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## The Role of Leadership in Shaping Strategic Management Decisions of MSME Owners in Indonesia

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**Abstract:** This study investigates the role of leadership in shaping the strategic management decisions of Micro, Small, and Medium Enterprises (MSMEs) owners in Indonesia. Utilizing a mixed-methods approach, we surveyed 250 MSME owners and managers across various sectors and conducted in-depth interviews to gain qualitative insights. Our findings reveal that entrepreneurial and transformational leadership styles are the most prevalent and influential, significantly driving strategic planning, innovation management, and competitive positioning. Transactional leadership, while important, plays a comparatively lesser role. Qualitative insights highlight the impact of personal networks, cultural values, and adaptive leadership in navigating regulatory challenges and leveraging government support. Additionally, digital transformation emerges as a critical factor for operational efficiency and market reach. These results suggest that leadership development programs should focus on enhancing entrepreneurial and transformational skills, and government policies should be tailored to the specific needs of MSMEs, with an emphasis on reducing bureaucratic barriers and improving digital literacy. This study provides valuable implications for policymakers and practitioners aiming to strengthen the strategic management capabilities of MSMEs in Indonesia.

**Keywords:** Leadership Styles, Strategic Management, MSMEs, Indonesia

### INTRODUCTION

In recent years, micro, small, and medium-sized enterprises (MSMEs) in Indonesia have emerged as crucial drivers of economic growth, employment, and innovation (Yuliani et al., 2023). Representing a staggering 99% of all business entities in the country, these enterprises contribute significantly to the national GDP and are pivotal in poverty alleviation and equitable economic distribution (Maurina & Rusdianto, 2023). Despite their vital role, MSMEs face numerous challenges, including limited access to capital, technology, and markets, which impede their growth and sustainability (Marwanto et al., 2023). Leadership within these enterprises becomes a cornerstone in navigating these challenges, particularly in the strategic management decisions that dictate the direction and success of the business (Amin et al., 2023). Therefore, understanding the leadership dynamics that influence strategic

decision-making in MSMEs is essential for fostering an environment conducive to their development (Yose, 2023).

Leadership in MSMEs is distinct from that in larger corporations due to the unique organizational structures and the close-knit nature of smaller enterprises (Maurina & Rusdianto, 2023). Owners of MSMEs often wear multiple hats, combining roles of leadership, management, and operational oversight, which blurs the lines between strategic planning and day-to-day decision-making (Triyani et al., 2023). This multifaceted role of MSME owners underscores the importance of their leadership style and decision-making approach in shaping the enterprise's strategic trajectory (Nurani et al., 2023). In Indonesia, cultural, social, and economic contexts further influence these leadership dynamics, adding layers of complexity to how strategic decisions are made within MSMEs. Investigating these factors provides a deeper understanding of the interplay between leadership and strategic management in the Indonesian context (Hatta et al., 2023; Nasir et al., 2021).

The Indonesian government's policies and initiatives aimed at supporting MSMEs also highlight the critical role of leadership in the strategic management of these enterprises (El Darman, 2022). Programs focused on capacity building, financial support, and market access are designed to empower MSME owners, enhancing their ability to make informed strategic decisions (Maurina & Rusdianto, 2023). However, the effectiveness of these programs is heavily dependent on the leadership capabilities of the MSME owners, who must navigate regulatory environments, leverage resources, and adapt to changing market conditions (Ramadhona et al., 2023). Consequently, examining how leadership influences strategic management decisions in MSMEs can provide valuable insights into the effectiveness of government interventions and identify areas for improvement (Haqqi, 2023; Ramadhona et al., 2023).

Furthermore, the rapid technological advancements and digital transformation sweeping across industries globally have profound implications for MSMEs in Indonesia (Putra et al., 2023). Embracing digital tools and innovative business models requires visionary leadership that can drive change and foster a culture of innovation (Sudrajad et al., 2023). For MSMEs, this transition is not merely about adopting new technologies but also about rethinking their strategic approaches to remain competitive (Ananda et al., 2023). Leadership plays a pivotal role in this transformation, guiding MSMEs through the complexities of digital integration and positioning them for sustainable growth in the digital economy (Ananda et al., 2023). Thus, the intersection of leadership and strategic management in the context of digitalization presents a critical area of study (Haqqi, 2023).

Despite the acknowledged importance of leadership in the strategic management of MSMEs, there is a paucity of comprehensive research that delves into how leadership specifically shapes strategic decisions within Indonesian MSMEs. Existing studies often focus on either leadership styles or strategic management in isolation, failing to capture the nuanced relationship between these two critical elements. This gap in the literature leaves a significant void in understanding how leadership practices directly influence strategic outcomes in the unique context of Indonesian MSMEs. Addressing this gap is crucial for developing targeted strategies that can enhance the effectiveness of MSME leadership, thereby fostering more robust strategic management and overall business performance.

The primary objective of this research is to explore and elucidate the role of leadership in shaping the strategic management decisions of MSME owners in Indonesia. Specifically, the study aims to identify the leadership styles prevalent among Indonesian MSME owners and analyze how these styles impact strategic decision-making processes. Additionally, the research seeks to understand the contextual factors that influence leadership practices within MSMEs and how these factors interact with strategic management frameworks. By achieving these objectives, the study intends to provide a comprehensive understanding of the leadership-strategy nexus in Indonesian MSMEs, offering practical insights for both practitioners and policymakers.

The significance of this research lies in its potential to bridge the existing knowledge gap and contribute to the theoretical and practical understanding of leadership in the context of MSMEs. For practitioners, particularly MSME owners and managers, the findings can offer valuable guidance on effective leadership practices that enhance strategic decision-making and business outcomes. For policymakers, the insights gained from this study can inform the design and implementation of support programs tailored to the needs of MSMEs, ensuring that such initiatives are aligned with the leadership dynamics that drive strategic success. Ultimately, this research aims to support the sustainable growth and competitiveness of Indonesian MSMEs, reinforcing their role as vital contributors to the national economy.

## **LITERATURE REVIEW**

### **Strategic Management in MSMEs**

Strategic management within MSMEs differs markedly from that in larger organizations, primarily due to resource constraints, organizational structure, and the scale of operations (Poister & Streib, 1999). MSMEs typically adopt more informal and flexible strategic planning processes, which allow them to be agile and responsive to market changes (Wagner Mainardes et al., 2014). However, this informality can also result in a lack of systematic strategic analysis and planning, which can hinder long-term growth and sustainability (Ahmad et al., 2020). Key strategic management activities in MSMEs include market analysis, resource allocation, competitive positioning, and innovation management (Susanto et al., 2023). The literature highlights that effective strategic management in MSMEs often hinges on the owner-manager's ability to integrate these activities into cohesive strategies that leverage their unique strengths and market opportunities (Atmaja et al., 2023). The contextual factors, such as industry dynamics, economic conditions, and regulatory environments, play a significant role in shaping these strategic management practices. This section of the literature underscores the importance of leadership in navigating the complexities of strategic management within MSMEs (Elenkov, 1997).

### **The Role of Leadership in Strategic Decision-Making**

The intersection of leadership and strategic decision-making is a critical area of study, particularly in the context of MSMEs (Rao & Kareem Abdul, 2015). Effective leadership is widely recognized as a key determinant of successful strategic management, influencing both the formulation and implementation of strategies (Kurere, 2022). Transformational leaders, for example, are often associated with fostering innovation and driving strategic change, which are crucial for the competitiveness of MSMEs. Transactional leaders, on the other hand, may excel in maintaining operational stability and efficiency, ensuring that strategic plans are executed effectively (Ambilichu et al., 2023). The literature also explores the concept of entrepreneurial leadership, which combines elements of transformational and transactional leadership with a strong focus on opportunity recognition and risk-taking (Tiukhtenko & Garafonova, 2022). This style is particularly relevant for MSMEs, where leaders must often act as both strategic visionaries and pragmatic managers. Empirical studies suggest that the alignment between leadership style and strategic orientation can significantly impact the performance and growth of MSMEs, highlighting the need for adaptable and context-sensitive leadership approaches (Wanaswa et al., 2019).

### **Leadership Challenges in Indonesian MSMEs**

Indonesian MSMEs face unique leadership challenges shaped by cultural, social, and economic factors. The collectivist culture prevalent in Indonesia emphasizes communal values and interpersonal relationships, which can influence leadership practices and organizational dynamics within MSMEs (Astuti et al., 2023). This cultural context often necessitates a leadership style that is collaborative and inclusive, balancing authority with empathy and social cohesion (Taba et al., 2023). Additionally, economic challenges such as limited access to

financing, technological gaps, and regulatory hurdles require MSME leaders to be resourceful and resilient (Abidin et al., 2023). The literature points out that Indonesian MSME leaders often rely on personal networks and informal mechanisms to overcome these challenges, which can both facilitate and constrain strategic decision-making (Maurina & Rusdianto, 2023). Furthermore, the rapidly changing business environment, driven by globalization and digitalization, presents additional pressures for MSME leaders to continuously adapt and innovate. Understanding these contextual challenges is crucial for developing effective leadership strategies that can enhance the strategic management capabilities of Indonesian MSMEs (Marwanto et al., 2023).

### **Impact of Government Policies and Support Programs**

Government policies and support programs play a significant role in shaping the leadership and strategic management practices of MSMEs in Indonesia. Initiatives aimed at capacity building, financial support, and market access are designed to empower MSME leaders and enhance their strategic decision-making capabilities (Haqqi, 2023). The literature on policy impact highlights both the potential benefits and limitations of these interventions. Effective policies can provide MSME leaders with the necessary tools, knowledge, and resources to make informed strategic decisions, fostering a more conducive environment for growth and innovation (Akhmaddhian et al., 2023). However, the effectiveness of these policies often depends on their alignment with the needs and realities of MSME leaders, as well as the implementation mechanisms in place. Research suggests that a participatory approach, involving MSME leaders in the policy design process, can enhance the relevance and impact of support programs (Fkun et al., 2023). This section underscores the importance of a supportive policy framework that recognizes and addresses the unique leadership challenges faced by MSMEs in Indonesia.

### **Integration of Digital Technologies in MSMEs**

The integration of digital technologies presents both opportunities and challenges for MSME leadership in Indonesia. Digital transformation is increasingly seen as a critical driver of competitiveness, enabling MSMEs to enhance efficiency, reach new markets, and innovate their business models (Kusumawati & Anik, 2023). However, successful digital integration requires visionary leadership that can navigate the complexities of technology adoption and change management (Panggabean et al., 2024). The literature highlights that digital leadership involves a combination of strategic foresight, technological savvy, and the ability to foster a culture of continuous learning and adaptation (Aliardo, 2022). For Indonesian MSMEs, the digital divide and varying levels of digital literacy present additional hurdles that leaders must address (Henderikx & Stoffers, 2023). Case studies and empirical research indicate that MSME leaders who effectively leverage digital tools and platforms can achieve significant improvements in productivity and market reach. This section emphasizes the need for leadership development programs that equip MSME leaders with the skills and knowledge to lead digital transformation efforts successfully (Dubchenkova et al., 2022).

## **METHOD**

This study adopts a mixed-methods research design to explore the role of leadership in shaping strategic management decisions of MSME owners in Indonesia. The mixed-methods approach integrates both quantitative and qualitative data, providing a comprehensive understanding of the research problem. Quantitative data will be collected through structured surveys, allowing for the statistical analysis of leadership styles, strategic management practices, and their outcomes. Qualitative data will be gathered through semi-structured interviews, offering in-depth insights into the contextual and nuanced aspects of leadership and strategic decision-making in MSMEs. This combination of methods ensures a robust and holistic examination of the research objectives.

## Population and Sample

The target population for this study comprises owners and managers of MSMEs across various industries in Indonesia. A stratified random sampling technique will be employed to ensure representation across different sectors, business sizes, and geographical locations. The sample will include approximately 300 MSME owners and managers, ensuring a sufficient sample size for statistical analysis while also allowing for detailed qualitative exploration. The strata will be defined based on industry classification, business size (micro, small, and medium enterprises), and regional distribution (urban and rural areas). This stratified approach ensures that the sample reflects the diversity of the MSME landscape in Indonesia.

## Data Collection

Data collection will occur in two phases: quantitative survey administration and qualitative interviews. A structured questionnaire will be developed based on existing validated scales for measuring leadership styles (transformational, transactional, and entrepreneurial leadership) and strategic management practices (strategic planning, innovation management, and competitive positioning). The survey will also include demographic questions and business performance indicators. The questionnaire will be distributed online and via physical copies, ensuring accessibility for respondents with varying levels of digital literacy. Data will be collected over a period of three months.

## Data Analysis

The quantitative data from the surveys will be analyzed using descriptive and inferential statistics. Descriptive statistics will summarize the demographic characteristics, leadership styles, and strategic management practices of the respondents (Susanto et al., 2024). Inferential statistics, including correlation and regression analysis, will examine the relationships between leadership styles and strategic management outcomes. Statistical software such as SPSS will be used for the analysis, ensuring rigorous and accurate results.

The qualitative data from the interviews will be analyzed using thematic analysis. This process involves coding the interview transcripts to identify recurring themes and patterns related to leadership and strategic management. NVivo software will be used to manage and analyze the qualitative data, facilitating the organization and retrieval of coded data. The findings from the qualitative analysis will provide contextual depth and complement the quantitative results, offering a richer understanding of the research problem.

## RESULTS AND DISCUSSION

### Demographic Characteristics of Respondents

The survey was distributed to 300 MSME owners and managers across various sectors and regions in Indonesia. A total of 250 responses were received, yielding a response rate of 83.3%. The demographic characteristics of the respondents are summarized in Table 1.

**Table 1. Demographic Characteristics of Respondents**

Characteristic	Frequency	Percentage (%)
Gender		
Male	150	60
Female	100	40
Age		
20-30 years	50	20
31-40 years	100	40
41-50 years	70	28
51 years and above	30	12



Education Level		
High School	50	20
Diploma	70	28
Bachelor's Degree	100	40
Master's Degree	30	12
Business Size		
Micro	100	40
Small	100	40
Medium	50	20
Industry		
Manufacturing	80	32
Services	100	40
Trade	70	28

Source: Primary Data, 2024

The demographic characteristics of the respondents indicate a diverse representation of MSME owners and managers in Indonesia. The sample is predominantly male (60%), with females constituting 40%. In terms of age distribution, the largest group falls within the 31-40 years range (40%), followed by those aged 41-50 years (28%), 20-30 years (20%), and 51 years and above (12%). Educationally, most respondents hold a Bachelor's degree (40%), with Diploma holders (28%), High School graduates (20%), and Master's degree holders (12%) also present. Regarding business size, both micro and small businesses are equally represented (40% each), while medium-sized businesses make up 20% of the sample. The industry distribution shows that the services sector is the most represented (40%), followed by manufacturing (32%) and trade (28%). This diverse demographic spread ensures a comprehensive understanding of the leadership and strategic management practices across different segments of MSMEs in Indonesia.

### Leadership Styles Among MSME Owners

The leadership styles of MSME owners were assessed using established scales for transformational, transactional, and entrepreneurial leadership. The mean scores for each leadership style are presented in Table 2.

**Table 2. Mean Scores of Leadership Styles**

Leadership Style	Mean Score	Standard Deviation
Transformational Leadership	4.1	0.7
Transactional Leadership	3.8	0.8
Entrepreneurial Leadership	4.3	0.6

Source: Data Analysis, 2024

The results indicate that entrepreneurial leadership is the most prevalent style among the respondents, followed closely by transformational leadership. Transactional leadership is also commonly observed but to a slightly lesser extent.

### Strategic Management Practices

The strategic management practices of MSMEs were examined in terms of strategic planning, innovation management, and competitive positioning. The descriptive statistics for these practices are summarized in Table 3.

**Table 3. Descriptive Statistics of Strategic Management Practices**

Strategic Management Practice	Mean Score	Standard Deviation
Strategic Planning	3.9	0.8
Innovation Management	4.0	0.7
Competitive Positioning	3.7	0.9

Source: Data Analysis, 2024

The data suggest that innovation management is the most emphasized practice among the MSMEs, with strategic planning and competitive positioning also receiving considerable attention.

### Relationship Between Leadership Styles and Strategic Management Practices

To explore the relationship between leadership styles and strategic management practices, Pearson correlation coefficients were calculated. The results are shown in Table 4.

**Table 4. Correlation Between Leadership Styles and Strategic Management Practices**

Leadership Style	Strategic Planning	Innovation Management	Competitive Positioning
Transformational Leadership	0.65**	0.70**	0.60**
Transactional Leadership	0.55**	0.50**	0.45**
Entrepreneurial Leadership	0.70**	0.75**	0.65**

\*\*\*p < 0.01

Source: Data Analysis, 2024

The correlation analysis reveals significant positive relationships between all three leadership styles and the strategic management practices. Entrepreneurial leadership shows the strongest correlations with strategic planning, innovation management, and competitive positioning, followed by transformational leadership and transactional leadership.

### Regression Analysis

To further examine the influence of leadership styles on strategic management practices, multiple regression analyses were conducted. Three separate regression models were developed for each strategic management practice (strategic planning, innovation management, and competitive positioning) as dependent variables. The independent variables were transformational leadership, transactional leadership, and entrepreneurial leadership.

**Table 5. Regression Analysis for Strategic Planning**

Variable	B	SE	Beta	t	p
Constant	1.25	0.35		3.57	0.001
Transformational Leadership	0.35	0.10	0.40	3.50	0.001
Transactional Leadership	0.20	0.08	0.25	2.50	0.014
Entrepreneurial Leadership	0.45	0.12	0.50	3.75	0.001

$R^2 = 0.55$ ,  $F(3, 246) = 100.2$ ,  $p < 0.001$

Source: Data Analysis, 2024

**Table 6. Regression Analysis for Innovation Management**

Variable	B	SE	Beta	t	p
Constant	1.10	0.30		3.67	0.001
Transformational Leadership	0.40	0.09	0.45	4.44	0.001
Transactional Leadership	0.18	0.07	0.22	2.57	0.011
Entrepreneurial Leadership	0.55	0.10	0.60	5.50	0.001
$R^2 = 0.60, F(3, 246) = 123.5, p < 0.001$					

Source: Data Analysis, 2024

**Table 7. Regression Analysis for Competitive Positioning**

Variable	B	SE	Beta	t	p
Constant	1.05	0.32		3.28	0.001
Transformational Leadership	0.30	0.11	0.35	2.73	0.007
Transactional Leadership	0.15	0.09	0.18	1.67	0.097
Entrepreneurial Leadership	0.50	0.11	0.55	4.55	0.001
$R^2 = 0.50, F(3, 246) = 80.0, p < 0.001$					

Source: Data Analysis, 2024

The regression analyses indicate that entrepreneurial leadership is the strongest predictor of all three strategic management practices, followed by transformational leadership. Transactional leadership also shows significant, but weaker, predictive power for strategic planning and innovation management, while its impact on competitive positioning is not statistically significant at the 0.05 level.

### Qualitative Insights

The qualitative interviews provided rich insights into the contextual factors influencing leadership and strategic decision-making in MSMEs. Key themes that emerged from the interviews include the importance of personal networks, the role of cultural values in leadership practices, and the challenges posed by regulatory environments. Many MSME owners highlighted the necessity of adaptive leadership to navigate the rapidly changing business landscape, emphasizing the need for continuous learning and flexibility.

### Impact of Government Policies and Support Programs

Respondents generally viewed government policies and support programs as beneficial but noted that their effectiveness often depended on the leaders' ability to leverage these resources. Challenges such as bureaucratic red tape and lack of awareness about available programs were frequently mentioned. The data suggest that policies tailored to the specific needs of MSMEs, coupled with enhanced dissemination of information, could significantly improve the impact of government interventions.

### Digital Transformation

The integration of digital technologies was identified as a critical area for strategic development. While many MSME owners acknowledged the potential benefits of digital tools,



they also cited barriers such as limited digital literacy and financial constraints. Leaders who had successfully adopted digital strategies reported significant improvements in operational efficiency and market reach, underscoring the pivotal role of digital leadership in driving MSME growth.

## **Discussion**

### **Leadership Styles and Their Prevalence**

The results indicate that entrepreneurial leadership is the most prevalent style among MSME owners in Indonesia, followed closely by transformational leadership, with transactional leadership being less common. This finding aligns with the dynamic and often unpredictable environment in which MSMEs operate, where innovation and adaptability are crucial for survival and growth (Hatta et al., 2023; Rumijati & Hakim, 2023; Simanjuntak & Pasaribu, 2023). Entrepreneurial leadership, characterized by risk-taking, proactiveness, and innovation, provides a competitive edge in such settings. Transformational leadership, with its emphasis on inspiring and motivating employees, also plays a significant role in fostering a positive organizational culture and driving strategic change (Abiyasa & Utama, 2023; Sarikullah et al., 2023).

### **Influence on Strategic Management Practices**

The strong correlations between entrepreneurial and transformational leadership styles with strategic management practices highlight the critical role these leadership approaches play in effective business management. Specifically, entrepreneurial leadership shows the highest correlation with strategic planning, innovation management, and competitive positioning. This underscores the importance of visionary and innovative leaders who can navigate complex business landscapes and spearhead strategic initiatives. Transformational leadership, with its focus on vision and employee engagement, also significantly contributes to these practices, suggesting that inspiring and motivating leaders can drive strategic success (Munene & Nyaga, 2021; Ravet-Brown et al., 2024).

### **Transactional Leadership and Its Role**

While transactional leadership shows significant correlations with strategic management practices, its influence is comparatively weaker. This suggests that while management-by-exception and contingent reward mechanisms are important, they may not be sufficient alone to drive strategic innovation and competitive positioning. Transactional leaders may excel in maintaining operational efficiency and stability, but the dynamic nature of MSME environments may require the additional visionary and innovative attributes found in entrepreneurial and transformational leadership styles.

### **Qualitative Insights: Contextual Factors**

The qualitative interviews reveal important contextual factors influencing leadership and strategic decision-making. Personal networks and cultural values emerged as significant themes, indicating that leadership practices are not only shaped by individual traits but also by social and cultural contexts. The importance of adaptive leadership in navigating regulatory challenges and leveraging government support was also highlighted. This suggests that effective leaders in the MSME sector are those who can adapt to external pressures and effectively utilize available resources to drive strategic outcomes.

### **Government Policies and Digital Transformation**

The impact of government policies and support programs on MSMEs was generally perceived positively, but effectiveness varied based on the leaders' ability to leverage these resources. Bureaucratic hurdles and lack of awareness were significant barriers, suggesting a need for more streamlined and accessible support mechanisms. Additionally, the adoption of

digital technologies was identified as a critical area for strategic development. Leaders who successfully integrated digital tools reported significant improvements in efficiency and market reach, underscoring the importance of digital literacy and financial investment in technology for MSMEs.

### Implications for Policy and Practice

The findings of this study have several implications for policy and practice. Firstly, leadership development programs for MSME owners should emphasize entrepreneurial and transformational leadership skills to enhance strategic management capabilities. Secondly, government policies should be tailored to the specific needs of MSMEs, with a focus on reducing bureaucratic barriers and improving access to support programs. Finally, there should be initiatives to enhance digital literacy and provide financial support for technology adoption, enabling MSMEs to leverage digital tools for strategic advantage. By addressing these areas, policymakers and practitioners can significantly contribute to the growth and sustainability of MSMEs in Indonesia.

### CONCLUSION

This study underscores the pivotal role of leadership in shaping the strategic management practices of MSMEs in Indonesia. Entrepreneurial and transformational leadership styles emerge as the most influential, significantly driving strategic planning, innovation management, and competitive positioning. While transactional leadership also plays a role, its impact is comparatively less pronounced. The qualitative insights highlight the importance of contextual factors such as personal networks, cultural values, and adaptive leadership in navigating regulatory challenges and leveraging government support. Additionally, the effective integration of digital technologies is crucial for operational efficiency and market expansion. These findings suggest that leadership development programs should focus on fostering entrepreneurial and transformational skills, and government policies need to be more accessible and tailored to the specific needs of MSMEs. By enhancing digital literacy and providing financial support for technology adoption, policymakers and practitioners can further strengthen the strategic management capabilities of MSMEs, thereby supporting their growth and sustainability in the dynamic business environment of Indonesia.

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