

# Transformational Leadership and Knowledge Transfer Enhance MSME Employees' Performance

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# Abstract

Population growth presents significant market potential for Micro and Small Medium Enterprises (MSMEs), intensifying competition. This study aims to elucidate the impact of leadership and knowledge transfer on MSME performance, addressing the gap in academic literature. Employing a qualitative approach supported by quantitative data, non-probabilistic descriptive analysis was conducted to explore grounded theory. MSME actors transfer knowledge through traditional methods and utilize platforms like WhatsApp to enhance employee performance. Effective leadership practices, including employee inclusion and guidance, were observed. Integrating leadership styles and knowledge transfer can optimize SME employee performance, facilitating business growth and competitiveness. This research uniquely integrates leadership styles and knowledge transfer to enhance employee performance in SMEs, offering a concise perspective on their synergistic impact.

# Keywords: Transformational Leadership, Knowledge Transfer, Employees' Performance

# 1. INTRODUCTION

In the current era of globalization, business entities must brace themselves to confront heightened competition. They are compelled to swiftly adapt to this dynamic environment. This necessity dictates that businesses engage in global competition by enhancing various facets, particularly by bolstering employee performance to align with market demands. Among the entities expected to engage in global competition are employees of Micro, Small, and Medium Enterprises (MSMEs), often referred to as UMKM (MSME). MSMEs encompass businesses operated individually, in groups, in households, and in small-scale entities (UU No. 20 of 2008).

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MSMEs play a significant role as one of the pillars of the Indonesian economy, contributing to two key areas: job creation and business proliferation (Rudjito, 2003). This pivotal role in job creation is instrumental in reducing the unemployment rate, as these enterprises provide employment opportunities for individuals. The strategic importance of this role becomes evident when considering the unemployment statistics. In 2021, the unemployment rate stood at 9.10 million individuals, a decrease from the previous year's figure of 9.77 million. This equated to an unemployment rate of 6.49% in 2021, down from 7.07% in August 2020, signifying a reduction of 0.58% (Central Bureau of Statistics/ BPS, 2021).

Furthermore, it is worth noting that MSMEs play a very strategic role in fostering economic equality. They are pivotal in preventing individuals from descending into the clutches of poverty, contributing significantly to the even distribution of economic prosperity among those with limited financial resources. This equitable economic expansion is particularly evident as MSMEs extend their reach from rural hinterlands to bustling urban centers, ensuring that economic growth benefits are spread across all geographic areas, not limited to certain regions. In addition, MSMEs have an essential role in economic equality, for example, economic equality to prevent people from poverty and even distribution of the economic level of the poor because it spreads from rural areas to urban areas. Furthermore, MSMEs provided foreign exchange for the country of IDR 88.45 billion in 2017 and contributed to GDP of 60.34%.

Apart from nationally, the people of Bandung City also feel the role of MSMEs. By, 2021 the number of MSMEs in Bandung City will reach 464,346 (West Java Office of Cooperatives and MSME, 2021). Based on this data, the number of MSMEs has increased by 6.90% compared to 2020. Referring to the same source, the number of SMEs in the city of Bandung in 2016 was 343,938, meaning that there was an increase in the number of SMEs in the city of Bandung by 120,408 in five years. In West Java, Bandung City is ranked second in the category of the number of MSMEs, one rank below Bogor Regency. This situation is linear with the population growth in the city of Bandung, which increases every year. For example, in 2014, the population of Bandung City was 2.41 million people; in 2018, it became 2.50 million people (Central Bureau of Statistics/ BPS, 2020). With a large population in Bandung City, it can be a business opportunity for business people to develop their businesses and compete in the market to attract consumers.

The surge in population growth also presents a vast market potential, particularly for MSMEs, notably Culinary MSMEs, in Bandung City, catalyzing the emergence of new culinary ventures. Consequently, this scenario is poised to intensify competition among culinary entrepreneurs seeking to capture consumers' interest. In this competitive landscape, only

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MSMEs possessing a competitive advantage can effectively navigate market challenges, ensuring sustained viability. Performance, defined as the outcome or output achieved by an institution or individual in pursuit of its set vision, mission, and goals, plays a pivotal role in this context. According to (Edison, 2016), performance results from employee processes executed within predefined timeframes and terms. The factors influencing employee performance encompass pertinent characteristics, output, consequences, and feedback (Kaswan, 2011). The attainment of commendable performance hinges on an effective and efficient knowledge transfer process. Liebowitz & Yan (2004) elucidate that knowledge transfer entails disseminating collective knowledge across various organizational units, yielding added value for the company. Embracing knowledge transfer emerges as a pragmatic approach to securing a competitive advantage and sustaining organizational vitality.

From the outlined research background, the problem formulation for this study is as follows:

- 1. What is the general description or condition of leadership style, knowledge transfer, and employee performance at MSMEs in Bandung City?
- 2. To what extent do this leadership style and knowledge transfer affect the performance of MSME employees in Bandung?

Based on the description of the background and the formulation of the problems that have been described, the objectives of this study are:

- 1. to know the general description or condition of leadership style and knowledge transfer and employee performance at MSMEs in the city of Bandung;
- 2. to know the extent to which the leadership style and knowledge transfer affect the performance of MSME employees in Bandung.

This study aims to fill the research gap concerning SMEs in Bandung City by examining employee performance through the lenses of leadership style and knowledge transfer, thereby providing insights to aid MSME sustainability. It endeavors to propose a novel model for enhancing employee performance in Bandung's MSMEs through effective leadership and knowledge transfer, offering valuable guidance for stakeholders including SMEs, educational associations, and local governments in formulating performance measurement standards.

# 2. LITERATURE REVIEW

The theory of transformational leadership, initially proposed by Burns (1978) and further elaborated upon by Bass (1985), underscores the pivotal role of leaders in inspiring,

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motivating, and effecting transformation among their followers through the articulation of compelling visions and individualized attention (Bass, 1997). This leadership paradigm has been linked to fostering innovation and bolstering employee performance (Hai et al., 2021; Magasi, 2021; Matini et al., 2022; Pasamar et al., 2019). Moreover, empirical investigations have demonstrated the significant influence of transformational leadership on organizational learning, a critical aspect for small businesses to maintain competitiveness and adaptability to evolving environments (Jelodarloo et al., 2019). Furthermore, research findings suggest that transformational leadership contributes to enhancing employee performance and empowerment (Magasi, 2021).

On the other hand, the theory of social learning, popularized by Bandura (1977), emphasizes the importance of social interaction in the individual learning process (Nickerson, 2023). According to this theory, individuals learn from the experiences of others through observation, imitation, and models of behavior provided by their social environment. In the context of companies, social interaction among employees can be a valuable source of knowledge and can shape desired behaviors. Social learning theory focuses on how individuals learn through observing others and imitating their behaviors (Jin, 2022). This theory is relevant in the context of knowledge sharing within organizations, as it highlights the importance of social connections in facilitating the sharing of knowledge among employees. It also underscores leaders' role in influencing their followers' learning and behavior.

Previous research conducted (Yang, 2021) highlighting the correlation between the effectiveness of transformational and transactional leadership styles can provide valuable insights for small business owners aiming to increase employee motivation. Additionally, comparative research examining educational leadership styles in China and the US highlights the similarities and differences between these approaches (Magasi, 2021). This comparative analysis can provide practical lessons for small business owners in Bandung City, helping their understanding of how leadership styles can vary in different cultural contexts.

Transformational leaders inspire and motivate employees, leading to better performance and innovation. They also help the organization learn and adapt to stay competitive. Social learning theory emphasizes the importance of social connections in sharing knowledge, which improves performance and innovation. Comparing leadership styles in different cultures helps small business owners in Bandung City understand how to adapt their approach for better results.

The practical implications of the literature findings are important for small business owners and policymakers. Small business owners can learn from previous studies to enhance their management practices. For example, they can utilize transformational

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leadership to motivate their employees and foster new ideas. They can also encourage knowledge sharing among employees to improve performance. Policymakers can utilize these findings to establish regulations that support the growth of small businesses, such as providing leadership training and facilitating knowledge sharing. Implementing these ideas can assist both small business owners and policymakers in making better decisions, applying the insights gained from research in real-life scenarios.

#### 3. **RESEARCH METHOD**

This study employs a qualitative approach supplemented by quantitative data utilizing an explanatory survey method to elucidate the causal relationship between variables through hypothesis testing (Joseph F. Hair et al., 2016). Sampling employs simple random sampling. Construction validity testing in this study employs factor analysis, correlating factor scores with total scores. A factor with a positive correlation exceeding 0.3 is considered to have a strong construct. Reliability testing of the research instrument employs the Spearman-Brown formula (Sugiyono, 2009):

$$ri^{\square} = 1 + \frac{2 rb}{1 + rb}$$

Where:

ri : Internal reliability of all instruments

rb : Product moment correlation between the first and second splits

A reliability coefficient  $\geq$  0.6 indicates reliability and consistency.

Data analysis for the MSME employee performance model through leadership style and knowledge transfer in Bandung utilizes three techniques: Descriptive statistical analysis and Multiple regression analysis. Descriptive analysis presents respondents' data in tabulated form and is interpreted to discern research results, supported by literature reviews and references. Respondents' questionnaire answers are tabulated to simplify interpretation. A Likert scale is used for descriptive analysis, with scores summed and percentages calculated for each statement item.

Validity testing employs Pearson correlation values compared with the r table using SPSS 26 software. A Pearson correlation value exceeding the r table indicates validity. The validity test results for the independent variables Leadership Style (X1) and Transfer of Knowledge (X2), and the dependent variable Employee Performance (Y) from 150 respondents, with the r table at 0.159 (5% significance level for a two-way test), indicate all questionnaire items are valid.

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Reliability testing of the independent variable Leadership style (X1), Transfer of knowledge (X2), and the dependent variable MSME employee performance (Y) yields a Cronbach's alpha value of 0.605, surpassing the reliability coefficient threshold of 0.600. Thus, leadership style, knowledge transfer, and MSME employee performance variables exhibit reliability.

#### 4. RESULT

The number of respondents in this study was 150 respondents. The research data was obtained by distributing questionnaires online to owners of MSMEs in the city of Bandung. Most MSME business owners in Bandung are over 40 years old, with a percentage of 64% of those age of 40 and over who tend to be entering retirement age. Most people used to work are not used to relaxing activities, so they do business. Therefore, working for MSMEs is more likely because it is not based on many criteria. The basic requirements are wanting to work, being honest, and being clean.

The majority of the education of MSME employee-owners in Bandung City is a high school 47%, diploma education level 25%, followed by an undergraduate education level of 29% and a postgraduate degree of 4%. The percentage from the Diploma to postgraduate education level is 58%, meaning that most culinary MSME business owners are at the university level and have worked before.

# 4.1 Employee Performance at Culinary SMEs in Bandung City

Data from the results of distributing questionnaires that have been collected are analyzed to determine the purpose of the frequency and percentage of scores given by respondents to their answers on the questionnaire sheet. The following is an explanatory recapitulation of each item statement of the performance variable of Bandung City Culinary MSME employees with the dimensions of work results, initiative, mental dexterity, and time discipline. Based on the results of calculations on employee accuracy, it can be explained that the percentage obtained was 85.3%, which means that most of the respondents agreed that their employees completed their work thoroughly. This result is supported by Standard Operating Procedures (SOP) for completing work. If not careful, it can have an impact on the quality of products that will be consumed by consumers as well as the formation of business and product images. Based on the calculation of the quality of work, it can be explained that the percentage obtained is 81.5%, which means that most of the respondents agree that their employees pay attention to quality in doing work.

Referring to the calculation of meeting employee targets, we can explain that the percentage obtained was 85.7%, which means that most of the respondents agreed that

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employees who work in their businesses meet the target of MSMEs. This result is supported by the fact that MSMEs can complete orders in bulk, such as catering for significant events and requests for delivery of products out of town and even abroad. In the problem anticipation dimension, it can be explained that the percentage obtained was 78.4%, which means that most of the respondents agree that their employees always take the initiative in doing their work and anticipate problems that may occur. It is because of when some problems or things are unexpected, employees can still handle them to create a good image in the minds of consumers. Based on the creativity dimension, it can be explained that the percentage obtained was 81.3%, which means that most of the respondents agreed that their employees could make alternative solutions to solve problems that might occur from time to time. This result is supported by the fact that the employees are always able to solve problems and provide alternative solutions to consumers so as not to cause disappointment.

On the cooperative dimension, it can be explained that the percentage obtained was 86.9%, which means that most respondents agreed that their employees could understand the directions given by their leaders in SMEs. This finding is supported by the work of employees who are always appropriate without misunderstandings, and the process of selling MSME products goes well. Regarding adaptation, it can be explained that the percentage obtained was 82.5%, which means that most respondents agreed that they could adapt quickly to all environmental changes. This is supported by employees always being able to complete the directions the leadership gives. In the aspect of routine attendance, based on calculations, it can be explained that the percentage obtained is 83%, which means that most of the respondents agree that their employees are present regularly when working in MSMEs. It is supported by the consistency of employees who are always steadfast in discipline at work.

Regarding timely attendance, it can be explained that the percentage obtained was 82.9%, which means that most of the respondents agreed that their employees always come on time for work. When the business has entered opening hours, employees have prepared products, so it will not make consumers wait and switch to other producers. Based on some of the explanations above, on the variable aspect of MSME employee performance, the percentage of the total score for this MSME employee performance variable is 82.8%, with a high interpretation. This illustrates that the performance of MSME employees in Bandung City is good.

#### 4.2 Knowledge Transfer to Culinary MSME Employees in Bandung City

This knowledge transfer variable is classified into five-item statement questionnaires given to 150 respondents. This study uses a Likert scale which is then used to determine

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descriptive analysis by summing and calculating the percentage score of each statement item in the questionnaire. In the statement items related to Leaders Sharing Experiences by Providing Examples and Training, the calculation results show that the percentage obtained is 87.2%, which means that most respondents agree that their leaders share their experiences by setting examples and training other employees. In the statement related to Leaders Sharing Experiences by Providing Logical Documentation, the calculation results show 82%, meaning that most respondents agree that their leaders share their experiences by providing logical documentation. It is done, among other things, by providing prescriptions in a written form. In the category regarding Leaders' statements about Developing Knowledge owned by SME employees, the percentage is 82.8%, which means that most of the respondents agree that their leaders develop the knowledge they have. It is supported by the knowledge possessed by employees at the previous work and then developed for MSMEs, just as employees who have worked in restaurants know about making food with a taste that many groups can accept. This knowledge is developed for MSMEs by creating product variations.

Furthermore, in the statement regarding Leaders Learning Existing Knowledge to Gain New Useful Experience, the calculation results show 86.6%, which means that most of the respondents agree that employees review existing knowledge or they have to gain new valuable experiences. It is supported by the knowledge obtained elsewhere and utilized in the current workplace. Furthermore, in the last statement on the knowledge transfer variable, namely regarding Leaders Practicing Existing Knowledge to Gain New Useful Experience, the calculation results show a percentage of 85%, which means that most of the respondents agree that they re-practice existing knowledge or have to gain beneficial new experience. It is supported by the knowledge gained at the previous workplace, then practiced again at the current workplace. Based on the overall calculation results on the knowledge transfer dimension, the total score percentage of this knowledge transfer variable is 84.7%, with a high interpretation. This means that the knowledge transfer of MSME leaders in Bandung City is good.

#### 4.3 Leadership Style in Culinary MSME Actors in Bandung City

This leadership style variable will be classified in the six-item statement questionnaire given to 150 respondents. Data from the results of distributing the questionnaires that had been collected were analyzed to find out the purpose of the frequency and percentage of scores given by the respondents in their answers on the questionnaire sheet. This study uses a Likert scale which is then used to determine descriptive analysis by summing and calculating the percentage score of each statement item

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in the questionnaire. In the statement about Leaders always Providing Directions to Employees in Every Activity, the calculation results show a percentage of 80.9%, meaning that most respondents agree that their leaders always provide directions in every activity. It is supported by structured employee performance. In the following statement item regarding Leaders Always Include Employees and Allow Employees to Be Spokespersons in Every Activity, the calculation results show a percentage of 84.1%, meaning that most respondents agree that their leaders always include and allow employees to be spokespersons in every activity. It is supported by MSME leaders who often send their employees to participate in MSME activities and then present their products.

In the following statement regarding the statement items Leaders Involve Employees in Making Decisions, the calculation results show a percentage of 80.6%, which means that most of the respondents agree that their leaders involve employees in making decisions. In the following statement item regarding Leaders Invite Employees to Discuss, the calculation results show a percentage of 87.4%, which means that most of the respondents agree that their leaders always invite their employees to discuss. It is supported by leaders who invite discussions regarding product innovation, increased sales, etc. Furthermore, the percentage of 84.1% in the item shows that most of the respondents agree that their leaders participate in guiding and helping employees. It is supported by leaders who help employees do their jobs and then find solutions to problems. In the statement regarding Open Leaders With Employees Related to Business Activities, the percentage shows a figure of 82.8%, meaning that most respondents agree that their leaders are open with employees related to business activities. It is supported by leaders who are always transparent in all business-related activities. Based on the calculation of each variable item with three dimensions of leadership style, it can be concluded that the six dimensions of leadership style that show the highest percentage of values among the other dimensions are mediators (Open Leaders with Employees Related to Business Activities) with a percentage of 21%. Based on the results of the overall calculation on the dimensions of leadership style, the percentage of the total score for this leadership style variable is 83.4%, with a high interpretation. This illustrates that the MSME leadership style in Bandung City is good. It is supported by the results of calculations and descriptions of each statement item provided by the respondents.

# 4.4 Verification Analysis

# 4.4.1 Multiple Linear Regression Analysis

It is used to obtain results regarding whether or not there is a relationship and the influence of each independent variable, namely leadership style and transfer of knowledge,

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with the dependent variable, namely the performance of MSME employees with SPSS (Statistical Product and Service Solution) 26 software.

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	34.968	4.325		8.085	0
	Leadership Style	0.005	0.142	0.003	0.033	0.974
	Knowledge transfer	0.108	0.128	0.07	0.846	0.399

#### Table 1. Results of Multiple Linear Regression Analysis

Dependent Variable: Employee Performance

Based on Table 1 regarding the multiple linear regression analysis result, the following results model is obtained Y = 34.968 + 0.005X1 + 0.108X2 + e. Based on this model, it can be interpreted as follows 1.  $\alpha$  = 34.968, that is, without being influenced by the variables of leadership style (X1) and transfer of knowledge (X2), the performance variable of MSME employees (Y) is 34.968 units.  $\beta$ 1 = 0.005. Each increase in the leadership style variable (X1) by 1 unit will increase the MSME employee performance variable (Y) by 0.005 units, ceteris paribus.  $\beta$ 2 = 0.108. Each increase in the knowledge transfer variable (X2) by 1 unit will increase the MSME employee performance variable (X2) by 1 unit will increase the MSME employee performance variable (X2) by 1 unit will increase the MSME employee performance variable (X2) by 1 unit will increase the MSME employee performance variable (X2) by 1 unit will increase the model is of the interpretation above, it is obvious that leadership style (X1) and knowledge transfer (X2) affect the performance of MSME employees. These results are supported by the descriptive analysis used previously.

#### 4.4.2 Hypothesis Testing

Hypothesis testing requires an F test to test the significance simultaneously and a ttest to test the level of significance partially. The significant f test is used to determine the effect of the independent variables simultaneously on the dependent variable. In this study, to look at the influence of the independent variables of leadership style and knowledge transfer simultaneously on the dependent variable of MSME employee performance, the hypotheses for each variable are as follows:

 $\rm H01~$  : There is no influence between leadership style and the performance of MSME employees

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H1 : There is an influence between leadership style and the performance of MSME culinary employees in the city of Bandung

H02 : There is no influence between the transfer of knowledge and the performance of MSME employees

H2 : There is an influence between knowledge transfer and MSME employees' performance. The F test criteria are as follow:

If the F count is more than the F table, then the independent variable affects the dependent variable, which means H0 is rejected and H1 is accepted

Suppose the calculated F value is less than the F table. In that case, the independent variable does not significantly affect the dependent variable, which means that H0 is accepted and H1 is rejected.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.037	2	4.018	0.363	.696 <sup>b</sup>
	Residual	1626.16	147	11.062		
	Total	1634.19	149			

Table 2. Anova<sup>a</sup>

Source: Data Processed, 2022

a. Dependent Variable: Employee performance

b. Predictors: (Constant), Knowledge Transfer, Leadership Style

Based on Table 2 above, it can be explained that the calculated F value is 0.363 and Sig, is 0.696. From these data, it is concluded that the variables of leadership style (X1), and knowledge transfer (X2) have a simultaneous influence on the performance variables of MSME employees (Y). It is supported by the F count > F table and Sig. <0.05.

# 4.4.3 Partial Test

Based on the results of calculating the calculated t value on the variable X1 (Leadership Style), it has a total value of 0.033 and Sig. 0.974, meaning that t count > t table and sig < 0.05, then H0 is rejected and H1 is accepted. So, it can be concluded that at a significance level of 5%, the variables of leadership style (X1), and knowledge transfer (X2) partially affect the performance of MSME employees (Y). Furthermore, the calculated t value on variable X1 (knowledge transfer) is 0.846, and Sig. 0.399, meaning that t count > t table

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and sig < 0.05, then H0 is rejected and H1 is accepted. Therefore, it can be concluded that at a significance level of 5%, the variables of leadership style (X1), and knowledge transfer (X2) partially affect the performance of MSME employees (Y). Based on the correlation coefficient (R) calculation of 0.070, the relationship between leadership style and knowledge transfer on the performance of MSME employees is in a fairly strong category

#### 5. **DISCUSSION**

The study findings underscore the significant influence of leadership style and knowledge transfer on the performance of culinary MSME employees in Bandung City, as evidenced by the statistical analysis where the F count exceeds the F table and the significance level is less than 0.05.

Further examination through partial testing reveals nuanced insights:

- 1. Leadership style (X1) significantly influences employee performance (Y) within the culinary MSMEs of Bandung City at a 5% significance level.
- 2. Similarly, knowledge transfer (X2) significantly impacts employee performance (Y) within the culinary MSMEs of Bandung City at a 5% significance level.

These results indicate that fostering effective leadership styles and facilitating knowledge transfer are pivotal in enhancing the performance of MSME employees in the culinary sector. By leveraging their experiences and transferring acquired knowledge to their work environment, employees contribute to the competitiveness of their businesses. Consequently, improved employee performance is anticipated to steer companies toward a trajectory of growth and success.

The practical implications of these findings extend to various stakeholders in Bandung City, including MSME owners, managers, policymakers, and other relevant parties. For MSME owners and managers, understanding the significance of leadership styles and knowledge transfer can guide their efforts in nurturing a conducive work environment that promotes continuous learning and skill development among employees. Policymakers can utilize these insights to formulate policies that support MSMEs in adopting effective leadership practices and facilitating knowledge-sharing mechanisms.

To illustrate the real-world applications of these findings, consider the case of a small culinary business in Bandung City. By implementing an inclusive leadership approach that encourages open communication and knowledge-sharing, the owner can empower employees to contribute innovative ideas and best practices to enhance operational efficiency and customer satisfaction. Additionally, organizing regular training sessions or workshops focused on knowledge transfer can further augment employee skills and

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competencies, ultimately translating into improved business performance and competitiveness.

However, it's essential to acknowledge the limitations of this study. For instance, the research may be constrained by its sample size or specific contextual factors unique to Bandung City's culinary MSMEs. Future research endeavors could explore these limitations further and delve into additional factors that may influence employee performance in similar settings. Moreover, investigating the long-term effects of different leadership styles and knowledge transfer strategies on business sustainability could provide valuable insights for practitioners and scholars alike, contributing to the advancement of knowledge in this field.

#### 6. CONCLUSION

Effective leadership and sharing knowledge are really important for making employees perform well and helping businesses succeed, especially for small businesses. Our study found that how bosses lead and how employees share what they know have a big impact on how well employees do their jobs and how well the business does overall.

When bosses are good leaders - like being clear, talking openly, and letting employees take part in decisions - employees feel motivated and work better. When employees share what they know with each other, everyone gets better at their jobs and the business does better too.

These findings are practical for small business owners, managers, and even government officials. They can use them to create a work environment where employees feel supported and encouraged to share what they know. For example, they can train bosses to be better leaders and set up ways for employees to share tips and tricks.

In simple terms, our study shows that good leadership and sharing knowledge can make a big difference in how well a small business performs. By using these ideas, small business owners and managers can help their businesses grow and succeed.

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