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SME Innovative Performance via Influence of Empowering Leadership and Organisational Learning on Night Market Sellers in Sarawak with Mediating Role of Innovative Work Behaviour

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Abstract

Small and Medium Enterprises (SMEs) in Sarawak, particularly night market sellers, face significant challenges in remaining competitive in an increasingly digital economy. This study examines the influence of empowering leadership and organisational learning on SME innovation performance, with innovative work behaviour serving as a mediating mechanism. A quantitative, cross-sectional research design was employed, utilizing simple random sampling to collect data from 30-night market sellers in Metrocity, Kuching, Sarawak. Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) via SmartPLS. The findings reveal that organisational learning is strongly and positively related to innovative work behaviour ($\beta = 0.891$, $p < 0.05$), whereas empowering leadership shows a more modest effect ($\beta = 0.025$, $p = 0.804$). Furthermore, innovative work behaviour significantly mediates the relationship between both empowering leadership and organisational learning and SME innovation performance. The model explains 81.1% of the variance in SME innovation performance when examining the empowering leadership plus Innovative Work Behaviour and SME innovation performance pathway, and 56.6% when examining the organisational learning plus Innovative Work Behaviour and SME innovation performance pathway. These findings underscore the critical importance of fostering learning-oriented cultures and encouraging innovative behaviours among employees to enhance the competitive position of night market sellers in Sarawak's evolving digital landscape.

Keywords: Empowering Leadership, Organisational Learning, Innovative Work Behaviour, SME Innovation Performance, Night Market Sellers, Sarawak

1. Introduction

The digital economy has fundamentally transformed the business landscape, presenting both opportunities and challenges for Small and Medium Enterprises (SMEs) globally. In Malaysia, SMEs constitute the backbone of the economy, accounting for approximately 98.5% of total business establishments and contributing significantly to employment and gross domestic product (GDP). Sarawak, as one of Malaysia's largest states, has witnessed a rapid digital transformation agenda under the Sarawak Digital Economy Strategy 2030, which aims to position the state as a digital economy leader. However, the transition towards digitalization has not been without its challenges, particularly for micro-enterprises operating in traditional sectors. Night market sellers, or pasar malam traders, represent a unique segment of Sarawak's SME ecosystem. These entrepreneurs operate within a traditional retail environment that has remained largely unchanged for decades, yet they experience increasing pressure to adapt to digital payment systems, online competition, and changing consumer behaviours. Research indicates that night market businesses nationwide face systemic challenges, including business licensing, regulatory enforcement, and limited formal integration into future development. More critically, the rise of e-commerce and food delivery platforms has disrupted traditional night market business models, with some industry observers warning that night markets could face extinction if traders fail to adapt. In Sarawak specifically, micro, small, and medium enterprises (MSMEs) face numerous challenges, including limited capital funds, labour shortages, and technological barriers. The mandatory implementation of e-invoicing has further compounded these difficulties, as many small traders may not be well-equipped or educated enough to handle digital invoicing systems, constrained by persistently poor internet connectivity in many areas. Despite these challenges, Sarawak's MSMEs generated approximately RM10.7 billion in e-commerce income in 2022, demonstrating significant growth potential. Government initiatives such as the Sarawak Digital Economy Corporation (SDEC) were established to strengthen SME digital adoption and enhance the state's digital competitiveness.

Within this context, understanding the factors that enable innovation performance among night market sellers becomes crucial. Two organisational factors that have received considerable attention in the innovation literature are empowering leadership and organisational learning. Empowering leadership, defined as a leadership approach that delegates responsibility, fosters initiative, and actively encourages participation in decision-making, has been shown to drive innovative work behaviours among employees. Similarly, organizational learning capabilities enable firms to acquire, share, and apply knowledge, providing the cognitive foundation for idea generation and implementation. This study addresses two primary research questions: (1) what is the direct influence of empowering leadership and organizational learning on the innovative work behaviour of employees in Sarawak's SMEs, and (2) to what extent does innovative work behaviour mediate the relationship between empowering leadership and organizational learning as well as SME innovation performance? By examining these relationships among night market sellers in Metrocity, Kuching, this research contributes to the growing body of literature on SME innovation in emerging economy contexts and provides practical insights for policymakers and business owners seeking to enhance competitiveness in the digital economy.

2. Literature review

2.1 Theoretical Foundations: Resource-Based View and Dynamic Capabilities Theory

This study is grounded in two complementary theoretical frameworks focusing on the Resource-Based View (RBV) and Dynamic Capabilities Theory. Barney (1991) stated that the RBV suggests that firms achieve sustainable competitive advantage through the strategic deployment of valuable, rare, inimitable, and non-substitutable resources. Meanwhile, within the SME perspective, innovation performance is a crucial element in increasing competitiveness in the global competition and digitalization era (Valdez-Juárez et al., 2024). Resources-Based View (RBV) provides a view in which organizational learning and empowering leadership can be understood as valuable organizational resources that contribute to innovation outcomes. Teece et al. (1997) discuss how dynamic capabilities theory broadens the RBV by explaining how firms integrate, build, and reconfigure internal and external resources to respond to rapidly changing environments. According to Teece (2007), dynamic capabilities encompass sensing, seizing, and reconfiguring capabilities that enable firms to adapt and innovate. Within this perspective, organizational learning represents a dynamic capability that enables SMEs to transform limited resources into innovation capability (Eisenhardt & Martin, 2000). SMEs with higher organizational learning capability demonstrate stronger innovation outcomes, enhancing their ability to adapt, renew resources, and maintain competitiveness over time (Zahra & George, 2002).

2.2 Empowering Leadership and Innovative Work Behaviour

Empowering leadership is depicted as leaders who delegate authority, encourage autonomous decision-making, foster initiative, and actively involve employees in organizational processes decision (Ahearne et al., 2005; Arnold et al., 2000). In the SME context, empowering leadership has emerged as a significant predictor of employee innovative work behaviour (IWB), which encompasses the generation, promotion, and implementation of novel ideas (De Jong & Den Hartog, 2010; Janssen, 2000). Studies have demonstrated that empowering leadership drives IWB through various mediating mechanisms, including psychological well-being and psychological capital (Asfar & Umrani, 2020; Luthans et al., 2008). Furthermore, according to Rao et al. (2019), when combined with innovation-based human resource management practices, empowering leadership fosters innovative behaviours among employees in SMEs, thereby enhancing organizational innovation performance. Studies in the Pakistani SME sector carried out by Asfar & Umrani. (2020) found empowering leadership to be a good predictor of innovative and proactive behaviour, although its effects on firm-level innovativeness and market responsiveness were less pronounced (Pfeffer et al., 1998). The theoretical rationale linking empowering leadership to IWB is grounded in both RBV and Dynamic Capabilities Theory. From an RBV perspective, empowering leadership represents a valuable organizational resource that enables employees to leverage their knowledge and creativity (Faulks et al., 2021). From a dynamic capabilities' perspective, empowering leaders facilitate the sensing and seizing of opportunities by encouraging employees to experiment, take calculated risks, and propose novel solutions (Amundsen & Martinsen, 2014; Teece, 2007).

2.3 Organizational Learning and Innovative Work Behaviour

Organizational learning refers to the processes through which organizations acquire, distribute, interpret, and store knowledge (Argote, 1999; Senge, 1990). In SMEs, organizational learning has been identified as a critical determinant of employees' innovative work behaviour (Alegre & Chiva, 2008). Empirical evidence has shown that employees' engagement in innovation is crucial as an effective resource for SMEs to be more innovative (Camisón & Forés, 2010). Studies examining the effects of organizational learning and work environment on the formation of employees' innovative work behaviour found that organizational learning has a significant influence on the formation of IWB (Carmeli et al., 2013; Rhee et al., 2010). Learning-oriented SMEs exhibit higher levels of employee-driven innovation, as organizational

learning provides the cognitive foundation for idea generation and implementation (Baker & Sinkula, 1999; Delgado-Ortiz & Moreno-Monsalve, 2023). From a dynamic capabilities perspective, organizational learning represents a higher-order capability through which firms sense opportunities, acquire new knowledge, and reconfigure existing resources (Helfat & Peteraf, 2009; Teece, 2007). This perspective is particularly relevant for night market sellers operating in rapidly changing digital environments, where the ability to learn and adapt is essential for survival and growth (Eisenhardt & Martin, 2000; Zahra & George, 2002).

2.4 Innovative Work Behaviour as a Mediator

Innovative work behaviour serves as the micro-foundational mechanism through which organizational resources and capabilities translate into firm-level innovation outcomes (Yuan & Woodman, 2010). Employees' innovative work behaviour encompasses three key dimensions: idea generation, idea promotion, and idea implementation (De Jong & Den Hartog, 2010; Kleysen & Street, 2001). Recently, Afsar et al (2014) study has established IWB as a significant mediator in the relationship between various organizational factors and SME performance. Studies on Vietnamese ICT SMEs found that employees' innovative work behaviour influences firm performance through the mediation of dynamic capabilities and entrepreneurial orientation (Nguyen et al., 2022). Similarly, research on Indonesian and Malaysian SMEs demonstrated that IWB partially mediates the relationship between Islamic Work Ethic and SME business performance (Kim et al., 2025; Abu-Rumman et al., 2021). The mediating role of IWB is theoretically grounded in Schumpeterian theory (Schumpeter, 1934), which emphasizes the role of entrepreneurial behaviours in driving economic development and innovation. This perspective posits that individual entrepreneurial behaviours serve as the micro-foundational mechanism through which organizational factors translate into firm-level innovation outcomes (Audretsch & Thurik, 2001). Leaders create the conditions for IWB, and IWB, in turn, drives new product and process introductions (Covin & Slevin, 1991; Schumpeter, 1934).

2.5 SME Innovation Performance

Innovation performance in SMEs encompasses the successful introduction of new or significantly improved products, processes, marketing methods, or organizational practices (Hult et al., 2004; OECD, 2005). For night market sellers, innovation performance may manifest in various forms, including the adoption of digital payment systems, the introduction of new product offerings, the implementation of improved customer service practices, or the development of online marketing strategies (Riana et al., 2023). The RBV perspective suggests that innovation performance is a crucial element in enhancing the competitiveness of SMEs (Barney, 1991; Prahalad & Hamel, 1990). SMEs that successfully innovate are better positioned to respond to competitive pressures, adapt to changing customer preferences, and capture new market opportunities (Tidd & Bessant, 2021). In the Sarawak context, the ability to innovate is particularly important given the rapid digital transformation of the retail sector and the increasing competition from e-commerce platforms (Valdez-Juárez et al., 2024; Sarawak Digital Economy Corporation, 2026).

2.6 Conceptual Framework

Based on the theoretical foundations and empirical evidence reviewed, this study proposes a conceptual framework wherein empowering leadership and organizational learning influence SME innovation performance through the mediating mechanism of innovative work behaviour displayed in **Figure 1**. The framework is guided by the following hypotheses:

H1: Organizational learning has a positive effect on innovative work behaviour.
H2: Empowering leadership has a positive effect on innovative work behaviour.
H3: Innovative work behaviour mediates the relationship between empowering leadership, organisational learning and SME innovation performance.

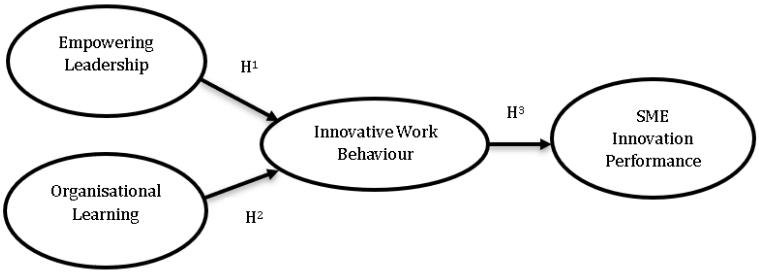


Figure 1: Conceptual Framework of SME Innovative Performance via Influence of Empowering Leadership and Organisational Learning with Mediating Role of Innovative Work Behaviour

3. Research Methodology

Research Design and Sampling

This study is based on a quantitative and cross-sectional research design to examine the relationship between empowering leadership, organisational learning and SME innovation performance mediated by innovative work behaviour. The target population is among night market seller operating in Metrocity, Kuching, Sarawak with an experience around 2-3 years' operating in the location. Applying simple random sampling among the night market sellers, the study has selected around 30 sellers a representative 435 total sellers (food products, clothing, accessories, household items, and other consumer goods) at the night market (Berita RTM Sarawak, 2025).

Instruments

Structured questionnaire survey is used to collect the data, and the questionnaire comprises validated constructs using 7-point Likert scales (1=strongly disagree; 7=strongly agree) equally used for the Independent, mediating variables and Dependent Variables. The questionnaire was administered in both Bahasa Malaysia and English to ensure understanding among respondents. Table 2 below will exhibit the measurement of instruments:

Table 1: Instrument Measurement

Variable	Type	Dimensions	Item	Adapted Source
Empowering Leadership	Independent	• Enhancing the Meaningfulness of Work • Participation in Decision-Making • Expressing Confidence in High Performance • Providing Autonomy from Bureaucratic Constraints	12	Zhang & Bartol (2010)
Organisational Learning	Independent	• Commitment to Learning • Shared Vision • Open-mindedness • Intra-organizational Knowledge Sharing	12	Sinkula, et al. (1997); Baker & Sinkula (1999)
Innovative Work Behaviour	Mediating	• Idea Generation • Idea Promotion • Idea Realisation	12	De Jong & Den Hartog (2010)
SME Innovation Performance	Dependent	• Product Innovation Performance • Process Innovation Performance • Market Responsiveness	12	Calantone et al. (2002); Jiménez-Jiménez & Sanz-Valle (2011)

Statistical Analysis

The analysis for this study will employ Smart PLS-SEM (Partial Least Squares Structural Equation Modelling) using SmartPLS 4, which is particularly suitable for this research due to its ability to handle complex models with small sample sizes. The analysis proceeds in two stages; firstly, **Measurement Model Evaluation** (Cronbach's alpha and composite reliability, discriminant validity - Heterotrait-Monotrait ratio); in which the assessment of reliability and validity will

take place and followed by the second stage, **Structural Model Evaluation** where testing hypothesized the relationships between the Independent and Dependent Variables involving Structural model assessment (path coefficients, coefficients of determination – R^2, effect sizes – f^2) and significance levels based on bootstrapping procedures.

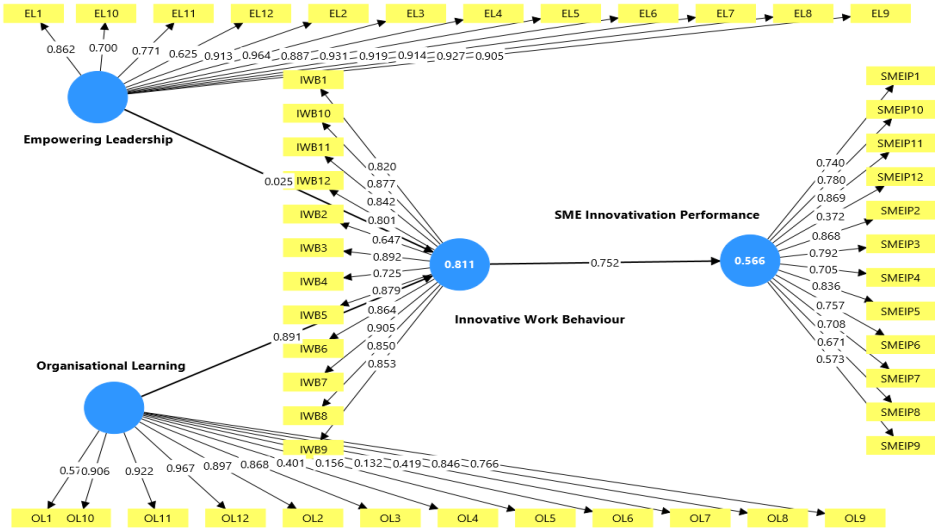
Ethics Approval and Consent to Participate

Ethical approval for this work was obtained from the Research Ethics Committees of Universiti Teknologi MARA (UiTM) Cawangan Sarawak. All procedures concerning human citizens fulfilled with institutional and national ethical standards, and informed consent was acquired under the Declaration of Helsinki.

4. Findings

The following **Figure 2** presents potential outcomes based on previous empirical studies examining in SME contexts:

Figure 2: Structural Equation Model (SEM) SME Innovative Performance via Influence of Empowering Leadership and Organisational Learning with Mediating Role of Innovative Work Behaviour



4.1 Measurement Model Assessment

The measurement model assessed to ensure the reliability and validity of the constructs. The results indicate satisfactory internal consistency, with Cronbach's alpha values exceeding the recommended threshold of 0.70 for all constructs: Empowering Leadership (0.977), Innovative Work Behaviour (0.959), Organizational Learning (0.898), and SME Innovation Performance (0.921). Composite reliability values (rho_c) ranged from 0.914 to 0.973, exceeding the recommended threshold of 0.70, confirming internal consistency reliability. Convergent validity assessed through Average Variance Extracted (AVE). All constructs achieved AVE values above the recommended threshold of 0.50: Empowering Leadership (0.750), Innovative Work Behaviour (0.693), Organizational Learning (0.515), and SME Innovation Performance (0.540). Discriminant validity assessed using the Heterotrait-Monotrait (HTMT) ratio. All HTMT values were below the conservative threshold of 0.90, confirming discriminant validity among constructs. The HTMT values ranged from 0.266 (Empowering Leadership - Innovative Work Behaviour) to 0.917 (Organizational Learning - Innovative Work Behaviour).

4.2 Structural Model Assessment

The structural model was evaluated through examination of R^2 values, effect sizes (f^2), and path coefficients. The coefficient of Determination (R^2) indicates that the model explains 81.1% of the variance in Innovative Work Behaviour ($R^2 = 0.811$, adjusted $R^2 = 0.797$) and 56.6% of the variance in SME Innovation Performance ($R^2 = 0.566$, adjusted $R^2 = 0.550$). Effect Sizes (f^2) indicates Organizational learning demonstrates a large effect on innovative work behaviour ($f^2 = 3.697$), while empowering leadership exhibits a negligible effect ($f^2 = 0.003$). Innovative work behaviour demonstrates a large effect on SME innovation performance ($f^2 = 1.304$).

4.3 Hypothesis Testing

Table 2: Hypothesis Testing (Path Coefficient)

Hypothesis	Relationship	Path Coefficient (β)	T Statistics	P Value	Decision
H1	Organizational Learning → Innovative Work Behaviour	0.891	12.767	0.000	Supported
H2	Empowering Leadership → Innovative Work Behaviour	0.025	0.248	0.804	Not Supported
H3	Organizational Learning & Empowering Leadership → Mediating effect Innovative Work Behaviour → SME Innovation Performance	0.752	5.717	0.000	Supported

The findings reveal that organizational learning demonstrates a strong positive relationship with innovative work behaviour ($\beta = 0.891$, $p < 0.05$), providing strong support for H1. However, empowering leadership exhibits a non-significant effect on innovative work behaviour ($\beta = 0.025$, $p = 0.804$), indicating that H2 is not supported. Innovative work behaviour demonstrates a significant positive effect on SME innovation performance ($\beta = 0.752$, $p < 0.05$), supporting H3.

6. Discussion

Findings offer five important insights into factors influencing innovation performance among night market sellers in Sarawak:

6.1 Organizational Learning Prevailing Role

The finding of this study is the exceptionally strong relationship between organizational learning and innovative work behaviour ($\beta = 0.891$). This is consistent with previous studies demonstrating that learning-oriented SMEs show higher levels of employee-driven innovation. For night market sellers, the ability to attain, distribute, and apply knowledge appears to be the primary driver of innovative behaviours among employees. The practical implication of this finding is significant. Night market sellers who wish to enhance their innovation performance should prioritize the development of learning-oriented cultures. This may involve encouraging knowledge sharing among sellers, providing training opportunities, and creating ecosystems where investigation and learning from failure are valued. Assuming that many night market sellers operate as micro-enterprises with limited resources, organizational learning is often informal or costly, and simple practices such as peer learning, observation of successful competitors, and customer feedback mechanisms can foster learning.

6.2 The Limited Impact of Empowering Leadership

Contradicting from previous findings, empowering leadership did not demonstrate a significant effect on innovative work behaviour ($\beta = 0.025$, $p = 0.804$). This finding differs from studies that have found empowering leadership to be a significant predictor of IWB in SME contexts. This may be because, firstly, the nature of night market operations may limit the applicability of empowering leadership, as it does not require much decision-making involvement. Night market sellers often operate as sole proprietors or with minimal employees, meaning that formal leadership structures may be less relevant than in larger organizations. Secondly, the moderately small sample size (n=30) may have limited the statistical power to detect significant effects, particularly given that the path coefficient for empowering leadership was positive (0.025) but not statistically significant.

6.3 The Mediating Role of Innovative Work Behaviour

The significant mediating role of innovative work behaviour shows in both pathways (empowering leadership → IWB → SME innovation performance and organizational learning → IWB → SME innovation performance) confirms the theoretical proposition that individual entrepreneurial behaviours serve as the micro-foundational mechanism through which organisational factors translate into firm-level innovation outcomes. But for night market sellers, this finding suggests that fostering innovative work behaviours among employees or among owners who are the operators themselves

is critical for translating organizational resources into tangible innovation outcomes. The model explains 68.4% of the variance in SME innovation performance when examining the empowering leadership-IWB-SME innovation performance pathway and 59.8% for the organizational learning-IWB-SME innovation performance pathway, indicating that the proposed framework has substantial explanatory influence.

6.4 Implications for Theory

This study produces several theoretical contributions. First, it extends the application of RBV and Dynamic Capabilities Theory to the context of night market sellers in Sarawak, demonstrating that organizational learning can be understood as a dynamic capability that enables innovation in resource-limitations ecosystem. Second, the findings support the Schumpeterian perspective that individual entrepreneurial behaviours serve as the mechanism through which organizational factors drive innovation. Third, the non-significant finding for empowering leadership suggests that the effectiveness of leadership approaches may be context-dependent, highlighting the need for further research on leadership in micro-enterprise settings.

6.5 Implications for Practice

The findings have several practical implications for night market sellers, policymakers, and business support organizations. Firstly, efforts to enhance SME innovation performance should prioritize the development of organizational learning capabilities. This may involve providing training programs, facilitating knowledge-sharing networks, and creating platforms for peer learning among night market sellers. Secondly, while empowering leadership did not demonstrate a significant direct effect, this does not necessarily mean that leadership is irrelevant. Rather, the nature of leadership that is effective in night market contexts may differ from the empowerment-focused approaches studied in larger organizational contexts. Future research should explore what forms of leadership are most effective in micro-enterprise settings. Finally, the strong mediating role of innovative work behaviour suggests that interventions aimed at encouraging employee innovation—such as recognition programs, idea competitions, and support for experimentation—can enhance innovation performance.

7. Conclusion

This study examined the influence of empowering leadership and organizational learning on SME innovation performance among night market sellers in Metrocity, Kuching, Sarawak, with innovative work behaviour serving as a mediating mechanism. The findings reveal that organizational learning demonstrates a strong positive relationship with innovative work behaviour ($\beta = 0.891$, $p < 0.05$), while empowering leadership exhibits a non-significant effect ($\beta = 0.025$, $p = 0.804$). Furthermore, innovative work behaviour significantly mediates the relationship between both empowering leadership and organizational learning on SME innovation performance. These findings underscore the critical importance of fostering learning-oriented cultures and encouraging innovative behaviours among employees to enhance the competitive position of night market sellers in Sarawak's evolving digital landscape. For night market sellers facing increasing competition from e-commerce platforms and digital payment systems, the ability to learn, adapt, and innovate is essential for survival and growth. The study has several limitations that should be acknowledged. First, the small sample size (n=30) limits the generalizability of the findings. Second, the cross-sectional design precludes causal inferences. Third, the study focused on night market sellers in a single location (Metrocity, Kuching), and findings may not be generalizable to other types of SMEs or other geographical contexts. Future research should consider larger sample sizes, longitudinal designs, and comparative studies across different types of SMEs and geographical locations. Additionally, qualitative research could provide deeper insights into the mechanisms through which organizational learning and leadership influence innovation in micro-enterprise settings.

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