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# DYNAMICS OF LEADERSHIP STYLE STRATEGY IN IMPROVING MSME EMPLOYEE PERFORMANCE

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***ABSTRACT***

*Micro, Small, and Medium Enterprises (MSMEs) face significant challenges in maintaining employee performance amidst digital disruption, while the owners' leadership styles are often trapped in static patterns that are not adaptive to environmental changes. This study aims to analyze the dynamics of leadership style strategies in improving employee performance of MSMEs in Kendari through a phenomenological approach. Data collection was conducted through in-depth interviews with owners and key employees, which were then analyzed using the Miles and Huberman model. The results show that successful leaders adopt a "Hybrid Adaptive Leadership" model that integrates paternalistic-humanistic dimensions, informal negotiation space, a sense of collective ownership, and non-coercive digital ethics. These findings confirm that the sustainability of MSME performance depends not only on technology adoption but also on the leader's ability to weave local social capital as an operational foundation. The implications of this study provide a framework for MSME practitioners to balance digital efficiency with relational closeness to build resilient organizations in the modern economic era. This research contributes to the development of human resource management literature by emphasizing the integration of sociocultural wisdom in strategic leadership practices.*

***Keywords:*** *Adaptive Hybrid Leadership, Digital Ethics.*

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## 1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a key pillar of the Indonesian economy, contributing more than 60% to Gross Domestic Product (GDP) and absorbing approximately 97% of the national workforce (Aprilia, Subroto, and Sakti 2025) . Amidst the post-COVID-19 pandemic dynamics, MSMEs face external pressures such as digital disruption, fluctuations in global supply chains, and intense competition from e-commerce platforms, which directly impact employee performance through decreased productivity and work motivation (Aviyanti and Widyastuti 2024) . In this context, the leadership style of MSME leaders is often still informal and adaptive, making it a critical variable in managing limited human capital (Ausat 2022) .Transformational and transactional leadership theories emphasize that effective leadership can trigger intrinsic motivation and organizational commitment, especially in small organizations with low hierarchical structures (Fitriningrum 2025) . However, in Indonesian MSMEs, leadership dynamics are often trapped in static patterns, such as authoritarian or laissez-faire, which fail to respond to market volatility (Umar et al. 2022) . Furthermore, MSMEs rely on employees as strategic assets, and their performance is often suboptimal due to a mismatch in leadership styles with the demands of a dynamic business environment (Sultan, Pahlevi, and Hakim 2025) .

Data from the Ministry of Cooperatives and SMEs (2025) recorded a turnover rate of up to 30% in MSMEs, accompanied by an average productivity decline of 15-20% due to a lack of adaptive leadership strategies. (Muis 2025) . MSME leaders tend to maintain an authoritarian style for short-term efficiency, which actually suppresses employee engagement and hinders knowledge sharing within small teams (Reniati et al. 2025) . This problem is exacerbated by resource constraints, where transitions between leadership styles (e.g., from transactional to transformational) are not supported by formal training. As a result, MSMEs struggle to achieve sustainable competitive advantage, especially in the digital era where employees are required to be multiskilled (Xu, Zhu, and Li 2022) . While previous research in HR management has extensively examined the effectiveness of leadership styles in large corporations, understanding the dynamics of leadership in the MSME sector still faces significant theoretical and empirical gaps. For example, research (Alarifi 2023) shows that adaptive leadership is an important catalyst for innovation and performance, but both studies still leave a dark hole regarding the operational mechanisms when leaders face employee

resistance in the dynamic transition of work systems. Furthermore, (Sankar and We 2025) emphasized that the leadership style of MSME owners tends to be top-down and less accommodating of active employee participation, thus creating obstacles in adapting to modern work systems. Therefore, based on in-depth analysis, a gap was found in the literature regarding how a "hybrid" leadership strategy that is able to balance managerial authority with employee involvement can be implemented to improve sustainable performance in the context of MSMEs with limited resources.

Micro, Small, and Medium Enterprises (MSMEs) are a key pillar of the Indonesian economy, contributing more than 60% to Gross Domestic Product (GDP) and absorbing approximately 97% of the national workforce (Aprilia, Subroto, and Sakti 2025) . Amidst the post-COVID-19 pandemic dynamics, MSMEs face external pressures such as digital disruption, fluctuations in global supply chains, and intense competition from e-commerce platforms, which directly impact employee performance through decreased productivity and work motivation (Aviyanti and Widyastuti 2024) . In this context, the leadership style of MSME leaders is often still informal and adaptive, making it a critical variable in managing limited human capital (Ausat 2022) . Transformational and transactional leadership theories emphasize that effective leadership can trigger intrinsic motivation and organizational commitment, especially in small organizations with low hierarchical structures (Fitriningrum 2025) . However, in Indonesian MSMEs, leadership dynamics are often trapped in static patterns, such as authoritarian or laissez-faire, which fail to respond to market volatility (Umar et al. 2022) . Furthermore, MSMEs rely on employees as strategic assets, and their performance is often suboptimal due to mismatched leadership styles with the demands of a dynamic business environment (Sultan, Pahlevi, and Hakim 2025) .

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extensively examined the effectiveness of leadership styles in large corporations, human resource management still faces significant theoretical and empirical gaps in understanding leadership dynamics in the MSME sector. For example, research (Alarifi 2023) shows that adaptive leadership is a crucial catalyst for innovation and performance, but both studies still leave gaps regarding the operational mechanisms when leaders encounter employee resistance in dynamic work system transitions. Furthermore, (Sankar and We 2025) emphasize that the leadership style of MSME owners tends to be top-down and less accommodating of active employee participation, thus creating obstacles in adapting to modern work systems.

Therefore, based on in-depth analysis, a gap was found in the literature regarding how a "hybrid" leadership strategy that is able to balance managerial authority with employee involvement can be implemented to improve sustainable performance in the context of MSMEs with limited resources. Furthermore, there is no leadership model that can explain how the balance between managerial authority and employee involvement can be applied dynamically in the uncertain MSME environment. This gap becomes increasingly relevant in the digital era when MSMEs are required to move faster, more flexibly, and more innovatively than before. Based on this gap, this study offers the concept of "Hybrid Adaptive Leadership" as a new approach to human resource management in MSMEs. This concept not only combines the characteristics of transformational and transactional leadership but also emphasizes the leader's ability to flexibly change the intensity of the use of both approaches according to organizational conditions, employee needs, and the dynamics of the business environment. Therefore, the novelty of this research lies in its attempt to develop a leadership framework that views leadership styles not as interchangeable options, but rather as a combination that can be used simultaneously and adaptively. In this model, the leader's authority is maintained to maintain organizational direction and operational efficiency, while employee participation is encouraged to increase engagement, learning, and adaptability to change. In other words, this study not only examines the influence of a leadership style on employee performance but also attempts to explain how combining various leadership elements can produce more effective adaptation mechanisms in the context of MSMEs. This approach is expected to expand the development of adaptive leadership theory and provide alternative leadership models that are more relevant for small and medium-sized organizations operating in dynamic business environments.

Based on the identified research problems and gaps, this study aims to examine in depth the dynamics of leadership in improving the performance of MSME employees through the perspective of Hybrid Adaptive Leadership. Specifically, this study aims to identify dominant leadership patterns in MSME employee management, analyze various leadership patterns in improving employee performance, explore the adaptation mechanisms of leaders in facing changes in the business environment and employee resistance and formulate a Hybrid Adaptive Leadership model that is able to balance the functions of control, flexibility, and employee participation to create sustainable performance.

Through these objectives, this study is expected to not only provide empirical contributions regarding the relationship between leadership and MSME employee performance but also produce a new conceptual model that can be a reference for the development of contemporary leadership theory and MSME managerial practices in the era of digital transformation.

## 2. LITERATURE REVIEW

### Dynamics of Leadership Evolution

The evolution of leadership theory in business organizations has shifted from a focus on personal traits theory ) towards adaptive capabilities in responding to a dynamic environment ( situational leadership ). According to (Alan and Onur 2025) , leadership effectiveness is a function of the maturity of followers and the leader's readiness to adapt their operational style. In the context of MSMEs, this model becomes relevant because limited resources force owners to play dual roles that require high flexibility. In addition, reliance on owner intuition in MSMEs is often a double-edged sword, on the one hand providing a quick response, but on the other hand creating bias in strategic decision-making that is less data-based (Pratminingsih and Rianawati 2023) .

### Leadership Transformation

The current theoretical debate has expanded towards leadership in the era of hybrid work , where leadership effectiveness is no longer measured through physical supervision, but rather through output-based performance Management . The concept of

transformational leadership remains relevant, but requires modification through the integration of digital readiness to maintain employee commitment even in a virtual workspace. According to Maity and Loon (2025) , MSME leaders are now required to possess dynamic capabilities and the ability to detect, seize, and transform opportunities amid market volatility. The integration of hybrid work flexibility and adaptive leadership is now considered a key variable in driving management innovation in small businesses (Engelmann 2024) .

**Contextualization of Local Culture**

A theoretical gap arises when Western leadership theories (such as situational and transformational ) are applied crudely to MSMEs in developing countries. According to Kyambade, Namatovu, and Tushabe (2025), leadership effectiveness in Indonesia is heavily influenced by local cultural variables, such as the value of mutual cooperation, which can moderate the relationship between leadership style and employee performance.

## 3. RESEARCH METHOD

This study uses a qualitative phenomenological approach to explore the in-depth meaning of the subjective experiences of MSME owners and employees in implementing leadership strategies. This approach was chosen because it is able to reveal the essence of phenomena that cannot be measured numerically. A single case study design was used to understand the complex dynamics of leadership in the specific context of small organizations. Informants consisted of MSME owners and key employees who were purposively selected due to their direct involvement in the daily operational dynamics that are the focus of the research. The research location in selected MSMEs in Southeast Sulawesi was chosen because it represents the informal sector with real adaptation challenges. The research procedure began with data collection through in-depth interviews, observation, and documentation. Data analysis followed the Miles and Huberman model (data condensation, presentation, and conclusion drawing) because of its interactive and systematic nature in processing complex narratives into meaningful patterns. This method ensures the validity of the findings in describing adaptive and contextual leadership dynamics.

## 4. RESULT AND DISCUSSION

### Paternalistic-Humanistic Dimension in MSME Leadership

Based on the results of this study, it shows that the leadership patterns in the MSMEs studied are not only oriented towards achieving operational targets, but have transformed into a form of Heart-Centered Leadership. Paternalistic-humanistic. Interview results indicate that leadership effectiveness in the small business sector in Kendari is highly dependent on the owner's capacity to act as an emotional protector, with personal closeness being a key mechanism for building loyalty amidst business volatility. This finding aligns with research by Muss, Tüxen, and Fürstenau (2026). which revealed that MSME owners who adopt an empathy-based leadership style are able to mitigate employee resistance compared to a formal-bureaucratic approach, because employees feel a strong psychological bond with the organization. Furthermore, (Indrayani et al. 2025) found that the effectiveness of HR management in MSMEs in Indonesia is greatly influenced by the owner's role as an emotional balancer, where the ability to listen to employee complaints personally has been proven to reduce turnover rates by up to 20% in a year.

Therefore, the findings of this study prove that the paternalistic-humanist dimension is not a manifestation of managerial unprofessionalism, but rather a conscious strategy to utilize local social capital as compensation for limited formal resources. These characteristics indicate that in the context of the local economy, a leadership style that is able to "be the ears and heart" of employees is antithetical. The integration of family cultural values and the demands of professionalism is a novelty that enriches the strategic management literature, which confirms that the sustainability of MSME performance in the era of disruption is highly dependent on the ability of leaders to balance formal authority with humanistic relational closeness.

### Informal Negotiation Space as a Channel of Social Capital

The results of this study indicate that leadership effectiveness in the MSME sector is largely determined by the existence of informal negotiation spaces, which in the local context of Kendari often manifest through the culture of "sitting together" or coffee discussions. This practice serves as a conflict resolution mechanism and feedback channel that transcends the formalities of organizational hierarchy. Theoretically, this space is a manifestation of social-

capital negotiation, where psychological barriers between superiors and subordinates are reduced to achieve operational understanding. This finding is supported by research (Li, Cao, and Sun 2026). which confirms that leaders who provide informal participatory spaces for employees tend to have higher levels of work system adoption because resistance to change is managed through personal dialogue, not through coercive instructions. In line with this, the findings (Gandrita 2023) revealed that in small-scale business environments with limited resources, informal communication occurring outside of formal working hours can strengthen organizational commitment and facilitate more honest knowledge sharing than formal reporting systems. Therefore, informal negotiation spaces are not merely operational breaks, but efficient strategic instruments for MSMEs.

This practice demonstrates that limited access to complex HR management systems can be compensated for by optimizing relational closeness. Share the findings of this study emphasizes the argument that the sustainability of MSMEs in an era of disruption requires leaders to be facilitators capable of weaving social interactions as the foundation of operations. This enriches the strategic management literature by demonstrating that in developing countries, business efficiency does not always require rigid bureaucratic formalization, but rather the strengthening of adaptive and inclusive social-capital-based management.

**Collective Ownership as the Foundation for Sustainable Performance**

The results of this study indicate that collective ownership, or a sense of shared ownership, is a key driver of employee performance in the MSME sector. Through the narrative "it's all our business," informants were able to blur the dichotomy between owner and employee interests, phenomenologically creating a strong collective identity. This sense of psychological ownership transforms into a high level of organizational commitment, where employees no longer view tasks as contractual obligations but rather as part of their personal responsibility for the business's sustainability. This finding aligns with research . (Kim 2022) that active employee participation in micro-level strategic decision-making is positively correlated with operational efficiency and talent loyalty. Furthermore, (Gandrita 2023) argues that in a business ecosystem with limited resources, a sense of shared ownership serves as a crucial organizational defense mechanism to deal with market pressures, as employees tend to exhibit extra-role behavior or extra dedication to maintain company stability.

Therefore, collective ownership is a concrete manifestation of the internalization of a leader's vision into the collective consciousness of subordinates. This suggests that a hybrid leadership strategy requires not only effective communication but also the leader's ability to instill philosophical meaning behind daily work. Therefore, a successful leadership model at the MSME level is one that is able to integrate employees' personal goals with the organization's long-term goals. This integration provides a theoretical contribution to HR management, suggesting that psychological ownership can be a more resilient social capital compared to transactional and temporary financial incentive systems.

**Digital Ethics in Hybrid Leadership**

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## 5. CONCLUSION AND SUGGESTION

This study concludes that the effectiveness of MSME leadership in the era of disruption is not simply the result of applying a linear transactional model, but rather a complex synthesis of situational agility and relational wisdom. The identified "Adaptive Hybrid Leadership" model shows that paternalistic-humanistic elements, informal negotiation space, and collective ownership are key pillars in maintaining sustainable performance. These findings emphasize that the success of digital transformation in the MSME sector is highly dependent on the leader's ability to balance technological efficiency with non-coercive control ethics, in order to maintain social capital amidst the challenges of limited resources. Theoretically, this study contributes to broadening the horizon of HR management by integrating local sociocultural values as moderators in the relationship between leadership and performance. For MSME practitioners, this model serves as a reference for optimizing personal relationships as an efficient strategy in mitigating resistance to change. Future research is recommended to adopt a quantitative or longitudinal approach to test the validity of this model across a broader and more diverse population. In addition, an in-depth exploration of the long-term impact of digitalization on employee psychological well-being is necessary to ensure that business modernization remains aligned with ethical principles and human dignity in an increasingly digitalized workplace.

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