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# The Effect of Innovative Work Behaviour on the Performance of Service Sector SMEs in Sabah

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**Abstract** - Innovation is often associated with the introduction of new products or services in the business. Moreover, it can also be about changing the way business is conducted. Innovation embraces new technologies, improves industry methods, meets changing customer demands or needs, and creates better systems and processes. The organisation relies heavily upon its stakeholders, especially the employees, when it wants to develop or create an innovative environment in the workplace, either in terms of operations, processes, or methods. In line with employees' innovative spirits, innovation is deemed more critical for Small Medium Enterprises (SMEs). As the backbone of Malaysia's economy, SMEs' competitive ability is often measured through its innovative capacity. In essence, SMEs and innovation are synergistically integrated as innovative efforts are regarded as the source of economic competitiveness. However, the means for the firms to be innovative remain questionable (Makanyeza & Dzvuke, 2016). In the current scenario, to achieve long-term success, an organisation needs to support and enhance its employees' innovative potential rather than focusing solely on research and development (R&D) professionals, scientists, or specialists. Thus, this study is conducted to examine the effect of innovative work behaviour on Sabah's SMEs' performance in the Service Sector. This is a quantitative research in which a total of 300 questionnaires were distributed to the managers of Service Sector SMEs in Sabah and 219 responses were received. The data collected was then analysed using PLS-SEM. This study found that the innovative work behaviour ( $\beta = 0.393$ ,  $p = 0.000$ ) were positively related to organisation performance. Hence, innovative work behaviour is crucial to be embraced by the employees of the organisation itself to enable organisations to stay relevant in the industry and keep pace with the environment's rapid changes.

**Keywords:** *Innovation, innovative behaviour, SMEs, service sector, organisation performance*

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## ARTICLE INFO

Received 9 April 2021

Received in revised form 1 May 2021

Accepted 15 June 2021

Published 21 June 2021

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## **I. Introduction**

SMEs are the key players in the economy and the broader ecosystem of firms. In Malaysia, 31% of the GDP was contributed by SMEs, representing the most significant percentage of the total business establishment, which is 98.5% or 907,065. They are expected to play a more prominent role, not just as the key drivers of the growth. The largest proportion is microenterprise (76.5%), followed by small enterprises (21.2%), and only 2.3% represented medium enterprises (Department of Statistics Malaysia, <http://www.dosm.gov.my>). SMEs is at the core of the country's economic development. Jasra, Hunjra, Ur Rahman, Azam and Khan (2011) mentioned that Small and medium businesses (SMEs) play a critical role in determining a country's development (Osman & Ngan, 2016). Malaysia is targeted to become a high-income nation, but there are things to ponder whether the target can be achieved as planned, despite the promising SMEs' performance. As compared to the manufacturing sector, the services sector is the most dominating in Malaysia. (Zain, Jusoh, Munir, & Putit, 2020). Darus, Yunus, and Rahman (2017) mentioned in their study that the sustainability of SMEs' success highly depends on a few factors, and one of them is innovation. The establishment of SMEs would facilitate Malaysian business to become more competitive in today's global environment. SMEs' competitiveness is a critical area that should be a concern to achieve SME Corp's mission in promoting the development of innovative, resilient, as well as be a competitive SMEs through effective regulation and providing of business support.

Innovation is one of the ingredients that an organisation needs to possess to survive and grow and stay relevant in the business. Innovation is one strategy that an organisation could embrace to achieve excellent business performance (Golovko & Valentini, 2011). Furthermore, innovation in the workplace is vital, as it could open a bigger door for a company to penetrate the market faster and to have a better connection for market development. Innovation has always been at the heart of business success (Waters, 2019). Importantly, embracing innovation will enable the organisation to stay relevant in the industry and keep pace with the rapid changes in the business environment and secure competitiveness. To be an innovative organisation, it needs to implement the ideas instead of merely exploring new opportunities. Furthermore, being innovative will allow the organisation to become more responsive to the external demands, more streamlined and nimbler, and more ecologically sustainable. Hence, it becomes a significant indicator for a successful business, especially for SME.

However, the means for the firms to be innovative remain questionable (Makanyeza & Dzvuke, 2016). In the current scenario, to achieve long-term success, an organisation needs to support and enhance its employees' innovative potential rather than focusing solely on research and development (R&D) professionals, scientists, or specialists. In an organisation, employees' innovativeness is an intangible asset that provides the best idea to remain competitive. Hameed and Waheed (2011) mentioned that employees are the key ingredient to an organisation, and it was the employees' performance that will determine the organisation's success or failure. Linke and Zerfass (2011) cited from Eichen et al. (2008) that active employees are needed by a company's desire to be innovative. De Jong and Den Hartog (2008) cited from Janssen (2000), also mentioned that to ensure innovation is applied in an organisation, individual workers have to be ready to be innovative.

An organisation relies heavily upon their employees to develop or create an innovative environment in its workplace, either in terms of operations, processes, or method (Rammamoorthy, Patrick, Flood, & Sardessai, 2005), which is known as Innovative Work Behavior (IWB). IWB is explained as when individuals, groups, or organisations form, introduce, and implement the newly discovered ideas (Janssen, 2000). According to Jong and Hartog (2008), innovative work behavior (IWB) usually does not only include the process of opportunity exploration and new idea generation but also involves the behavior towards the implementation of changes, new knowledge application, or processes improvement for the personal and/or business enhancement. It also entails more than creativity even though it has a significant relationship to employee's creativity, which is expected to bring advantages to the organization.

Despite the acknowledged SMEs importance to the development of the country's economy, the SMEs performance in Malaysia still has not reached the target. Additionally, the increasing instances of business failure among SMEs became a recurrent issue rendering a critical problem affecting the survival of SMEs (Sallem, Nasir, Nori, & Kasim, 2017). The high rate of failure is one of the factors contributing to this low performance of SMEs. One of the reasons is due to a lack of innovation among SMEs, which leads to the lack of competitiveness (Ambad, Andrew & Amit, 2020).

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## **II. Literature Review**

### **Organisation performance**

One of the most essential dependent variables that become researchers' interest in the management field is organisation performance. According to Madrid et al. (2007), a company with outstanding performance can provide privileges not only to its own organisation but also to society, such as creating job opportunities. Other claims made by these authors are on the importance of accuracy of performance measurement, which is so important to produce real reflection of the company's performance and provide information on how the organisation can further improve it. Unreliable performance measurement will not portray the actual situation, leading to false analysis of results and poor competitive strategies (Madrid et al., 2007). From the entrepreneurship literature, Murphy et al. (1996) determined that efficiency, profitability, and growth as the most common forms of performance factors. Covin and Slevin (1991) also outlined that the firm's economic performance is determined by the firm's profitability and growth.

Organisational performance is the heart of the organisation's survival in business. As mentioned by Kaplan and Norton (1992), a generic term defined organisational performance as "a set of both financial and non-financial indicators capable of assessing the degree to which organisational goals and objectives have been accomplished" (Singh, Darwish, & Potocnick, 2016, p.215). Another definition given by Lakhali (2014) is that an organisation's performance refers to the achievement of an organisation in its market-oriented objectives and its financial goals. For SMEs, regardless of disciplines or sectors, the performance achievement is the intention to reach the targets of the final direction or the purpose of the business establishment (Darus, Yunus, & Rahman, 2017).

As a multidimensional construct, multiple performance measurements can be used to assess an organisation's performance (Lumpkin and Dess, 1996). Plenty of research relating entrepreneurship with the growth in which an organisation's development has become the concern in the literature (Davidsson et al., 2002). To achieve profitability and sustainable competitive advantages, an organisation needs to focus on growth as a crucial element (Markman & Gartner, 2002). Another critical measure of organisation performance is profitability (Fitzsimmons et al., 2005). Fitzsimmons et al (2005) also supported that it is difficult to have consistent growth without profitability. Performance measurement in terms of accounting indicators is challenging to be accessed, especially for a small firm compared to the growth which is more accurate and can be easily accessible (Wiklund, 1999).

Organisation's performance can be used to measure a company's success in its goal achievement, which can be obtained through both quantitative and qualitative methods. Quantitative measurement, which is also known as an objective measurement, commonly used financial outcomes, production, marketing, and efficiency as performance measurement. Meanwhile, qualitative or subjective measurement is more related to the behavior of the organisation's members, including the discipline's level, the goal attainment, perception of leadership on performance of the organisation, individual behavior in an organisation, and effectiveness. Alnachef and Alhajjar (2015), in their study mentioned that subjective performance measures, also known as the perceived performance approach, can also be used to measure performance.

### **Innovative work behaviour**

A great deal of consideration has been put by management research towards the importance of upbringing and elevating innovative behaviors within organisations and society (Dutta & Sobel, 2016). Hence, to be an organisation that able to compete in the respective industry, the members of that organisation itself must be able to provide creative ideas to make their products or services ~~are~~ outstanding and different from their competitors (Baer & Frese, 2003; Brown & Eisenhardt, 1995; Eskildsen et al., 1999; Kahn, 1990; Martins & Terblanche, 2003). As pointed out by Yuan and Woodman, 2010; Xerri, 2013; Wang, 2013; Liu et al., 2017, it is necessary to give attention to the workers of an organisation as the ability of an organisation to innovate derive from the human capital specifically on employees' capacity to engage in innovative behavior.

The current literature suggests that to remain competitive or gain a competitive advantage to progress, employees who conduct innovative behavior will open the edge. West and Farr (1989) and Jong and Kemp (2003) defined innovative behavior as actions of all individuals that lead to the formation, initiation, and utilisation of useful unique ideas at any organisational level. Additionally, innovative work behavior can also be defined as "a multiple-stage process in which an individual recognises a problem for which she or he generates new (novel or

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adopted) ideas and solutions, works to promote and build support for them, and produces an applicable prototype or model for the use and benefit of the organisation or parts within it" (Carmeli, Meitar & Weisberg, 2006, p.78). Bos-Nehles, Renkema, and Janssen (2017) described innovative work behavior as individuals' intentional behaviours to generate and execute fresh and advantageous thoughts notably intended to benefit the individual, group, or organisation. Innovative work behavior is expected to produce novel and valuable ideas, gain sponsorship, and implement generated and promoted ideas. As mentioned by Janssen (2000), innovative work behavior refers to an "innovation that happens at any time anywhere which depends on the workers" willingness to bring valuable results at work (Prieto & Santana, 2014, page 184). Idea generation is the first stage of innovative behaviour. At this stage, the employees are going to explore the available opportunities or issues that arose in an organization which need to be settled. Employees are actively giving valuable opinions and useful ideas for the improvement of products or processes and identifying potential methods to take the available opportunities. Idea promotion is the exploitation by being an expert of the ideas that may assist to attract and convince the respective target on the intention of innovative ideas. This is done by looking for support and creating alliances to influence the others such as colleagues to buy in with the ideas. Idea realization is when the individual puts effort into making the ideas into reality by producing a prototype or model of the ideas that can be used, tested (Kanter, 1988) and examined by the others which will further in assessing the suitability of ideas implementation in the organization. It can be concluded that innovative work behaviors require the generation of ideas and require behaviors to implement the ideas, which ultimately lead to the improvement of business performance.

An organisation that seeks to compete globally needs to treat innovation as the main pilot, which drives the organisation towards reaching its target (Korzilius et al., 2017). In particular, innovative work behavior among employees is a vital capital that will "enable an organisation to be successful in a dynamic business environment" (Yuan & Woodman, 2010; p. 323). Traditionally, innovation focuses only on products, while services could not be innovative (Elche & Gonzalez, 2008) since they are not product-based activities.

### **Resource Based View Theory (RBV)**

RBV theory considered the whole firm a bundle of resources, including human resources, accumulation of assets, and resources provided by the organisation (Barney, 1991; Amit & Shoemaker, 1993). The combination of these resources makes the firm different from other organisations and gains a competitive advantage. Firm-specific perspective is the main focus used by RBV to learn why an organisation succeeded or failed in their market place (Dickson, 1996). This theory is useful to determine the foundation by which the resources and capabilities of a firm serve as the sources for a sustainable competitive advantage. Firm resources need to be as dynamic as the market to ensure they are relevant to the market condition. According to Teece, Pisano, and Shuen (1997), this perspective is based on the dynamic capabilities and outcome of RBV. Based on the study conducted by Madhani (2010), the firm's processes that use the specific resources to integrate, realignment, acquire, and utilisation resources are describing the dynamic capabilities. This kind of capability focuses on ensuring that these resources and capabilities are updated and changed over time to keep the organisation relevant in the changing market. A valuable, rare, inimitable, and non-substitutable product will allow the firms to develop their competitive strategies (Wernerfelt, 1984).

Nonetheless, to sustain the competitive advantage in the world's dynamic economy, the firms need to develop new capabilities or competencies (Teece et al., 1997). Thus, dynamic capabilities can be considered the organisational processes or strategic routines by which the firms develop a new configuration to update their resources as per the market requirement (Eisenhardt & Martin, 2000). Ordinary capabilities and dynamic capabilities are different in terms of their linkage with the change, especially changing its resource base (Winter, 2003). Gaining the dynamic capabilities in the global competitive forces that change the industries' landscape is the most relevant today because achieving a competitive advantage is changing and moving rapidly. The ability to gain a competitive advantage through dynamic capabilities depends on the firm's ability to change its resource base. Wernerfelt (1984) opined that RBV is the way for organisations to sustain their competitiveness by developing and executing valuable resources and capabilities.

According to this theory, firm innovativeness will happen when the competitive advantage and great firm performance can be generated by having socially complicated and matchless resources (Menguc & Auh, 2006). RBV also suggested that certain environmental situations will be affecting the firm's innovativeness. According to the RBV theoretical model, superior performance can be achieved by an organisation with special resources and talent, leading to competitive advantage (Camison and Villar-Lopez, 2012). Specific resources such as

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innovative behaviour by the employees will help generate unfamiliar, beneficial, unique, and matchless resources within the firm that are effortful-to-reproduce (Barney, 1991; Wernerfelt; 1984). Cho and Pucik (2005) identified that abundant resource-based studies have contemplated that endowment of an organisation's strategic resources and imperishable competitive advantage can be gained through innovation.

### **The effect of innovative work behaviour and organisation performance**

The tremendous change in the business environment such as hypercompetitive markets forcing the business to become more innovative. Several researchers pointed out that an organisation cannot avoid innovation if they want to develop their market and retain a competitive advantage when they place their organisation in a new market. Chen (2017) noted that numerous studies confirmed that innovation could positively affect the company's performance. A study conducted by Rosenbusch, Brinckmann, and Bausch (2011) reveals that innovation positively affects SMEs' performance. Audretsch et al. (2014) thought that innovation behaviours are the decisive factor for enterprise growth, especially innovation strategy and behaviour, to determine an enterprise's future growth potential and survival prospects. Another study conducted by Lin and Chen (2007) demonstrated that innovative work behaviour could assist an organisation's productivity and effectiveness. Ramamoorthy (2005) mentioned that innovative managers are likely to encourage the team or workers to conduct their job efficiently, thus leading the companies to achieve great performance.

Amabile (1988) suggested that to sustain in the industry, it is vital to encourage innovative work behaviour among an organisation. It is proven by Frone and Major (1992) that highly innovative employees were more involved in their job compared to employees with low innovation. To measure the firms' efficiency, it is vital to cultivate innovative behaviour that will produce unique and fresh ideas (Katz, 1964). Thus, this study hypothesised that innovative work behaviour has a positive effect on organisation performance.

### **Conceptual framework**

The framework of this study is shown in Figure 1. The independent variable is the innovative work behaviour measured by idea generation, idea promotion, and idea realisation, while organisation performance is the dependent variable that only focuses on non-financial performance.

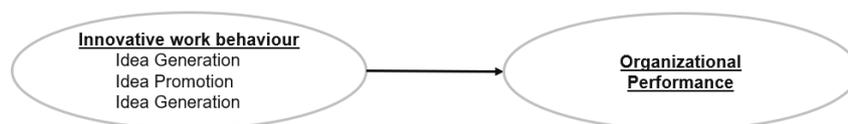


Figure 1: Conceptual Framework

## **III. Methodology**

### **Respondent Profile**

Respondents of this study are managers of Service Sector SMEs. Respondents were selected based on the eligibility criteria established for the selection of the samples. A total of 300 questionnaires were distributed to managers of SMEs in Sabah. After removing questionnaires with incomplete answers and irrelevant, the remaining samples consisted of 219 respondents (72 males and 147 females). Most of the respondents were aged between 25 to 34 (145), demonstrating a valid percent of 66%. Out of 219 respondents, 59 respondents were between 35 to 44 years old (27%). Respondents with 45–54 were only 5% (11); meanwhile, there were only 4 (2%) respondents aged more than 55 years old. Regarding the respondents' educational level, the data showed that the majority of the respondents were Bachelor Degree holders or 51% (112), followed by 32% (70). SPM and other education certificate holders were represented by 11% (24) and 6% (13).

### Sampling Technique and Data Collection Method

This study employed convenience sampling and purposive sampling, in which the respondents were selected based on their availability to provide the information and fulfilled the criteria that have been set earlier. As mentioned by Sekaran & Bougie (2016), the convenience sampling technique is one technique that provides a quick and efficient way to gain the information needed. Both electronic and self-administered questionnaires were used to collect the data. Electronic was e-mailed to the respondents and followed by phone calls to ensure that the respondents were aware of the e-mail. The data collection was conducted in October 2020, and the information obtained was analysed using the statistical SmartPLS 3.2.9 software.

### Measurement

Measurements used in this study were adapted and modified from previous research. Firstly, the independent variable that is innovative work behaviour was using measurement adapted from Janssen (2000) which employed nine items (three items for idea generation, three items for idea promotion, and three items for idea realisation). The organization performance measurement was adapted from Delaney and Huselid (1996), which employed eleven items for organisation performance. Innovative work behaviour was measured using a 7-point Likert scale, and a 4-point Likert scale was used to measure organisational performance.

## IV. Data analysis and Result

### Reliability and Validity of Measurement

In PLS-SEM, the first stage is to perform the measurement assessment to ensure that all variables' validity and reliability are satisfactory prior to hypothesis testing. In this stage, the following evaluations were performed:

- i. Internal consistency – Cronbach's Alpha, Composite reliability,  $\rho$ A-Dijkstra – Henseler's rho,
- ii. Convergent validity – Factors loading and Average Variance Extracted-AVE), and,
- iii. Discriminant Validity – Fornell and Larcker Criterion, Cross Loadings and Heterotrait-Monotrait Ratio of Correlations (HTMT)

As shown in Table 1, 3 items from innovative work behaviour and two items from organisation performance were removed due to low loading (less than 0.7), as suggested by Chin (1998). After the items were removed, all internal consistency and convergent validity were satisfactory. Each construct achieved the composite reliability coefficients above the recommended cut-off of 0.7 (see Table 1). Therefore, the items within each variable show high internal consistency and high reconstruction of the findings, as Fornell and Larcker (1981) suggested.

Table 1: Internal Consistency and Convergent Validity

Variables and Items	Loading	Composite Reliability	AVE
<b>Organisation Performance</b>		<b>0.927</b>	<b>0.679</b>
Service quality	0.713		
Development of new services	0.773		
Ability to attract important employees	0.743		
Ability to retain key employees	0.754		
Marketing	0.816		
Sales growth	0.824		
Profitability	0.816		
Market share	0.816		

<b>Innovative Work Behaviour</b>	<b>0.927</b>	<b>0.613</b>
The employees here often initiate support for innovative ideas	0.822	
The employees here often try to persuade other staff to support innovative ideas	0.825	
The employees here often make the organisation key persons feel excited with innovative ideas	0.829	
The employees here often contribute to the implementation of new ideas	0.826	
The employees here regularly introduce innovative ideas in work practice systematically	0.825	
The employees are always trying to develop something new	0.817	

### Discriminant Validity

The discriminant validity of Fornell and Larcker Criterion, Cross Loadings, and Heterotrait-Monotrait Ratio of Correlations (HTMT) was performed, which demonstrated adequate Fornell and Larcker's criterion. Besides, the cross-loading indicates that discriminant validity is achieved, as the constructs are distinctly different from each other. The result in Table 2 shows that HTMT values fulfil the recommendations by Henseler *et al.* (2015), which are not more than 0.90. Hence, demonstrating evidence of discriminant validity indicates how one construct differs from the other.

Table 2: HTMT

	<b>Innovative work Behaviour</b>	<b>Organisation Performance</b>
<b>Innovative work behaviour</b>		
<b>Organisation performance</b>	<b>0.413</b>	
HTMT<0.90		

### Results of Hypotheses Testing

The second stage in Smart-PLS is the assessment of the structural model or hypotheses testing. The hypotheses in this study were tested using the bootstrap re-sample technique with an iteration of 5000 sub-sample. As shown in Table 3, the innovative work behaviour ( $\beta = 0.393$ ,  $p = 0.000$ ) were positively related to organisation performance. Therefore, the hypothesis was supported.

Next, the effect size of the independent variables was assessed to determine their effect on organisation performance. As suggested by Cohen (1988), the effect size ( $f^2$ ) values above 0.02, 0.15, and 0.35 represent small, medium, and large effects. Thus, as shown in Table 3, the  $f^2$  values ( $f^2 = 0.182$ ) suggested that innovative work behaviour has a medium effect size. The  $R^2$  value is 0.154, which indicates that 15.4% of the variance in organizational performance can be explained by innovative work behavior. According to Cohen (1988),  $R^2$  value exceeds 0.26, indicating its substantial level of predictive accuracy.

Table 3: Hypotheses and result

	<b>Path coefficient</b>	<b>Standard Deviation (STDEV)</b>	<b>T Values</b>	<b>P Values</b>	<b>Supported</b>	<b>R<sup>2</sup></b>	<b>f<sup>2</sup> Effect Size</b>
<b>Innovative work behaviour -&gt; Organization Performance</b>	0.393	0.057	6.881	0.000	Yes	0.154	0.182

## V. Discussion and conclusion

This study has successfully achieved its research objective of examining the effect of innovative work

behaviour on Sabah SMEs' organisation performance, particularly in Sabah. The service sector is the most contributing sector, 89.2% out of 96.5% of establishments in Malaysia (SME statistics, 2020). In Sabah, the service sector contributes 32.2% to state GDP, which is also the largest contributor (Malay Mail, 2019). Previous studies on this relationship showed mixed results; some are positive, while others are negative, and a few others showed no relationship at all (Capon et al., 1990; Chandler & Hanks, 1994; Li & Atuagene-Gima, 2001). The finding shows that innovative work behaviour positively affected the performance of Sabah SMEs in Service Sector with medium effect size. Most previous study findings found that innovative work behaviour has a positive and significant relationship with firm performance. Few researchers also pointed out that an organisation cannot avoid innovation if they want to develop their market and retain a competitive advantage when they place their organisation in a new market (Rosenbuch et. al (2011); Guan et. All (2019); Chen (2017). A study conducted by Rosenbusch, Brinckmann, and Bausch (2011) reveals that innovation positively affects SMEs' performance. This study's finding was also supported by the previous study conducted by Guan, Zhang, Zhao, Jia, and Guan (2019), which mentioned that entrepreneurs' innovative behaviour could not be separated from the organisational performance. Their study showed that the innovative behaviour of entrepreneurs would drive towards the shifting of organisation performance. The tremendous change in the business environment such as hypercompetitive markets forcing the business to become more innovative. Another study by Chen (2017) noted that numerous studies confirmed that innovation could positively affect the company's performance.

Several essential implications that apply to academicians and industry people can be drawn from the findings. This study presents several important theoretical implications and provides valuable, practical suggestions for researchers and industrial people. This study would propose a conceptual framework on innovative work behaviour as a positive predictor to organisation performance. In the context of this study, the finding will illustrate how innovative behaviour could influence organisational performance. For the practical implication, this study's findings will assist the managers of SMEs to further strengthen their businesses by cultivating innovative work behaviour. Also, it could reduce SMEs' failure and possibly improve the organisation's performance. By cultivating innovative work behaviour, organizations will be able to discover idea explorers, idea producers, idea advocates, and implementers among their employees (Stankevičiūtė, Staniškienė, & Ciganė, 2020). Hence, this will help an organization to stay relevant in the business environment.

## **VI. Limitation and future study**

This study was conducted among Service Sector SMEs, particularly in Sabah. Although SMEs in Sabah contribute only 6.2% to overall Malaysian SMEs, Malaysia is the second largest state. For future studies, it should look into the other states in Malaysia. Future research also suggested looking into other sectors such as Manufacturing. As reported in Malay Mail (2019), the manufacturing sector contributes the lowest to the state's GDP. Hence, future research could study the factors that hindered the growth of the manufacturing sector in Sabah. Other than that, this study only used the RBV to explain the importance of innovative work behaviour towards SMEs' performance. Thus, future studies should look at other theories such as social exchange theory to investigate innovative work behaviour's reciprocity. Innovative work behaviour requires employees' willingness to be involved with innovation activities (Jannsen, 2000). According to the social exchange theory, the more employees trust the company, the more effort they will put in for it. When employees have faith in their employer, they are willing to put in long hours and devote energy on behalf of the company (Yu, Mai, Tsai & Dai, 2018)

## **Acknowledgement**

Praise to Allah the Almighty for giving me health and strength to complete this paper. Firstly, a million thanks go to my supervisor Dr. Nabila Azwa for the endless support, suggestions and endless patience guiding and assisting along the writing process. Also not to forget my co-supervisor, Professor Dr. Rosmimah Mohd Roslin who is always giving her kind help. I would also like to express my gratitude to my family for your thoughtfulness and consideration. Not to forget my friends for their support, motivation and encouragement through every phase of my journey. I would like to thank all reviewers for all the comments and guidelines during the completing writing process which provides various valuable input, guidance and involvement. A special dedication also goes to UiTM for giving me a chance to publish this paper and a special thanks goes to all respondents who have participated in the study. Thank you very much.

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