or series of exchanges would continue consistent with the already-existing employer-employee relationship.
However, the effectiveness of a proposed framework to promote innovation may be confounded by attributes of the workplace setting that moderate the employee-employer social exchange. Such attributes include an organization’s climate for innovation. For example, the degree to which an organization exerts control over its employees by enforcing policies intended to avoid regulatory risk facing the business may weaken a business’ climate for innovation. Such a weak climate for innovation may (or, as discussed below, may not) negatively influence the exchange by impairing employees’ intentions to exhibit innovative behavior.

Towards a Better Understanding of Social Exchange Theory

Despite its wide adoption in the social sciences and in business management and despite efforts to articulate its dimensions and categorize its components for potential use, SET has been plagued by a general perception that the theory lacks precision. It has been identified as “an extremely broad conceptual framework,” capable of describing “any reasonable pattern of findings, at least in a post hoc manner” (Cropanzano et al., 2017). SET has been touted as one of the gold standards in understanding work behavior and has been used to explain a number of scenarios within the workplace setting and without. However, given its perceived imprecision and potential complexity in predicting behavior prospectively, SET might frustrate practitioners interested in practically applying SET’s broad logic to assist in facing questions of employee innovation.

Still, despite such theoretical imprecision and complexity, SET “is one of the most enduring and widely used conceptual frameworks.” (Cropanzano et al., 2017), and practitioners may still benefit from post hoc observations of social exchanges in the workplace. However, the challenge associated with using a conceptual framework potentially suffering from theoretical imprecision may be thornier.

A suggested solution to overcoming SET’s perceived imprecision is to delve even further into SET’s underpinnings and attributes to gain a better understanding of what SET is—and what it is not. The greater clarity from such an exploration may offer insights, conceptual and practical, to practitioners of business. And such exploration may be undertaken by considering SET with all its apparent imprecision from the vantage of a theory well known for its precision, microeconomics.

Exploring Social Exchange Theory Through the Lens of Microeconomics

In a broad sense, the notion of an exchange embodies a framework of human behavior well known to economists—and anyone else who studied Microeconomics 101 in college: the ideas of a transaction as an exchange and the costs and benefits resulting from such a quid pro quo. And SET does reflect these attributes; largely to the same extent behavioral psychology has observed human behavior through an economic lens, SET includes within its logic basic precepts of microeconomics (Zafirovski, 2005).

In his seminal works, Homans articulated certain propositions, five of them, to model both individual behavior in social exchanges (the quid pro quo) and the attendant rewards and punishments within such exchanges (benefits and costs) (Emerson, 1976)(citing Homans, 1974). Among them was the Deprivation-Satisfaction Proposition, which provides that “[t]he more often in the recent past a person has received a particular reward, the less valuable any further unit of that reward becomes for him.” (Emerson, 1976)(quoting Homans, 1974). This proposition tied to behavioral psychology is similar to the longer-established law of diminishing marginal utility, adopted by SET researchers, including the above-referenced Blau and Emerson (Cook et al., 2013). Diminishing marginal utility in the SET context stands for the proposition that behavior that is rewarded in general continues up to the limit of diminishing marginal utility (Cook et al., 2013). That is, the more often a person has recently received a particular reward for an action, the less valuable is an additional unit of that reward.

Researchers have proposed, not surprisingly, that SET’s ready use of economic concepts evidences a familial connection to economic theory. Zafirovski (2005) considered SET as an extension of economic exchanges, conceding that rational choice models of behavior, which originated in traditional microeconomics, formed the basis of SET. For Zafirovski, the extension of marginal utility to SET, as described above, supported the claim that SET was actually a particularly specific version of the rational choice model. In earlier research however, Emerson (1976) declined to concede the existence of this familial relationship and questioned whether SET simply changed words and borrowed concepts from eco-
nomic.

SET may be well characterized as a particular variation of the rational choice model, or its evolution may instead have been the consequence of researchers approaching the same unit of analysis, human interactions, from different academic perspectives. Regardless of SET’s theoretical beginnings, SET and economic theory grounded in ideals of rational choice differ profoundly. As a result, a practitioner of business may be able to achieve greater insight in how SET may be employed as an explanatory tool by considering and contrasting the attributes of what may be its closest analog (or predecessor) in the domain of economics, economic exchange theory (e.g., Zafirovski, 2005; Emerson, 1976).

Considering and Contrasting Economic Exchange Theory

An economic exchange involves precise transactions within the confines of a market (Zafirovski, 2005; Emerson, 1976). Its theory is organized around particular sets of assumptions about human behavior and is characterized by a prevalence of extrinsic rewards, in particular material gains. In contrast, the social exchange involves “unspecified personal obligations and trust as well as intrinsic—in conjunction with extrinsic—rewards.” (Zafirovski, 2005). SET is not bound by an impersonal market; as described above, the parties to its exchanges are interdependent. Blau opined that “only social exchange tends to engender feelings of personal obligations, gratitude, and trust; purely economic exchange as such does not.” (Blau, 1964).

And in Emerson’s view, unlike economic theory, whether or not people are rational is not a question that needs to be posed to explain phenomena through SET (Emerson, 1976): rational behavior is a rule the parties to an exchange are free to apply—or not.

In significant measure, economic exchanges are based on ahistorical decisions of independent parties: parties involved in such exchanges are not necessarily informed by prior interactions but rather just by the one-shot transaction at hand. In other words, in line with economic theory, “rational choice depends on the opportunity set from which the choice is to be made.” (Bottom et al., 2006). Theorists espousing the virtue of SET, on the other hand, consider longitudinal relationships as meaningful: individuals form beliefs and expectations about one another based on information learned from long-term social interactions and their repeated behavior based on extracontractual norms. Emerson considered the longitudinal attribute of SET particularly important in explaining meaningful exchanges “because most economic theory systematically ignores it!” (Emerson, 1976).

In describing the limitations of economic exchange theory in the context of continuing social relationships and, thereby, acknowledging the corresponding breadth of SET, Emerson (1976) considered economic exchange theory to be simply unable to deal with exchange between interdependent actors. Two years later, the author expanded his view with a colleague in concluding that as specific social actors are drawn into repetitive exchange with each other (a relationship), the market structure envisioned by economic theory “is imperfect and traditional microeconomic theory loses its precision.” (Cook & Emerson, 1978).

Applicability of Social Exchange Theory

While economic theory appears to yield to SET in explaining behavior in the context of continuing social exchanges, it may be premature, and likely ill-advised, to simply dismiss theories rooted in economic thought in favor of SET whenever interactions are deemed social in nature. Cook and Emerson (1978) concluded in the quote above that economic theory loses precision as social actors are drawn into a repetitive exchange. The authors did not suggest thereby that the logic of microeconomics collapses under the sheer weight of social exchange. As such, it may be helpful to remain open to economic thinking in the social exchange context. Specifically, as an initial step in considering SET in explaining behavior in a proposed framework to support innovation, practitioners can utilize economic theory as a comparator to SET. Such a comparison could serve as a tool to assess the applicability of SET, its logic, its components, and consequently the expected effectiveness of SET in understanding parties’ behavior in a given exchange.

The preeminence of SET in the social sciences may call into question the need for a comparator theory to assess the applicability of SET to a social exchange. However, as described above, despite its standing in academia, the theory may suffer from a lack of precision. And it is noteworthy that at least one of its most influential contributors did not consider SET to be a theory at all. Emerson (1976) commented that SET
### Table 1. SET Questions for Exchange Evaluation

<table>
<thead>
<tr>
<th>Questions in the Comparison Scheme</th>
<th>How to Assess Answers to the Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what extent is the exchange in question interdependent in nature and predicted on employee perceptions like fairness and justice?</td>
<td>SET assumes that the exchange (i) is interdependent or contingent in nature, i.e. the conduct is based on a combination of the parties’ actions (Cropanzano &amp; Mitchell, 2005) theoretical ambiguities within SET remain. As a consequence, tests of the model, as well as its applications, tend to rely on an incompletely specified set of ideas. The authors address conceptual difficulties and highlight areas in need of additional research. In so doing, they pay special attention to four issues: (a) and (ii) involves expectations and beliefs about one another (Emerson, 1976). On the other hand, agency theory may be the better choice on the continuum if the exchange (iii) is less reciprocal in nature but rather dependent on conduct based on one's own action (independent actions) or even depending on the other's (dependent actions); and (iv) not dependent on perceptions of fairness and justice but rather the predominance of rational choice and self-interest.</td>
</tr>
<tr>
<td>Do contracts define the exchange, or is it expected to involve extracontractual components?</td>
<td>The less a contract defines the exchange, the greater the explanatory power of SET in the exchange. SET does not include express or otherwise clear performance obligations within its logic but rather unspecified obligations between the parties (Ahmad et al., 2023). On the other hand, as described in the Introduction section above, the practical application of agency theory involves how to optimize a contract between parties (Eisenhardt, 1989).</td>
</tr>
<tr>
<td>To what extent is the relationship of the parties expected to be long lasting?</td>
<td>As noted above, Emerson (1976) considered long-term relationships particularly important in explaining meaningful exchanges under SET. As parties engage in more repetitive behavior, i.e. long-lasting relationships, the greater SET may explain the exchange in question—and the less precise microeconomic theory, including agency theory, becomes (Cook &amp; Emerson, 1978) exchange theory has focused largely upon analysis of the dyad, while power and justice are fundamentally social structural phenomena. First, we contrast economic with sociological analysis of dyadic exchange. We conclude that (a). Conversely, the shorter the term of the expected relationship, the better the parties' behavior may be predicted through economics, a discipline with which agency theory well aligns.</td>
</tr>
<tr>
<td>Are the rewards or benefits subject to the exchange extrinsic and quantifiable or more intrinsic and subjective, and to what extent?</td>
<td>As noted above, SET involves the exchange of “unspecified personal obligations and trust as well as intrinsic—in conjunction with extrinsic—rewards” (Zafirovski, 2005). In contrast, rewards or benefits, pointing to the applicability of agency theory, would more likely include only extrinsic in nature, e.g., material gains like compensation.</td>
</tr>
</tbody>
</table>
Table 2. Agency Theory Questions for Exchange Evaluation

<table>
<thead>
<tr>
<th>Questions in the Comparison Scheme</th>
<th>How to Assess Answers to the Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what extent do the interests of the employer and employee diverge in the exchange?</td>
<td>Consistent with principles of rational choice and self-interest, agency theory’s explanatory power is manifest when interests of the employer and employee become or are more divergent. On the other hand, when parties engage in reciprocal exchanges, as assumed under SET, interests are more likely to converge.</td>
</tr>
<tr>
<td>How asymmetric is the information in the possession of the employer and employee about the exchange or involved in the exchange?</td>
<td>Agency theory assumes the agent possesses greater information about her task than her supervisor, i.e. the agent. On the other hand, an interdependent exchange and a resultant relationship, components of SET, suggest greater information symmetry.</td>
</tr>
</tbody>
</table>

was better understood as a frame of reference “within which many theories . . . can speak to one another, whether in argument or mutual support.” Emerson’s view of SET may have been less an indictment of the theory’s explanatory power than an acknowledgement of a particularly unique trait of SET: it affords researchers the flexibility to consider multiple theories within the same analytical space. The process of comparing SET with a theory rooted in economics in the following paragraphs implements elements of this unique trait, and it may offer a way to reduce the potential adverse effects of theoretical imprecision without diminishing the integrity of SET as a theory in its own right.

Agency Theory as an Apt Comparator

Agency theory may not be SET’s closest analog in economics, but it stands as the preeminent tool of researchers, relying on precepts underlying the rational choice model, to investigate the relationships between employers and employees (Bottom et al., 2006; Eisenhardt, 1989). Accordingly, agency theory with its grounding in economics may serve as an apt comparator “in argument” to SET with its sociological and psychological points of view.

As an initial step, it is important for practitioners, seeking to fashion a framework to support innovation within their organizations, to assess whether SET or perhaps some other theory may be effective in explaining behavior in a given exchange. Presumably, the more the attributes of a particular exchange resemble an economic exchange, the greater the explanatory power of theories rooted in economics may be—and, in turn, the less effective SET may be in supporting such a framework. On the other hand, the closer such attributes align with the components of SET, the more likely the theories rooted in economics yield to SET’s explanatory power.

A Proposed Comparison Scheme

Assessing SET’s applicability could be accomplished by conceptualizing a continuum. At one end of the proposed comparison scheme rests agency theory, steeped in economics. On the other, possibly its cousin, SET. A practitioner considering the applicability of SET to a workplace exchange may be informed by the place on the continuum separating these theories the observed exchange in review generally falls. And determining where the exchange falls may depend on how well the exchange generally fits the theories’ particular attributes.

Specifically, from the perspective of SET, examples of questions potentially for use in exchange evaluation are included in Table 1. From the perspective of agency theory, questions potentially for use in exchange evaluation are included in Table 2.

The answers to this comparison scheme could assist practitioners in deciding whether to apply SET, its logic, and its components at the outset to understand particular behavior in the workplace. The following are examples of situations that may help inform practitioners about how this comparison scheme might be utilized:

1. 1. Younger and older employees may be satisfied in the workplace in different ways (Rožman et al., 2017). Rožman et al.’s study suggested that interpersonal relationships were particularly important to older employees and monetary incentives less important. On the other hand, younger employees were more focused on external motivations than their older colleagues. If this dichotomy holds true, practitioners may find SET to be more effective when evaluating how to encourage older employees to innovate, individuals who might value interdependence and long-lasting relationships more than their younger peers. On the other hand, agency theory may have greater explanatory power when employers engage with younger employees more interested
In compensation and other extrinsic motivators.

2. With the increase of remote work, employers have been exploring how to feasibly monitor work performance (White, 2019). Monitoring as a component of an employer-employee relationship and as a means of diminishing information asymmetry arising from remote work may more closely align with agency theory than SET. Practitioners might be well served to consider the applicability of agency theory instead of SET when thinking about how they may motivate remote workers to innovate.

3. Employees working in the public sector may be more intrinsically motivated in general than their private-practice counterparts (Berdud et al., 2016). As such, practitioners managing employees working for a non-profit organization or within a government agency may find SET instead of agency theory useful in fashioning a framework to promote innovation in those environments.

If SET has applicability and use to a practitioner’s particular situation, the question in practice then becomes how the theory may be applied to explain such behavior.

Application of Social Exchange Theory

Of the three components of SET described above, (i) the rules applicable to the exchange, (ii) the resources being exchanged, and (iii) the relationship of the parties to the exchange or exchanges, focusing on the second, the heart of the exchange, may be an effective, ready way to influence or alter behavior. In other words, the resource component of SET may be well suited among the three to practically apply SET in helping practitioners design a framework to foster employee innovation.

To design such a framework and identify an effective resource to offer employees to initiate the reciprocal exchange, a practitioner might first appreciate what resource the organization should be interested in receiving.

To design such a framework and identify an effective resource to offer employees to initiate the reciprocal exchange, a practitioner might first appreciate what resource the organization should be interested in receiving.

Compensation

One of the least difficult resources available to offer an employee may be compensation. And researchers have found an organization’s compensation system can significantly impact innovative behavior (Bysted & Jespersen, 2014). However, conclusions by researchers about its effectiveness as a resource to elicit IWB are mixed. As discussed above, the social exchange involves “unspecified personal obligations and trust as well as intrinsic—in conjunction with extrinsic—rewards.” (Zafirovski, 2005). Payment is the quintessential extrinsic reward; it may be more effective in influencing extrinsically motivated employees—and perhaps more appropriately featured in a contract between a principle and an agent. While not difficult to practically offer, compensating employees in an independent reciprocal social exchange for IWB, a discretionary task, may not have the desired effect, at least for the employer. Moreover, in their 2019 paper testing the relationship between compensation and IWB under SET, Bos-Nehles & Veenendaal (2019) confirmed other researchers’ findings that for employees motivated by intrinsic rewards, compensation actually had a negative effect on IWB.

Training and Development

Next in order is training and development, part of an organization’s human resource management (HRM)
function. In general, HRM has been described as a central job resource for employees, affording them the necessary support in highly demanding tasks such as tasks involving the innovation process (Salas-Vallina et al., 2020). Studies have suggested that among the policy domains of HRM, employee perceptions of training and development may more effectively encourage IWB than other HRM domains, with Abstein et al. (2014) finding support for the proposition that development perspectives were the most influential in forming comprehensive HR system perceptions. Axtell et al. (2000) theorized that employee creativity may be developed by training in skills such as critical thinking, as well as education and communication about the wider organization and other activities beyond the technical core of employee jobs.

However, the difficulty in offering this resource becomes apparent when considering results of empirical research. In academic literature, the effectiveness of this resource on IWB appears particularly dependent on the organization’s climate for innovation (Bos-Nehles et al., 2017). In other words, “the signals that employees receive about organizations’ expectations and potential outcomes of their IWB” may influence, positively or negatively, IWB intentions (Volery & Tarabashkina, 2021). And an organization’s climate for innovation has been proposed as a moderating variable in evaluating relationships between other would-be resources and IWB, including training and development (Bos-Nehles & Veenendaal, 2019).

In their 2019 publication, Bos-Nehles and Veenendaal hypothesized that an innovative climate, which conveys to employees that their IWB is a valued resource within the organization, should serve to strengthen the positive effect of HRM practices on IWB, including training and development. The results involving training and development did not support the hypothesis. To the authors’ surprise, the stronger the perceived climate for innovation within the organization, the less its employees reciprocated with IWB intentions. This finding has surprised other researchers in their own work as well (AlEssa & Durugbo, 2022) (“Interestingly, organization climate generates mixed effects as an inhibitor or an enabler on IWB.”); (van Essen et al., 2022) (“Contra-intuitively, IWB is also shown in environments that are less helpful.”)

While Bos-Nehles & Veenendaal (2019) proposed the JD-R model (discussed above) as a tool to possibly reconcile their interesting and contra-intuitive results, the above-discussed law of diminishing marginal utility and Homans’ Deprivation-Satiation Proposition, concepts already built into SET’s logic, may suffice to explain these findings. In Scott & Bruce (1994)’s seminal work involving IWB, the authors also evaluated findings contrary to expectations. Among them was the discovery that no relationship appeared to exist between resources available to support innovative behavior and the behavior itself. The authors theorized that in the case of resources, a threshold effect may operate where perceived increases above some point may have no further effect in facilitating innovative behavior. Similar to Bos-Nehles & Veenendaal (2019)’s findings, Veenendaal & Bondarouk (2015) considered a possible explanation for their finding that training and development appeared to have a negative effect on idea generation to be that employees were “made too comfortable,” suppressing urges to generate ideas. See also (Hewko, 2022)(opining that “an excess of material resources could hinder employee’s motivation to think in alternative ways.”) Microeconomics and Homans’ Proposition might explain, for the most part, these findings. As employees are exposed to the resource of an innovative climate and then also offered the resource of training and development, their perception of the value of that HRM-focused resource may diminish, perhaps even to the point of negative marginal utility (an admitted departure from the law of decreasing marginal utility).

Practitioners can make practical decisions about training and development as a useful resource to offer employees by also considering such a decision in the context of the organization’s particular climate. Interesting and contra-intuitive results may motivate researchers in deciding what to study next, but they do not assist practitioners in decision making. Training and development appear to be an effective resource available to an organization to elicit IWB intentions, but given these findings, under what circumstances might offering training and development make sense? Practitioners can make practical decisions about training and development as a useful resource to offer employees by also considering such a decision in the context of the organization’s particular climate. Informed by the law of diminishing marginal utility and Homans’ Proposition, the greater the climate for innovation within the organization, the less effective training and development may prove to be as a resource to elicit IWB intentions. Conversely, for those practitioners seeking to strike a balance between the need to promote innovation in the workplace and the need to maintain control over the workforce to avoid regulatory risk (a climate perhaps less conducive to innovation), training and development may fill the void of innovative-focused resources, confirming its proposed
status as the most effective tool for HRM—although the law of diminishing utility also applies in weak climates of innovation and decision makers may be well served to remain mindful of making their employees “too comfortable” (Veenendaal & Bondarouk, 2015).

Leadership
Similar to the resources described above, leadership may significantly influence employee behavior—including IWB (De Jong & Den Hartog, 2007). Unlike the resources described above, however, leadership may be in large part immune to the limitations that burden compensation and training and development as useful resources in an exchange. As further described below, in contrast to compensation, effective leadership provides clear intrinsic benefits to employees. And unlike training and development, effective leadership may transcend the particularities of climate’s influence on the training and development-IWB relationship.

De Jong and Den Hartog (2007) defined leadership as “the process of influencing others towards achieving some kind of desired outcome.” Effective leaders provide vision, “a transcendent goal that represents shared values, has moral overtones, and provides meaning” (Andriopoulos, 2001), and leaders are expected to supply both tangible and intangible benefits to employees to motivate them to perform their jobs beyond expectations (Li et al., 2019). As such, the value good leaders impart to employees are clearly intrinsic, not impersonal, not contractual.

With respect to leadership’s transcendent attribute, in their 2019 study referenced above, Bos-Nehles and Veenendaal also tested supportive supervision in relation to IWB. Supportive supervision as an exchange resource was envisioned as the employee’s perception that they receive regular performance feedback from their supervisors. The expected response was an obligation to reciprocate by helping their supervisor achieve business unit goals and exhibit IWB intentions. Even after accounting for the moderating effect of an organization’s strong climate of innovation, supportive supervision remained significant as a positive resource for IWB—unlike training and development. This form of leadership, supervisor and subordinate, appears to set aside the law of diminishing marginal utility and Homans’ Proposition in the context of IWB promotion, perhaps inferring leadership as a construct in general may also possess this transcendent attribute. See also Veenendaal & Bondarouk (2015), who found that unlike training and development, a practical implication of their research was that supportive supervision could not be excessive.

Generally, leadership studies have dominated IWB-related research (AIEssa & Durugbo, 2022). And one particular style of leadership has been studied the most, transformational leadership. Transformational leaders are those who develop their followers’ potential for work through inspiration, intellectual stimulation, and empowerment (Li et al., 2019). These dimensions have been conceptualized as intangible resources that may be offered to employees to elicit IWB intentions. And transformational leadership has been proposed as having the capacity to spawn resources that can serve in a social exchange, suggesting the qualities of a transformational leader may be more influential on the employer-employee relationship level than simply at the level of a particular social exchange or series of exchanges (Muchiri et al., 2020).

For example, empowering employees through transformational leadership, i.e. structural empowerment, may give rise to employee autonomy. Autonomy has been found to directly and positively affect IWB (Bos-Nehles et al., 2017). As explained by SET, the more employees perceive themselves as free to determine how they execute their tasks (the resource supplied through transformational leadership), the more they will engage in IWB. In Bos-Nehles et al. (2017)’s view, offering employees autonomy in their jobs appeared “to consistently be one of the very best practices for boosting IWB and can therefore be viewed as a crucial practice in improving the IWB of employees.” Whether leadership as a construct takes the form of the supervisor-subordinate relationship described above or the more broad-reaching notion of transformational leadership, leadership as a resource or creator of resources may have the capacity to promote IWB in a manner other resources cannot. However, unless the right leadership is already in place, leadership as a resource may be an impractical choice for a practitioner seeking to elicit IWB for use. As such, while training and development may not be the most effective resource among the three, it may strike a fair balance between difficulty and effectiveness and serve as a practical choice for a practitioner.
Conclusions

Practitioners of business must remain keenly aware of the need for their organizations to remain competitive in their respective environments. Viability depends on adaptability, and innovation can be an effective means of maintaining a competitive edge. However, organizations often focus, perhaps even out of necessity, on interests incompatible with innovative strategy. The challenge facing practitioners is how to effectively and practically promote employee innovation in the face of such countervailing forces.

In developing a plan to encourage employee innovation, practitioners may be well served by understanding how employees might behave in reaction to a particular plan to innovate. While not the only theory used in research to explain employer-employee behavior, SET, which traces its roots to works by preeminent psychological and sociological theorists, has been routinely employed to gain insight into how an employer may encourage its employees to innovate (Bos-Nehles & Veenendaal, 2019). The theory stands for the proposition that individuals establish and continue social relationships on the expectation that such relationship will be mutually advantageous (Zafirovski, 2005).

A deep understanding of SET’s principles and its components, which include (i) the rules of the exchange, (ii) what the parties are exchanging, and (iii) the parties’ relationship (Ahmad et al., 2023), would aid a practitioner in utilizing the power of SET to explain an employee-employer relationship. However, SET may suffer from imprecision, complicating efforts to better understand the theory’s explanatory power. SET has been called “an extremely broad conceptual framework” (Croppanzano et al., 2017), but despite such imprecision, a better understanding of SET may be achieved by comparing and contrasting the social theory with economic theory, in particular its close analog—economic exchange theory.

Equipped with a deeper understanding of SET’s principles and components, a practitioner could then assess the theory’s applicability to a proposed pro-innovation framework by again enlisting economic theory, this time agency theory. Unlike SET, agency theory is predicated on the idea that an employer-employee relationship features ideals of economic rationality and individual self-interest (French, 1995). Sitting at the opposite theoretical pole, SET is a social theory that focuses on long-term relationship and the parties’ reciprocal exchange of “unspecified personal obligations, gratitude and trust” (Zafirovski, 2005). Where a proposed pro-innovation framework rests on a continuum between the opposite poles of SET and agency theory may help the practitioner better understand how well SET may explain an organization’s proposed pro-innovation framework.

Once the applicability of SET is assessed, a practitioner may then apply the theory. Its application may involve focusing on the heart of the reciprocal exchange, i.e., the resources the employer would furnish the employee in hopes of eliciting from the employee her resource—innovative work behavior. However, identifying which employer resource may be most effective in eliciting innovative behavior is a complex endeavor. The more difficult the resource may be for the organization to practically offer, the more effective such resource may be in promoting innovative work behavior.

To illustrate this point, examples of employer-focused resources were provided in this article: compensation, training and development, and leadership. First, compensation may be the least difficult to offer an employee, but it may not be the most effective resource to offer. Research is mixed on that point. At its heart, SET contemplates in large measure the exchange of intrinsic resources to elicit behavior. Compensation is decidedly extrinsic.

While training and development aimed at encouraging innovation as a resource may be more challenging to offer than compensation, it may be more effective in eliciting innovative behavior. Nonetheless, the effectiveness of training and development as a resource may be susceptible to other influences. For example, research suggests that a strong climate for innovation within an organization may actually negatively impact the effectiveness of training and development. Unless effective leadership is already in place within an organization, leadership may prove to be the most complex resource of the three examples covered to offer in exchange. However, it may also be the most effective as it involves inherently intrinsic benefits to employees and appears immune to outside influences like an organization’s climate for innovation.

References


---

**Review**

This article was accepted under the constructive peer review option. For further details, see the descriptions at:

http://mumabusinessreview.org/peer-review-options/
Paul Tripp has served as General Counsel of Lincare Holdings Inc., a national provider of respiratory therapy and durable medical equipment to patients in the home setting. And prior to that, he served for ten years as Lincare’s mergers and acquisitions counsel. Paul is currently a doctoral student at the Muma College of Business, University of South Florida, and holds a Master of Laws in Health Law from Loyola University Chicago, Juris Doctor and Master of Business Administration from the University of Florida, and Bachelor of Science in Business Administration from the University of Central Florida. The author can be contacted at ptripp1@usf.edu.