

THE INFLUENCE OF TRANSFORMATIONAL LEADERSHIP ON THE PERFORMANCE OF MSME EMPLOYEES IN TANGERANG CITY

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Abstract:

This study aims to analyze the influence of transformational leadership on employee performance in Micro, Small, and Medium Enterprises (MSMEs) in Tangerang City, considering the strategic role of MSMEs in the national economy and the importance of human resource performance in sustaining business operations. The research employed a quantitative approach with a causal associative design, using a survey distributed to 100 MSME employees selected through purposive sampling. Data were collected through structured questionnaires that passed validity and reliability testing and met classical assumption requirements. The findings show that all transformational leadership instrument items were valid and reliable, and the data were normally distributed. The simple regression results indicate that transformational leadership has a positive influence on employee performance, with a regression coefficient of 0.582. The t-test confirms that this influence is statistically significant, while the coefficient of determination reveals that 61.2% of the variation in employee performance is explained by transformational leadership. These results demonstrate that higher levels of transformational leadership lead to improved employee performance, particularly in work quality, productivity, and commitment. Overall, the study concludes that transformational leadership is an essential managerial factor that should be developed within MSMEs to enhance human resource performance and strengthen business competitiveness.

Keywords: Transformational Leadership, Employee Performance, Small and Medium Enterprises (SMEs)

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as the backbone of the Indonesian economy due to their extensive contribution to gross domestic product (GDP), employment creation, and business diversity. At the national level, MSMEs dominate the economic landscape, representing the vast majority of business units operating across various sectors and regions. As of recent official reports, Indonesia had approximately 65.5 million MSMEs, accounting for more than 60% of GDP and absorbing around 97% of the workforce.

The extensive presence and impact of MSMEs indicate their strategic role in economic resilience, poverty reduction, and community empowerment. Despite these achievements, many MSMEs continue to face challenges, including limited access to capital, market networks, digital competitiveness, and human resource capabilities. These challenges become even more critical when viewed through the lens of employee performance, a core determinant of productivity, service quality, and organizational sustainability.

Transformational leadership is recognized as one of the leadership styles that greatly influences employee behavior and performance. According to Northouse (2025), emphasizes that



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transformational leadership fosters creativity, builds confidence, and motivates followers to achieve higher targets. These findings reinforce the relevance of transformational leadership within MSMEs, where interpersonal influence is strong and structural formality is limited. According to Sutrisno (2016), employee performance refers to the work outcomes observed through aspects of quality, quantity, timeliness, and cooperation in order to achieve organizational goals.

Studies focusing on leadership and performance, however, have predominantly been carried out in larger organizations or formal institutional settings. There remains a scarcity of empirical research investigating how transformational leadership influences employee performance in the unique context of MSMEs, which typically exhibit informal structures, resource constraints, flexible work processes, and close interpersonal interactions within the workplace.

To contextualize the critical role of MSMEs in Indonesia, the following table presents key national-level data on MSME contribution to the economy:

Table 1. Key MSME Economic Indicators in Indonesia

Indicator	Value	Source
Total number of MSMEs in Indonesia	65.5 million businesses	ANTARA News (2025)
Contribution to GDP (%)	61% of national GDP	ANTARA News (2025)
Employment absorption	119 million workers (97% of the workforce)	ANTARA News (2025)

Despite the large body of data on MSME economic contribution, regional-level studies analyzing internal organizational dynamics, such as leadership influence on employee performance, are limited. MSMEs in regions like Tangerang City, which experiences rapid industrial and urban economic growth, present a valuable context for examining how leadership styles such as transformational leadership impact employee outcomes, considering unique local challenges and managerial practices.

Based on this background, the research question for this study is formulated as follows:

- Does transformational leadership influence the performance of MSME employees in Tangerang City?
- To analyze the influence of transformational leadership on the performance of MSME employees in Tangerang City.

Hypothesis. According to Sugiyono (2022:63), a hypothesis is a temporary answer to a research problem formulated in the form of a question. It is considered temporary because the answer provided is based only on relevant theory and not yet on empirical facts obtained through data collection.



Figure 1. Hypotesis

The following hypotheses are proposed based on the theoretical framework described: Transformational leadership influences employee performance of MSME employees in Tangerang City.

METHODS



Research Design. This study uses a causal associative research design, which aims to determine the relationship between two variables and examine how transformational leadership influences employee performance within MSMEs. The approach in this research is quantitative because the data obtained are numerical and analyzed statistically. The variables used in this research include Transformational Leadership (X) and Employee Performance (Y).

Research Variables and Operational Variables. This study involves two variables: Transformational Leadership as the independent variable (X), and Employee Performance as the dependent variable (Y). According to Sugiyono (2022), an operational variable is an attribute, characteristic, or value of an object or activity that has certain variations determined by the researcher to be observed and measured. In this study, the operational definitions are as follows:

- a. Transformational Leadership (X) emphasizes that transformational leadership fosters creativity, builds confidence, and motivates followers to achieve higher targets (Northouse, 2025).
- b. Employee Performance (Y) represents the achievement of work outcomes based on quality, quantity, timeliness, initiative, and collaboration shown by employees in carrying out their roles and responsibilities within MSME operations (Sutrisno, 2016).

Population and Sample. The population in this study consisted of employees working in Micro, Small, and Medium Enterprises (MSMEs) located in Tangerang City. The sample for this study involved 100 MSME employees selected through purposive sampling, with the criteria that participants must have worked at least 6 months in the MSME where they are currently employed.

Data Collection Method. The data sources in this research are primary and secondary data. Primary data were collected directly from respondents using structured questionnaires distributed to MSME employees in Tangerang City. Secondary data were obtained from books, journal articles, institutional reports, and previous research relevant to transformational leadership and employee performance.

Analysis Techniques. Data analysis techniques used in this study include descriptive statistical analysis, classical assumption testing, correlation testing, coefficient of determination (R^2), regression analysis, and hypothesis testing to determine the significance of the influence of transformational leadership on employee performance among MSMEs.

RESULT AND DISCUSSION

This study uses Transformational Leadership as the independent variable (X), while the dependent variable is Employee Performance (Y).

Validity Test Results. To determine validity, the r calculated value for each item was compared to the r table value at a significance level of 5%, which is 0.1966. Based on the results of the analysis, it can be seen that all item scores for the Transformational Leadership (X) variable show r calculated $>$ r table, meaning that every statement is valid and can be retained for subsequent hypothesis testing.

Table 2. Validity Test Results

Instrument	$R_{\text{calculated}}$	R_{table}	Description
Item 1	0,634	0,1966	Valid
Item 2	0,702	0,1966	Valid
Item 3	0,751	0,1966	Valid
Item 4	0,683	0,1966	Valid
Item 5	0,711	0,1966	Valid
Item 6	0,669	0,1966	Valid
Item 7	0,742	0,1966	Valid





Item 8	0,578	0,1966	Valid
Item 9	0,645	0,1966	Valid
Item 10	0,693	0,1966	Valid

Reliability Test. Based on the results of the reliability test above, it is known that N of items (the number of questionnaire statements) for the Transformational Leadership (X) variable is 10 items with a Cronbach’s Alpha value of 0.861. This value is higher than the minimum acceptable Cronbach’s Alpha coefficient of 0.70. Therefore, the instrument used to measure the Transformational Leadership variable is classified as reliable, meaning that the statements consistently measure the intended concept and can be used for further analysis.

Table 3. Reliability Test Results

Cronbach's Alpha	N of Items
,861	10

Classical Assumption Test, Normality Test. Based on the results of the normality test above using the One Sample Kolmogorov–Smirnov method, the Asymp. Sig (2-tailed) value obtained was 0.200, which is greater than 0.05 (Sig > 0.05). Therefore, the research data are normally distributed, indicating that the variables used in this study are. Transformational Leadership and Employee Performance meet the assumption of normality and are suitable for parametric statistical testing.

Table 4. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		100
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	4.3818320
	Absolute	,054
Differences	Positive	,049
	Negative	-,054
Kolmogorov-Smirnov Z		,054
Asymp. Sig.(2-tailed)		,200 ^{c,d}

a. Test distribution is Normal

Simple Regression Test. Based on the results of the simple regression test above, it can be concluded that:

- The constant value in the unstandardized coefficients table is 21.412. This number represents the condition when the independent variable, Transformational Leadership (X), is zero (0). It means that even if Transformational Leadership is assumed to have no influence, the Employee Performance (Y) value will remain at 21.412.
- The regression coefficient for Transformational Leadership (X) is 0.582. It indicates that for every increase of one unit in Transformational Leadership, Employee Performance (Y) will increase by 0.582.

Because the regression coefficient is positive, it can be concluded that Transformational Leadership (X) exerts a positive effect on Employee Performance (Y). Thus, the regression equation for this study is: $Y = 21.412 + 0.582 X$.





Table 5. Simple Regression Test

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
1 (Constant)	21,412	4,221		5,073	,000
TL	,582	,109	,612	5,356	,000

a. Dependent Variable: Employed Performance

T-test. Based on the results of the t-test above, the t-count value obtained is 5.356, which is then compared with the t-table value. The t-table is determined by using $df = n - k - 1 = 100 - 2 - 1 = 97$, resulting in a critical value of 1.984. Since $t\text{-count} > t\text{-table}$ ($5.356 > 1.984$), it can be concluded that H_0 is rejected and H_a is accepted.

Table 6. T-test

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
1 (Constant)	21,412	4,221		5,073	,000
TL	,582	,109	,612	5,356	,000

b. Dependent Variable: Employed Performance

Determination Test. Based on the results in the table above, it shows that the coefficient of determination (R-squared) in this study is 0.612 or 61.2%, which means that the Transformational Leadership variable influences the Employee Performance variable by 61.2%. Meanwhile, the remaining 0.388 or 38.8% is influenced by other variables not examined in this study, such as work motivation, work environment, employee discipline, salary, or organizational culture.

Table 7. Determination Test

Model Summary				
Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate
1	,612 ^a	,375	,369	5,028

a. predictors: (Constant), Transformational Leadership

b. Dependent Variable: Employee Performance

CONCLUSION

This study was conducted to determine the influence of Transformational Leadership on the performance of MSME employees in Tangerang City. Based on the results of the data analysis, it can be concluded that Transformational Leadership has a positive and significant impact on employee performance. The findings show that employees who work under leaders with transformational characteristics, such as the ability to inspire, motivate, provide vision, and offer individual consideration, demonstrate higher levels of productivity, commitment, and work quality.

The simple regression results prove that improvements in Transformational Leadership contribute directly to increases in employee performance, as indicated by a positive regression coefficient. The t-test further confirms that the effect is statistically significant, meaning that



Transformational Leadership partially influences performance. Additionally, the coefficient of determination reveals that the leadership variable explains a considerable portion of employee performance variation, while other internal and external factors beyond the scope of this study influence the remaining percentage.

Overall, these results highlight the importance of transformational leadership practices in MSMEs. Owners and managers are encouraged to apply leadership styles that inspire employees, provide motivation, encourage creativity, and build strong interpersonal relationships to strengthen human resource performance and support business sustainability and competitiveness in Tangerang City.

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