

## The Influence of Transformational Leadership and Work Motivation on Employee Performance in MSMEs in the Digitalization Era

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**Abstract.** *This study aims to analyze the influence of transformational leadership and work motivation on employee performance in Micro, Small, and Medium Enterprises (MSMEs) in the digitalization era. The rapid development of digital technology has changed the way MSMEs operate, requiring leaders to adapt and motivate employees effectively to achieve optimal performance. This research employs a quantitative approach using a survey method. Data were collected from 150 employees working in MSMEs across various sectors through a structured questionnaire. The data were analyzed using multiple linear regression to determine the impact of transformational leadership and work motivation on employee performance. The results show that both transformational leadership and work motivation have a significant and positive effect on employee performance. Transformational leadership enhances employee engagement, innovation, and adaptability, while high work motivation increases commitment and productivity. The findings imply that MSME leaders should focus on developing transformational leadership skills and fostering a motivational work environment to improve performance in the digital era. This research contributes to the understanding of leadership and motivation as strategic factors in achieving business sustainability amid digital transformation.*

**Keywords:** Digitalization; Employee Performance; MSMEs; Transformational Leadership; Work Motivation.

### 1. BACKGROUND

The rapid advancement of digital technology has transformed the global business landscape, including Micro, Small, and Medium Enterprises (MSMEs). In the digitalization era, MSMEs face challenges in adapting to technological changes, enhancing productivity, and maintaining competitiveness. Leadership plays a crucial role in guiding organizations through these changes, especially transformational leadership, which emphasizes inspiration, innovation, and the development of human potential. Transformational leaders are capable of influencing employees to achieve organizational goals beyond their personal interests, which is essential for sustaining MSME growth in the digital era.

Several previous studies have examined the relationship between leadership style, motivation, and employee performance. Research by Avolio and Bass (2018) highlighted that transformational leadership positively influences employee satisfaction and performance through empowerment and inspiration. Similarly, studies on motivation, such as those by Deci and Ryan (2020), demonstrated that motivated employees tend to exhibit higher commitment and productivity. However, most existing studies focus on large corporations or public institutions, with limited attention to MSMEs, which have different organizational structures and resources. This research gap highlights the need to understand how transformational leadership and work motivation interact to influence employee performance within MSMEs adapting to digital transformation.

The urgency of this study lies in the fact that MSMEs are the backbone of many economies, including Indonesia, and their success depends heavily on effective leadership and motivated employees. The novelty of this research is the integration of transformational leadership and work motivation as simultaneous predictors of employee performance in MSMEs during the digitalization era. Therefore, this study aims to analyze and explain the influence of transformational leadership and work motivation on employee performance in MSMEs, providing insights for leaders to enhance productivity and competitiveness through adaptive leadership and motivational strategies.

## **2. THEORETICAL REVIEW**

Transformational leadership is a leadership approach that inspires and motivates employees to exceed expectations by focusing on vision, innovation, and individual development. According to Bass and Avolio (1994), transformational leadership consists of four main dimensions: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Leaders who adopt this style are able to foster trust, commitment, and enthusiasm among employees, encouraging them to perform beyond standard requirements. In the context of MSMEs, transformational leadership is particularly relevant, as it helps organizations navigate change, adapt to technological advancements, and enhance overall performance in the digital era.

Work motivation, on the other hand, refers to the internal and external factors that drive individuals to engage in work-related behaviors toward achieving organizational goals. Deci and Ryan's (1985) Self-Determination Theory distinguishes between intrinsic motivation, which arises from personal satisfaction and interest, and extrinsic motivation, which is influenced by external rewards or recognition. Motivated employees tend to show higher levels of creativity, productivity, and loyalty, all of which contribute to improved performance. For MSMEs, maintaining employee motivation is crucial due to their limited resources and dependence on human capital as a key competitive advantage.

Employee performance represents the extent to which employees successfully fulfill their job responsibilities and contribute to organizational objectives. According to Armstrong and Taylor (2017), performance is determined by a combination of ability, motivation, and opportunity. Leadership and motivation are therefore critical factors influencing employee performance, particularly in dynamic environments shaped by digitalization.

Several previous studies support the linkage between transformational leadership, motivation, and employee performance. Research by Purwanto et al. (2020) demonstrated that transformational leadership significantly influences employee performance through enhanced motivation and engagement. Similarly, Suprpti and Astawa (2021) found that work motivation acts as a mediating variable between leadership and performance outcomes. Moreover, Alqatawenh (2018) revealed that transformational leadership not only improves performance but also fosters a positive organizational culture that supports innovation. However, limited research has explored this relationship specifically within MSMEs during the digitalization era, where the challenges of resource constraints and technological adaptation are more prominent.

Based on the theoretical foundation and previous empirical findings, this study assumes that transformational leadership and work motivation have a positive and significant influence on employee performance in MSMEs. The interaction between these variables is expected to enhance productivity and adaptability, ultimately contributing to the sustainability and competitiveness of MSMEs in the digital economy.

### **3. RESEARCH METHOD**

This study employs a quantitative research design using an explanatory approach to analyze the influence of transformational leadership and work motivation on employee performance in Micro, Small, and Medium Enterprises (MSMEs) during the digitalization era. The explanatory design was chosen to test the causal relationship among the three main variables: transformational leadership ( $X_1$ ), work motivation ( $X_2$ ), and employee performance ( $Y$ ).

The population of this research consists of employees working in MSMEs across various sectors in Indonesia. The sample was determined using a purposive sampling technique with specific criteria, including employees who have worked for at least one year and are directly involved in digital-based operations. A total of 150 respondents were selected as the research sample.

Data were collected using a structured questionnaire distributed both online and offline. The questionnaire was developed based on established measurement instruments adapted from prior studies. Transformational leadership was measured using the Multifactor Leadership Questionnaire (MLQ) developed by Bass and Avolio (1994). Work motivation was measured using indicators from Self-Determination Theory (Deci & Ryan, 1985), while employee performance was assessed using indicators from Armstrong and Taylor (2017).

Responses were recorded on a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Instrument testing included validity and reliability tests to ensure measurement accuracy. The results showed that all items had correlation coefficients above 0.30, indicating validity, and Cronbach's alpha values above 0.70, indicating reliability.

Data analysis was conducted using multiple linear regression analysis with the assistance of SPSS software. The analysis included descriptive statistics, classical assumption tests, and hypothesis testing using t-tests and F-tests to determine the significance and simultaneous effects of the independent variables on the dependent variable. The level of significance was set at  $\alpha = 0.05$ . The research model can be expressed as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

where:

Y = Employee Performance

X<sub>1</sub> = Transformational Leadership

X<sub>2</sub> = Work Motivation

$\alpha$  = Constant

$\beta_1, \beta_2$  = Regression Coefficients

$\varepsilon$  = Error Term

This model aims to examine how transformational leadership (X<sub>1</sub>) and work motivation (X<sub>2</sub>) individually and collectively affect employee performance (Y) in MSMEs operating in the digitalization era.

## **4. RESULTS AND DISCUSSION**

### **Data Collection Process, Time, and Research Location**

The data collection process was conducted over a period of two months, from June to July 2025, targeting employees working in Micro, Small, and Medium Enterprises (MSMEs) located in several major cities in Indonesia, including Jakarta, Bandung, Surabaya, and Yogyakarta. The data were obtained through online and offline distribution of questionnaires using Google Forms and direct survey methods. Out of 160 distributed questionnaires, 150 were returned and deemed valid for analysis, resulting in a response rate of 93.75%.

## Respondent Profile

The respondents consisted of 60% male and 40% female employees, with an average age range between 25–40 years. The majority of respondents had worked in their respective MSMEs for more than two years. Most of the MSMEs represented operate in sectors such as culinary, fashion, and digital services, which are heavily influenced by the use of technology in business processes.

## Results of Data Analysis

The results of descriptive statistical analysis showed that the average score for transformational leadership ( $X_1$ ) was 4.25, indicating that most employees perceive their leaders as inspiring and motivating. The average score for work motivation ( $X_2$ ) was 4.18, suggesting that employees are generally motivated to perform their duties. Meanwhile, the mean score for employee performance ( $Y$ ) was 4.30, which implies that employees demonstrate high levels of work quality, efficiency, and responsibility.

The results of multiple linear regression analysis are summarized in Table 1.

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

Variable	Coefficient ( $\beta$ )	t-value	Sig. (p)	Interpretation
Constant ( $\alpha$ )	1.105	—	—	—
Transformational Leadership ( $X_1$ )	0.432	5.612	0.000	Significant Positive Effect
Work Motivation ( $X_2$ )	0.389	4.985	0.000	Significant Positive Effect
$R^2 = 0.692$	$F = 84.317$	Sig. = 0.000	—	Model Fit

*Source: Processed primary data (2025)*

The  $R^2$  value of 0.692 indicates that transformational leadership and work motivation collectively explain 69.2% of the variation in employee performance, while the remaining 30.8% is influenced by other factors not examined in this study. Both variables have significant positive coefficients ( $p < 0.05$ ), confirming that transformational leadership and work motivation significantly influence employee performance in MSMEs during the digitalization era.

## Discussion

The findings indicate that transformational leadership positively affects employee performance. This aligns with the theory proposed by Bass and Avolio (1994), which emphasizes that transformational leaders inspire employees through vision, encouragement,

and individualized support. Leaders who apply transformational characteristics foster innovation and adaptability, crucial for MSMEs in the digital era. This result is consistent with the findings of Purwanto et al. (2020), who found that transformational leadership enhances employee engagement and performance through improved communication and trust.

Furthermore, work motivation also significantly influences employee performance. Motivated employees tend to show higher productivity, creativity, and organizational commitment. This result supports Deci and Ryan's (1985) Self-Determination Theory, which posits that intrinsic and extrinsic motivation drive optimal performance. The findings also align with Suprpti and Astawa (2021), who found that motivation mediates the relationship between leadership and performance outcomes.

The simultaneous influence of transformational leadership and motivation suggests that both variables complement each other in shaping employee performance. In the context of MSMEs, where resource limitations are common, effective leadership combined with a motivating environment can increase innovation, resilience, and competitiveness in the digital economy.

### **Theoretical and Practical Implications**

Theoretically, this research strengthens existing leadership and motivation theories by confirming their relevance in the MSME context amid digital transformation. It highlights the interaction between leadership behavior and employee psychological factors in influencing performance outcomes.

Practically, the findings suggest that MSME leaders should cultivate transformational leadership qualities by inspiring, mentoring, and empowering employees. Additionally, MSMEs should design motivation systems—both financial and non-financial—that support employee engagement and creativity. By integrating these strategies, MSMEs can enhance productivity, innovation, and sustainability in the rapidly evolving digitalization era.

## **5. CONCLUSION AND SUGGESTION**

The results of this study conclude that transformational leadership and work motivation have a significant and positive influence on employee performance in Micro, Small, and Medium Enterprises (MSMEs) during the digitalization era. Transformational leadership encourages employees to innovate, commit, and adapt to organizational changes, while work motivation drives enthusiasm, productivity, and persistence in achieving performance targets. Together, these two variables explain a substantial portion of the

variance in employee performance, indicating that effective leadership and motivation are key determinants of success for MSMEs navigating digital transformation.

Based on these findings, MSME leaders are encouraged to strengthen transformational leadership practices by emphasizing vision, inspiration, and personal development among employees. Organizations should also design motivational strategies that address both intrinsic and extrinsic factors—such as recognition, professional growth opportunities, and fair reward systems—to sustain employee engagement and performance. Furthermore, digital skill development programs can enhance both leadership effectiveness and employee adaptability in the face of technological advancement.

This study has limitations, particularly in its focus on a limited number of MSMEs and the use of cross-sectional data, which may not fully capture the dynamic changes in leadership and motivation over time. Future research is recommended to include a broader sample size, adopt a longitudinal approach, and explore moderating factors such as organizational culture or digital readiness to deepen the understanding of how leadership and motivation interact to shape performance outcomes in the evolving digital business landscape.

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