

# Promoting Innovative Performance through Social Embeddedness: An Analysis on Innovative Human Capital among SMEs

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**Abstract**—The purpose of the paper is to examine the mediating role of innovative human capital (in terms of uniqueness of human capital, value of human capital, and proactiveness) on the relationship between social embeddedness (in terms of structural and relational embeddedness) and innovative performance in the context of Malaysian SMEs. A total of 262 usable questionnaires were collected from SMEs in Malaysia for testing these research objectives. The results of direct effects indicate that both structural and relational embeddedness have strong relationship with all three dimensions of innovative human capital namely uniqueness of human capital, value of human capital, and proactiveness. Further, uniqueness of human capital can increase the level of innovative performance. And also uniqueness of human capital can be a mediating variable on the relationship between both structural and relational embeddedness with innovative performance. Utilizing the structural and relational embeddedness, firms can create a unique and valuable asset of knowledge and increase the proactiveness among the individuals. In addition, social embeddedness can increase the level of innovative performance if firms select unique human capital with rare skill and knowledge simultaneously.

**Index Terms**—Social embeddedness, innovative human capital, innovative performance, SMEs, and Malaysia.

## I. INTRODUCTION

Embeddedness refers to the individual's depth, nature, and extent of ties with environment in shaping elements of businesses [1]. In the domain of entrepreneurship, scholar defined entrepreneurship as the creation and taking value from an environment which can be embedded in order to impact upon the entrepreneurial process [2]. Social embeddedness is viewed as the actual and potential resources which were embedded within the network of individual or social unit relationships [3]. Previous study has noted that social embeddedness is an entrepreneur's position in a social network which determine the accessible information and resources to the business [4]. However, this paper suggests that entrepreneur's social embeddedness has an impact on innovative human capital. Innovative human capital is a core competence and one of the main indicators

of organizational learning [5], [6]. As human capital is the sum of the individual knowledge, skills and abilities of the organizational human resources [7], it can be enhanced through the social embeddedness.

The impact of the human capital as resources and efforts on performance of organization is very critical and those organizations that consider the importance of human capital will experience improvement in their performance [5]. In fact, past study has identified the importance of human capital in organizational support to enhance innovation performance [7]. However, this study suggests that social embeddedness facilitates a climate for human capital to improve their innovative activities which can lead to superior innovative performance. As such, this paper aims to investigate the influence of social embeddedness on innovative performance through mediating role of innovative human capital in the context of Malaysian SMEs. As noted, SMEs have vital contributions to the economy of every country which have given much attention in the recent entrepreneurship researches [8]. Considering SMEs in developing countries, they contribute to economic growth through improving income distribution, productivity, efficiency, and economic structure during the economic downturn [9]. From Malaysia context, SME sector plays a vital role in the country's industrialization program and represents the backbone of industrial development in the country [10], [11]. In 2011, SMEs in Malaysia comprised 99.2% of all business establishments and contributed about 32% of gross domestic product (GDP) and 59% of total employment [12]. They represented the growth of 6.8% relative to 5.1% of overall economic growth. Department of Statistics showed in economic census report (2012) that 645,136 Malaysian SMEs were accountable for 97.3% of total business establishments whereas, large establishments contributed only 2.7% [8]. As Malaysian SMEs play a significant role in economies by providing a large portion of production, the government of Malaysia is focusing more towards the development and growth of SMEs to achieve the Vision 2020 of becoming high income nation [8]. Further, the Government has put a lot of effort and continuous investment in its human capital to enhance technical skills, proactiveness, creativity and innovativeness to drive the knowledge-based and innovation-centered economy [13]. Thus, Malaysia SMEs needs to focus on innovative human capital to be innovative, creative, and proactive in order to move towards innovation-centered economy [13].

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## II. KEY CONCEPTS

### A. *Social Embeddedness*

Researcher defines embeddedness as an individual's depth, nature, and extent of ties with environment which are shaping elements of businesses [1]. Embeddedness can be viewed in the social perspective as social embeddedness. Social embeddedness has been conceptualized as the total of the actual and potential resources embedded within, and consequent from network relationships holds by an individual or social unit [3]. Further, social embeddedness articulates the reign of the social actors within relational, institutional, and cultural contexts [14]. Scholars in the field of entrepreneurship business, suggested that social embeddedness is an entrepreneur's position in a social network which determine the available and accessible information and resources to the business [2], [4]. Explicitly, social embeddedness allows the understanding of broader socio-economic factors such as, structural, political, cognitive and cultural encourage or hinder the entrepreneurial process [15]. However, there are two types of social embeddedness as suggested in previous study [16] namely structural embeddedness and relational embeddedness. The structural embeddedness comprises the layout of relationships among actors and the existence of network ties and configuration in terms of density, connectivity and hierarchy. The relational embeddedness signifies the type of relationships that people develop among themselves throughout the time. This contains facets of relationships that affect people's behavior, such as friendship, trust and respect.

### B. *Innovative Human Capital*

The human capital of an organization refers to the knowledge, skills and abilities featured and vested in the individuals [17]. Focusing on the strategic value and uniqueness of human capital drives towards the employment setting and configuration in the organization [18]. Strategic value refers the notion of exploiting market opportunities, diffusing potential threat which accelerates the efficiency and effectiveness of the firm [19]. On the other hand, uniqueness of human capital has been conceptualized as the degree of its rareness and specialty [19]. In addition, the domain of human capital approach asserts that the value and distinctiveness of knowledge are the most pertinent characteristics for innovation [17], [18]. It has been agreed upon on the fact that such knowledge brings in high yields for the organization, in turn which expand the range of benefits to the customers [20]. From the innovation perspective, employees with valuable and unique knowledge and skills are competent with innovative capacity [21]. The employees who possess the innovative capacity are also submissive towards acquiring new skills that positively impacts firm's innovative performance [3]. The uniqueness of knowledge has greater prominence in the domain of human capital as it facilitates the innovation capacity of the employees turning them to irreplaceable and idiosyncratic [19]. It is foreseeable that such uniqueness of human capital generates differentiation which is the source of competitive advantages [19]. Finally, proactiveness has been also considered as part of human capital. Proactiveness represents the willingness to be engaged in audacious moves

[22]. The spirit of proactiveness remains in the anticipation of future demands and ability of firm to introduce new products to the market ahead of the competitors [4], [23]. However, proactiveness has been also regarded as one of the dimensions of entrepreneurial orientation [4].

## III. HYPOTHESES DEVELOPMENT AND RESEARCH FRAMEWORK

### A. *Social Embeddedness and Innovative Human Capital*

This study assumes that social embeddedness has direct effect on innovative human capital. Past study has examined the significant relationship between social embeddedness and human capital [3]. However, the current study examines this relationship in different perspective. We measure social embeddedness in terms of structural and relational which proposes to have influence on uniqueness, value, and proactiveness of human capital. Both social embeddedness and human capital are aspects of entrepreneur innovativeness which we consider potential interaction between their dimensions. Sum of the actual and potential resources embedded within available networks of relationships are possessed by an individual or social unit [3]. Structural and relational embeddedness of social embeddedness [16] each plays an important role in improving innovative human capital. Structural embeddedness includes pattern of relationships among actors and the existence of network ties [24]. Here, this network within the parameter of the society may play vital role in the creation of human capital [25]. On the other hand, the relationships that people develop among themselves over the time in relational embeddedness will increase the valuable and uniqueness of knowledge with the degree of pro-activeness.

In the area of entrepreneurship, social capital is presumed to be the enabler of diversified opportunities for the owners, employees, and as well as for the business itself [26]. The human capital including the valuable knowledge is triggered by entrepreneur's intention to explore opportunities through utilizing potential networks in social structure [27]. Therefore, by utilizing the structural and relational embeddedness, individuals can create a unique and valuable asset of knowledge; similarly it can increase the proactiveness among the individuals. Moreover, the greater scope to exploit the opportunities has influenced the possessing of higher quality of human capital of the individuals [26]. Based on the above argument, it is worth to test the following hypotheses:

**H1.1-3** Structural embeddedness has a positive influence on innovative human capital (in terms of uniqueness, value and proactiveness)

**H2.1-3** Relational embeddedness has a positive influence on innovative human capital (in terms of uniqueness, value and proactiveness)

### B. *Innovative Human Capital and Innovative Performance*

The important role of innovative human capital on innovative performance of SMEs is not really contemporary [13]. However, very limited studies have considered the factors that could nurture the innovative human capital that

are able to drive innovative performance particular among SMEs [13]. Innovation itself as a firm's intangible resource enable firm in achieving competitive advantage [19]. In fact, organizational factors such as technologies, management supports, or specific firm design may have impact on innovation [3]. Nevertheless, individual knowledge in an organization (human capital) are the main resource for innovation [28]. Human capital with individual knowledge facilitates firms in achieving a competitive advantage through attributing the different performance in the firms [6]. Uniqueness of human capital, value of human capital increase the ability of individual to innovate [29] which has a positive effect on innovative performance [30]. Essentially, valuable and uniqueness of individual's knowledge, skills and abilities are the most relevant features for innovation [17]. Unique employees' who are knowledgeable, skillful, and with abilities are the rainmaker in producing innovative ideas [31] and they are rare in the labor market [32]. Valuable individual's knowledge contributes to firms in gaining high returns in the market [20] and identifying new market opportunities and applying new procedures [21]. Proactiveness as the last dimension of human capital in this study is defined as the firm's response to the opportunities within the market place [33]. Entrepreneur, who behaves proactively, has an ability to predicate needs and observe competitors' action in market place. Moreover, proactiveness comprises taking initiative with efforts in shaping environment which leads to high level of performance [33]. In short, innovative performance can be achieved through (1) the introduction of a new good or a new quality of a good, (2) the introduction of a new method of production, including a new way of handling a commodity commercially, (3) the opening of a new market, and (4) the conquest of a new source of supply of raw material or intermediate input and the establishment of a new organization [34]. Thus, it can be hypothesized that:

**H3.1** Uniqueness of human capital has positive relationship with innovative performance

**H3.2** Value of human capital has positive relationship with innovative performance

**H3.3** Proactiveness has positive relationship with innovative performance

### C. Mediating Effect of Innovative Human Capital

The relationship between social capital and human capital is examined in the previous study [3]. Further, researchers have found that human capital has positive impact on innovative performance [3], [5], [30]. However, in the context of Malaysian entrepreneur, we suggest that human capital dimensions will play mediating role on the relationship between both structural and relational embeddedness with innovative performance. Additionally, human capital also mediates the relationship between social capital and innovative performance [3]. Social capital was measured through the constancy of communication established among managers within their own and other areas, and communication among employees within their area and with other areas. Moreover, previous study found a positive mediating role of human capital but on the relationship between leadership and organizational outcome

[35]. Thus, it leads us to purport that innovative human capital may play a similar mediating role on the relationship of structural and relational embeddedness with and innovative performance. Thus, it is worth to test the following hypotheses:

**H4.1-3** Innovative human capital (uniqueness, value, and proactiveness) mediate the relationship between structural embeddedness and innovative performance.

**H5.1-3** Innovative human capital (uniqueness, value, and proactiveness) mediate the relationship between relational embeddedness and innovative performance.

Based on the above discussion, Fig. 1 shows the research model integrating the social embeddedness (structural and relational embeddedness), innovative human capital (uniqueness of human capital, value of human capital and proactiveness) and innovative performance in a testable manner.

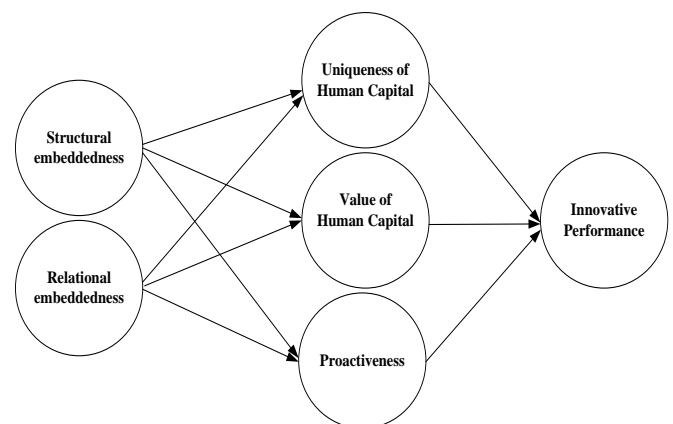


Fig. 1. Research model.

## IV. METHODOLOGY

### A. Sample and Procedure

In this study, a structured study instrument was used for data collection purpose. The questionnaires were administered through drop-offs and pickups. The study utilized Malaysia Small and Medium Enterprises Directory 2011/12 as its sampling frame. A total of 1000 SMEs were selected via simple random sampling. A total of 263 SMEs (response rate = 26.3%) responded to the questionnaire. However, a total of 262 usable questionnaires were thus secured for analysis.

The respondents' company has been established since year 1929 to 2013. Majority of the respondents are from the services sector (45%) followed by manufacturing and agriculture with 30.5% and 5.7% respectively and others. The market of their business mostly is local (85.1%). 68.3 % are the owner of the business. Sole proprietorship formed the majority of the respondents' company (64.5%) followed partnership (22.5%) and joint venture (5.7%) and others. In relation to the total numbers of employees, 63.4% of the respondents reported that they have less than 5 employees, 28.2% with 6-20 employees and 8.4% respondents with more than 21 employees. Their education level started from high school (20%), certificate (14.1%), diploma (28.6%), degree (23.7%), and master (2.3%).

## B. Measures

### 1) Social embeddedness

Multi-item scales were used to measure social embeddedness with two dimensions namely structural and relational embeddedness. Structural and relational embeddedness indicators derived from the previous study [36] which includes rules, procedures, roles, and networks which contribute coordination effort, lowering transaction costs, and crating expectations.

Structural embeddedness in this study measures network assets in terms of business, research, and information using indicators such as clients, suppliers, competitors, suppliers of equipment, material and components, consultancy firms, trade fairs and exhibitions, professional conferences, meetings and publications, internet or computer-based information networks, patent documents, government research laboratories, technology transfer organizations, and universities and community colleges.

Relational embeddedness are measures based on four categories of economic actors; 1) I know personally professionals or managers in agencies of regional economic development 2) I know personally professionals or managers in government agencies involved in economic development 3) I know personally university or government researchers linked to the field of my products 4) I know personally my clients and supplies.

The questions used to assess the levels of structural and relational embeddedness is: *Which of the following played a role as sources of information needed for suggesting or contributing to the development of new or improved products or manufacturing processes during the last three years?* A 5-point Likert scales (1=strongly disagree to 5 = strongly agree) were used to measure the level of respondents' agreeableness on the statement posed to them.

### 2) Innovative human capital

Innovative human capital has three dimensions namely uniqueness of human capital, value of human capital, and proactiveness. The indicators measure these three dimensions derived from the previous study [3]. Uniqueness of human capital is measuring employee's skills which 1) are not available to competitors 2) developed through on-the-job experience 3) difficult for competitors to buy 4) difficult for competitors to imitate or duplicate. Value of human capital is measuring employee's skills which 1) contribute to developing new markets/products/services/opportunities 2) create customer value 3) are instrumental for creating innovation 4) are needed to maintain high-quality products/services 5) enable firm to provide exceptional customer value. Proactiveness is measured by two indicators; 1) firm is very often the first business to introduce new products/service, administrative techniques, operating technology 2) firm typically seeks to avoid competitive clashes. A 5-point Likert scales (1=strongly disagree to 5 = strongly agree) were used to measure the level of respondents' agreeableness on the statement posed to them.

### 3) Innovative performance

Innovation performance is measured by using indicators such as 1) new products (i.e. new packaging, new design, etc), 2) new service (i.e. rapid delivery, product

customization, etc), 3) new methods of production (i.e. implementation of new process/technology, etc), 4) opening new markets (i.e. open to retailers instead of to end user, 5) new sources of supply (i.e. new modes of logistics to achieve raw material), 6) new ways of organizing (i.e. empowerment, production control, etc.). The questioned used to evaluate the levels of innovative performance is to indicate the changes made by firm during the last three years that were perceived to be new for the company, but which have previously been used by other companies. A 5-point Likert scales (1=none at all to 5 = to a great extent) were used to measure the level of respondents' agreeableness on the statement posed to them.

## C. Results of Measurement Model

To ensure that there is no Common Method bias in the questionnaire survey, we performed Harman's single factor test which revealed that the first factor accounted for 28.970 % of variance which is less than threshold level of 50% of total variance explained [37].

The quality of the measurement model was assessed by examining convergent validity includes factor loading, average variance extracted (AVE), composite reliability (CR) as well as discriminant validity suggested previously [38] as a rule of thumb for model evaluation. In terms of factor loading, BNI3 was deleted which had loading below than 0.5 suggested in literature [39]. In addition, BNI 1, BNI2, BNI4 are deleted in order to increase AVE which was less than the recommended value of 0.5. CR for all variables are exceeded the recommended value of 0.7 [39]. The results are shown in Table I.

After convergent validity, the discriminant validity of the measurement items was tested through the criteria suggested by Fornell and Larcker [40]. Table II depicts the discriminant validity of this study and showed that the all the square root of AVEs, shown in the elements in the matrix diagonals are higher in all cases in the off-diagonal elements in their corresponding row and column, hence establishing the discriminant validity.

## D. Hypotheses Testing

The path analysis was employed to evaluate the structural model. The primary evaluation criteria for structural model are the  $R^2$  values and the level and significance of the path coefficients [38]. The  $R^2$  of uniqueness of human capital is 0.233, value of human capital is 0.287, proactiveness is 0.279, and innovative performance is 0.112 (Fig. 2).

The study hypothesized that two variable of social embeddedness (structural and relational) has relationship with three variables of innovative human capital in terms of uniqueness, value, and proactiveness. The result shows that structural embeddedness has relationship with uniqueness of human capital ( $\beta = 0.262, p < 0.01$ ), value of human capital ( $\beta = 0.421, p < 0.01$ ), and proactiveness ( $\beta = 0.305, p < 0.01$ ). Thus all three hypotheses are accepted. Also, relational embeddedness has positive influence on uniqueness of human capital ( $\beta = 0.297, p < 0.01$ ), value of human capital ( $\beta = 0.184, p < 0.01$ ), and proactiveness ( $\beta = 0.307, p < 0.01$ ).

Furthermore the study hypothesized that innovative human capital (uniqueness, value, and proactiveness) have relationship with innovative performance. The result supports only one hypothesis. Uniqueness of human capital

has positive influence on innovative human capital ( $\beta = 0.291, p < 0.01$ ). Table III shows the results of direct effects.

TABLE I: RESULTS OF MEASUREMENT MODEL

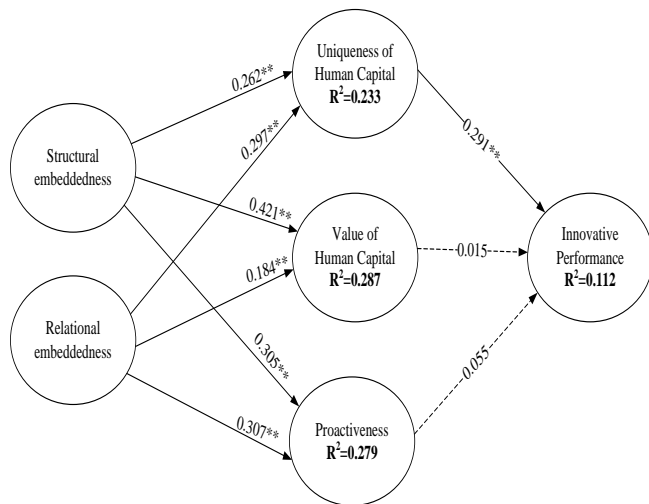
Variables		Items	Factor Loading	AVE	CR				
Social Embeddedness	Structural	BNI5	0.597	0.511	0.912				
		INI1	0.751						
		INI2	0.732						
		INI3	0.725						
		INI4	0.692						
		INI5	0.767						
		RNI1	0.744						
	Relational	REL1	0.823	0.641	0.876				
		REL2	0.878						
		REL3	0.827						
		REL4	0.657						
		Innovative human capital	Uniqueness of human capital			UHC1	0.767	0.641	0.877
						UHC2	0.791		
						UHC3	0.832		
UHC4	0.81								
Value of human capital	VHC1		0.834	0.634	0.896				
	VHC2		0.776						
	VHC3		0.811						
	VHC4		0.809						
Proactiveness	PROAC1		0.897	0.754	0.86				
	PROAC2		0.839						
Innovative performance	IP	IP1	0.825	0.575	0.89				
		IP2	0.761						
		IP3	0.756						
		IP4	0.704						
		IP5	0.789						
		IP6	0.708						

AVE=Average variance extracted; CR= Composite reliability; BNI3 was deleted (loading below than 0.5); BNI 1, BNI2, BNI4 are deleted (to increase AVE)

TABLE II: DISCRIMINANT VALIDITY OF CONSTRUCTS

	1	2	3	4	5	6
1. Innovative performance	<b>0.758</b>					
2. proactiveness	0.218	<b>0.868</b>				
3. Relational	0.156	0.457	<b>0.801</b>			
4. Structural	0.17	0.455	0.491	<b>0.715</b>		
5. Uniqueness of human capital	0.33	0.533	0.425	0.407	<b>0.8</b>	
6. Value of human capital	0.232	0.538	0.391	0.511	0.646	<b>0.796</b>

Diagonals (in bold) represent the average variance extracted while the other entries represent the squared correlations.



\*\*p<0.01

Fig. 2. Structural model.

TABLE III: RESULT OF DIRECT EFFECTS

Hypothesis	Path	Beta	SE	t-value	Decision
H1.1	Structural -> UHC	0.262	0.07	3.735**	Supported
H1.2	Structural -> VHC	0.421	0.062	6.778**	Supported
H1.3	Structural -> PRO	0.305	0.072	4.219**	Supported
H2.1	Relational -> UHC	0.297	0.069	4.319**	Supported
H2.2	Relational -> VHC	0.184	0.063	2.946**	Supported
H2.3	Relational -> PRO	0.307	0.075	4.092**	Supported
H3.1	UHC -> IP	0.291	0.084	3.466**	Supported
H3.2	VHC -> IP	0.015	0.101	0.144	Not Supported
H3.3	PRO -> IP	0.055	0.079	0.69	Not Supported

\*\*p<0.01; PRO=proactiveness; UHC=uniqueness of human capital; VHC=value of human capital; IP=innovative performance

In addition of direct effects, this study tested the mediating effect of innovative human capital dimensions (uniqueness, value, and proactiveness) on the relationship between social embeddedness (structural and relational) and innovative performance (Table IV). Following previous study approach [41], the results showed that uniqueness of human capital mediates the relationship between structural embeddedness ( $t$ -value=2.378,  $p < 0.01$ ); relational embeddedness ( $t$ -value=2.568,  $p < 0.01$ ) with innovative performance.

TABLE IV: RESULTS OF MEDIATING EFFECTS

Hypothesis	Path	a*b	SE	t-value	Decision
H4.1	Structural-UHC-IP	0.076	0.032	2.378**	Supported
H4.2	Structural-VHC-IP	0.006	0.044	0.14	Not Supported
H4.3	Structural-PRO-IP	0.017	0.026	0.645	Not Supported
H5.1	Relational-UHC-IP	0.087	0.034	2.568**	Supported
H5.2	Relational-VHC-IP	0.003	0.02	0.136	Not Supported
H5.3	Relational-PRO-IP	0.017	0.025	0.682	Not Supported

\*p<0.01; PRO=proactiveness; UHC=uniqueness of human capital; VHC=value of human capital; IP=innovative performance

### E. Predictive Relevance ( $Q^2$ )

Table V shows the summary of the predictive relevance for the endogenous construct under consideration in this research. The results showed that all exogenous constructs in this research have predictive relevance as all the values are above 0.

TABLE V: THE RESULT OF THE  $Q^2$  VALUES

Endogens variables	$Q^2$	$R^2$
Uniqueness of human capital	0.147	0.233
Value of human capital	0.180	0.287
Proactiveness	0.209	0.279
Innovative performance	0.060	0.112

### V. DISCUSSION AND IMPLICATION

The current paper investigated the mediating role of innovative human capital (in terms of uniqueness of human capital, value of human capital, and proactiveness) on the relationship between social embeddedness (in terms of structural and relational embeddedness) and innovative performance in the context of Malaysian SMEs. The results of direct effects indicate that both structural and relational embeddedness have strong relationship with all three dimensions of innovative human capital namely uniqueness of human capital, value of human capital, and proactiveness. Uniqueness of human capital, value of human capital, and

proactiveness are enhanced through structural and relational embeddedness. Previous study found the significant relationship between social capital (or social embeddedness) and human capital [3]. Structural embeddedness with pattern of relationships among actors and the existence of network ties will increase the knowledge, skills and abilities featured and vested in the individuals. As scholar noted network within the parameter of the society plays a vital role in the creation of human capital [25]. Further, the developed relationships among people and the type of relationships that people develop among themselves throughout the time in relational embeddedness also will increase the valuable and uniqueness of knowledge with the degree of proactiveness. It helps individual in increasing their knowledge, skills and abilities regarding innovativeness.

In the relationship between three variables of innovative human capital namely uniqueness, value, and proactiveness with innovative performance, the results indicated that only the uniqueness of human capital has significant relationship with innovative performance. Malaysian SMEs which are considering the importance of uniqueness of human capital may enhance their performance in an innovative way significantly. This is in line with past study which indicates that it is the uniqueness of human capital which has a direct and positive effect on firm performance not its value [3]. The uniqueness of individual's knowledge, skills and abilities is one of the most relevant features for innovation [17]. It can be said that there is a connection between unique employees' knowledge and their ability to produce new products. Unique employees' knowledge, skills, and abilities may contribute to the creation of innovative ideas and facilitate firms to compete in the market which establishes an intangible resource for firm innovation.

The result of indirect effect showed that structural and relational embeddedness has an influence on innovative performance through uniqueness of human capital. Rare and special uniqueness of human capital facilitate social embeddedness to enhance innovative performance of SMEs. In the domain of human capital, past study has emphasized that uniqueness of knowledge has greater importance [19] because it facilitates the innovation capacity of the employees to be unique and particular [19]. Therefore, selection of unique individuals with learning potential and interpersonal skills helps structural and relational embeddedness in performance improvement. It is foreseeable that such uniqueness of human capital generates differentiation which is the source of competitive advantages [19].

The results suggest that social embeddedness may act as an enabler of diversified opportunities for the owner, employees, and as well as for the business itself. Thus, by deploying the structural and relational embeddedness, firms can create a unique and valuable asset of knowledge and increase the proactiveness among the individuals. As such, social embeddedness may increase the level of innovative performance if firms select unique human capital with rare skill and knowledge simultaneously.

## VI. CONCLUSION

This research examined the mediating role of innovative

human capital (in terms of uniqueness of human capital, value of human capital, and proactiveness) on the relationship between social embeddedness (in terms of structural and relational embeddedness) and innovative performance in the context of Malaysian SMEs. Our empirical study revealed that structural and relational embeddedness are good predictors for uniqueness of human capital, value of human capital, and proactiveness. Further, uniqueness of human capital can increase the level of innovative performance. And also uniqueness of human capital can be a mediating variable on the relationship between both structural and relational embeddedness and innovative performance.

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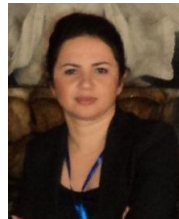
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