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Reconstruction of Transformational Leadership as a Strategy for Strengthening Employee Engagement to Improve MSME Performance

Moh. Ali Makki[1]*, Jefry As Syahidi[2], Muh Abid Rofiqurrahman[3], Imam Rohman[4], Muhammad Alkirom Wildan[5]

Prodi Manajemen, Fakultas Ekonomi Dan Bisnis, Univeritas Trunojoyo Madura, Indonesia
Email Korespondensi: alymakki9@gmail.com

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Abstract

Purpose: This study reconstructs transformational leadership as a strategic approach to strengthening employee engagement and improving the performance of Micro, Small, and Medium Enterprises (MSMEs). It addresses a theoretical gap by examining how transformational leadership should adapt to contemporary MSME environments characterized by uncertainty, digital transformation, and intensified competition.

Design/Methodology/Approach: A Systematic Literature Review (SLR) was conducted following the PRISMA 2020 guidelines. Relevant studies were retrieved from the Dimensions.ai database using predefined Boolean search strategies. After screening based on PICOS criteria, seven peer-reviewed articles published between 2024 and 2026 were selected. Data were analyzed using thematic synthesis and deductive content analysis.

Findings: The review indicates that transformational leadership positively affects organizational outcomes, including business growth, service performance, and sustainability, while its direct impact on individual employee performance is often insignificant. Employee engagement emerges as the primary mediating mechanism linking transformational leadership to organizational performance. The findings further suggest that contemporary MSMEs require leadership capabilities beyond traditional transformational dimensions, including organizational agility, digital responsiveness, psychological safety, adaptive decision-making, and employee empowerment. Accordingly, this study proposes a reconstructed transformational leadership framework integrating classical leadership principles with these contemporary capabilities.

Practical Implications: The proposed framework provides guidance for MSME leaders in strengthening employee engagement and organizational performance through adaptive leadership, strategic human resource management, psychological empowerment, and organizational flexibility.

Originality/Value: This study offers a reconstructed transformational leadership framework tailored to contemporary MSMEs, contributing a novel theoretical perspective for enhancing employee engagement and sustainable organizational performance.

Keywords: Transformational Leadership; Employee Engagement; MSMEs; Organizational Performance; Leadership Reconstruction; Systematic Literature Review.

INTRODUCTION

Recent literature has consistently demonstrated the strategic importance of transformational leadership in fostering employee engagement and organizational performance. Employee engagement is increasingly recognized as a critical organizational asset because engaged employees tend to demonstrate higher levels of commitment, productivity, innovation, and organizational citizenship behavior (Macey & Schneider, 2019). Likewise, contemporary human resource management perspectives emphasize that organizational competitiveness is determined not only by tangible resources but also by the organization's ability to develop, motivate, and retain talented employees through effective leadership practices (Parry & Tyson, 2021). In this regard, transformational leadership has emerged as one of the most widely discussed leadership approaches due to its capacity to inspire employees, promote shared organizational values, and encourage individual development.

Several empirical studies have confirmed the positive relationship between transformational leadership and employee engagement. (Collings, Millahi, & Cascio, 2019) argue that organizational performance is strongly influenced by leadership practices that effectively manage human capital and encourage employee involvement in achieving organizational objectives. Similarly, research conducted by (Faradiva & Suratman, 2024) indicates that employee engagement plays a significant mediating role in the relationship between transformational leadership and employee performance. Employees who perceive their leaders as inspirational, supportive, and development-oriented tend to demonstrate stronger emotional attachment to their organizations and higher levels of work engagement. Furthermore, (Pratama, Nurhayati, & Suryanto, 2024) found that transformational leadership contributes significantly to proactive service performance through the development of employee engagement and organizational initiative climate. These findings suggest that transformational leadership remains an important determinant of employee attitudes and organizational effectiveness.

Despite the growing number of studies supporting transformational leadership, the existing literature reveals several important limitations. First, the majority of previous studies have primarily focused on testing the direct influence of transformational leadership on employee engagement, employee performance, organizational commitment, or innovative behavior. Consequently, transformational leadership is generally treated as a stable and universally applicable construct whose dimensions are assumed to remain relevant across different organizational contexts. Most studies continue to rely on the classical transformational leadership framework developed by Bass, which emphasizes idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. While these dimensions have been extensively validated, there is limited discussion regarding whether the traditional model remains sufficient to address contemporary organizational challenges faced by MSMEs operating in highly dynamic and uncertain business environments.

This limitation becomes increasingly significant when viewed from the perspective of organizational adaptation. (Cappelli, 2019) argues that modern organizations operate under conditions characterized by uncertainty, rapid technological change, and shifting workforce expectations. Under such conditions, leadership effectiveness cannot rely solely on inspirational influence but must also encompass adaptability, responsiveness, and the ability to manage talent strategically. However, existing studies on transformational leadership rarely examine how leadership practices should evolve in response to digital transformation, changing employee expectations, and increasing market volatility. Consequently, the literature remains largely focused on validating existing leadership models rather than reconstructing them to meet emerging organizational realities.

A second limitation concerns the organizational context within which transformational leadership has been studied. Most empirical investigations have been conducted in large corporations, multinational enterprises, government institutions, and formal organizational settings. As a result, the applicability of these findings to MSMEs remains uncertain. MSMEs differ substantially from large organizations in terms of organizational structure, resource availability, managerial systems, and employee relationships. Unlike large corporations characterized by formal hierarchies and standardized procedures, MSMEs tend to operate through informal communication, flexible structures, and close interpersonal interactions between owners and employees. These distinctive characteristics suggest that leadership effectiveness in MSMEs may depend on additional dimensions that extend beyond traditional transformational leadership constructs.

Moreover, contemporary studies increasingly highlight the emergence of new leadership requirements that are not fully captured by conventional transformational leadership theory. Research by (Faradiva & Suratman, 2024) demonstrates that digital leadership competencies significantly influence employee motivation and organizational performance. Similarly, (Pratama, Nurhayati, & Suryanto, 2024) found that psychological safety and technological competencies have become important factors affecting employee effectiveness in modern organizations. In addition, (Zaid & Yaqub, 2024) emphasize that transformational leadership in contemporary organizations must be capable of encouraging adaptability, resilience, and sustainable employee behavior in response to environmental uncertainty. These findings indicate that leadership effectiveness is no longer determined solely by a leader's ability to inspire employees but also by the capacity to create adaptive organizational systems, facilitate technological readiness, and maintain employee trust in changing environments.

Another important gap concerns the conceptualization of employee engagement itself. Existing studies generally position employee engagement as an outcome variable influenced by transformational leadership. Although this relationship has been consistently supported empirically, such an approach tends to oversimplify the complexity of

engagement in MSMEs. According to (Macey & Schneider, 2019), employee engagement is a multidimensional construct shaped by psychological, organizational, and managerial factors simultaneously. Likewise, (Parry & Tyson, 2021) argue that contemporary employees increasingly value autonomy, flexibility, meaningful work experiences, and opportunities for personal development. These developments suggest that employee engagement within MSMEs cannot be adequately explained solely through traditional leadership dimensions without considering broader contextual factors.

From a theoretical perspective, the existing literature demonstrates a significant imbalance between theory validation and theory development. Numerous studies have confirmed that transformational leadership positively influences employee engagement and organizational performance, yet relatively few studies have attempted to reconsider whether the conceptual foundations of transformational leadership remain adequate for contemporary MSMEs. In other words, previous research has largely addressed the question of whether transformational leadership works, but has paid insufficient attention to how transformational leadership should evolve in response to changes in organizational structures, workforce characteristics, and business environments. This theoretical limitation indicates the need for a conceptual reconstruction capable of integrating transformational leadership with emerging dimensions such as organizational agility, employee empowerment, digital responsiveness, psychological safety, and adaptive leadership.

Therefore, this study seeks to address the identified theoretical gap by proposing a reconstruction of transformational leadership within the MSME context. Unlike previous studies that primarily focus on examining causal relationships among variables, this study aims to reinterpret transformational leadership from a contemporary perspective that reflects current organizational realities. The novelty of this research lies in its effort to develop a conceptual framework that integrates the classical dimensions of transformational leadership with adaptive and human-centered leadership capabilities required in modern MSMEs. Through this reconstruction, transformational leadership is expected to become a more relevant mechanism for strengthening employee engagement and enhancing sustainable MSME performance amid increasing uncertainty, digital transformation, and competitive pressures.

METHOD

This research was carried out using the Systematic Literature Review (SLR) design to identify, critically evaluate, and synthesize all relevant empirical and conceptual evidence regarding the reconstruction of transformational leadership in strengthening employee engagement and performance of MSMEs (Petticrew & Roberts, 2006). In order to ensure transparency, accountability, and fulfillment of strict replication aspects as expected in systematic reviews, this research protocol was prepared by adopting the international standard guidelines PRISMA (Preferred

Reporting Items for Systematic Reviews and Meta-Analyses) (Page, et al., 2021).

1. Keyword Search Strategies

Article search is carried out systematically by compiling keyword formulas based on Boolean operators (AND, OR). This keyword formula is specifically designed to map the causal relationship between transformational leadership, employee engagement, and performance in small and medium sized business clusters. The exact formula applied in the literature search process is as follows: ("transformational leadership") AND ("employee engagement") AND ("micro, small and medium enterprises" OR MSMEs OR SMEs) AND (performance OR "organizational performance").

2. Database Selection

The literature search process is carried out electronically on the global academic database Dimensions.ai. The selection of Dimensions.ai is based on its broad and inclusive coverage of reputable international journals and its ability to minimize biased publications. The search strategy is strictly applied to the Title and Abstract elements of the document to ensure that the affected article actually places these variables as the main focus of the research, not just a complementary discussion in the text.

3. Inclusion and Exclusion Criteria

To ensure that the evaluated articles have high relevance and a valid methodology, eligibility criteria are set using the PICOS (Population, Intervention, Comparison, Outcome, and Study Design) format approach as follows:

Table 1. Kriteria Inklusi dan Eksklusi

Parameter	**Inclusion Criteria**	**Exclusion Criteria**
Context & Populatio	Micro, Small, and Medium Enterprises (MSMEs / MSMEs / SMEs) in various industrial sectors	Large scale companies, multinational corporations, or non-business public sector organizations
Relationship Focu	Examining the interactions between transformational leadership, employee engagement, and employee/organizational performance	Only discussing one variable in isolation without linking it to MSME performance
Document Typ	Original scientific journal articles that have gone through a peer-reviewed process	Books, book chapters, theses, dissertations, conference proceedings
Language	Articles published in English or Indonesian	Articles outside English and Indonesian

4. Study Selection Protocol and Screening Flow

The document selection process is carried out through systematic stages that refer to the PRISMA flow diagram:

a. **Identification:** An initial search of the Dimensions.ai database using the Boolean search string formula defined in the title and abstract sections yielded 15 potential article titles.
b. **Screening:** The 15 articles were manually evaluated by reading their abstracts to ensure their suitability to the scope of operational management and organizational behavior in MSMEs.
c. **Eligibility:** The full text of articles that passed the initial screening was downloaded for in-depth suitability testing based on the established inclusion and exclusion criteria table.
d. **Inclusion:** After going through a strict eligibility screening process, 7 of the most relevant papers were declared to have passed and were adopted as the basis for primary data analyzed in the results and discussion chapters of this research.

5. Data Extraction and Quality Assessment

Data from 7 eligible articles were extracted in a structured manner into a spreadsheet matrix. The extracted data components include: (a) Article Identity (Author, Publication Year, Journal Name); (b) Contextual Characteristics (Country, Location, MSME Industry Sector); (c) Methodology (Sample Size, Research Design, Data Analysis Tools); and (d) Main Findings (Path Coefficient Value β, Correlation Value R, Determination Value R^2, Mediation Effect, and Significance p-value). Quality assessment was conducted to ensure that all quantitative articles had adequate instrument validity (SEM-PLS/Regression) and conceptual articles had strong theoretical triangulation.

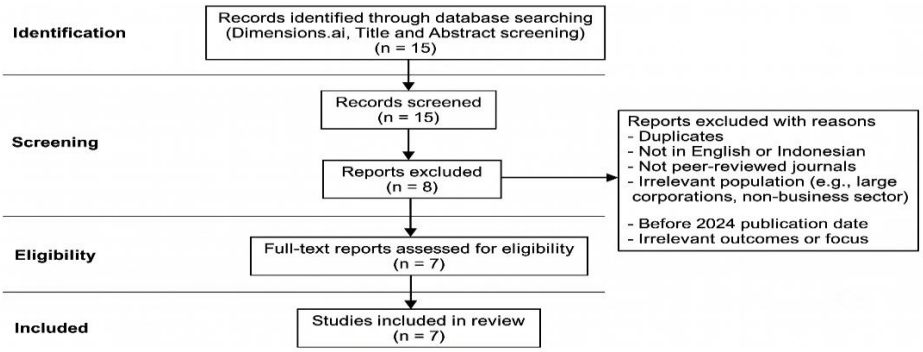
6. Data Analysis and Synthesis Protocol

Given the heterogeneity in the research designs of the seven selected papers (a combination of empirical quantitative studies and conceptual reviews), the analysis did not utilize statistical meta-analysis techniques. Instead, this study employed the Thematic Synthesis methodology and a deductive Content Analysis approach (Clarke, 2006). The analysis protocol followed three main phases:

a. **Data Familiarization:** In-depth rereading of the entire text of the seven selected articles to understand the essence of each study's operational findings.
b. **Influence Codification:** Grouping the findings into two major themes: (1) the cluster of direct influences of transformational leadership on macro business growth and proactive/sustainability performance, and (2) the cluster of insignificant direct influences on individual daily performance, along with a visualization of the role of employee engagement and motivation as mediating variables.
c. **Theoretical Integration:** Connecting these themes with key organizational management theories (Contingency Theory, Path-Goal Theory, Resource-Based View, Social Learning, and Social Exchange

Theory) to construct a comprehensive employee engagement strengthening strategy to boost MSME performance.

Figure 1 Source Selection Flow



RESULTS AND DISCUSSION

RESEARCH RESULT

A systematic literature review process yielded seven primary scientific articles that met the inclusion criteria. This section presents empirical data and factual findings extracted from these articles, grouped based on methodological characteristics, findings on the direct influence of leadership, and the role of psychological and operational mediating variables on employees in the context of Micro, Small, and Medium Enterprises (MSMEs).

1. Methodological and Contextual Characteristics of the Study

The seven studies evaluated were published between 2024 and 2026. Geographically, the distribution of locations covers heterogeneous developing regions, namely Indonesia (Sumedang, Balikpapan, Semarang, and national scale), Nigeria (Kaduna State), Zambia, and Saudi Arabia (Ainosa & Hussain, 2025), (Bature & Ibrahim, 2025), (Molongo & Kawimbe, 2024), (Nafizah & Mansyur, 2026), (Erwina, Anggoro, & Hamid, 2024), (Pratama, et al., 2024), (Wolor, Hadi, Harwanto, Ayatulloh Michael Musyaffi, & Rabbah, 2025).

From a methodological perspective, 5 articles applied a causal quantitative approach using structured questionnaires with sample sizes ranging from 106 to 212 respondents (Bature & Ibrahim, 2025), (Nafizah & Mansyur, 2026), (Erwina, Anggoro, & Hamid, 2024), (Pratama, et al., 2024), (Wolor, Hadi, Harwanto, Ayatulloh Michael Musyaffi, & Rabbah, 2025).

The dominant data analysis tools used are Structural Equation Modeling-Partial Least Squares (SEM-PLS) and SPSS-based Multiple Linear Regression (Bature & Ibrahim, 2025), (Nafizah & Mansyur, 2026), (Erwina, Anggoro, & Hamid, 2024), (Pratama, et al., 2024), (Wolor, Hadi, Harwanto, Ayatulloh Michael Musyaffi, & Rabbah, 2025). Meanwhile, the

other 2 studies adopted a theoretical-conceptual review approach and a case-based thematic review. (Ainosa & Hussain, 2025), (Molongo & Kawimbe, 2024). The industrial sectors studied include the food/culinary sector, the creative handicraft industry, the service sector, environmentally-based MSMEs, and blue-collar workers.

2. Direct Influence of Leadership Style on Organizational and Employee Performance

Data extraction revealed a clear dichotomous pattern (differences in results) regarding the direct influence of transformational leadership on performance indicators. At the macro-level of organization and proactive performance, transformational leadership recorded a positive and significant direct influence:

a. Business Growth: In Nigeria, transformational leadership style is strongly correlated with entrepreneurial performance and business growth of MSMEs, with a correlation coefficient value of R = 0.675 and a coefficient of determination value of R^2 = 0.455 (Bature & Ibrahim, 2025). This figure shows that transformational leadership is directly able to explain 45.5% of the variation in business growth.

b. Proactive Service Performance: A study in the service sector in Balikpapan documented that transformational leadership directly increased employees' capacity to provide proactive service. (Pratama, et al., 2024).

c. Organizational Sustainability Performance: (Wolor, Hadi, Harwanto, Ayatulloh Michael Musyaffi, & Rabbah, 2025) found that Environmentally Based Transformational Leadership has a direct, positive, and significant influence on Organizational Sustainability Performance in green MSMEs in Indonesia with a path coefficient value of β = 0.246 and a significance value of p = 0.001.

In contrast, at the micro level or the daily task performance of individual employees, empirical evidence has been found that transformational leadership does not have a significant direct influence:

a. Jatinangor Culinary Sector: (Erwina, Anggoro, & Hamid, 2024) melaporkan bahwa pengaruh langsung gaya kepemimpinan transformasional terhadap kinerja karyawan menunjukkan nilai koefisien jalur yang sangat rendah dan tidak signifikan, yaitu β = 0,008 dengan nilai β = 0,927.

b. Semarang Creative Industry Sector: The results of linear regression in the "Maen Kain" craftsman industry confirm that transformational leadership does not have a direct significant effect on employee performance with a value of β = -0.056$ and a significance level of β 0.05 (Nafizah & Mansyur, 2026).

c. Business Failure Perspective: (Molongo & Kawimbe, 2024) conceptually explains that the incompatibility of the application of traditional leadership styles is one of the main triggers for the high rate of operational failure of MSMEs in Zambia, where data records a failure rate of up to 20%.

3. Peran Variabel Mediasi Psikologis, Keperilakuan, dan Sistem SDM

Due to the weak direct relationship in some micro contexts, literature data identifies several mediating pathways and internal employee factors that drive significant performance improvements.

a. Employee engagement was found to be an absolute mediator variable. (Erwina, Anggoro, & Hamid, 2024) proved that transformational leadership significantly influences employee engagement (β = 0.231, p = 0.005$). Furthermore, this employee engagement has a very dominant and positive influence on employee performance with a coefficient of β = 0.706$ and a value of p = 0.000. A similar pattern was found by (Pratama, et al., 2024), where the combination of employee engagement and a climate of initiative acts as an essential dual mediation channel in transforming leadership directives into proactive service actions in the field.
b. In industries based on handicrafts and creativity, individual motivation is the main determining factor in workers' direct performance. (Nafizah & Mansyur, 2026) noted that when transformational leadership was not directly effective, craftsmen's performance was significantly driven by intrinsic motivation (β = 0.240, p = 0.01$) and extrinsic motivation ($\beta = 0.274, p < 0.05$). Based on the average score data, extrinsic motivation indicators (such as the need for a stable salary and job security) obtained the highest perception from employees with a score of 4.46 on a scale of 5.
c. In a specific study on business sustainability, environmental leadership (ETL) was shown to be effective in encouraging Green Behavior in the Workplace with a value of β = 0.220$ and p = 0.005$ (Wolor, Hadi, Harwanto, Ayatulloh Michael Musyaffi, & Rabbah, 2025). However, ETL was not recorded as being able to directly influence Environmental Organizational Citizenship Behavior (EOCB) (β = 0.022, p = 0.789). However, the data showed that employee voluntary contributions through EOCB had a greater impact on organizational sustainability performance (EOCB) (β = 0.308, p = 0.000) compared to routine green behavior/GBW (β = 0.196, p = 0.003).
d. D. Through case-based analysis in Saudi Arabia, it was found that the implementation of Strategic Human Resource Management (SHRM) practices integrated with transformational leadership was able to form a performance-based work culture (Ainosa & Hussain, 2025). Secondary data from the study shows that structured SHRM interventions are crucial in reducing the blue-collar workforce turnover rate in the MSME sector, which historically can reach extreme figures of 40%.

DISCUSSION

1. Deconstructing the Paradox of Transformational Leadership in the MSME Sector

The findings extracted from this systematic review raise a fundamental theoretical paradox regarding the effectiveness of transformational leadership in the MSME sector. On the one hand, this leadership style has been shown to be a strong predictor of macro business growth (R^2 = 0.455$) in Nigeria (Bature & Ibrahim, 2025), improving

proactive service performance in Balikpapan (Pratama et al., 2024), and drive organizational sustainability performance (β = 0.246$) in Indonesia (Wolor, Hadi, Harwanto, Ayatulloh Michael Musyaffi, & Rabbah, 2025). However, on the other hand, transformational leadership failed to show a significant direct influence on individual employee task performance in the culinary industry in Jatinangor (β = 0.008$), (Erwina, Anggoro, & Hamid, 2024) and creative industries in Semarang (β = -0.056$) (Nafizah & Mansyur, 2026).

To unravel these boundaries of influence, Contingency Theory provides a relevant conceptual framework. This theory states that no single leadership style is optimal for all situations; its effectiveness is conditioned by the structural features and internal environment of the organization. The MSME sector, particularly micro and small businesses such as local food stalls or textile factories, operates in an informal ecosystem with a very flat hierarchy, flexible division of labor, and a strong family climate (Erwina, Anggoro, & Hamid, 2024).

In labor-intensive environments where daily activities are repetitive and rely on direct motor skills (such as cooking or sewing), the grand vision, charisma, or intellectual stimulation offered by a transformational leader will not necessarily increase workers' speed or technical accuracy (Nafizah & Mansyur, 2026), (Erwina, Anggoro, & Hamid, 2024). In contrast to large-scale corporations, where transformational leadership can influence performance through formal policies and systemic restructuring, in micro-enterprises, this influence is hampered by the bias of personal proximity. The leader's long-term vision is often perceived as abstract by operational workers if it is not translated into tangible improvements in working conditions. Conversely, at the macro level, such as business growth (Bature & Ibrahim, 2025). Transformational leadership works directly because the leader's primary function shifts towards strategic decision-making, mapping market opportunities, and articulating the vision to external stakeholders, rather than on the daily mechanical supervision of staff.

2. Psychological and Behavioral Mediation Pathways: Unraveling Internal Mechanisms

Lemahnya hubungan langsung antara kepemimpinan transformasional dan kinerja mikro menegaskan bahwa gaya kepemimpinan ini tidak bekerja dalam ruang hampa, melainkan bertindak sebagai *antecedent* yang membutuhkan saluran transmisi psikologis. Bukti empiris dari (Erwina, Anggoro, & Hamid, 2024) menunjukkan bahwa keterikatan karyawan bertindak sebagai mediator penuh yang menggerakkan performa staf secara masif (β = 0,706$). This phenomenon can be validated using Path-Goal Theory, which proposes that the primary function of a leader is to design a work environment that facilitates employee goal achievement by reducing psychological barriers and increasing personal satisfaction.

Through a transformational approach, MSME leaders build a climate of initiative that provides a sense of psychological safety for staff (Pratama, et al., 2024). When employees feel individually valued, their

mental and emotional attachment to the organization strengthens. This attachment fuels employees' discretionary energy to demonstrate proactive service performance that exceeds established minimum standards (Pratama, et al., 2024). Based on the Resource-Based View (RBV), highly embedded human capital and a work climate that supports initiatives are internal capabilities that are rare, valuable, and difficult for competitors to imitate, which in turn become the foundation of competitive advantage for small businesses in facing market pressures.

However, the effectiveness of this psychological construct faces critical limits when faced with the economic realities of MSME workers. Findings (Nafizah & Mansyur, 2026) revealed that the performance of creative industry craftsmen was predominantly controlled by extrinsic motivation (β = 0.274$) with the highest average perception score on stable salary fulfillment and job security (4.46 on a scale of 5).

This fact indicates the validity of the hierarchy of needs theory in the MSME ecosystem in developing countries. Before a leader can inspire employees to achieve self-actualization or the organization's transcendental goals, their basic material needs (physiological and safety) must first be met. If financial compensation falls below a reasonable threshold, the emotional stimulation of transformational leaders will lose its effectiveness. Therefore, integrating the fulfillment of basic extrinsic motivation and strengthening intrinsic motivation through supportive leadership is essential for optimizing the productivity of creative industry workers.

3. Green Leadership and Voluntary Behavior: The Limits of Role Modeling Influence

The dimensions of expanding transformational leadership into the environmental realm, as researched by (Wolor, Hadi, Harwanto, Ayatulloh Michael Musyaffi, & Rabbah, 2025), provides an important contribution to green management theory. The finding that Environmentally Based Transformational Leadership (ETL) has a significant effect on Green Behavior at Work (GBW) (β = 0.220$), but has no direct effect on Environmental Organizational Citizenship Behavior (EOCB) (β = 0.022$), can be explained through a synthesis of Social Learning Theory and Social Exchange Theory.

Based on Social Learning Theory, employees adopt routine environmentally friendly behaviors (GBW) such as paper efficiency or energy savings due to direct behavioral modeling from leaders who consistently demonstrate ecological commitment in the organization's daily activities. These behaviors are generally tied to operational work instructions or a visible formal work culture. In contrast, EOCB is a voluntary act that falls outside of formal job descriptions and is not linked to the company's formal reward system. Referring to Social Exchange Theory, extra-role behaviors such as EOCB require a deep norm of reciprocity between employees and the organization. Employees will be less willing to invest their time and energy voluntarily in environmental initiatives if they perceive organizational inequity or economic uncertainty. Because ETL focuses on an external ecological vision, this leadership style does not

automatically build the psychological contract necessary to trigger EOCB. However, when EOCB is successfully cultivated through other internal mechanisms, its impact on organizational sustainability performance is significantly higher (β = 0.308) than routine GBW behaviors (β = 0.196), indicating that green innovation in MSMEs relies heavily on employee voluntary initiatives.

4. Managerial and Systemic Implications for the Sustainability of MSMEs

Collectively, the findings from this systematic literature review call for a paradigm shift for MSME management from the traditional autocratic leadership model that is prone to triggering operational failures (Molongo & Kawimbe, 2024). Toward a more integrative model The limited financial capital that is a key characteristic of MSMEs must be compensated for with superior human capital management through the implementation of Strategic Human Resource Management (SHRM) practices aligned with transformational leadership (Ainosa & Hussain, 2025).

Practically, MSME owners are advised not to rely solely on personal charisma but to begin gradually formalizing their HR management systems. This includes establishing clear yet flexible performance indicators, improving compensation structures to ensure employees' extrinsic motivation thresholds, and creating open communication channels to foster employee engagement (Nafizah & Mansyur, 2026). In countries with aggressive national transformation agendas, such as Saudi Arabia's Vision 2030 or Indonesia's MSME digitalization and sustainability program, the adoption of SHRM and transformational leadership has proven crucial to reducing high operational workforce turnover rates (reaching 40% for blue-collar workers) and building a resilient performance-based work culture in the face of market uncertainty (Ainosa & Hussain, 2025), (Wolor, Hadi, Harwanto, Ayatulloh Michael Musyaffi, & Rabbah, 2025).

CONCLUSION, RESEARCH LIMITATIONS, AND FUTURE RESEARCH

This study aimed to reconstruct transformational leadership as a strategic mechanism for strengthening employee engagement and improving MSME performance through a systematic review of contemporary literature. The findings reveal that transformational leadership does not consistently produce direct effects on individual employee performance within MSMEs. Instead, its influence is primarily transmitted through psychological and behavioral mechanisms, particularly employee engagement, motivation, initiative climate, and organizational commitment. The review further demonstrates that transformational leadership is more effective in influencing macro-level outcomes, including business growth, proactive service performance, and organizational sustainability, than routine task performance at the individual level.

The findings also indicate that the traditional transformational leadership framework is no longer sufficient to address the increasingly complex challenges faced by contemporary MSMEs. Digital transformation,

workforce flexibility, organizational uncertainty, and sustainability demands require leadership capabilities that extend beyond the classical dimensions proposed by Bass. Therefore, this study proposes a reconstructed transformational leadership framework that integrates adaptive leadership, organizational agility, psychological safety, employee empowerment, digital responsiveness, and strategic human resource management practices.

Theoretically, this study contributes to the leadership literature by shifting the discussion from merely validating the effectiveness of transformational leadership toward re-examining its conceptual relevance in contemporary MSME settings. Practically, the study highlights the importance for MSME owners and managers to strengthen employee engagement through adaptive leadership approaches, supportive organizational climates, and integrated human resource management systems. Such efforts are expected to improve organizational resilience, employee commitment, and sustainable business performance in dynamic competitive environments.

Several limitations should be acknowledged. First, this study relied exclusively on seven eligible articles identified through the systematic review process, which may limit the comprehensiveness of the synthesized findings. Second, the reviewed studies were characterized by methodological heterogeneity, including quantitative empirical studies, conceptual reviews, and case-based analyses, making direct comparison across studies challenging. Third, the literature included in this review was primarily derived from developing-country contexts, particularly Indonesia, Nigeria, Zambia, and Saudi Arabia, which may limit the generalizability of the proposed framework to other geographical and institutional environments. Fourth, the reconstructed leadership framework proposed in this study remains conceptual and has not yet been empirically tested using primary data. Consequently, the causal relationships among the proposed dimensions require further empirical validation.

Future studies are encouraged to empirically test the reconstructed transformational leadership framework proposed in this study using quantitative approaches such as Structural Equation Modeling (SEM), Partial Least Squares Structural Equation Modeling (PLS-SEM), or multilevel analysis. Researchers may examine the direct and indirect relationships among transformational leadership, adaptive leadership, employee engagement, organizational agility, psychological safety, employee empowerment, and MSME performance.

Furthermore, future research should investigate the mediating role of employee engagement and organizational commitment in explaining how reconstructed transformational leadership influences organizational outcomes. Additional moderating variables such as digital readiness, organizational culture, innovation capability, environmental uncertainty, and strategic human resource management practices may also be incorporated to enhance the explanatory power of the model.

Comparative studies involving different MSME sectors, organizational sizes, and national contexts are likewise recommended to evaluate the contextual applicability of the proposed framework.

Longitudinal research designs would be particularly valuable in examining how leadership reconstruction influences employee engagement and organizational performance over time. Such empirical investigations are expected to strengthen the theoretical robustness and practical relevance of the reconstructed transformational leadership model for contemporary MSMEs.

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Ethical Compliance: This study employed a Systematic Literature Review (SLR) using data obtained exclusively from publicly available published scientific literature and did not involve human participants, animals, or the collection of primary personal data. Therefore, ethical approval from an institutional research ethics committee and informed consent were not required.

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