

THE IMPACT OF KNOWLEDGE SHARING, MOTIVATION, SHARED LEADERSHIP ON PERFORMANCE IN SMALL AND MEDIUM ENTERPRISES IN GUANGZHOU, CHINA: THE MEDIATING ROLE OF INNOVATION

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Abstract

Chinese Small and Medium Enterprises (SMEs) are vital to the economy but face challenges in fostering innovation and improving employee performance. The traditional business culture prioritizes imitation over innovation. Cultural values, social norms, and budget constraints shape how SMEs operate. Many SMEs struggle to adopt innovative strategies, products, and processes to stay competitive. This research proposal aims to address this gap by investigating the impact of shared leadership, knowledge sharing, and motivation on employee performance within Chinese SMEs. It recognizes that the dynamics operating in Chinese SMEs may differ from those in Western settings, necessitating a context-specific study. This study used a mixed-method research design, collecting data with both an interview and a cross-sectional survey design. The combination of interviews and surveys allows for both in-depth qualitative insights and quantitative data collection, fostering a more comprehensive understanding of the topic. The study was conducted among SMEs in Guangzhou, China. The data are analyzed to reveal the links between variables of interest. A mediated model is constructed. The findings show that knowledge sharing, motivation, and shared leadership positively affect performance in SMEs in China. Innovation acts as the mediator in knowledge sharing, motivation, shared leadership, and employee performance. Shared leadership and inclusive practices encourage employees to engage in decision-making, thus enhancing their commitment and motivation to bring innovative ideas to fruition. Reflecting innovation in the company's values and recognizing and rewarding innovative efforts further reinforces the message that innovation is not just supported but is a strategic imperative for the organization. The findings offer valuable insights into the challenges and limitations of current managerial practices, providing suggestions for enhancing the performance of SEMs in China.

Keywords: Knowledge Sharing, Motivation, Shared Leadership, SMEs, Innovation.

1. INTRODUCTION

1.1 Background

Small and Medium Enterprises (SMEs) are an integral component of the Chinese economy, serving as the main drivers of job creation, innovation, and economic diversification. Although prior studies have repeatedly examined the impacts of shared leadership, its effects in private companies have rarely been examined, particularly in China. Despite that recent studies have erase that the need for a deeper inquiry into shared leadership because the researches have revealed the impact of this leadership on a range of employee behaviors (Ren et al., 2020; Saleem et al., 2020; Wood et al., 2021), yet few have been carried out to examine the role shared leadership play in influencing motivation and innovation in Chinese context. It is

reasonable to expect that shared leadership may positively influence motivation and innovation in China.

1.2 Research Questions and Objective

The research questions for this study is: What are the impacts of knowledge sharing, motivation, shared leadership on innovation and performance. What are the factors influencing performance.

The main objectives of this study is: To investigate knowledge sharing, motivation, shared leadership, and innovation performance. To investigate influencing factors of performance

1.5 Significance of the Study

This study investigates the relationships between shared leadership, knowledge sharing, motivation, performance, and the mediating role of innovation. This study contributes to our theoretical understanding of shared leadership and innovation. Leadership has been repeatedly examined in prior studies, however, there are fewer studies testing the impact of shared leadership on innovation in China (e.g., Ren et al., 2020). This study advances our understanding of this leadership style as well as the factors influencing innovation. This study makes a significant contribution by delving into the concept of shared leadership within the specific context of Chinese SMEs. Shared leadership, characterized by the distribution of leadership responsibilities and decision-making across team members, is a relatively new concept in Chinese business culture, especially within SMEs.

The findings of this study hold significant implications for practical applications in the field. Previous studies have indicated that certain companies show less concern for innovation, often due to limited access to new technologies and insufficient investment (Yu et al., 2021). By exploring the factors that influence innovation in the Chinese SME sector, this study contributes to a better understanding of these dynamics. It emphasizes that organizations should not only focus on individual leadership effectiveness but also foster collaborative leadership practices. The study also emphasizes the criticality of creating a culture that supports knowledge sharing and provides motivation.

2. LITERATURE REVIEW

2.1 Underpinning Theory

Self-determination theory (SDT) is a psychological framework that seeks to explain individuals' motivation and psychological well-being. Developed by Edward Deci and Richard Ryan in the 1980s, SDT proposes that intrinsic motivation, autonomy, and competence are essential for optimal human functioning (Qian, Wang, Zhang, & Hulland, 2022; Ryan & Deci, 2022). Numerous empirical studies have supported the key principles of SDT (Good, Hughes, Kirca, & McGrath, 2022). Research findings consistently demonstrate that individuals who experience a sense of autonomy, competence, and relatedness are more likely to be intrinsically motivated, experience higher levels of well-being, and engage in more adaptive behaviors.

In the realm of organizational behavior, social exchange theory provides a valuable lens for understanding the dynamics between individuals and their social environments (Cortez & Johnston, 2020; Huo, Liu, & Li, 2023). SET posits that these social exchanges occur within the framework of social norms, expectations, and shared values, thereby shaping the nature and quality of interpersonal relationships (Wang, Hu, Park, Yuan, & Chen, 2023).

Psychological Ownership Theory is a psychological framework that explores the psychological processes involved when individuals perceive a sense of ownership towards a target, such as their work, a project, or an organization. In SMEs in China, applying this theory can enhance innovation and performance by creating a sense of ownership through employee involvement, autonomy, and skill development.

2.2 Knowledge Sharing

Knowledge sharing is the source of intellectual capital which is an important resource in financial planning. Knowledge sharing behavior is defined as an exchange behavior between a contributor and a seeker and involves the provision and acquisition of knowledge. Innovative work behavior is the result of a comprehensive set of behaviors associated with idea creation, idea support and idea implementation (Santhos & Lawrence, 2023).

2.3 Motivation

Motivation has always been an important research topic in motivational psychology and organizational behavior. Generally speaking, motivation is either external motivation or internal motivation. External motivation refers to behaviors triggered by non-internal reasons such as salary incentives and free from punishment (Rose et al., 2021). Woodworth first proposed the idea of internal motivation in 1918. He believes internal motivation refers to the curiosity and self-protection of the individual, which is of great importance to his/her development (Naqshbandi et al., 2023).

2.4 Shared Leadership

Leadership behavior helps to stimulate employees' innovation potential and promote their active innovation. Therefore, it has always been a hot research topic in the academic circle. With the deepening of economic globalization, organizations rely more on teamwork to get work done (Ali et al., 2020). The importance of innovation to enterprise development is self-evident, and shared leaders with learning abilities can promote team knowledge sharing and innovation. Scholars have discussed the relationship between shared leadership and team innovation performance, but far too little empirical research on the relationship between shared leadership and employees' active innovation behavior (Ali et al., 2021; Cao et al., 2021). Hence, the research strives to explore the relationship between shared leadership and employees' active innovation behavior and analyze how to more effectively stimulate employees' dynamic innovation behavior from the perspective of motivation, thus improving team performance and enhancing advantages (Xie et al., 2021).

2.5 Innovation

Innovation, whether from idea generation, resource acquisition or idea execution, is carried out by individual employees. The improvement of organizational innovation ability depends on

individual employees. In knowledge-based enterprises, especially high-tech knowledge-based ones, their innovation ability comes from individual employees who integrate knowledge accumulation and utilization (Rose et al., 2021). The value of an enterprise mainly depends on the knowledge and innovation ability of its employees.

2.6 Performance

Performance can be defined as the accomplishment of tasks and responsibilities assigned to an individual employee within the organization (Asbari, Hidayat, & Purwanto, 2021). It encompasses both individual contributions and the achievement of organizational goals and objectives. Performance is multifaceted and can be measured using various indicators, such as productivity, quality of work, customer satisfaction, innovation, and adherence to organizational policies and procedures (Riyanto, Endri, & Herlisha, 2021; Wei, Nan, & Wei, 2020; Yan, Basheer, Irfan, & Rana, 2020).

2.7 The Hypothesized Relationship

It is important to recognize that in today's fast-paced and complex business environment, no single individual possesses all the knowledge and skills required to drive innovation (Ridwan, Mulyani, & Ali, 2020). Encouraging and facilitating knowledge sharing, organizations, including SMEs in China, can leverage the collective intelligence and diverse perspectives of their employees to enhance their innovative capabilities.

Knowledge sharing involves the voluntary exchange of information, expertise, and experiences among individuals within an organization. When employees actively engage in knowledge sharing, they contribute to a culture of continuous learning and collaboration, which are essential for driving innovation. Knowledge sharing facilitates the transfer of valuable knowledge, promotes learning and professional development, cultivates collaboration and innovation, enhances communication and information flow, and contributes to employee engagement and motivation.

Motivation is a critical driver that influences employee attitudes, behaviors, and performance within organizations. In an increasingly competitive business landscape, organizations recognize the importance of fostering innovation to stay ahead (Chen et al., 2021; Yan, Basheer, Irfan, & Rana, 2020). Self-determination theory suggests that individuals have innate psychological needs for autonomy, competence, and relatedness. When these needs are fulfilled, individuals experience motivation and engagement, leading to higher levels of innovation and performance (Santhosé & Lawrence, 2023).

2.8 Research Framework

The conceptual framework has three independent variables which are knowledge sharing, shared leadership, motivation. The mediating variable is innovation, and the dependent variable is performance. The variables are measured with items that capture multiple dimensions of the concepts. The framework is as below.

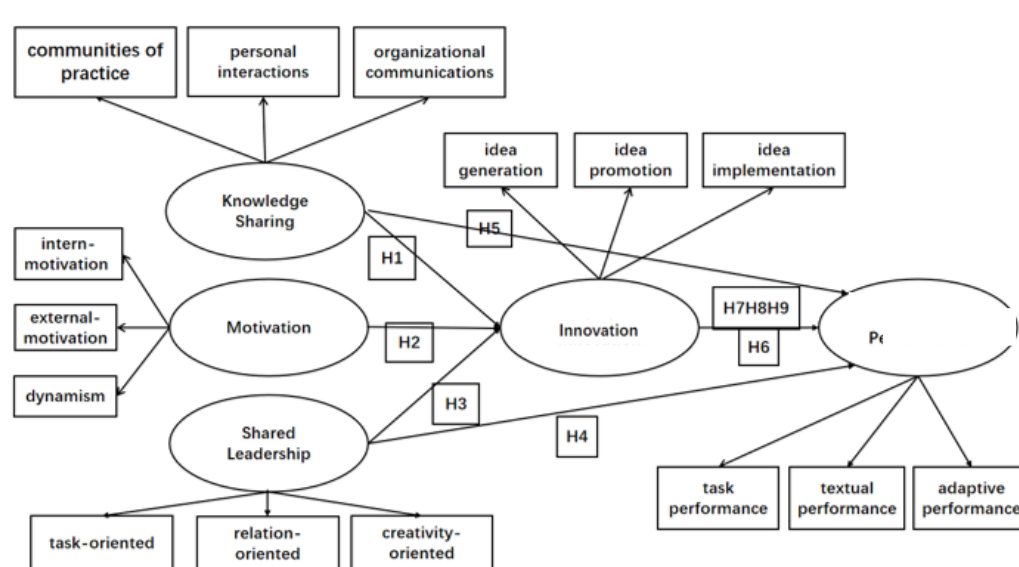


Figure 2.1: Conceptual framework

3. METHODOLOGY

3.1 Research Design

The proposed study will use a mixed-method research design, collecting data with both an interview and a cross-sectional survey design.

3.2 Quantitative Approach

3.2.1 Population

Bryman & Bell (2007) defined a population as the unit from which the sample is derived. The population is mainly the employees in SMES in Guangzhou, China. There are over 1,223 SMEs in Guangzhou, China.

3.2.2 Sample

For the sample size, this study considers the number of free parameter estimations. Following prior studies, this study uses the rule of a 20- to-1 ratio between the sample unit and the number of parameters (Creswell, 2008). This study uses a sample size that is twenty times of the number of variables and the dimensions. There are in total 5 variables of interests with each have 3 dimensions. Researchers also contended that larger sample size produces representative results (Creswell, 2008). The survey questionnaire administered on surveying APP may produce a few non-reliable responses.

3.2.3 Data collection

In line with ethical considerations, researchers must seek consent from the relevant authorities, such as SME owners or management teams, before conducting the survey. This ensures that

the survey adheres to ethical guidelines and maintains the integrity of the research process. This study is conducted on a survey APP in China.

3.2.4 Data analysis

The data will be analyzed in SPSS and SmartPLS to analyze the links between variables of interests. A mediated model will be constructed. SEM will be used to examine the hypothesized relationship between the variables of interest. The descriptive analysis measures central tendency of variables such as leadership, knowledge sharing, motivation, innovation, and performance of employees in SMEs (Koh, 2018). In addition, the correlation method are used to identify the relationship between the various variables. The correlation analysis is to identify the strength of the relationship between the independent, mediator, and dependent variables (Koh, 2018).

3.3 The Qualitative Study

The informants will be managers in the selected SMEs in China. In total 10 managers will be interviewed. The sample size is determined by using a grounded theory approach. The data will be collected with semi-structured interviews. The following questions will be designed to ask respondents in the interviews: **Q1.** How would you define shared leadership in the context of a Chinese SME? **Q2.** What are the main factors or strategies that promote knowledge sharing among employees? **Q3.** Could you describe the impact of shared leadership, motivation, and knowledge sharing on performance? **Q4.** How do you think motivation plays a role in improving performance in Chinese SMEs? **Q5.** Can you share any specific examples of how innovation is fostered within Chinese SMEs? **Q6.** What challenges or barriers exist in implementing shared leadership in Chinese SMEs? **Q7.** How can knowledge sharing initiatives be effectively encouraged and supported? **Q8.** Do you think there are cultural factors that affect the relationship between leadership and performance? **Q9.** Are you satisfied with the leadership in your company? Do you think shared leadership is important and effective in promoting your performance? Why? **Q10.** Can you provide insights into how innovation contributes to the overall performance of Chinese SMEs? **Q11.** Are there any particular leadership styles that are more effective in promoting innovation and performance? **Q12.** From your perspective, what are the potential outcomes and benefits of integrating shared leadership, knowledge sharing, motivation, and innovation in Chinese SMEs?

3.3.1 Process of Collecting Interview Data

Qualitative research commonly involves conducting interviews, where a conversation is conducted with the aim of obtaining in-depth answers from participants on specific topics. Therefore, this study uses semi-structured interviews to collect qualitative data from managers in SMEs in Guangzhou, China. Each semi-structured interview lasted about 60 minutes. All the interviews will be recorded and transcribe verbatim. Grounded theory approach will be applied to conduct the qualitative analysis of the interview. The interviews are fully transcribed and then subjected to open, axial, and selective coding by using the qualitative data analysis software NVivo. The data analysis is continuous, and I started data coding and analysis as soon as I collected some data. The findings are used to guide further data collection efforts.

3.3.2 Analyzing Data

The coding scheme is classified into different themes related to impacts of leadership, knowledge sharing, and motivation, and these themes should relate to the research objectives. The interviews are fully transcribed and then subjected to open, axial, and selective coding using the qualitative data analysis software NVivo.

3.4 Ethical Consideration in Research

Adhering to research ethics not only ensures the security and privacy of the respondents but also promotes the trustworthiness and credibility of the research findings. This includes maintaining confidentiality, anonymity, voluntary participation, etc. The researcher must take appropriate measures to secure the personal data and information provided by the respondents. I not only uphold the rights and well-being of the respondents but also contribute to the overall ethical framework of the research community.

4. RESULTS

This chapter focuses on analyzing data collected from questionnaires in Guangzhou, China. To analyze the data, the research used Statistical Package for Social Sciences (SPSS) version 22.0 for Windows and SmartPLS version 3.1.

4.1 Data Entering and Coding

4.1.1 Response Rate

Out of the 400 surveyed, 346 completed questionnaires were obtained and subsequently used for data analysis. The rate is 86.50%.

4.1.2 Data Coding and Missing Values

For each item, frequencies, minimum values, and maximum values were checked to ensure the accurate transfer of data. As the data collection process utilized a surveying application, respondents were required to fill in all fields, thereby eliminating missing values.

4.2 Assessment of Data

Normality is assessed by inspecting data distribution with tools like histograms, normal probability plots. Detection techniques may involve analyzing a correlation matrix, computing variance inflation factors (VIF), or examining tolerance values. The table below displays the skewness and kurtosis measures for the variables under consideration in this research. The findings indicate that normality concerns are non-existent, as all values for skewness and kurtosis are within the acceptable thresholds of ± 2.0 .

Table 4.1: Descriptive Analysis of Skewness and Kurtosis value for Each Variable

Independent Variable	Skewness	Kurtosis	Conclusion
Knowledge Sharing	.812	1.004	normal distribution
Motivation	.107	-.005	normal distribution
Shared Leadership	.712	-.345	normal distribution
Innovation	-.092	-.671	normal distribution

4.2.1 Assessment of Multicollinearity

A VIF value reaching 10 signals a critical threshold, pointing to potential multicollinearity concerns. The data presented in the following tables reveal that VIF values are all below 3, and tolerance levels exceed 0.1, suggesting that multicollinearity is not problematic in this case.

Table 4.2: VIFs in the Model

Variable	VIF	Tolerance
Knowledge Sharing	1.915	0.301
Motivation	1.281	0.151
Shared Leadership	2.114	0.378
Innovation	1.728	0.498

4.2.2 Common Method BIAS

In the current research, Harman's single factor test was applied to assess the possibility of common method bias. With only 28.031% of the variance being explained by a single factor, the results suggest that common method bias is not an issue in this dataset.

Table 4.3: Results of Harman's Single Factor Test

Component	Extraction Sums of Squared Loadings	
	Total	Percentage of Variance
1	28.031	32.801

4.3 Descriptive Data Analysis

4.3.1 Descriptive Analysis

Descriptive Analysis for Control Variables

The statistics for control variables are reported in the following table.

Table 4.4: Descriptive Statistics for the Control Variables

Variable	N	Percentage
Gender		
Female	205	40.75%
Male	141	59.25%
Education		
High school or lower	87	25.14%
Bachelor or higher	259	74.86%
	Mean	SD
Age	35.38	9.77
Year of working	7.94	3.24

The distribution of participants by gender was reported, with females comprising 205 out of the total sample, accounting for 40.75%. Males constituted 141 of the participants, corresponding to 59.25%. 87 individuals had completed a high school education or lower, representing 25.14% of the sample. The mean age of the study population was 35.38 years, with a standard deviation of 9.77 years. The average number of years of working experience among the participants was 7.94, with a standard deviation of 3.24.

Descriptive Analysis for Items Measuring Focal Variables

The following tables shows the zero-order correlation between variables of interests

Table 4.5: Descriptive Analysis of Zero-order Correlation

	Knowledge Sharing	Motivation	Shared Leadership	Innovation	Performance
Knowledge Sharing	1.000				
Motivation	0.623	1.000			
Shared Leadership	0.598	0.692	1.000		
Innovation	0.691	0.519	0.727	1.000	
Performance	0.719	0.709	0.690	0.612	1.000

4.3.2 Reliability Analysis

This study concentrated on achieving alpha values above the 0.6 mark to ensure the reliability of the variables under investigation.

Table 4.6: Cronbach’s Alpha

Variables	alpha
Knowledge Sharing	0.92
Motivation	0.82
Shared Leadership	0.86
Innovation	0.79
Performance	0.83

4.4 Analysis of the Structural Model

After establishing confidence in the measurement model's reliability and validity through analytical means, this study moved on to the subsequent stage of the investigation, which entailed an assessment of the structural model, as outlined by Hair et al. (2014).

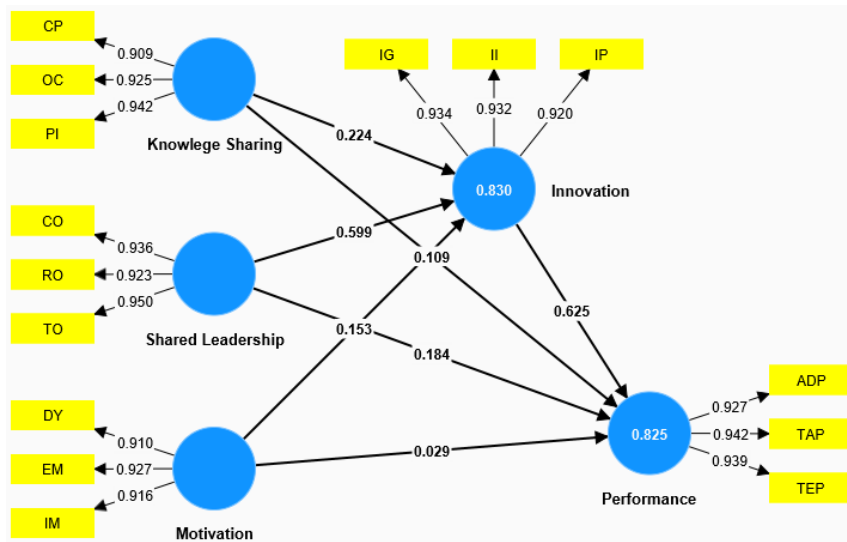


Figure 4.2: Results of Path Analysis

In the framework of the structural model, each link between two latent variables signifies a theoretical proposition needing validation.

Table 4.8: Dependent Variable - Innovation

Independent Variable	Coefficient	p-value	Result
Knowledge Sharing	0.224	0.000	Significant
Shared Leadership	0.599	0.000	Significant
Motivation	0.153	0.000	Significant

The table shows that all three independent variables have a statistically significant positive effect on innovation. For example, knowledge sharing exhibits a coefficient of 0.224, suggesting a moderate positive influence on innovation with a highly significant p-value of 0.000.

Table 4.9: Dependent Variable - Performance

Independent Variable	Coefficient	p-value	Result
Knowledge Sharing	0.109	0.000	Significant
Shared Leadership	0.184	0.000	Significant
Motivation	0.029	0.000	Significant
Innovation	0.625	0.000	Significant

In the model that performance is the dependent variable, the influence of knowledge sharing is similarly significant and positive, with a coefficient of 0.109 and the p-value stands at 0.000. Additionally, innovation has a positive effect on performance, indicated by the coefficient of 0.625.

Table 4.10: Indirect Effect

Independent Variable	Coefficient	p-value	Result
Knowledge Sharing → Innovation → Performance	0.140	0.000	Significant
Shared Leadership → Innovation Performance	0.375	0.000	Significant
Motivation → Innovation → Performance	0.096	0.000	Significant

These results highlight the role of innovation as an important mediator in the relationship between the independent variables and performance.

4.5 Findings Based on Research Hypothesis

The coefficients and p-values indicate that all three independent variables have a significant positive direct effect on innovation. Knowledge sharing (Coefficient = 0.224, $p < 0.001$), shared leadership (Coefficient = 0.599, $p < 0.001$), and motivation (Coefficient = 0.153, $p < 0.001$) have all been found to contribute significantly to fostering a culture of innovation within the organization. Moreover, the results provide evidence for the mediation role of innovation in the relationship between the independent variables and performance. All three paths, namely knowledge sharing → innovation → performance (Coefficient = 0.140, $p < 0.001$), shared leadership → innovation → performance (Coefficient = 0.375, $p < 0.001$), and motivation → innovation → performance (Coefficient = 0.096, $p < 0.001$), displayed significant indirect effects through innovation.

These findings provide robust empirical support for the hypotheses. Knowledge sharing, shared leadership, and motivation all make significant and positive contributions to innovation and performance. Furthermore, the results confirm the mediating role of innovation in fostering high performance through its relationships with the independent variables. The following hypotheses proposed are supported.

1. Knowledge sharing positive direct effect on innovation
2. Motivation positive direct effect on innovation
3. Shared leadership positive direct effect on innovation
4. Knowledge sharing positive direct effect on performance
5. Shared leadership positive direct effect on performance
6. Innovation positive direct effect on performance
7. Innovation mediates the relationship between knowledge sharing and performance
8. Innovation mediates the relationship between motivation and performance
9. Innovation mediates the relationship between shared leadership and performance

4.6 Qualitative Results

Through qualitative interviews conducted in Guangzhou, China, several problems related to the performance of small and medium-sized enterprises SMEs have been identified. These problems shed light on the challenges faced by SMEs in the region and provide insights into the factors that hinder their growth and success. A common problem highlighted by the interviewees is the lack of access to financial resources. Many SMEs struggle to secure sufficient capital for their operations, expansion, and innovation. One key finding from the interviews is that knowledge sharing acts as a catalyst for innovation within SMEs. Participants consistently emphasized the critical role played by knowledge sharing in creating a collaborative and creative environment.

The majority of participants expressed that when employees are motivated, they are more likely to generate new and creative ideas, take risks, and think outside the box. Motivated employees showed a higher level of engagement and enthusiasm towards their work, which in turn facilitated the generation and implementation of innovative solutions. Participants recognized the importance of diverse perspectives and expertise that shared leadership brought to the decision-making process. They highlighted that shared leadership enabled the utilization of employees' complementary skills, knowledge, and experiences, leading to the generation of new ideas and solutions.

The interviews indicated that shared leadership positively influenced the performance of SMEs. Participants mentioned that shared leadership enhanced motivation and morale. The distribution of leadership responsibilities and decision-making authority increased job satisfaction and instilled a sense of autonomy among employees. This finding supports previous research highlighting the positive impact of knowledge sharing on firm performance.

5. DISCUSSION AND CONCLUSION

5.1 Conclusion

Small and Medium Enterprises in China are navigating a complex, fast-evolving business environment where innovation is key to gaining a competitive edge and driving performance. Innovation demands an allocation of time and resources for exploration outside of regular job functions. SMEs can set aside designated timeframes, such as innovation days or internal competitions, where employees are encouraged to generate and develop new ideas. Such initiatives provide the necessary space for creativity, ensuring that continuous operational demands do not stifle potential breakthroughs (Chiu, 2022; Teng, Hu, & Chang, 2020).

Cross-functional teams play a vital role in the innovation process. Amalgamating individuals with varied expertise and perspectives, these teams break through the barriers of traditional, compartmentalized thinking (Gao et al., 2021). This interdisciplinary approach enriches the idea generation process and fosters a comprehensive view of challenges and solutions, catalyzing the creation of novel products and services.

This chapter provides a comprehensive analysis of the critical factors influencing performance in SMEs, emphasizing the mediating role of innovation. It serves as a valuable source for understanding how shared leadership, knowledge sharing, and motivation can collectively advance performance, thereby benefitting SMEs in Guangzhou, China, and contributing suggestions for further scholarly inquiry in this domain.

5.2 Discussions Of Results

The findings of this research study provide valuable insights into the impact of knowledge sharing on innovation within small and medium-sized enterprises in China. The study confirms the widely acknowledged notion that knowledge sharing plays a crucial role in fostering innovation (Ali, Wang, & Boekhorst, 2021; Ballesteros-Rodríguez et al., 2022). The positive relationship between knowledge sharing and innovation in SMEs is consistent with previous research in this field.

Knowledge sharing in SMEs is crucial for several reasons. Firstly, knowledge is recognized as a valuable resource that can provide SMEs with a competitive advantage. When knowledge is freely shared within the organization, it facilitates the discovery and application of new ideas, enabling SMEs to stay ahead in a fast-changing and competitive business landscape (Afsar & Umrani, 2019). One key advantage of shared leadership in SMEs is its ability to foster a collaborative and inclusive work environment.

By involving multiple individuals in leadership roles, shared leadership promotes the sharing of ideas, knowledge, and expertise among team members (Vasconcellos et al., 2020; Zeeshan et al., 2021). Furthermore, shared leadership allows for a wider range of perspectives and promotes diversity, enabling teams to tackle complex problems from various angles and uncover innovative solutions (Afsar & Umrani, 2019).

In the context of China, where SMEs play a vital role in the economy, understanding the relationship between motivation and innovation becomes even more crucial. Motivated employees are more likely to engage in innovative activities within SMEs. For example, in a study conducted by Wang and Wang (2019) on Chinese SMEs, it was found that employees who had a strong intrinsic motivation exhibited higher levels of creativity and innovation. Recognizing and rewarding employee efforts is essential in enhancing motivation. This can be achieved through performance-based incentives, such as bonuses or promotions, as well as non-monetary rewards, such as public recognition or increased autonomy in decision-making (Mayer et al., 2023; Zeeshan et al., 2021). Innovation has long been recognized as a key driver of organizational performance across various industries and sectors. This discussion aims to explore and analyze the impact of innovation on the performance of SMEs in China. The results of this study confirm the positive relationship between innovation and organizational performance in SMEs. These innovations can lead to increased operational efficiency, enhanced customer satisfaction, and ultimately, improved financial performance for SMEs (Naqshbandi et al., 2023; Zeeshan et al., 2021).

Innovation plays a crucial role in the relationship between knowledge sharing and performance in small and medium-sized enterprises in China. When SMEs encourage knowledge sharing among employees, it creates an environment conducive to innovation (Liu, Lin, & Yu, 2023; Zeeshan et al., 2021). The exchange of ideas and knowledge encourages creativity and problem-solving, leading to the development of new products, processes, and services. Developing and implementing innovative strategies, SMEs can differentiate themselves from competitors, improve productivity, attract customers, and ultimately achieve superior financial performance (Gao et al., 2021; Novitasari et al., 2021).

5.3 Implications and Suggestions

The theoretical implications of this study highlight the importance of nurturing knowledge sharing, shared leadership, and intrinsic motivation within SMEs in China. Integrating insights from self-determination theory, social exchange theory, and intrinsic motivation theory, the study demonstrates how these factors interrelate to enhance performance (Syabarrudin et al., 2020; Teng, Hu, & Chang, 2020). The mediating role of innovation underscores the value of fostering a climate that supports creativity and innovation, as it enhances the positive effects of knowledge sharing, shared leadership, and intrinsic motivation on performance in SMEs.

An external focus is equally important for fostering innovation. SMEs should be adept at scanning the external business environment for emerging trends, customer needs, and new technologies (Afsar & Umrani, 2019). Strategic partnerships with other firms, research institutions, or academic entities can also provide fresh perspectives and resources for innovation (Syabarrudin et al., 2020). The research findings of this study have some important suggestions for SME managers in China. It is important that managers encourage open communication and collaboration among employees. Implement platforms or systems that facilitate easy sharing of ideas, best practices, and lessons learned.

One suggestion for SME managers in Guangzhou is to prioritize fostering a culture of knowledge sharing within their organizations. Encouraging open communication and collaboration among employees can facilitate the exchange of ideas, best practices, and lessons learned. It is important to invest in training and development, which is also paramount for enhancing performance in SMEs. Continuous provision of opportunities for skills enhancement and professional growth can not only improve the capabilities of the workforce but also boost morale and loyalty.

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