



Leadership and Financial Performance in Indonesian Micro, Small, and Medium-Sized Enterprises

Cheng-Wen Lee¹  | Avi Sunani^{1*}  | Hong-Vui Ngo¹

¹Chung Yuan Christian University,
Taoyuan City, Taiwan.

Correspondence

*Avi Sunani – PhD Program in
Business, Chung Yuan Christian
University, Taoyuan City, Taiwan,
ROC. Email: avi.ak@upnjatim.ac.id

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Abstract

In resource-constrained settings, the sustainability of micro, small, and medium-sized enterprises largely depends on how effectively managerial practices are translated into marketing capabilities, market outcomes, and financial performance. This study aims to examine whether integrated marketing communication, campaign effectiveness, and brand market performance sequentially mediate the relationship between leadership styles and financial performance. A quantitative cross-sectional research design was employed, and data collected from 398 owners, founders, and marketing managers of Indonesian MSMEs were analyzed using partial least squares structural equation modeling in WarpPLS. Transactional leadership is positively and significantly associated with integrated marketing communication ($\beta = 0.660$; $t = 9.486$; $p < 0.001$), whereas the association between transformational leadership and integrated marketing communication is not statistically significant ($\beta = 0.080$; $t = 1.038$; $p = 0.150$). The model explains the variance in integrated marketing communication ($R^2 = 0.433$), campaign effectiveness ($R^2 = 0.714$), brand market performance ($R^2 = 0.803$), and financial performance ($R^2 = 0.336$). Integrated marketing communication has no statistically significant direct association with financial performance ($\beta = -0.070$; $p = 0.180$), while campaign effectiveness ($\beta = -0.280$; $p < 0.001$) and brand market performance ($\beta = -0.330$; $p < 0.001$) are negatively associated with financial performance. Overall, the findings indicate that transactional leadership is a more important antecedent of integrated marketing communication than transformational leadership and that improvements in marketing and brand outcomes do not necessarily translate into immediate gains in financial performance among Indonesian MSMEs.

KEYWORDS

Business, Business Economics, Leadership, Transformational Leadership, Marketing Communication, Brand Performance, Indonesia

1 | INTRODUCTION

In the current volatile, uncertain, complex, and ambiguous (VUCA) global business environment, achieving sustainable financial performance is the ultimate benchmark for organizational survival and growth (Ametefe et al., 2025). Academic literature and corporate boards alike continuously debate which strategic levers are most critical in driving firm profitability. This debate is particularly fierce within the context of Small and Medium Enterprises (SMEs) in emerging economies such as Indonesia. Indonesian SMEs serve as the backbone of the national economy, accounting for over 99% of all businesses and contributing more than 60% to gross domestic product (GDP). However, despite their macroeconomic importance, Indonesian SMEs suffer from exceptionally high vulnerability, often plagued by severe resource constraints, fierce local competition, low digital adoption, and a lack of long-term strategic planning (Oktrivina et al., 2025). Consequently, exploring how these enterprises can build resilience and secure sustainable financial performance (FP) is a matter of critical socio-economic urgency.

Dynamic capabilities theory suggests that an enterprise's financial triumph is rarely the result of a single isolated factor (Mishra et al., 2026). Instead, it stems from a complex, synchronized chain in which managerial capabilities effectively shape operational execution, which in turn optimizes market outcomes, ultimately yielding financial returns. For Indonesian SMEs, this internal synchronization begins with owner-manager leadership behavior. Two paradigms dominantly dictate how these small businesses operate: transformational leadership (TFL) and transactional leadership (TSL). Transformational leaders in SMEs inspire innovation, break traditional mindsets, and drive digital or strategic pivots (Kittikunchotiwut, 2020). Conversely, transactional leaders focus on strict budget compliance, immediate rewards for targets, and operational discipline. While the impacts of these leadership styles on employee commitment or day-to-day operations have been documented (Islam et al., 2024), their direct mechanism of translation into an SME's bottom-line financial success remains an empirical "black box". An SME owner cannot simply demand higher profits without adjusting the firm's strategic market-facing mechanisms. Therefore, exploring the intervening operational pathways that link leadership behaviors to financial outcomes is of paramount importance.

Integrated Marketing Communication (IMC) represents one of the most vital strategic mechanisms that SME leadership must mobilize to achieve market relevance (Sharma et al., 2024). IMC involves the alignment, synchronization, and optimization of all marketing communication channels such as social media, direct selling, and local promotions to deliver a clear, consistent, and competitive brand message. In Indonesia, many SMEs execute fragmented, ad hoc marketing campaigns that drain their limited capital without yielding results. Setting up a successful, cohesive IMC framework requires strong leadership vision and a commitment of resources (Yuliani et al., 2025). Once deployed by visionary leadership, an optimized IMC strategy is expected to drive two critical market-level outcomes: campaign effectiveness (CE) and brand market performance (BMP) (Luxton et al.,

2015). Campaign effectiveness captures the immediate customer engagement and sales conversions from marketing initiatives, whereas brand market performance reflects the long-term customer loyalty and local brand equity that an SME commands. Logically, these heightened market outcomes should eventually manifest as superior firm financial performance (Doja et al., 2026).

Despite these theoretical linkages, a significant gap persists in the existing literature. Most empirical studies evaluate the relationships between leadership, IMC, brand equity, and financial performance through isolated, fragmented lenses, usually focusing exclusively on large corporations or multinational firms. There is a distinct lack of empirical evidence exploring the sequential mediating pathways mapping out how transformational and transactional leadership styles flow through IMC, branch into immediate campaign effectiveness and long-term brand performance, and ultimately culminate in financial profit within the resource-constrained environment of Indonesian SMEs. Understanding this sequential chain is vital, as it explains the precise operational trajectory through which an SME owner's managerial vision converts into concrete financial survival and profitability.

To address this theoretical and empirical gap, the study examines the direct and indirect relationships between transformational and transactional leadership and the financial performance of Indonesian micro, small, and medium-sized enterprises. Particular attention is given to the sequential mediating roles of integrated marketing communication, campaign effectiveness, and brand market performance. The proposed structural model is tested using partial least squares structural equation modeling and survey data collected from enterprise owners and marketing managers in selected regions of Indonesia. The study contributes to the literature by examining how leadership-related practices are associated with marketing capabilities, market outcomes, and financial performance in resource-constrained enterprises. The study aims to test whether integrated marketing communication, campaign effectiveness, and brand market performance sequentially mediate the relationship between leadership style and financial performance.

2 | LITERATURE REVIEW

This study is grounded in dynamic capabilities theory (DCT), which builds on the resource-based view (RBV) by shifting attention from the possession of resources to the ability to reconfigure them in response to environmental change (Dukhaykh & Alangri, 2026). The RBV posits that competitive advantage stems from valuable, rare, inimitable, and non-substitutable resources, whereas DCT emphasizes that static resources alone may be insufficient in rapidly changing markets (Nugraha et al., 2026). Dynamic capabilities refer to an organization's ability to integrate, build, and reconfigure internal and external competencies in response to changing environmental conditions (Dukhaykh & Alangri, 2026). Compared with large corporations, SMEs generally possess fewer financial resources and less institutionalized organizational structures, which increases their exposure to market turbulence (Mongkol, 2022). Consequently, SMEs often de-

pend on the strategic agility, cognitive flexibility, and timely decision-making of their owner-managers to identify market opportunities and reconfigure limited resources effectively (Mongkol, 2022).

Within the proposed framework, TFL and TSL are conceptualized as managerial microfoundations that shape how SMEs identify environmental changes, evaluate market opportunities, and initiate resource reconfiguration (Dukhaykh & Alangri, 2026; Nugraha et al., 2026). IMC is treated as a dynamic marketing capability through which SMEs coordinate previously fragmented promotional activities and deliver consistent messages across communication channels (Luxton et al., 2015). Through improved communication coordination, IMC is expected to enhance CE and BMP (Luxton et al., 2015). These market outcomes may subsequently be associated with FP, thereby forming the proposed sequential mechanism linking leadership, marketing capability, market outcomes, and financial outcomes (Doja et al., 2026).

TFL motivates employees by aligning their values with the organization's strategic vision, encouraging intellectual stimulation, and fostering innovation. Within SMEs, owner-managers who exhibit transformational behaviors may promote strategic alignment by fostering collaboration and establishing a shared organizational direction. Previous research indicates that TFL can strengthen organizational innovation and capability development by creating a supportive environment for change and knowledge sharing (Hutagalung, 2026). Implementing IMC requires cross-functional coordination, consistent communication, and a unified strategic focus. Therefore, leaders who communicate a coherent brand vision and encourage collaboration may facilitate the implementation of IMC. Based on these arguments, the following hypothesis is proposed:

H1a: TFL is positively associated with IMC.

TSL emphasizes contingent rewards, compliance with established objectives, performance monitoring, and management by exception. These leadership practices can clarify employee responsibilities, performance expectations, communication standards, and budget limitations. Such operational discipline may be particularly important for resource-constrained SMEs, as it can reduce fragmentation and inefficient allocation of limited marketing resources. Previous research suggests that structured and performance-oriented leadership practices can improve operational coordination and task execution (Samodien et al., 2024). Because IMC requires consistent implementation across online and offline communication channels, the monitoring and procedural control associated with TSL may support its effective implementation. Based on these arguments, the following hypothesis is proposed:

H1b: TSL is positively associated with IMC.

IMC represents a dynamic marketing capability that enables firms to coordinate promotional activities and deliver consistent messages across communication channels (Luxton et al., 2015). An IMC system characterized by message consistency and a stakeholder-oriented strategic focus can help SMEs communicate a unified value proposition to their target audiences. Greater communication

consistency may reduce customer confusion, strengthen message recognition, and improve audience engagement. Previous research suggests that coordinating digital marketing activities and communication channels can improve customer responsiveness and marketing outcomes (Mou, 2024). Accordingly, IMC is expected to contribute positively to CE. Based on these arguments, the following hypothesis is proposed:

H2a: IMC is positively associated with CE.

Beyond its contribution to campaign outcomes, IMC may also support brand development by reinforcing a consistent brand identity across customer touch-points (Luxton et al., 2015). BMP reflects market-related outcomes such as brand reputation, customer loyalty, market position, and perceived brand value. These outcomes are particularly important for SMEs because their financial and organizational constraints may limit their ability to build and maintain brand recognition. Consistent communication through social media, public relations, direct sales, and other channels can strengthen customer perceptions of a firm's reliability and professionalism. Previous research indicates that strategic communication consistency and stakeholder orientation can contribute to brand trust, brand equity, and market performance (Javeed et al., 2026). Therefore, IMC is expected to be positively associated with BMP. Based on these arguments, the following hypothesis is proposed:

H2b: IMC is positively associated with BMP.

From the perspective of DCT, market capabilities should ultimately translate into tangible financial prosperity. An optimized IMC framework can theoretically impact FP through two primary avenues: revenue generation and cost efficiency. By establishing streamlined internal processes and cross-channel synergy, an enterprise eliminates redundant advertising expenditures, reduces agency dependencies, and prevents conflicting promotional waste. Simultaneously, the clear messaging generated by IMC drives cross-selling and up-selling opportunities, expanding the SME's profit margins and overall cash flow.

Empirical validations of this direct link in international business journals show nuanced results, with many scholars proving that sophisticated marketing capabilities directly predict firm profitability (Javeed et al., 2026). Recent market investigations indicate that higher levels of marketing capability integration are positively correlated with return on assets (ROA) and profit margin growth. In the SME sector, the financial returns of integration often stem from operational cost savings and the capacity to command premium pricing due to superior communication clarity. However, because marketing investments often operate through intermediate market-level reactions, this direct relationship requires robust empirical validation within emerging-market frameworks. Therefore, it is hypothesized:

H2c: Integrated Marketing Communication (IMC) has a positive effect on Financial PFP.

CE reflects customers' responses to promotional activities, including engagement, purchase intention, and sales-related outcomes. Although individual campaigns are generally short-term, repeated positive campaign experiences may

strengthen customers' awareness, perceptions, and evaluation of a brand. Effective marketing activities can contribute to brand awareness, brand image, customer retention, and repurchase intention (Yang et al., 2022). The cumulative effect of successful campaigns may therefore strengthen brand reputation, customer loyalty, and market position. Based on these arguments, the following hypothesis is proposed:

H3: CE is positively associated with BMP.

CE may also be associated with FP because successful campaigns can stimulate customer demand, increase sales, accelerate inventory turnover, and generate cash inflows. These outcomes are particularly important for resource-constrained SMEs because sales revenue and liquidity are necessary for maintaining regular business operations. However, a campaign's financial contribution may depend on its implementation costs, conversion rate, and the profit margin from additional sales. Previous research suggests that effective promotional activities can improve sales-related outcomes, although their contribution to profitability may vary according to campaign expenditure and market conditions (Palma et al., 2026). Nevertheless, the potential revenue-generating effect of successful campaigns provides the basis for the following hypothesis:

H4: CE is positively associated with FP.

BMP may contribute to FP through brand reputation, customer loyalty, market share, and pricing power. A strong market position can support customer retention, reduce customer acquisition costs, and allow a firm to charge price premiums. These mechanisms may improve revenue stability and profitability. Previous research indicates that brand-related market assets can be positively associated with financial outcomes and firm value (Javeed et al., 2026). In the context of SMEs, a trusted brand may also help maintain customer demand under competitive and economic pressure. Based on these arguments, the following hypothesis is proposed:

H5: BMP is positively associated with FP.

DCT suggests that leadership may influence organizational outcomes indirectly through the development and deployment of organizational capabilities rather than through a direct transformation of managerial behavior into financial results (Dukhaykh & Alangri, 2026; Nugraha et al., 2026). Within the proposed model, TFL is treated as a managerial antecedent that may facilitate the development of IMC by encouraging strategic alignment, collaboration, and resource reconfiguration (Hutagalung, 2026). IMC may subsequently contribute to CE and BMP by improving the coordination and consistency of marketing communication activities (Luxton et al., 2015; Mou, 2024). These market outcomes may, in turn, be associated with FP, thereby creating several indirect pathways between TFL and FP (Javeed et al., 2026; Palma et al., 2026).

Research applying structural equation modeling emphasizes the importance of examining multistage indirect relationships in which organizational capabilities connect managerial practices to market and financial outcomes (Kelvin & Solomon, 2026). In the proposed model, IMC functions as the initial mediator, while CE and

BMP represent subsequent market-level mediating mechanisms. Accordingly, the following mediation and sequential mediation hypotheses are proposed:

H6a: IMC mediates the effect of TFL on Campaign Effectiveness (CE).

H6b: IMC mediates the effect of TFL on Brand Market Performance (BMP).

H6c: IMC mediates the effect of TFL on Financial Performance (FP).

H6d: IMC and CE sequentially mediate the effect of TFL on Financial Performance (FP).

H6e: IMC and BMP sequentially mediate the effect of TFL on Financial Performance (FP).

H6f: IMC, CE, and BMP sequentially mediate the effect of TFL on Financial Performance (FP).

In parallel with the TFL pathway, TSL may influence downstream market and financial outcomes through the development and implementation of IMC. TSL emphasizes procedural compliance, performance monitoring, contingent rewards, and cost control, which may help coordinate limited organizational resources (Huynh Minh, 2026). Within SMEs, these practices can help establish clear communication procedures, allocate marketing responsibilities, and monitor adherence to communication standards. Consequently, the operational discipline associated with TSL may facilitate IMC and contribute indirectly to CE, BMP, and FP.

Previous research indicates that transactional leadership practices can support operational coordination and execution by clarifying performance expectations and reinforcing compliance with organizational procedures (Reyes et al., 2025). In the proposed model, IMC functions as the initial mechanism through which TSL may influence marketing outcomes, while CE and BMP represent subsequent mediating mechanisms. This structure implies several indirect pathways connecting TSL with market and financial outcomes. Accordingly, the following mediation and sequential mediation hypotheses are proposed:

H7a: IMC mediates the relationship between TSL and CE.

H7b: IMC mediates the relationship between TSL and BMP.

H7c: IMC mediates the relationship between TSL and FP.

H7d: IMC and CE sequentially mediate the relationship between TSL and FP.

H7e: IMC and BMP sequentially mediate the relationship between TSL and FP.

H7f: IMC, CE, and BMP sequentially mediate the relationship between TSL and FP.

The empirical model developed based on the proposed hypotheses is presented in Figure 1.

3 | RESEARCH METHODOLOGY

This study employed a quantitative explanatory design based on a cross-sectional survey. Data were collected between November 2025 and March 2026 in selected regions of Indonesia, including Greater Jakarta, West Java, Central Java, East Java, and Bali. The sample covered four economic sectors: culinary and food and beverage services (38.2%), fashion and retail (31.4%), creative services (18.6%), and light manufacturing (11.8%). The target population consisted of MSME owners,

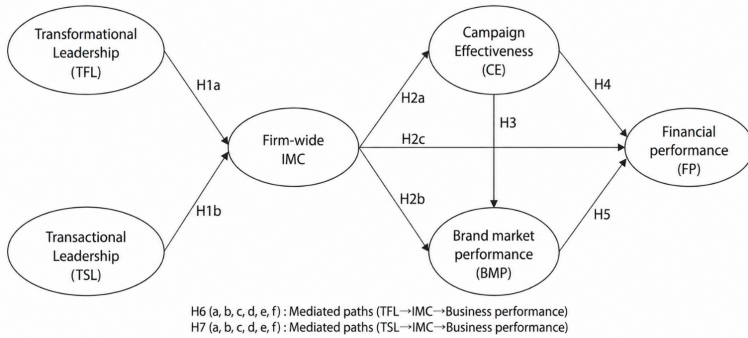


Figure 1. Proposed Model

founders, and marketing managers who participated directly in strategic marketing decisions. The focus on MSMEs was motivated by their resource constraints and dependence on owner-managers' strategic agility and capability development (Deyassa, 2023).

A non-probability purposive sampling procedure was used to recruit respondents who met predetermined eligibility criteria. Respondents were required to hold an active managerial or executive position with direct decision-making authority over strategic marketing communication. Their enterprises were also required to have operated for at least two years to provide a sufficient basis for reporting organizational and financial outcomes. A total of 550 questionnaires were distributed electronically and in paper form, of which 412 were returned, corresponding to a response rate of 74.9%. During data screening, 14 questionnaires containing more than 5% missing data were excluded. The remaining isolated missing values were imputed using the expectation-maximization algorithm.

The final analytical sample comprised 398 respondents. The demographic and professional characteristics of the respondents, as well as the distribution of their enterprises by size, are presented in Table 1.

All constructs were measured using multi-item scales adapted from previous studies. TFL and TSL were assessed using items based on the Multifactor Leadership Questionnaire (MLQ) (Pradhan & Jena, 2017). Leadership styles were assessed using MLQ, the number of items used for each leadership construct, and whether permission to use or adapt the instrument was obtained. IMC was measured as a multidimensional capability comprising message consistency, interactivity, stakeholder-oriented strategic focus, and organizational alignment (Kitchen et al., 2008; Porcu et al., 2017).

Downstream market-facing outcomes were operationalized through campaign effectiveness, which measures immediate consumer engagement and behavioral actions, and brand market performance, which assesses customer-based brand equity and relative market share. Finally, subjective financial performance was evaluated by assessing the respondents' perceptions of sales growth, profit margins, and cash flow stability relative to their key competitors over the past two fiscal years, an approach that has demonstrated high reliability and validity when objective

financial records are inaccessible in small business research (Wall et al., 2004). All items were evaluated using a five-point Likert-type scale ranging from 1 (“strongly disagree”) to 5 (“strongly agree”).

Table 1. Respondent Characteristic

Variable	Category	Frequency (n)	Percentage (%)
Sex	Male	238	59.8%
	Female	160	40.2%
	Total	398	100.0%
Age	< 30 years	65	16.3%
	30 - 39 years	145	36.4%
	40 - 49 years	120	30.2%
	50 years and above	68	17.1%
	Total	398	100.0%
Education Level	High School / Diploma	54	13.6%
	Bachelor's Degree	242	60.8%
	Master's Degree	88	22.1%
	Doctorate (PhD)	14	3.5%
	Total	398	100.0%
Work Experience	< 5 years	82	20.6%
	5 - 10 years	174	43.7%
	11 - 15 years	98	24.6%
	> 15 years	44	11.1%
	Total	398	100.0%
Job Position	Owner	156	39.2%
	Founder	94	23.6%
	Marketing Manager	148	37.2%
	Total	398	100.0%
Business Size (SMEs)	Micro (< 10 employees)	112	28.1%
	Small (10 - 49 employees)	198	49.7%
	Medium (50 - 249 employees)	88	22.1%
	Total	398	100.0%

Note: compiled by the authors

The empirical data were analyzed using PLS-SEM in the WarpPLS software package. PLS-SEM was selected because the model contains several latent constructs and multiple indirect pathways and focuses on explaining the variance in endogenous constructs (Hair et al., 2019; Kock, 2021). The analysis followed a two-stage procedure. First, the measurement model was evaluated using outer loadings, Cronbach’s alpha, composite reliability, and average variance extracted. Discriminant validity was assessed using the Fornell–Larcker criterion and the heterotrait–monotrait ratio (Hair et al., 2019). IMC was conceptualized as a multidimensional construct encompassing message consistency, interactivity, stakeholder-

oriented strategic focus, and organizational alignment.

The second stage evaluated the structural model (inner model) to test the hypothesized relationships by estimating standardized path coefficients, calculating statistical significance via stable bootstrapping procedures, and evaluating the coefficients of determination (R2) and predictive relevance (Q2). The global fit of the overall model was verified using the Tenenhaus Goodness-of-Fit (GoF) index.

4 | RESULTS

As an initial assessment of the structural model, selected model quality and collinearity indices generated by WarpPLS were examined. These indices provide summary information on the average path estimates, explained variance across the endogenous constructs, and the potential presence of collinearity among the predictor constructs. They should be interpreted together with the construct-specific coefficients of determination, effect sizes, predictive relevance measures, and individual path estimates presented in the subsequent analyses. The results are reported in Table 2.

Table 2. Model fit and quality indices

Model Fit Indices	Output Value	Acceptance Criteria	Remarks
APC (Average Path Coefficient)	0.445 (P < 0.001)	Significant if P < 0.05	Met (Good)
ARS (Average R2)	0.548 (P < 0.001)	Significant if P < 0.05	Met (Good)
AARS (Average Adjusted R2)	0.542 (P < 0.001)	Significant if P < 0.05	Met (Good)
AVIF (Average Block VIF)	2.740	≤5 (Ideally ≤3.3)	Met (Free from Collinearity)
Tenenhaus GoF (Goodness of Fit)	0.566	Large if ≥0.36	Met (Excellent)

Note: compiled by the authors

The AVIF value of 2.740 is below the recommended threshold of 3.3, indicating an acceptable average level of collinearity among the predictor constructs. The APC, ARS, and AARS values must be verified against the final WarpPLS output because they are inconsistent with the path coefficients and coefficients of determination reported in the subsequent tables. Once verified, ARS and AARS should be interpreted as summary measures of the model's average in-sample explanatory power rather than its predictive performance. The AVIF value of 2.740 is below the recommended threshold of 3.3, indicating an acceptable average level of collinearity among the predictor constructs. The explanatory power of the structural model is assessed separately for each endogenous construct using the coefficients of determination reported in Table 7. Predictive relevance is evaluated using the Q² values presented in Table 9, while the direction, magnitude, and statistical significance of the individual structural relationships are examined in Table 10.

To establish the quality of the measurement model, convergent validity and internal consistency reliability were systematically evaluated, with the empirical results summarized in Table 3.

Table 3. Reliability and convergent validity of first-order constructs

Latent Variable	Item	Factor Loading	AVE	CR	CA
TFL (Transformational Leadership)	TFL1	0.642	0.735	0.917	0.879
	TFL2	0.754			
	TFL3	0.747			
	TFL4	0.638			
	TFL5	0.777			
	TFL6	0.659			
	TFL7	0.846			
	TFL8	0.759			
	TFL9	0.809			
	TFL10	0.703			
	TFL11	0.627			
	TFL12	0.784			
	TFL13	0.739			
	TFL14	0.798			
	TFL15	0.786			
	TFL16	0.787			
TSL (Transactional Leadership)	TSL1	0.765	0.525	0.768	0.747
	TSL2	0.829			
	TSL3	0.688			
	TSL4	0.791			
	TSL5	0.811			
	TSL6	0.604			
	TSL7	0.639			
	TSL8	0.838			
	TSL9	0.749			
MC (Message Consistency)	MC1	0.704	0.546	0.828	0.721
	MC2	0.792			
	MC3	0.762			
	MC4	0.693			
IN (Interactivity)	IN1	0.721	0.592	0.846	0.784
	IN2	0.681			
	IN3	0.813			
	IN4	0.891			
	IN5	0.813			
	IN6	0.781			
	IN7	0.822			
SCSF (Stakeholder-centered strategic focus)	SCSF1	0.748	0.641	0.925	0.906
	SCSF2	0.857			

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Table 3, continued

Latent Variable	Item	Factor Loading	AVE	CR	CA
	SCSF3	0.789			
	SCSF4	0.807			
	SCSF5	0.817			
	SCSF6	0.793			
	SCSF7	0.784			
OA (Organizational alignment)	OA1	0.831	0.693	0.941	0.925
	OA2	0.879			
	OA3	0.878			
	OA4	0.803			
	OA5	0.783			
	OA6	0.771			
	OA7	0.873			
CE (Campaign effectiveness)	CE1	0.874	0.755	0.925	0.891
	CE2	0.894			
	CE3	0.875			
	CE4	0.831			
BMP (Brand market performance)	BMP1	0.803	0.676	0.936	0.921
	BMP2	0.822			
	BMP3	0.835			
	BMP4	0.845			
	BMP5	0.745			
	BMP6	0.852			
	BMP7	0.849			
FP (Financial performance)	FP1	0.615	0.585	0.752	0.778
	FP2	0.718			
	FP3	0.749			
	FP4	0.705			
	FP5	0.692			

Note: compiled by the authors

Convergent validity was assessed using the outer loadings and AVE values presented in Table 3. Outer loadings should ideally exceed 0.70, while AVE values should be at least 0.50 (Hair et al., 2019). As shown in Table 3, the outer loadings ranged from 0.604 to 0.894, with most indicators exceeding the recommended threshold of 0.70. Several indicators – TFL1 (0.642), TFL4 (0.638), TFL6 (0.659), TFL11 (0.627), TSL3 (0.688), TSL6 (0.604), TSL7 (0.639), MC4 (0.693), IN2 (0.681), FP1 (0.615), and FP5 (0.692)—had loadings between 0.60 and 0.70. These indicators were retained because the corresponding constructs met the recommended thresholds for AVE and CR. The reported AVE values ranged from 0.525 for TSL to 0.755 for CE, indicating satisfactory convergent validity for the nine first-order

constructs.

Internal consistency reliability was assessed using CR and Cronbach's alpha, for which values of at least 0.70 are generally considered acceptable (Hair et al., 2019). As reported in Table 3, the CR values ranged from 0.752 for FP to 0.941 for OA, while Cronbach's alpha values ranged from 0.721 to 0.925. Thus, all first-order constructs met the recommended internal consistency thresholds. Discriminant validity was subsequently assessed using the Fornell–Larcker criterion, as presented in Table 4.

Table 4. Fornell–Larcker criterion

Construct	CE	SCSF	MC	TAL	TSL	BMP	IN	OA	FP
CE (Campaign effectiveness)	0.869	-	-	-	-	-	-	-	-
SCSF (Stakeholder-centered strategic focus)	0.549	0.801	-	-	-	-	-	-	-
MC (Message Consistency)	0.408	0.687	0.739	-	-	-	-	-	-
TSL (Transactional Leadership)	0.381	0.544	0.601	0.725	-	-	-	-	-
TFL (Transformational Leadership)	0.343	0.508	0.560	0.685	0.857	-	-	-	-
BMP (Brand market performance)	0.680	0.537	0.458	0.363	0.344	0.822	-	-	-
IN (Interactivity)	0.618	0.702	0.607	0.483	0.441	0.501	0.769	-	-
OA (Organizational alignment)	0.564	0.757	0.626	0.596	0.560	0.534	0.698	0.832	-
FP (Financial performance)	0.426	0.335	0.275	0.248	0.191	0.513	0.347	0.403	0.765

Note: compiled by the authors

Discriminant validity at the first-order level was assessed using the Fornell–Larcker criterion. According to this criterion, the square root of AVE for each construct should exceed its correlations with all other constructs (Hair et al., 2022). As presented in Table 4, the diagonal values represent the square roots of AVE, while the off-diagonal values represent the interconstruct correlations. The diagonal values range from 0.725 for TSL to 0.869 for CE, and each diagonal value exceeds the corresponding correlations in its row and column. These results support the discriminant validity of the nine first-order constructs according to the Fornell–Larcker criterion.

Following the assessment of the first-order constructs, the internal consistency reliability of the higher-order IMC construct was evaluated using composite reliability and Cronbach's alpha. As presented in Table 5, both coefficients exceeded the recommended threshold of 0.70, supporting the reliability of the higher-order construct.

Values of composite reliability and Cronbach's alpha above 0.70 indicate acceptable internal consistency reliability (Hair et al., 2019). As shown in Table 5, the higher-order IMC construct achieved a composite reliability of 0.878 and a Cronbach's alpha of 0.799. The remaining constructs also exceeded the recommended threshold, with composite reliability values ranging from 0.752 for FP to 0.936 for BMP and Cronbach's alpha values ranging from 0.747 for TSL to 0.921 for BMP.

These results indicate satisfactory internal consistency reliability for all constructs included in the higher-order model.

Table 5. Internal consistency reliability of constructs in the higher-order model

Latent Variable	Composite Reliability	Cronbach's Alpha
IMC (Integrated marketing communication)	0.878	0.799
CE (Campaign Effectiveness)	0.925	0.891
TSL (Transactional Leadership)	0.768	0.747
TFL (Transformational Leadership)	0.917	0.879
BMP (Brand market performance)	0.936	0.921
FP (Financial performance)	0.752	0.778

Note: compiled by the authors

Following the assessment of internal consistency reliability, discriminant validity at the higher-order level was evaluated using the Fornell–Larcker criterion. The results are presented in Table 6.

Table 6. Fornell-Larcker criterion (Second-Order)

Construct	AVE> 0.5	IMC	CE	TSL	TFL	BMP	FP
IMC (Integrated marketing communication)	0.669	0.818	-	-	-	-	-
CE (Campaign Effectiveness)	0.755	0.617	0.869	-	-	-	-
TSL (Transactional Leadership)	0.525	0.546	0.382	0.725	-	-	-
TFL (Transformational Leadership)	0.735	0.592	0.343	0.698	0.857	-	-
BMP (Brand market performance)	0.676	0.795	0.682	0.364	0.344	0.822	-
FP (Financial performance)	0.585	0.393	0.426	0.248	0.191	0.513	0.765

Note: compiled by the authors

As shown in Table 6, the diagonal values represent the square roots of the Average Variance Extracted (AVE), while the off-diagonal values represent the correlations between the constructs. According to the Fornell–Larcker criterion, the square root of AVE for each construct should exceed its correlations with all other constructs (Hair et al., 2019). The diagonal values range from 0.725 for TSL to 0.869 for CE and exceed the corresponding correlations in their respective rows and columns. In particular, the square root of AVE for IMC (0.818) is greater than its highest correlation of 0.795 with BMP. Therefore, the results support the discriminant validity of the constructs included in the higher-order model.

Following the assessment of the measurement model, the explanatory power of the structural model was evaluated using the coefficients of determination (R^2 and adjusted R^2) for the endogenous constructs. The results are presented in Table 7.

Table 7. Explained variance of the endogenous constructs

Construct	R2	Adjusted R2
IMC (Integrated marketing communication)	0.433	0.426
CE (Campaign Effectiveness)	0.714	0.712
BMP (Brand market performance)	0.803	0.801
FP (Financial performance)	0.336	0.322

Note: compiled by the authors

The coefficients of determination were examined to assess the structural model's in-sample explanatory power. As presented in Table 7, the model explains 43.3% of the variance in IMC ($R^2 = 0.433$; adjusted $R^2 = 0.426$), 71.4% of the variance in CE ($R^2 = 0.714$; adjusted $R^2 = 0.712$), 80.3% of the variance in BMP ($R^2 = 0.803$; adjusted $R^2 = 0.801$), and 33.6% of the variance in FP ($R^2 = 0.336$; adjusted $R^2 = 0.322$). Based on the commonly applied PLS-SEM guidelines of 0.75, 0.50, and 0.25 for substantial, moderate, and weak explanatory power, respectively, the model exhibits substantial explanatory power for BMP, moderate-to-substantial explanatory power for CE, and weak-to-moderate explanatory power for IMC and FP (Hair et al., 2019). These results describe the model's in-sample explanatory power, whereas its predictive relevance is assessed separately using the Q^2 values.

In addition to the coefficients of determination, the local effect sizes (f^2) were examined to assess the incremental contribution of each predictor to the explained variance of the corresponding endogenous construct. The results are presented in Table 8.

Table 8. Effect sizes for structural paths

Construct	TFL	TSL	IMC	CE	BMP	FP
TSL (Transactional Leadership)	-	-	0.409	-	-	-
TFL (Transformational Leadership)	-	-	0.024	-	-	-
IMC (Integrated marketing communication)	-	-	-	0.714	0.712	0.241
CE (Campaign Effectiveness)	-	-	-	-	0.493	0.231
BMP (Brand market performance)	-	-	-	-	-	0.167

Note: compiled by the authors

The effect sizes of the structural paths were examined to assess the relative contribution of each predictor to the explained variance of the corresponding endogenous construct. Values of 0.02, 0.15, and 0.35 indicate small, medium, and large effect sizes, respectively (Cohen, 1988). As shown in Table 8, TSL has a large effect size on IMC ($f^2 = 0.409$), whereas TFL has a small effect size on IMC ($f^2 = 0.024$). IMC exhibits large effect sizes on CE ($f^2 = 0.714$) and BMP ($f^2 = 0.712$), while CE has a large effect size on BMP ($f^2 = 0.493$). Regarding FP, IMC ($f^2 = 0.241$), CE ($f^2 = 0.231$), and BMP ($f^2 = 0.167$) exhibit medium effect sizes. Following the assessment of the effect sizes, the predictive relevance of the structural model was evaluated using the Stone–Geisser Q^2 values. The results are presented in Table 9.

Table 9. Predictive Relevance

Construct	Cross-validated redundancy (Q ²)	Prediction capability (Redundancy)
IMC (Integrated marketing communication)	0.353	0.353
CE (Campaign Effectiveness)	0.653	0.653
BMP (Brand market performance)	0.759	0.759
FP (Financial performance)	0.278	0.278

Note: compiled by the authors

The predictive relevance of the structural model was assessed using the Stone-Geisser Q² values obtained through the blindfolding procedure (Hair et al., 2019; Kock, 2021). As presented in Table 9, the Q² values are positive for all endogenous constructs: IMC (Q² = 0.353), CE (Q² = 0.653), BMP (Q² = 0.759), and FP (Q² = 0.278). These results support the model's predictive relevance for all four endogenous constructs. The comparatively higher Q² values for CE and BMP indicate stronger predictive relevance for these market-related outcomes than for IMC and FP. However, the Q² values reflect cross-validated predictive relevance within the estimated model and should not be interpreted as evidence of out-of-sample predictive accuracy.

The statistical empirical results from the structural model analysis provide detailed insights into the direct relationships among the hypothesized constructs (Table 10).

Table 10. Structural Model Results for Direct Hypotheses

Hypothesis	Proposed Path	Path Coefficient (β)	t-value	p-value	Decision
H1a	TFL → IMC	0.080	1.038	0.150	Not supported
H1b	TSL → IMC	0.660	9.486***	< 0.001	Supported
H2a	IMC → CE	0.850	12.426***	< 0.001	Supported
H2b	IMC → BMP	0.370	12.382***	< 0.001	Supported
H2c	IMC → FP	-0.070	0.925	0.180	Not supported
H3	CE → BMP	0.564	7.78***	< 0.001	Supported
H4	CE → FP	-0.280	3.623***	< 0.001	Not supported: opposite direction
H5	BMP → FP	-0.330	4.355***	< 0.001	Not supported: opposite direction

Note: compiled by the authors

As shown in Table 10, TSL is positively and significantly associated with IMC (β = 0.660, p < 0.001), supporting H1b, whereas the relationship between TFL and IMC is not statistically significant (β = 0.080, p = 0.150); therefore, H1a is not supported. IMC is positively associated with CE (β = 0.850, p < 0.001) and BMP (β = 0.370, p < 0.001), supporting H2a and H2b. However, its direct relationship with FP is not statistically significant (β = -0.070, p = 0.180), and H2c is not supported. CE is positively associated with BMP (β = 0.564, p < 0.001), supporting H3. Although the relationships of CE (β = -0.280, p < 0.001) and BMP (β = -0.330, p < 0.001) with FP

are statistically significant, their directions are negative and therefore contrary to the positive relationships proposed in H4 and H5. Accordingly, H4 and H5 are not supported.

To uncover the mechanism through which leadership styles influence ultimate financial performance, the sequential indirect effects were systematically analyzed (Table 11).

Table 11. Results of mediation and sequential mediation tests

Hypothesis	Proposed Indirect Path	Mediation Type / Effect	Decision
H6a	TFL → IMC → CE	Weak positive indirect effect	Partially supported
H6b	TFL → IMC → BMP	Weak positive indirect effect	Partially supported
H6c	TFL → IMC → FP	Non-significant indirect effect	Not supported
H6d	TFL → IMC → CE → FP	Significant indirect effect	Supported
H6e	TFL → IMC → BMP → FP	Significant indirect effect	Supported
H6f	TFL → IMC → CE → BMP → FP	Significant sequential mediation	Supported
H7a	TSL → IMC → CE	Strong positive indirect effect	Supported
H7b	TSL → IMC → BMP	Strong positive indirect effect	Supported
H7c	TSL → IMC → FP	Non-significant indirect effect	Not Supported
H7d	TSL → IMC → CE → FP	Significant indirect effect	Supported
H7e	TSL → IMC → BMP → FP	Significant indirect effect	Supported
H7f	TSL → IMC → CE → BMP → FP	Highly significant sequential mediation	Supported (full sequential mediation)

Note: compiled by the authors

The findings confirm that financial performance cannot be directly triggered by strategic leadership alone; rather, it operates through a structured multi-stage transmission process.

For transformational leadership, indirect paths H6a and H6b exhibit weak mediation effects, while H6c is not supported due to the non-significant direct relationship between IMC and FP. However, when marketing effectiveness metrics are incorporated sequentially, H6d, H6e, and notably H6f (TFL→IMC→CE→BMP→FP) are fully supported. This validates the presence of a full sequential mediation chain, demonstrating that transformational vision requires operational execution (IMC), campaign execution (CE), and brand consolidation (BMP) to eventually impact financial outcomes.

For transactional leadership, the sequential mediation paths demonstrate even stronger statistical significance. H7a and H7b are strongly supported, reinforcing TSL's role as an effective driver of structured marketing capabilities. While the direct indirect link through IMC to FP (H7c) remains non-significant, the complex sequential paths—H7d, H7e, and the complete chain H7f (TSL→IMC→CE→BMP→FP)—are highly significant. These results highlight that transactional leadership acts

as the primary engine for setting up structured IMC, which subsequently cascades down to campaign effectiveness, brand building, and ultimately, sustainable financial growth.

In line with DCT, TFL and TSL do not automatically translate into financial success. Rather, they require IMC to serve as an operational engine that drives downstream market success (CE and BMP), which in turn translates into FP. Intriguingly, in the resource-constrained environment of Indonesian MSMEs, TSL has a substantially greater direct impact on IMC than TFL. This underscores the critical importance of structured oversight, cost controls, and strict adherence to communication protocols over abstract creative vision in small businesses.

5 | CONCLUSION

This study examined how transformational and transactional leadership influence the financial performance of Indonesian SMEs through the sequential roles of IMC, campaign effectiveness, and brand market performance. The findings demonstrate that leadership does not translate automatically into superior financial outcomes. Instead, its influence operates through a multistage capability-building process in which leadership shapes IMC practices, IMC enhances marketing outcomes, and these outcomes, in turn, affect financial performance. Transactional leadership emerged as a strong antecedent of IMC, whereas the direct effect of transformational leadership on IMC was not statistically significant. These results indicate that, in resource-constrained SMEs, structured coordination, performance monitoring, and adherence to established communication procedures may be more consequential for IMC implementation than visionary leadership alone.

IMC was found to exert strong positive effects on both campaign effectiveness and brand market performance, while campaign effectiveness also significantly strengthened brand market performance. Nevertheless, IMC did not directly improve financial performance. Moreover, campaign effectiveness and brand market performance exhibited significant negative direct relationships with financial performance. These findings suggest that improvements in marketing and brand-related outcomes may impose short-term financial pressures, as campaign execution and brand development require substantial, sustained investment. Accordingly, stronger marketplace outcomes should not necessarily be interpreted as generating immediate profitability. The significant sequential mediation effects further indicate that the financial implications of leadership become observable only when leadership translates into coordinated communication practices, effective campaigns, and stronger brand outcomes.

Theoretically, this study extends Dynamic Capabilities Theory by identifying IMC as an important operational capability that connects managerial behavior with market and financial outcomes. It also refines the theory by demonstrating that the effectiveness of different leadership styles depends on the organizational context and the stage of capability development. In the Indonesian SME setting, transactional leadership appears particularly relevant to the implementation stage because it provides the discipline required to coordinate limited resources and

maintain consistency across communication channels. The results therefore contribute to the leadership and marketing literature by revealing a sequential mechanism through which internal managerial practices are converted into external market outcomes and, ultimately, financial consequences.

From a managerial perspective, SME owners and managers should complement strategic vision with clear responsibilities, measurable marketing objectives, budgetary controls, and consistent communication protocols. IMC should be managed as an organization-wide capability rather than as a collection of isolated promotional activities. Managers should also evaluate marketing investments using both short-term financial indicators and longer-term market indicators, including customer engagement, brand recognition, loyalty, and market position. This balanced approach is particularly important because investments that strengthen campaigns and brands may temporarily reduce profitability before their economic benefits are realized.

Several limitations provide opportunities for further research. First, the cross-sectional design does not capture the time lag between marketing investment, brand development, and financial returns; consequently, the interpretation of the negative financial coefficients as short-term cost pressures should be tested directly through longitudinal research. Second, the use of perceptual, self-reported measures may introduce common-method bias and may not fully reflect objective financial performance. Future studies should combine survey data with accounting measures such as revenue growth, operating margin, return on assets, and cash-flow performance. Third, because the sample is limited to Indonesian SMEs, caution is required when generalizing the findings to larger firms or other institutional settings. Comparative studies across countries, industries, and firm-size categories would strengthen external validity. Finally, future research could examine whether digital maturity, environmental turbulence, organizational culture, financial slack, and firm age condition the identified relationships. Addressing these limitations would provide a more comprehensive understanding of when and how leadership-enabled marketing capabilities generate sustainable financial value.

AUTHOR CONTRIBUTIONS

Writing – Original Draft: Cheng-Wen Lee, Avi Sunani, Hong-Vui Ngo.

Conceptualization: Cheng-Wen Lee, Avi Sunani, Hong-Vui Ngo.

Formal Analysis and Investigation: Avi Sunani.

Funding Acquisition and Research Administration: Hong-Vui Ngo.

Development of Research Methodology: Avi Sunani, Hong-Vui Ngo.

Software and Supervision: Cheng-Wen Lee, Avi Sunani, Hong-Vui Ngo.

Data Collection, Analysis, and Interpretation: Cheng-Wen Lee.

Visualization: Avi Sunani, Hong-Vui Ngo.

Writing – Review and Editing: Cheng-Wen Lee, Avi Sunani, Hong-Vui Ngo.

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AUTHOR BIOGRAPHIES

Cheng-Wen Lee – Professor, Department of International Business, Chung Yuan Christian University, Taoyuan City, Taiwan. Email: cheng-wen@cycu.edu.tw, ORCID ID: <https://orcid.org/0000-0002-4811-7000>

***Avi Sunani** – PhD Program in Business, Chung Yuan Christian University, Taoyuan City, Taiwan. Email: avi.ak@upnjatim.ac.id, ORCID ID: <https://orcid.org/0000-0002-5991-1381>

Hong-Vui Ngo – PhD Program in Business, Chung Yuan Christian University, Taoyuan City, Taiwan. Email: ngohongvui.ptit@gmail.com

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