



## TRANSFORMATIONAL LEADERSHIP AS A CATALYZER IMPROVING UMKM PERFORMANCE IN KENDARI CITY

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### ABSTRACT

*Effective leadership is one of the key factors in improving the performance of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, especially amidst increasingly tight competition. In Kendari City, many MSMEs still face challenges in implementing innovative leadership styles, especially transformational ones. This study identifies a knowledge gap related to the understanding and application of transformational leadership among MSME leaders. The methodology used in this study is in-depth interviews with MSME owners and managers to explore their experiences and views on transformational leadership. This study's implications indicate that applying transformational leadership can improve MSME performance and create a more innovative work environment.*

**Keywords:** *Transformational Leadership, UMKM Performance, Innovation, Kendari City, Management*

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### INTRODUCTION

Effective leadership in the Micro, Small, and Medium Enterprises (MSMEs) sector in Indonesia is a major concern, given the significant contribution of MSMEs to the national economy. MSMEs not only act as job providers, but also as a driving force for economic growth in various regions. According to data from the Ministry of Cooperatives and SMEs, MSMEs contribute around 60% of Gross Domestic Product (GDP) and absorb more than 97% of the

workforce in Indonesia (Ministry of Cooperatives and SMEs, 2021). With these striking figures, it is clear that the success of MSMEs greatly influences the stability and growth of the national economy. Therefore, attention to the leadership aspect in MSMEs is very important to ensure the sustainability and improvement of the performance of this sector.

Transformational leadership is expected to be a solution to improve the performance of MSMEs, especially in areas facing high competitive challenges, such as Kendari City. Transformational leadership, which focuses on developing vision, motivation, and innovation, can help MSME leaders overcome existing challenges. By implementing this leadership style, leaders are expected to inspire their teams to innovate and adapt to rapid market changes. This is very important, considering that many MSMEs are still trapped in traditional leadership patterns that are less responsive to market dynamics. Therefore, a deeper understanding of transformational leadership is crucial to increasing the competitiveness of MSMEs (Haeruddin & Togala, 2022).

Furthermore, the challenges faced by MSMEs in Kendari include limited resources, both financially and humanly. Many MSME leaders do not fully understand the importance of implementing innovative and adaptive leadership in facing increasingly fierce competition (Soegoto, 2017). Research shows that ineffective leadership can result in low employee motivation and engagement, which in turn has a negative impact on overall organizational performance (Ahluwalia, 2020). In this context, transformational leadership can serve as a tool to empower employees and create a more productive work environment. Thus, it is important to explore how transformational leadership can be implemented effectively in MSMEs in Kendari.

With the increasing attention to the development of MSMEs, it is important for leaders to understand and apply leadership principles that can drive growth and innovation. This study aims to provide deeper insights into how transformational leadership can be implemented in MSMEs, as well as its impact on organizational performance. With a focus on Kendari City, this study is expected to make a significant contribution to the development of policies and best practices in MSME leadership. Through a better understanding of effective leadership, it is hoped that MSMEs can adapt and thrive in the face of existing challenges, so that they can continue to contribute to the national economy.

Although MSMEs in Kendari have great potential to contribute to the local economy, many business actors still face difficulties in implementing innovative and adaptive leadership styles. Research by Sari et al. (2022) shows that a lack of understanding of transformational leadership is one of the factors inhibiting the development of MSMEs in this area. Many MSME leaders are not fully aware of the importance of adopting a leadership approach that can encourage innovation and collaboration among team members. This causes stagnation in organizational development and hinders the ability of MSMEs to compete in an increasingly competitive market (Sunardi et al., 2019). Thus, this phenomenon indicates an urgent need to improve the understanding and leadership skills of MSME leaders.

In addition, many MSME leaders lack the skills needed to motivate and empower their teams. This inability results in low employee engagement, which is a critical factor in achieving optimal organizational performance. Employees who feel unmotivated tend not to make maximum contributions to achieving company goals, resulting in decreased productivity and service quality. Research (Rini, 2021) shows that ineffective leadership can create a negative work environment, where employees feel unappreciated and less involved in the decision-making process. Therefore, it is important to identify and address this problem so that MSMEs in Kendari can maximize their potential and contribute more to the regional economy.

Transformational leadership theory, proposed by Bass (1985), emphasizes the importance of the role of leaders in inspiring and motivating followers to achieve common goals. In the context of MSMEs, leaders are expected not only to manage, but also to be able to create a clear vision and encourage innovation within the organization. This theory is very relevant, considering the challenges faced by MSMEs in Kendari, where leaders need to adapt to rapidly changing market dynamics. Research by Rahman et al. (2021) shows that the application of transformational leadership can increase employee engagement, which in turn contributes to improved organizational performance. Thus, a deep understanding of this theory is important to identify how transformational leadership can be implemented effectively in MSMEs.

Furthermore, it is important to critique the existing phenomena and relate them to relevant theories to understand how transformational leadership can have a positive impact. In many cases, leaders who apply the principles of transformational leadership are able to create a work environment that supports collaboration and innovation. This is in line with the view that effective leadership does not only focus on results, but also on individual and team development. By applying this theory, MSME leaders in Kendari can better understand the importance of building strong relationships with employees, thus creating a positive organizational culture. Therefore, this study seeks to further explore how transformational leadership theory can be adapted and applied in the context of MSMEs in Kendari.

This study has high significance in filling the gap in existing research on the application of transformational leadership in MSMEs, especially in Kendari City. Although many previous studies have discussed leadership in a broader context, there are still few studies that specifically highlight how transformational leadership can be applied in the context of MSMEs in the area. Thus, this study is expected to provide valuable new insights for academics and practitioners in understanding the dynamics of leadership in the MSME sector. In addition, the results of this study can be the basis for further research that explores other aspects of leadership in the context of MSMEs.

Furthermore, this study is relevant to contemporary issues regarding the development of MSMEs in the digital era and global competition. In facing these challenges, MSME leaders need to have adequate skills and knowledge to adapt to rapid changes. By understanding the role of transformational leadership, this study is expected to contribute to policies that support MSME development, including leadership training and managerial capacity development. This study can also be a reference for MSME leaders in implementing more effective leadership strategies to improve their organizational performance. Thus, this study not only provides academic contributions, but also practical ones in supporting the growth and sustainability of MSMEs in Kendari.

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## **RESEARCH METHODS**

The research design used in this study is qualitative descriptive research. This approach was chosen to understand the phenomenon of transformational leadership in the context of MSMEs in Kendari City. By using this design, researchers can dig up in-depth information about the experiences and views of informants. The data obtained are expected to provide a clear picture of the influence of transformational leadership on MSME performance. This study follows the guidelines proposed by Fitriantini, et al. (2019) in implementing qualitative methodology.

The instrument used in this study was a semi-structured interview. This interview was designed to collect data from five informants consisting of owners, managers, employees, business experts, and academics. The questions asked focused on their understanding of transformational leadership and its impact on MSME performance. The data collection process was carried out by recording and noting the informant's answers for further analysis. By using this instrument, researchers can ensure that the data obtained is relevant and accurate.

The research procedure was carried out with systematic steps. First, the selection of informants was carried out based on predetermined criteria, namely the relevance of their experience to the research topic. Furthermore, interviews were conducted directly to obtain more in-depth data. After the interview, the data were analyzed using the technique thematic analysis to identify emerging patterns and themes. This procedure is expected to produce valid and accountable findings in the context of this research.

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## RESULTS AND DISCUSSION

### Research result

This study reveals that transformational leadership has an important role as a catalyst for improving the performance of MSMEs in Kendari City. Through interviews with MSME owners, AS, it was revealed that transformational leadership drives innovation and positive change in organizations. As stated, "Transformational leadership is a leadership style that drives innovation and positive change. In my MSME, I try to inspire the team with a clear vision and give them the freedom to innovate." This shows that leaders who can provide a clear vision can increase employee motivation, which has a direct impact on productivity and service quality.

From the perspective of UMKM managers, BR, transformational leadership is defined as the ability to motivate and empower teams. BR explains, "I define transformational leadership as the ability to motivate and empower teams to achieve common goals (Ariyanti & Sawitri, 2023)." The impact of implementing this leadership is seen in the increased proactivity and creativity of the team. Thus, effective leadership not only improves individual performance but also strengthens collaboration within the team, which is very important in achieving organizational goals.

MSME employee, CT, also felt the positive impact of transformational leadership. CT said, "I feel more motivated and involved in my work. Our leaders always encourage us to come up with new ideas and support us in self-development." This shows that a work environment that supports employee innovation and self-development can increase engagement and job satisfaction. Employees who feel appreciated tend to make greater contributions to organizational performance.

Business expert, DH, emphasized the importance of transformational leadership in the context of MSMEs in Kendari. DH stated, "Transformational leadership is very important for MSMEs in Kendari, especially in facing dynamic market challenges." By implementing adaptive leadership, MSMEs can adapt to market changes and increase their competitiveness. Therefore, support from management and an organizational culture that is open to change are key factors in the success of transformational leadership.

EF academics added that the relevance of this research is very high, considering that many MSMEs are struggling to survive amidst competition. EF explained, "This research is very relevant because many MSMEs are struggling to survive amidst competition.

Transformational leadership can be a solution to increase their competitiveness." Recommendations for MSME leaders in Kendari are to take leadership training and build networks with other leaders to share experiences and best practices. This is expected to strengthen leadership capacity among MSMEs.

The results of the study indicate that transformational leadership plays a significant role in improving the performance of MSMEs in Kendari City. By adopting this leadership style, MSMEs can create an innovative and collaborative work environment, which in turn will increase productivity and competitiveness. This study provides valuable insights for MSME leaders to apply the principles of transformational leadership to improve their business performance.

This study shows that transformational leadership serves as a key driver in improving the performance of MSMEs in Kendari City. Through interviews with MSME owners, AS, it was revealed that inspirational leadership can create an innovative work environment. AS emphasized the importance of a clear vision in motivating the team, which allows employees to feel they have a role in business development. By giving employees the freedom to innovate, leaders can create a greater sense of responsibility among team members. This shows that effective leadership focuses not only on results but also on the process and individual development.

The table below summarizes the US view on the key elements of transformational leadership:

<b>Key Elements</b>	<b>Description</b>
Clear Vision	Leaders must have a vision that can inspire the team.
Freedom to Innovate	Giving employees space to innovate and contribute.
Employee Motivation	Creating an environment that encourages motivation and engagement.
Responsibility	Building a sense of responsibility among team members.

From the perspective of SME managers, BR, transformational leadership is defined as the ability to empower teams to achieve common goals. BR explains that effective communication and emotional support are two important aspects of this leadership. By creating a positive work atmosphere, teams become more proactive and creative in completing tasks. This contributes to improving overall team performance. Researchers note that empowering leadership can reduce stress levels in the workplace, thereby increasing productivity.

MSME employee, CT, provided a different perspective on the impact of transformational leadership. CT felt increased motivation and engagement in work thanks to support from leaders. Leaders who encourage employees to provide new ideas create a greater sense of ownership in the work. This suggests that inclusive leadership can increase employee job satisfaction and loyalty. Researchers note that high employee engagement is directly related to better organizational performance.

Business expert, DH, highlighted the importance of transformational leadership in the context of a dynamic market in Kendari. DH argued that MSMEs that implement this leadership will be better able to adapt to existing changes and challenges. With strong management support and an open organizational culture, MSMEs can develop more effective strategies. The researcher noted that this adaptability is very important for the survival of MSMEs amidst fierce competition. Therefore, transformational leadership is not only beneficial for individuals but also for the sustainability of the business as a whole.

EF academics emphasize the relevance of this study in the context of MSMEs struggling to survive amidst competition. EF states that transformational leadership can be a solution to improve MSME competitiveness. The researchers note that leadership training and networking among leaders can strengthen leadership capacity among MSMEs. These recommendations are important to ensure that MSME leaders have the necessary skills to face the challenges. Thus, this study provides valuable insights for leadership development in the MSME sector.

The results of the study indicate that transformational leadership has a significant impact on the performance of MSMEs in Kendari City. By adopting these leadership principles, MSMEs can create an innovative and collaborative work environment. Researchers noted that increased productivity and competitiveness can be achieved through the implementation of effective leadership. Therefore, MSME leaders need to understand and apply this leadership style to improve their business performance. This study is expected to be a reference for MSME leaders in developing better leadership strategies.

## **Discussion**

The results of this study indicate that transformational leadership can be an effective solution to overcome the challenges faced by MSMEs in Kendari. This finding is in line with previous studies which state that inspirational leadership can increase employee motivation and engagement (Sari et al., 2022). By implementing this leadership style, MSME leaders can create a work environment that supports innovation and collaboration, which in turn can improve organizational performance. This is also supported by leadership theory which states that leaders who can provide a clear vision and support employee development will be more successful in achieving organizational goals (Bass & Riggio, 2006). Therefore, the application of transformational leadership is expected to reduce the gap in understanding and implementing effective leadership among MSME leaders.

Furthermore, the results of this study reveal that transformational leadership not only increases employee motivation but also strengthens collaboration within the team. This finding is in line with research by Fitriantini et al. (2019) which shows that transformational leadership empowering can increase team proactivity and creativity. In the context of MSMEs, where resources are often limited, good collaboration between team members becomes very important to achieve common goals. Researchers note that a work environment that supports employee engagement can reduce stress levels and increase productivity (Hidayat et al., 2020). Thus, the application of transformational leadership can be helping MSMEs to compete better in an increasingly competitive market.

This study also found that resistance to change from employees can be a barrier to adopting transformational leadership. This is in line with the findings of Yusuf et al. (2023) which show that changes in organizational culture are often faced with challenges from employees who are not ready to adapt. However, leaders who apply a transformational approach can overcome this resistance by building effective communication and providing emotional support to employees (Sukmawati et al., 2022). By creating a positive work atmosphere, leaders can help employees feel more comfortable in facing change. Therefore, MSME leaders need to understand these dynamics and implement the right strategies to reduce resistance to change.

A unique finding of this study is that employees who feel valued and heard tend to make greater contributions to organizational performance. This supports the argument put forward by Rahman et al. (2021) that employee engagement is highly influenced by the leadership style

applied. Researchers note that inclusive leadership and support for active participation can increase employee job satisfaction and loyalty (CT, 2025). Thus, the application of transformational leadership is not only beneficial for individuals but also for the sustainability of the business as a whole. This study provides valuable insights for MSME leaders to create a better work environment.

The results of this study indicate that transformational leadership has a significant impact on the performance of MSMEs in Kendari. This finding is in line with previous studies showing that adaptive leadership can improve the competitiveness of MSMEs (DH, 2025). By adopting the principles of transformational leadership, MSMEs can create an innovative and collaborative work environment, which in turn will increase productivity and competitiveness. The researcher noted that it is important for MSME leaders to understand and apply this leadership style to improve their business performance. Therefore, this study is expected to be a reference for MSME leaders in developing better leadership strategies.

This study also shows that transformational leadership can serve as a tool to build an organizational culture that supports innovation. This is in line with EF's (2025) opinion which states that an organizational culture that is open to change is very important for the success of MSMEs. By creating an environment that encourages experimentation and risk-taking, leaders can help employees feel more comfortable in putting forward new ideas. Researchers note that a culture that supports innovation not only increases creativity but also strengthens employee commitment to Organizational goals (Hidayat et al., 2020). Therefore, the application of transformational leadership can be a strategic step in building an organizational culture that is adaptive and responsive to market changes.

On the other hand, the results of this study also indicate that transformational leadership can improve the ability of MSMEs to face external challenges. Research by shows that MSMEs are led by inspiring leaders better able to adapt to rapidly changing market dynamics. By prioritizing open and transparent communication, leaders can build trust among team members, which in turn increases organizational resilience. Researchers note that this resilience is critical to the survival of MSMEs amidst intense competition (DH, 2025). Therefore, transformational leadership focuses not only on improving internal performance but also on strengthening competitive positions in the market. Rahman et al. (2021)

Furthermore, this study found that transformational leadership can contribute to the development of employee skills and competencies. This finding is in line with the arguments put forward by Fitriantini et al. (2019) that a leader who supports Employee self-development can improve the quality of human resources in an organization. By providing opportunities for employees to participate in training and development, leaders can help them reach their maximum potential. Researchers note that the development of these skills is not only beneficial to individuals but also to the organization as a whole, as skilled employees, can contribute more to innovation and operational efficiency (Sari et al., 2022).

Therefore, leadership transformational can be a major driver in human resource development in MSMEs. In addition, the results of this study also show that transformational leadership can improve the relationship between leaders and employees. Research by emphasizes the importance of good relationships between leaders and team members in creating a positive work environment. By building relationships of mutual trust and respect, leaders can create a more harmonious work atmosphere, which in turn increases employee satisfaction and engagement. Researchers note that these good relationships can reduce conflict and increase collaboration among team members, which is essential to achieving organizational

goals. Therefore, transformational leadership focuses not only on results but also on developing healthy interpersonal relationships within the organization. Yusuf et al. (2023).

This study provides valuable insights into how transformational leadership can be implemented in the context of MSMEs in Kendari. The findings suggest that MSME leaders need to adopt a more inclusive and participatory approach to leading their teams. Previous research by Sukmawati et al. (2022) also emphasizes the importance of employee involvement in the decision-making process. By involving employees in the planning and implementation of strategies, leaders can increase a sense of ownership and responsibility among team members. Researchers note that this approach improves organizational performance and creates an environment of more positive and productive work. Therefore, this study is expected to be a guide for MSME leaders in applying transformational leadership principles to achieve sustainable success.

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## CONCLUSION

This study confirms that transformational leadership has a significant role in improving the performance of MSMEs in Kendari City. The findings show that leaders who apply this leadership style can create an innovative work environment, increase employee engagement, and strengthen organizational competitiveness. By prioritizing a clear vision and supporting employee self-development, leaders can encourage teams to contribute optimally. This study also identified that although there are challenges in implementing transformational leadership, the benefits obtained are much greater. Therefore, MSME leaders need to understand and apply the principles of transformational leadership in their management strategies.

The benefits of this research findings can be seen from two perspectives, namely theoretical and practical. Theoretically, this study enriches the literature on transformational leadership in the context of MSMEs, providing new insights into how this leadership style can be adapted to improve organizational performance. These findings offer solutions for MSME leaders to overcome the challenges faced in a competitive business environment. By implementing an inclusive and participatory leadership approach, leaders can create an organizational culture that supports innovation and collaboration. However, this study has limitations, such as the limited focus on MSMEs in Kendari and the relatively small number of respondents. Therefore, future research directions are suggested to explore the application of transformational leadership in various contexts and sectors, as well as involve more respondents to gain a more comprehensive understanding of its impact.

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