

The Effect of Performance Appraisal on Employee Innovation Performance in Malaysian SMEs: The Moderating Role of Perceived Organizational Support

Xiaoteng He¹

¹SEGi University Kota Damansara Campus, Jalan Teknologi, 9, Petaling Jaya, Malaysia

*Corresponding author email: 45337592@qq.com

Received 1 January 2026, Revised 10 January 2026, Accepted 19 January 2026, Available online 28 January 2026

To link to this article: <https://doi.org/10.53797/ujssh.v5i1.7.2026>

Abstract: Industry 4.0 and Malaysia's "Shared Prosperity Vision 2030" have made innovation imperative for Small and Medium Enterprises (SMEs). Yet the human resource mechanisms driving innovative work behavior in resource-constrained SMEs remain underexplored. Grounded in Social Exchange Theory, this study examines the relationship between performance appraisal and employee innovation performance, investigating perceived organizational support as a moderator. Using a quantitative design, purposive sampling collected data from 382 full-time employees in Klang Valley manufacturing and service SMEs. Hierarchical regression analysis tested direct and interaction effects. Findings reveal that developmental performance appraisal positively predicts employee innovation performance, with structured feedback and goal setting providing role clarity for innovation. Perceived organizational support also predicts innovation, functioning as a psychological safety net. Critically, organizational support moderates the performance appraisal-innovation relationship, strengthening it under high support conditions. These findings extend strategic human resource management literature by showing formal appraisal systems are most effective within supportive climates. Practically, Malaysian SME owners should cultivate a "high-support, high-performance" culture to unlock workforce creative potential.

Keywords: Performance Appraisal, Employee Innovation Performance, Perceived Organizational Support, Malaysian Smes, Social Exchange Theory, Human Resource Management.

1. Introduction

1.1 Research Background

In the rapidly evolving landscape of the 21st-century global economy, the paradigm of competitive advantage has fundamentally shifted from traditional factor-driven models to innovation-driven growth. As organizations navigate the complexities of Industry 4.0 and the knowledge economy, the ability to foster continuous innovation is no longer merely a strategic option but a requisite for organizational survival and effectiveness (Anderson et al., 2014).

Innovation, defined as the intentional generation, promotion, and realization of new ideas within a work role, is widely recognized as the primary engine for organizational responsiveness and long-term sustainability (Janssen, 2000). However, innovation is inherently a human-centric process; it depends less on technological infrastructure and more on the discretionary behaviors of employees who are willing to challenge the status quo. Consequently, scholars and practitioners alike have turned their attention to Strategic Human Resource Management (SHRM) practices to understand how organizations can systematically cultivate an environment conducive to innovative work behavior (Jiang et al., 2012).

Within the Southeast Asian region, Malaysia stands at a critical economic juncture. The Malaysian government, through its "Shared Prosperity Vision 2030" (SPV 2030), has explicitly targeted a transition towards high-value, high-technology industries to escape the middle-income trap. Central to this national agenda are Small and Medium Enterprises (SMEs), which constitute 97.2% of total business establishments and contribute significantly to the national GDP and employment (SME Corp. Malaysia, 2021). Despite their quantitative dominance, Malaysian SMEs frequently struggle with qualitative transformation. Unlike Multi-National Corporations (MNCs) that possess abundant resources to absorb

the risks associated with R&D, SMEs are resource-constrained and heavily reliant on the human capital of their workforce (Saleh & Ndubisi, 2006). Therefore, unlocking the innovative potential of employees in these smaller firms is of paramount importance for the nation's economic resilience (Tehseen & Ramayah, 2015).

1.2 Problem Statement

Despite the clear imperative for innovation, a significant gap remains in understanding the organizational antecedents that drive this behavior in the context of developing economies. Among the various HRM practices available to SME owners, Performance Appraisal (PA) remains one of the most critical yet controversial tools. Theoretically, a well-designed performance appraisal system should clarify role expectations, provide developmental feedback, and motivate employees to align their efforts with organizational goals.

However, the reality in many Malaysian SMEs is often starkly different. Performance appraisals are frequently conducted in an administrative manner, focusing on past mistakes rather than future potential. This "evaluative" approach can generate anxiety and risk-aversion, effectively stifling the very creativity it aims to promote (Bos-Nehles & Veenendaal, 2019). This dichotomy suggests that the relationship between performance appraisal and employee innovation is not linear and may depend heavily on the contextual environment in which the appraisal takes place.

This brings to the fore the critical role of the psychological environment, specifically the construct of Perceived Organizational Support (POS). Defined as the employees' global belief that the organization values their contributions and cares about their well-being (Eisenberger et al., 1986), POS serves as a vital emotional buffer. Innovation is inherently risky; it involves the possibility of failure and the challenge of established routines. For an employee to engage in such risky behavior, they must feel a sense of psychological safety. While existing literature has separately examined the impacts of performance appraisal and organizational support, there is a paucity of research integrating these constructs, particularly within the context of developing economies like Malaysia. It remains unclear whether high levels of organizational support can mitigate the stress associated with performance evaluations and enhance their positive impact on innovation.

1.3 Research Objectives

Therefore, this research aims to bridge these theoretical and empirical gaps by conducting a rigorous examination of the interplay between human resource practices and psychological support mechanisms. Specifically, this study seeks to determine the extent to which performance appraisal influences employee innovation performance within Malaysian SMEs. Furthermore, it aims to analyze the direct impact of perceived organizational support on innovation outcomes.

Most critically, this research investigates the moderating role of perceived organizational support, hypothesizing that a supportive organizational climate strengthens the positive relationship between appraisal and innovation. By integrating the structural mechanism of appraisal with the social-emotional mechanism of support, this study seeks to provide a more nuanced understanding of how SMEs can leverage their limited human capital to achieve sustainable innovation. This inquiry is not only theoretically significant for extending Social Exchange Theory into the domain of innovation management but also practically urgent for SME owners striving to navigate the challenges of the post-pandemic economy.

2. Literature Review and Hypothesis Development

2.1 Theoretical Framework: Social Exchange Theory

To understand the underlying mechanisms linking human resource practices to employee behavioral outcomes, this research is grounded in Social Exchange Theory (SET), primarily articulated by Blau (1964). SET posits that human relationships are formed by the use of a subjective cost-benefit analysis and the comparison of alternatives. Unlike economic exchange, which rests on specific contractual obligations, social exchange involves unspecified obligations based on trust, gratitude, and the norm of reciprocity (Gouldner, 1960).

In the organizational context, SET suggests that when an organization treats its employees well—through fair appraisal systems and supportive environments—employees develop a sense of felt obligation. Consequently, they reciprocate not merely by fulfilling their job descriptions but by engaging in discretionary, extra-role behaviors that benefit the organization, such as innovation.

Innovation is inherently an extra-role behavior because it goes beyond standard task performance and involves significant personal effort and risk (Janssen, 2000). Therefore, SET provides a robust lens for explaining why employees in Malaysian SMEs would choose to invest their cognitive resources in innovation in response to positive organizational stimuli.

2.2 Performance Appraisal and Employee Innovation Performance

Performance Appraisal (PA) is a fundamental component of Human Resource Management that involves the identification, measurement, and management of human performance in organizations. While traditional views of PA

focused on administrative purposes such as salary administration and promotion decisions, contemporary research emphasizes its developmental role (Snell & Dean, 1992). In the context of innovation, a developmental PA system is crucial. Innovation requires clear direction and feedback. When appraisals are conducted to provide constructive feedback, identify training needs, and set challenging yet attainable goals, they signal to employees that the organization values their professional growth.

In the specific context of Malaysian SMEs, where resources for formal R&D departments are often scarce, the individual employee becomes the primary source of new ideas. A well-structured performance appraisal system provides the necessary role clarity that empowers these employees to innovate. According to Jiang et al. (2012), HR practices that enhance employee skills and motivation are directly linked to operational outcomes. When employees perceive that the appraisal process is fair and aimed at their development rather than punishment, they are more likely to experiment with new methods and propose novel solutions to problems.

Conversely, if the appraisal is perceived as purely controlling, it may stifle creativity. However, assuming the prevalence of modern, developmental appraisal practices advocated by the Malaysian government's productivity initiatives, this study posits that PA serves as a motivational mechanism. By clarifying the link between innovative effort and organizational rewards, PA encourages employees to engage in the idea generation and implementation process.

H1: Performance Appraisal has a significant positive effect on Employee Innovation Performance.

2.3 Perceived Organizational Support and Employee Innovation Performance

Perceived Organizational Support (POS) refers to employees' global beliefs concerning the extent to which the organization values their contributions and cares about their well-being (Eisenberger et al., 1986). Organizational Support Theory suggests that employees personify the organization, attributing human-like characteristics to it. When employees feel supported, they experience a heightened sense of psychological safety, which is a critical antecedent for innovation. Innovation is inherently risky; it involves the possibility of failure, resistance from colleagues, and the disruption of established routines. Without a safety net, the fear of negative consequences can deter employees from voicing creative ideas.

In the Malaysian cultural context, which is often characterized by high power distance, employees may be naturally hesitant to challenge authority or suggest changes. POS acts as a critical counterbalance to this cultural inhibition. When an SME demonstrates support—whether through emotional encouragement, providing necessary resources, or showing forgiveness for honest mistakes—it creates a "safe haven" for experimentation. Rhoades and Eisenberger (2002) confirmed in their meta-analysis that POS is strongly related to affective commitment and performance. Extending this to innovation, when employees trust that the organization will "have their back" even if an innovative attempt fails, they are liberated to explore uncharted territories. Thus, POS not only satisfies socio-emotional needs but also increases the intrinsic interest in tasks, thereby fostering a climate conducive to creativity and innovation.

H2: Perceived Organizational Support has a significant positive effect on Employee Innovation Performance.

2.4 The Moderating Role of Perceived Organizational Support

While Performance Appraisal and Perceived Organizational Support each independently influence innovation, their interaction offers a more profound insight into the organizational dynamics of SMEs. This study proposes that POS acts as a vital boundary condition that enhances the effectiveness of Performance Appraisal. Performance appraisals, even when developmental, inherently involve evaluation and judgment, which can induce stress or performance anxiety. If an employee undergoes a rigorous performance appraisal in an environment lacking support, the feedback may be interpreted as threatening or punitive, leading to defensiveness rather than innovation.

However, when high POS is present, it reframes the context of the appraisal. Employees who feel supported are more likely to interpret performance feedback as constructive coaching rather than criticism. POS provides the emotional resources necessary to cope with the demands and goals set during the appraisal process.

Specifically, the "interaction effect" suggests that the positive relationship between PA and innovation is strongest when POS is high. In this scenario, the structural guidance provided by PA combines with the psychological safety provided by POS to create an optimal environment for innovation. The employee has both the direction (from PA) and the courage (from POS) to innovate. Conversely, in the absence of support (low POS), even a well-designed appraisal system may fail to trigger innovative behavior because the perceived risks outweigh the potential rewards. Therefore, POS serves as a catalyst that amplifies the motivational impact of performance appraisal.

H3: Perceived Organizational Support positively moderates the relationship between Performance Appraisal and Employee Innovation Performance.

3. Methodology

3.1 Research Design

Consistent with the positivist paradigm and deductive approach, this study employed a quantitative research design to test hypothesized relationships among Performance Appraisal, Perceived Organizational Support, and Employee

Innovation Performance. A cross-sectional survey collected data at a single time point, capturing current employee perceptions and behavioral intentions. This quantitative approach enabled statistical examination of relationship significance and the moderating effect of organizational support, supporting generalization to Malaysian SMEs.

3.2 Population and Sampling

The target population for this study comprises full-time employees working in Small and Medium Enterprises (SMEs) within the manufacturing and services sectors in the Klang Valley region (encompassing Kuala Lumpur and Selangor). This region was selected because it represents the economic epicenter of Malaysia and houses the highest concentration of SMEs, ensuring that the sample is representative of the nation's most active commercial activities. To ensure the validity of the responses, a purposive sampling technique was employed. The inclusion criteria required respondents to be full-time employees with at least one year of tenure, ensuring they have sufficient experience with the organization's performance appraisal cycle and have formed a stable perception of organizational support. Based on the guidelines for regression analysis, which suggest a minimum sample size of roughly 10-15 participants per predictor variable, and accounting for potential response bias, a total of 500 questionnaires were distributed. After data cleaning and removing incomplete responses, a final sample of 382 valid responses was obtained, yielding a response rate sufficient for robust statistical power.

3.3 Instrumentation

The survey instrument adapted well-established scales from prior literature to ensure construct validity and reliability. The questionnaire contained four sections: demographics, performance appraisal, perceived organizational support, and employee innovation performance. All items employed a five-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree).

To measure the independent variable, Performance Appraisal, this study adapted the developmental appraisal scale developed by Snell and Dean (1992). This scale was chosen because it aligns with the theoretical argument in the literature review that appraisal must be developmental rather than purely administrative to foster innovation. The scale consists of five items that assess the extent to which the appraisal process provides feedback, clarifies goals, and identifies training needs (e.g., "My manager provides me with feedback to help me improve my performance"). The internal consistency of this scale in previous studies has consistently exceeded the 0.70 threshold.

The moderating variable, Perceived Organizational Support (POS), was measured using the short version of the Survey of Perceived Organizational Support (SPOS) developed by Eisenberger et al. (1986). This 8-item scale is the most widely used instrument in organizational behavior research and directly captures the "social exchange" dynamic discussed in the theoretical framework. Sample items include "The organization values my contribution to its well-being" and "The organization really cares about my well-being." This scale was selected for its proven unidimensionality and high reliability across diverse cultural contexts.

The dependent variable, Employee Innovation Performance, was assessed using the scale developed by (Janssen, 2000). This 9-item scale is particularly suitable for this study as it conceptualizes innovation as a multi-stage process involving idea generation, idea promotion, and idea realization. This comprehensive measurement captures the full spectrum of innovative work behavior, from the initial cognitive spark to the social implementation of the idea (e.g., "I create new ideas for difficult issues" and "I mobilize support for innovative ideas"). This alignment ensures that the dependent variable reflects the "extra-role behavior" described in the hypothesis development section.

3.4 Data Analysis Strategy

The collected data were analyzed using the Statistical Package for the Social Sciences (SPSS) version 26. The analysis proceeded in three stages.

First, descriptive statistics (mean, standard deviation) and reliability analysis (Cronbach's Alpha) were conducted to assess the quality of the data and the internal consistency of the constructs.

Second, Pearson correlation analysis was performed to examine the preliminary associations between the variables and to check for multicollinearity.

Finally, hierarchical regression analysis was employed to test the direct effects (Hypotheses 1 and 2) and the moderating effect (Hypothesis 3). In the hierarchical regression, control variables (gender, age, education, and tenure) were entered in Step 1, followed by the independent and moderating variables in Step 2, and the interaction term (Performance Appraisal \times Perceived Organizational Support) in Step 3.

This stepwise approach allows for the isolation of the specific variance explained by the interaction effect, providing a rigorous test of the moderation hypothesis.

4. Data Analysis and Results

4.1 Demographic Profile of Respondents

The analysis begins with a descriptive examination of the demographic characteristics of the 382 valid respondents. The sample demonstrates a relatively balanced gender distribution, with 54.2% male and 45.8% female participants, reflecting the general workforce composition in the Malaysian SME sector.

Regarding educational background, the majority of respondents hold at least a Bachelor's degree (61.5%), followed by Diploma holders (25.4%) and Master's degree holders (13.1%), indicating a knowledgeable workforce capable of engaging in innovative activities. In terms of industry sector, 42.7% of the respondents are from the manufacturing sector, while 57.3% represent the services sector.

The distribution of tenure is also significant, with 45.3% of employees having served their organizations for 3 to 5 years, ensuring that they possess sufficient organizational memory and experience to provide reliable responses regarding performance appraisal practices (Table 1).

Table 1. Demographic profile of respondents (N=382)

Variable	Category	Frequency	Percentage (%)
Gender	Male	207	54.2
	Female	175	45.8
Age	20-29 years	98	25.7
	30-39 years	145	38.0
	40-49 years	102	26.7
	50 years and above	37	9.6
Education level	Diploma	97	25.4
	Bachelor's degree	235	61.5
	Master's degree	50	13.1
Tenure	Less than 3 years	84	22.0
	3-5 years	173	45.3
	More than 5 years	125	32.7
Industry sector	Manufacturing	163	42.7
	Services	219	57.3

4.2 Assessment of Measurement Model

Prior to testing the hypothesized structural relationships, the study assessed the measurement model to verify internal consistency reliability and convergent validity. Table 2 reports that Cronbach's Alpha values for the three constructs ranged from 0.845 to 0.912, all exceeding the conventional 0.70 benchmark and indicating strong reliability. Moreover, Composite Reliability (CR) estimates for each construct exceeded 0.80, and Average Variance Extracted (AVE) values were consistently above the 0.50 minimum. These results confirm that the measurement instruments employed in this investigation demonstrate satisfactory reliability and validity, adequately representing the theoretical constructs of Performance Appraisal, Perceived Organizational Support, and Employee Innovation Performance.

Table 2. Reliability and validity analysis

Construct	Items	Cronbach's Alpha (α)	Composite reliability (CR)	Average variance extracted (AVE)
Performance appraisal (PA)	5	0.845	0.886	0.612
Perceived organizational support (POS)	8	0.912	0.928	0.684
Employee innovation performance (EIP)	9	0.887	0.905	0.658

4.3 Descriptive Statistics and Correlation Analysis

Pearson correlation analysis was conducted to examine the strength and direction of the linear relationships between the variables.

As summarized in Table 3, the results indicate that Performance Appraisal is significantly and positively correlated with Employee Innovation Performance ($r = 0.482, p < 0.01$). Similarly, Perceived Organizational Support demonstrates a strong positive correlation with Employee Innovation Performance ($r = 0.536, p < 0.01$).

These findings provide preliminary support for the hypothesized relationships. Furthermore, the correlation between the independent variable (PA) and the moderator (POS) is moderate ($r = 0.384$), which is well below the critical threshold of 0.75, suggesting that multicollinearity is not a concern in this dataset.

Table 3. Descriptive statistics and correlation matrix

Variable	Mean	SD	1	2	3
1.Performance appraisal (PA)	3.84	0.76	(0.782)		
2.Perceived organizational support (POS)	3.65	0.82	0.384**	(0.827)	
3.Employee innovation performance (EIP)	3.92	0.71	0.482**	0.536**	(0.811)

Correlation is significant at the 0.01 level (2-tailed). Diagonal values in parentheses represent the square root of AVE for discriminant validity checks.

4.4 Hypothesis Testing: Hierarchical Regression Analysis

To test the direct and moderating effects, a three-step hierarchical regression analysis was performed with Employee Innovation Performance as the dependent variable. The results are detailed in Table 4.

In Model 1, control variables (Age, Gender, Tenure) were entered, explaining a negligible 2.4% of the variance ($R^2 = 0.024$).

In Model 2, the independent variable (Performance Appraisal) and the moderator (Perceived Organizational Support) were introduced. The model explained a substantial 42.6% of the variance in innovation performance ($R^2 = 0.426, F = 94.35, p < 0.001$). The results reveal that Performance Appraisal has a significant positive effect on Employee Innovation Performance ($\beta = 0.315, p < 0.001$), thereby supporting Hypothesis 1. Similarly, Perceived Organizational Support exerts a significant positive impact on Employee Innovation Performance ($\beta = 0.402, p < 0.001$), providing strong support for Hypothesis 2.

In Model 3, the interaction term (PA \times POS) was added to the regression equation to test the moderation effect. The inclusion of the interaction term resulted in a statistically significant increase in the explained variance ($\Delta R^2 = 0.038, p < 0.01$). The interaction term itself was statistically significant ($\beta = 0.194, p < 0.01$). This positive coefficient indicates that Perceived Organizational Support enhances the relationship between Performance Appraisal and Employee Innovation Performance. Specifically, the positive impact of performance appraisal on innovation is stronger when employees perceive high levels of organizational support. Therefore, Hypothesis 3 is supported.

Table 4. Hierarchical regression results

Variable	Model 1 (Controls)	Model 2 (Direct Effects)	Model 3 (Interaction)
Control variable			
Age	0.052	0.021	0.018
Gender	-0.034	-0.015	-0.012
Tenure	0.086	0.043	0.038
Independent variable			
Performance appraisal (PA)		0.315*	0.284*
Perceived organizational support (POS)		0.402*	0.365*
Interaction term			
PA \times POS			0.194
Adjusted R ²	0.016	0.418	0.455
ΔR^2	0.024	0.402***	0.038**
F-Change	2.84	94.35***	12.65**

Note: Standardized Coefficients (β) are reported. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

To further visualize the nature of this interaction, simple slope analysis was conducted (Aiken & West, 1991). The plot illustrates that the slope representing the relationship between Performance Appraisal and Innovation is steeper for employees with high Perceived Organizational Support (1 SD above the mean) compared to those with low Perceived

Organizational Support (1 SD below the mean). This visual evidence confirms that organizational support acts as a "catalyst," amplifying the effectiveness of performance appraisal in driving innovation.

5. Discussion

5.1 Discussion of Findings

The primary objective of this study was to empirically examine the impact of performance appraisal on employee innovation performance within Malaysian Small and Medium Enterprises (SMEs) and to investigate the moderating role of perceived organizational support. The statistical analysis of data collected from 382 employees in the manufacturing and services sectors has provided robust support for all proposed hypotheses, offering critical insights into the human dynamics of innovation management.

First, the findings confirm that performance appraisal has a significant positive effect on employee innovation performance, supporting Hypothesis 1. This result aligns with the developmental perspective of human resource management, which posits that appraisal systems are not merely tools for administrative control but essential mechanisms for role clarification and motivation. In the context of Malaysian SMEs, where roles are often fluid and resources are limited, a structured appraisal system provides employees with the necessary direction and feedback to channel their efforts toward innovative outcomes. By setting clear goals and identifying training needs, performance appraisal reduces the ambiguity often associated with innovation, thereby encouraging employees to engage in idea generation and implementation. This finding contradicts the view that formal evaluation stifles creativity; rather, it suggests that when appraisal is developmental, it serves as a structural scaffold for innovation.

Second, the study establishes a strong positive relationship between perceived organizational support and employee innovation performance, validating Hypothesis 2. This finding underscores the importance of the psychological environment in fostering extra-role behaviors. Innovation is inherently a risky endeavor that involves the possibility of failure and the challenging of established norms. The results indicate that when employees perceive that their organization values their contributions and cares about their well-being, they experience a heightened sense of psychological safety. This safety net is particularly crucial in the Malaysian cultural context, where high power distance might otherwise discourage employees from voicing novel ideas that could be perceived as challenging authority. The strong correlation found in this study suggests that perceived organizational support acts as a critical emotional resource that emboldens employees to take the necessary interpersonal risks associated with innovation.

Most significantly, the moderation analysis reveals that perceived organizational support positively moderates the relationship between performance appraisal and employee innovation performance, confirming Hypothesis 3. This interaction effect represents the most novel contribution of this research. It demonstrates that the effectiveness of performance appraisal in driving innovation is contingent upon the level of support provided by the organization. Specifically, the positive impact of appraisal on innovation is amplified when employees feel supported. In a high-support environment, performance appraisal is likely interpreted as a constructive coaching process rather than a punitive judgment. Conversely, in the absence of support, the stress associated with evaluation might overwhelm the motivational benefits, leading to a weaker impact on innovation. This finding resolves previous inconsistencies in the literature by highlighting that "hard" HR practices (like appraisal) and "soft" psychological climates (like support) must work in tandem to maximize innovative outcomes.

6. Conclusion

In conclusion, this study provides empirical evidence that performance appraisal and perceived organizational support are critical drivers of employee innovation performance in Malaysian SMEs. By demonstrating that organizational support acts as a vital catalyst that enhances the effectiveness of performance appraisal, this research highlights the need for a balanced approach to human resource management—one that combines structural discipline with psychological safety. As Malaysia continues its transition towards an innovation-led economy, the insights provided by this study offer a roadmap for SMEs to unlock the creative potential of their workforce, ensuring sustainable growth and competitiveness in the global market.

6.1 Theoretical Implications

Theoretically, this research extends the application of Social Exchange Theory (SET) to the domain of innovation management within the specific context of developing economies. While SET has traditionally been used to explain general job performance and organizational citizenship behavior, this study demonstrates its explanatory power for innovation, which is a specific and high-stakes form of extra-role behavior. By integrating performance appraisal as an antecedent and perceived organizational support as a moderator, this study provides a more nuanced understanding of the "black box" between HR practices and innovation. It suggests that the reciprocity norm postulated by SET is triggered not just by structural practices or emotional support in isolation, but by their synergistic interaction. Furthermore, this study contributes to the limited body of literature on SMEs in Southeast Asia, challenging the dominance of Western-centric models and proving that formal HR practices are equally relevant for driving innovation in smaller, resource-constrained firms in Malaysia.

6.2 Managerial Implications

From a practical perspective, the findings offer actionable guidance for owners and managers of Malaysian SMEs who are striving to align with the national "Shared Prosperity Vision 2030." The results suggest that investing in a robust performance appraisal system is necessary but not sufficient for fostering innovation. SME owners must move beyond viewing appraisal as an annual administrative chore and instead utilize it as a continuous developmental dialogue. Managers should be trained to provide feedback that focuses on future improvement and learning rather than past failures.

However, the critical takeaway for practitioners is the indispensability of cultivating a supportive organizational climate. SME owners should actively demonstrate their commitment to employee well-being, not necessarily through expensive financial perks, but through supportive supervision, recognition of effort, and tolerance for honest mistakes. Implementing a "blame-free" culture where failed innovative attempts are treated as learning opportunities can significantly enhance the perceived organizational support. By ensuring that high-performance expectations are matched with high levels of support, SME managers can create a psychological environment where employees feel both challenged to innovate and safe to do so.

6.3 Limitations and Future Research

Despite its contributions, this study is not without limitations. First, the cross-sectional design precludes the determination of causality; it is possible that innovative employees elicit more support from their organizations rather than the reverse. Future research should employ longitudinal designs to track the changes in innovation performance following the implementation of developmental appraisal systems. Second, the data were obtained from self-reports, which may introduce common method bias, although statistical checks suggested this was not a major concern. Future studies could benefit from multi-source data, collecting innovation ratings from supervisors to validate employee self-assessments. Finally, this study focused on Malaysian SMEs in the manufacturing and services sectors. Future research could expand the scope to compare these findings with large Multi-National Corporations (MNCs) or replicate the study in other developing economies to test the generalizability of the interaction effect.

Acknowledgement

The authors would like to thank the fellow authors and organization whose intellectual properties were utilized for this study.

Conflict of Interest

The authors declare no conflicts of interest.

References

- Aiken, L. S., & West, S. G. (1991). *Multiple regression: Testing and interpreting interactions*. Newbury Park, CA: Sage.
- Anderson, N., Potočnik, K., & Zhou, J. (2014). Innovation and creativity in organizations: A state-of-the-science review, prospective commentary, and guiding framework. *Journal of management*, 40(5), 1297-1333. <https://doi.org/10.1177/0149206314527128>
- Blau, P. M. (1964). *Exchange and Power in Social Life*. New York: Wiley.
- Bos-Nehles, A. C., & Veenendaal, A. A. R. (2019). Perceptions of HR practices and innovative work behavior: The moderating effect of an innovative climate. *International Journal of Human Resource Management*, 30(18), 2661-2683. <https://doi.org/10.1080/09585192.2017.1380680>
- Eisenberger, R., Huntington, R., Hutchison, S., & Sowa, D. (1986). Perceived organizational support. *Journal of Applied Psychology*, 71(3), 500-507.
- Gouldner, A. W. (1960). The norm of reciprocity: A preliminary statement. *American Sociological Review*, 25(2), 161-178. <https://doi.org/10.2307/2092623>
- Janssen, O. (2000). Job demands, perceptions of effort-reward fairness and innovative work behaviour. *Journal of Occupational and Organizational Psychology*, 73(3), 287-302. <https://doi.org/10.1348/096317900167038>
- Jiang, K., Lepak, D. P., Han, K., Hong, Y., Kim, A., & Winkler, A. L. (2012). Clarifying the construct of human resource systems: Relating human resource management to employee performance. *Academy of Management Review*, 37(2), 207-236. <https://doi.org/10.1016/j.hrmr.2011.11.005>
- Rhoades, L., & Eisenberger, R. (2002). Perceived organizational support: A review of the literature. *Journal of Applied Psychology*, 87(4), 698-714.

- Saleh, A. S., & Ndubisi, N. O. (2006). An evaluation of SME development in Malaysia. *International Review of Business Research Papers*, 2(1), 1-14.
- SME Corp. Malaysia. (2021). *SME Annual Report 2020/2021*. Kuala Lumpur: SME Corporation Malaysia.
- Snell, S. A., & Dean, J. W. (1992). Integrated manufacturing and human resource management: A human capital perspective. *Academy of Management Journal*, 35(3), 467-504. <https://doi.org/10.5465/256484>
- Tehseen, S., & Ramayah, T. (2015). Entrepreneurial competencies and SMEs business success: The contingent role of external integration. *Mediterranean Journal of Social Sciences*, 6(1), 50. <https://doi.org/10.5901/mjss.2015.v6n1p50>