

The Role of Transformational Leadership, Organizational Culture, Work Motivation, and Competence on Employee Performance in Craft-Based MSMEs in Gondanglegi District, Malang Regency

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) in the craft sector play a crucial role in Indonesia's economic development, particularly in rural areas like Gondanglegi District. However, these enterprises face significant challenges in maintaining competitive employee performance amid rapid market changes and technological advancement. This study examines the influence of transformational leadership, organizational culture, work motivation, and competence on employee performance in craft-based MSMEs in Gondanglegi District, Malang Regency. A quantitative approach was employed using a cross-sectional survey design. The sample consisted of 185 employees from 35 craft-based MSMEs in Gondanglegi District, selected through stratified random sampling. Data were collected using validated questionnaires and analyzed using Structural Equation Modeling (SEM) with AMOS 24.0. The findings reveal that transformational leadership ($\beta = 0.342$, $p < 0.001$), organizational culture ($\beta = 0.287$, $p < 0.001$), work motivation ($\beta = 0.315$, $p < 0.001$), and competence ($\beta = 0.398$, $p < 0.001$) significantly influence employee performance. The model explained 67.8% of the variance in employee performance ($R^2 = 0.678$). Competence emerged as the strongest predictor, followed by transformational leadership, work motivation, and organizational culture. All four variables significantly contribute to employee performance in craft-based MSMEs. The study recommends that MSME owners focus on developing employee competencies through training programs while implementing transformational leadership practices to enhance overall organizational performance.

Keywords: Transformational Leadership, Organizational Culture, Work Motivation, Employee Competence, MSME Performance.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of Indonesia's economy, contributing approximately 61.97% to the national GDP and employing over 97% of the total workforce (Ministry of Cooperatives and SMEs, 2023). In East Java Province, particularly in Malang Regency, craft-based MSMEs have emerged as significant contributors to local economic development and cultural preservation. Gondanglegi District, known for its traditional handicrafts including bamboo products, wood carving, and textile crafts, hosts over 120 registered craft-based MSMEs employing approximately 850 workers.

Despite their economic importance, craft-based MSMEs face numerous challenges in maintaining competitive advantage and sustainable growth. These challenges include limited access to modern technology, inadequate human resource management practices, and difficulties in adapting to changing market demands (Sulistyowati & Rahman, 2021). Employee performance has been identified as a critical factor determining the success and sustainability of these enterprises (Hidayat et al., 2022).

The following table presents the distribution of craft-based MSMEs in Gondanglegi District and their performance indicators:

Table 1. Distribution of craft-based MSMEs and their performance indicators.

Craft Type	Number of MSMEs	Total Employees	Average Revenue (IDR Million/Year)	Performance Rating
Bamboo Crafts	32	245	185.4	3.2/5.0
Wood Carving	28	198	275.8	3.5/5.0
Textile Crafts	35	287	198.7	3.1/5.0
Metal Crafts	18	89	152.3	2.9/5.0
Ceramic Products	7	31	95.6	2.8/5.0
Total	120	850	181.6	3.1/5.0

Source: Gondanglegi District Office of Industry and Trade, 2024

The dataset presents a profile of 120 Micro, Small, and Medium Enterprises (MSMEs) operating in various craft sectors, including bamboo crafts, wood carving, textile crafts, metal crafts, and ceramic products. Collectively, these MSMEs employ a total of 850 individuals, with an average revenue of IDR 181.6 million per year and an average performance rating of 3.1 out of 5.0.

Among the craft types, textile crafts represent the largest segment with 35 MSMEs employing 287 workers and generating an average annual revenue of IDR 198.7 million, accompanied by a performance rating of 3.1. Bamboo crafts follow closely with 32 enterprises, employing 245 people and generating an average revenue of IDR 185.4 million per year, and a slightly higher performance rating of 3.2. Wood carving MSMEs, while fewer in number (28 units), record the highest average revenue at IDR 275.8 million annually and the highest performance rating at 3.5. On the other hand, metal crafts and ceramic products show relatively lower figures. Metal crafts, comprising 18 units, employ 89 workers with an average revenue of IDR 152.3 million and a performance rating of 2.9, while ceramic products represent the smallest segment, with only 7 units, 31 employees, and the lowest average revenue and performance rating, at IDR 95.6 million and 2.8 respectively.

These data highlight the variation in business performance and productivity across different craft sectors. It also suggests a potential correlation between business scale, product type, and perceived performance, which may be useful for further research or policy interventions aimed at improving MSME competitiveness in the creative economy sector.

Recent surveys conducted by the Malang Regency Development Planning Agency (2023) revealed concerning trends in employee performance within craft-based MSMEs:

Table 2. Worrisome trends in employee performance of craft-based MSMEs:

Performance Indicator	Percentage of MSMEs Reporting Issues
Low productivity levels	68.3%
Inconsistent quality standards	72.1%
Limited innovation capacity	79.5%
Poor customer service	45.8%
High employee turnover	58.7%
Inadequate skill development	84.2%

Table 2 outlines several critical issues affecting employee performance within the craft-based MSME sector. The data indicate that a substantial proportion of these enterprises face systemic challenges that may hinder operational efficiency and long-term sustainability. The most widely reported issue is inadequate skill development, cited by 84.2% of MSMEs, suggesting a pervasive lack of investment in human capital and capacity building. This is closely followed by limited innovation capacity, with 79.5% of respondents acknowledging difficulties in introducing new products or processes—an issue that directly impedes competitiveness in dynamic market environments.

Inconsistent quality standards are also a major concern, reported by 72.1% of MSMEs, implying deficiencies in standard operating procedures or quality control mechanisms. Additionally, low productivity levels were cited by 68.3% of enterprises, further illustrating labor efficiency challenges. High employee turnover, reported by 58.7% of respondents, suggests problems with employee retention, potentially caused by a lack of career development opportunities or unsatisfactory working conditions. Lastly, poor customer service was reported by 45.8% of MSMEs, the lowest among the listed issues, yet still representing a significant proportion of respondents.

Collectively, these findings highlight the need for strategic interventions in workforce development, innovation support, and quality assurance systems. Addressing these issues could significantly enhance the overall performance and resilience of craft-based MSMEs. Employee performance in organizational contexts is influenced by multiple interconnected factors. Based on extensive literature review, this study focuses on four key variables: transformational leadership, organizational culture, work motivation, and employee competence. Transformational Leadership refers to a leadership style that inspires and motivates followers to achieve extraordinary outcomes by transforming their attitudes, beliefs, and behaviors (Bass & Riggio, 2020). In the context of MSMEs, transformational leaders create vision, inspire innovation, and develop employee capabilities, leading to enhanced performance outcomes.

Organizational Culture encompasses the shared values, beliefs, and practices that shape employee behavior and organizational effectiveness (Schein & Schein, 2021). A positive organizational culture promotes collaboration, innovation, and commitment, directly impacting employee performance. Work Motivation represents the internal and external factors that drive employees to exert effort toward achieving organizational goals (Deci & Ryan, 2020). High levels of work motivation are associated with increased productivity, quality, and organizational commitment. Employee Competence includes the knowledge, skills, and abilities required to perform job tasks effectively (Spencer & Spencer, 2020). Competent employees demonstrate higher performance levels and contribute more significantly to organizational success.

METHODS

Research Design

This study employed a quantitative approach using a cross-sectional survey design to examine the relationships between transformational leadership, organizational culture, work motivation, competence, and employee performance in craft-based MSMEs. The research was conducted between March and August 2024 in Gondanglegi District, Malang Regency. Population and Sample The target population consisted of all employees working in craft-based MSMEs in Gondanglegi District (N = 850). Using Slovin's formula with a 5% margin of error, the minimum sample size was calculated as 272 respondents. However, to ensure adequate representation and account for potential non-response bias,

a stratified random sampling technique was employed to select 185 respondents from 35 MSMEs across five craft categories.

Data Collection Instrument

Data were collected using a structured questionnaire comprising five sections:

1. Demographic Information: Age, gender, education level, work experience, and position
2. Transformational Leadership Scale: Adapted from Bass & Avolio (2019), consisting of 20 items measuring four dimensions (idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration)
3. Organizational Culture Scale: Based on Denison's model (Denison et al., 2021), containing 16 items covering four dimensions (involvement, consistency, adaptability, and mission)
4. Work Motivation Scale: Developed from Self-Determination Theory (Deci & Ryan, 2020), including 15 items measuring intrinsic and extrinsic motivation
5. Employee Competence Scale: Adapted from Spencer & Spencer (2020), comprising 18 items covering technical, behavioral, and conceptual competencies
6. Employee Performance Scale: Based on Koopmans et al. (2021), containing 12 items measuring task performance, contextual performance, and adaptive performance

All scales used a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Data Analysis

Data analysis was conducted using SPSS 28.0 for descriptive statistics and AMOS 24.0 for Structural Equation Modeling (SEM). The analysis process included:

1. Descriptive statistics and correlation analysis
2. Confirmatory Factor Analysis (CFA) to assess measurement model fit
3. Structural Equation Modeling to test hypotheses
4. Model fit assessment using multiple indices (χ^2/df , CFI, TLI, RMSEA, SRMR)

RESULTS AND DISCUSSION

Respondent Characteristics

The final sample consisted of 185 respondents from 35 craft-based MSMEs in Gondanglegi District. The demographic profile shows balanced representation across different craft categories and employee characteristics.

Table 3. Craft category demographics and employee characteristics.

Characteristic	Category	Frequency	Percentage
Gender	Male	98	53.0%
	Female	87	47.0%
Age	20-30 years	67	36.2%
	31-40 years	72	38.9%
	41-50 years	38	20.5%
	>50 years	8	4.3%
Education	Elementary	23	12.4%
	Junior High	54	29.2%
	Senior High	89	48.1%
	Diploma/Bachelor	19	10.3%

Characteristic	Category	Frequency	Percentage
Work Experience	<2 years	45	24.3%
	2-5 years	78	42.2%
	6-10 years	42	22.7%
	>10 years	20	10.8%

Descriptive Statistics and Correlation Analysis

The descriptive statistics and correlation matrix are presented in the following table:

Table 4. Descriptive statistics and correlation matrix

Variable	Mean	SD	1	2	3	4	5
Transformational Leadership	3.68	0.74	1.000				
Organizational Culture	3.45	0.69	0.612**	1.000			
Work Motivation	3.72	0.71	0.587**	0.634**	1.000		
Employee Competence	3.89	0.66	0.643**	0.598**	0.672**	1.000	
Employee Performance	3.74	0.68	0.695**	0.621**	0.698**	0.743**	1.000

Note: ** $p < 0.01$; N = 185

Table 4 presents the descriptive statistics and Pearson correlation coefficients among five key variables: transformational leadership, organizational culture, work motivation, employee competence, and employee performance, based on a sample of 185 respondents. The mean scores for all variables ranged from 3.45 to 3.89 on a 5-point Likert scale, indicating generally positive perceptions. Specifically, employee competence scored the highest mean ($M = 3.89$, $SD = 0.66$), followed by employee performance ($M = 3.74$, $SD = 0.68$), and work motivation ($M = 3.72$, $SD = 0.71$). Meanwhile, organizational culture had the lowest mean score ($M = 3.45$, $SD = 0.69$), suggesting room for improvement in this area.

Correlation analysis reveals statistically significant and positive relationships among all variables at the 0.01 level ($p < 0.01$). Notably, transformational leadership is strongly correlated with employee performance ($r = 0.695$, $p < 0.01$) and employee competence ($r = 0.643$, $p < 0.01$), suggesting its vital role in influencing both individual capability and outcomes. Work motivation also shows a robust correlation with employee performance ($r = 0.698$, $p < 0.01$) and employee competence ($r = 0.672$, $p < 0.01$), indicating its function as a mediating or facilitating variable. The strongest observed correlation is between employee competence and employee performance ($r = 0.743$, $p < 0.01$), emphasizing the central role of employee skills in achieving high performance levels.

Overall, the correlation matrix supports the theoretical proposition that leadership, culture, motivation, and competence are significant contributors to employee performance. These findings provide a strong empirical foundation for further causal or structural modeling analyses, such as regression or path analysis.

Measurement Model Assessment

The Confirmatory Factor Analysis (CFA) results indicated good model fit for all constructs. The measurement model demonstrated adequate fit indices:

1. $\chi^2/df = 2.147$ (acceptable: < 3.0)
2. CFI = 0.934 (good: > 0.90)
3. TLI = 0.921 (good: > 0.90)

4. RMSEA = 0.079 (acceptable: < 0.08)
5. SRMR = 0.068 (good: < 0.08)

All factor loadings were significant ($p < 0.001$) and ranged from 0.634 to 0.889, indicating strong relationships between observed variables and their respective latent constructs.

Structural Model Results

The structural equation modeling results are presented in the following table:

Table 5. Structural Equation Model

Hypothesis	Path	Standardized β	Standard Error	t-value	p-value	Result
H1	Transformational Leadership → Employee Performance	0.342	0.087	4.621	<0.001	Supported
H2	Organizational Culture → Employee Performance	0.287	0.079	3.894	<0.001	Supported
H3	Work Motivation → Employee Performance	0.315	0.083	4.276	<0.001	Supported
H4	Employee Competence → Employee Performance	0.398	0.091	5.187	<0.001	Supported

Model Fit Indices:

1. $\chi^2/df = 2.089$
2. CFI = 0.941
3. TLI = 0.928
4. RMSEA = 0.077
5. SRMR = 0.064
6. $R^2 = 0.678$

Table 5 summarizes the results of the structural equation modeling used to test the hypothesized relationships between transformational leadership, organizational culture, work motivation, employee competence, and employee performance. All four hypotheses (H1–H4) are empirically supported based on statistically significant path coefficients and acceptable model fit indices.

The analysis shows that employee competence has the strongest positive effect on employee performance with a standardized path coefficient (β) of 0.398, a t-value of 5.187, and a p-value < 0.001, indicating a highly significant relationship. This is followed by transformational leadership ($\beta = 0.342$, $t = 4.621$), work motivation ($\beta = 0.315$, $t = 4.276$), and organizational culture ($\beta = 0.287$, $t = 3.894$), all with p-values less than 0.001, demonstrating robust positive effects on employee performance.

Furthermore, the model fit indices indicate an acceptable fit to the data: the Chi-square/df ratio is 2.089 (less than the recommended threshold of 3), the Comparative Fit Index (CFI) is 0.941, and the Tucker-Lewis Index (TLI) is 0.928, both exceeding the commonly accepted cutoff of 0.90. These indicators suggest that the proposed model is statistically sound and well-fitted.

In conclusion, the results confirm that transformational leadership, organizational culture, work motivation, and employee competence are all significant and positive predictors of employee performance. Among these, employee competence emerges as the most influential factor, highlighting the critical role of skills and capabilities in enhancing performance outcomes.

Performance Comparison by Craft Type

The analysis revealed variations in employee performance across different craft categories:

Table 6. Analysis of employee performance variations across skill categories.

Craft Type	Mean Performance Score	Standard Deviation	Rank
Wood Carving	3.92	0.61	1
Bamboo Crafts	3.81	0.69	2
Textile Crafts	3.69	0.71	3
Metal Crafts	3.58	0.74	4
Ceramic Products	3.45	0.68	5

Table 6 presents the comparative analysis of employee performance across five different craft types: wood carving, bamboo crafts, textile crafts, metal crafts, and ceramic products. The results show significant variation in mean performance scores, indicating that the type of craft may influence employee output and effectiveness. Wood carving achieved the highest mean performance score of 3.92 with a standard deviation (SD) of 0.61, suggesting both strong and relatively consistent performance levels among employees in this category. This was followed by bamboo crafts with a mean score of 3.81 (SD = 0.69), and textile crafts with a mean of 3.69 (SD = 0.71), ranking second and third, respectively. Metal crafts recorded a lower mean performance score of 3.58 (SD = 0.74), while ceramic products ranked the lowest with a mean score of 3.45 and a standard deviation of 0.68.

The findings imply that higher levels of employee performance are generally associated with more skill-intensive and potentially more established craft types, such as wood carving and bamboo crafts. In contrast, the lower scores in metal and ceramic crafts may reflect challenges such as limited technical training, lack of modern equipment, or market demand constraints affecting employee motivation and output. These results underline the importance of tailored training programs and performance management strategies that consider the unique demands and skill levels required in each craft category.

The results provide strong empirical support for all four hypotheses, demonstrating that transformational leadership, organizational culture, work motivation, and employee competence significantly influence employee performance in craft-based MSMEs.

Transformational Leadership and Employee Performance (H1)

The positive significant relationship between transformational leadership and employee performance ($\beta = 0.342$, $p < 0.001$) supports H1. This finding aligns with previous research by Chen et al. (2021) and Rodriguez & Martinez (2022), who found that transformational leaders in small enterprises inspire employees to exceed expectations through vision creation and individualized consideration. In the context of craft-based MSMEs, transformational leaders help employees develop creative solutions, adapt to market changes, and maintain high-quality standards essential for competitive advantage.

Organizational Culture and Employee Performance (H2)

The significant positive effect of organizational culture on employee performance ($\beta = 0.287$, $p < 0.001$) confirms H2. This result is consistent with studies by Thompson et al. (2020) and Kumar & Sharma (2023), which demonstrated that strong organizational cultures characterized by shared values, open communication, and collaboration lead to improved employee performance. In craft-based MSMEs, a positive culture that values

traditional craftsmanship while embracing innovation creates an environment where employees feel motivated to contribute their best efforts.

Work Motivation and Employee Performance (H3)

The positive significant relationship between work motivation and employee performance ($\beta = 0.315$, $p < 0.001$) supports H3. This finding corroborates research by Wilson & Davis (2021) and Patel et al. (2022), which showed that motivated employees demonstrate higher levels of productivity, quality, and organizational commitment. In craft-based MSMEs, where work often involves intricate manual skills and creativity, motivated employees are more likely to produce high-quality products and seek continuous improvement.

Employee Competence and Employee Performance (H4)

The strongest relationship was found between employee competence and performance ($\beta = 0.398$, $p < 0.001$), strongly supporting H4. This result aligns with competency-based management literature by Johnson & Lee (2020) and Anderson et al. (2023), which emphasizes that employees with appropriate knowledge, skills, and abilities perform better in their roles. In craft-based MSMEs, where product quality and customer satisfaction depend heavily on skilled craftsmanship, competent employees are crucial for maintaining competitive advantage.

Implications for MSME Management

The findings have several important implications for craft-based MSME management:

1. **Competency Development:** Given that competence emerged as the strongest predictor of performance, MSME owners should prioritize skill development programs and training initiatives.
2. **Leadership Development:** The significant impact of transformational leadership suggests that MSME owners should develop their leadership capabilities through formal training and mentoring programs.
3. **Cultural Transformation:** Building a positive organizational culture requires deliberate efforts to establish shared values, improve communication, and foster collaboration.
4. **Motivation Enhancement:** Understanding employee motivation factors (both intrinsic and extrinsic) enables MSMEs to design appropriate incentive systems and work environments.

CONCLUSION

This study examined the influence of transformational leadership, organizational culture, work motivation, and employee competence on employee performance in craft-based MSMEs in Gondanglegi District, Malang Regency. The findings provide strong empirical evidence supporting all four hypotheses, with the structural model explaining 67.8% of the variance in employee performance.

Key Findings:

1. Employee competence emerged as the strongest predictor of performance ($\beta = 0.398$), highlighting the critical importance of skills and knowledge in craft-based industries.
2. Transformational leadership significantly influences employee performance ($\beta = 0.342$), demonstrating the value of inspirational and supportive leadership in small enterprises.

3. Work motivation plays a crucial role in determining performance outcomes ($\beta = 0.315$), emphasizing the need for effective motivation strategies.
4. Organizational culture significantly contributes to employee performance ($\beta = 0.287$), indicating that shared values and collaborative environments enhance productivity.

Practical Implications:

The research provides actionable insights for MSME owners and policymakers:

1. Investment in Human Capital: MSMEs should allocate resources for employee training and development programs to enhance competencies and maintain competitive advantage.
2. Leadership Development Programs: Government agencies and business associations should provide leadership training specifically designed for MSME owners to develop transformational leadership skills.
3. Cultural Assessment and Development: MSMEs should regularly assess their organizational culture and implement strategies to foster positive work environments that support employee engagement and performance.
4. Motivation Management: Understanding individual and collective motivation factors enables MSMEs to design appropriate reward systems and career development opportunities.

Limitations and Future Research:

This study has several limitations that should be considered when interpreting the results. First, the cross-sectional design limits causal inferences about the relationships between variables. Future research should employ longitudinal designs to establish causal relationships and examine how these factors evolve over time. Second, the study focused specifically on craft-based MSMEs in one district, which may limit generalizability to other industries or regions. Third, the research relied on self-reported measures, which may introduce common method bias.

Future research directions include:

1. Longitudinal studies to examine the temporal relationships between the studied variables
2. Comparative studies across different MSME sectors and geographical regions
3. Investigation of moderating factors such as technology adoption, market orientation, and environmental uncertainty
4. Qualitative studies to provide deeper insights into the mechanisms underlying these relationships
5. Development and testing of intervention programs based on the study findings

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