

The Effect Of Transformational Leadership And Local Wisdom On Msme Performance With Consumer Satisfaction As A Mediating Variable: A Study Of The Food And Beverage Sector In Sumbawa Regency

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Abstract

Micro, small, and medium enterprises (MSMEs) in emerging regions face a structural paradox: the number of business units keeps growing, yet productivity and competitiveness remain low. This study examines the effect of transformational leadership and local wisdom on MSME performance, and tests consumer satisfaction as a mediating variable, in the food and beverage sector of Sumbawa Regency, West Nusa Tenggara, Indonesia. The study applies an explanatory quantitative design with a cross-sectional survey. Data were collected through a structured questionnaire from 100 MSME owners and managers selected by purposive sampling, after the instrument had been validated on 50 respondents. Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) with SmartPLS, followed by bootstrapping with 500 subsamples and bias-corrected and accelerated confidence intervals. The measurement model satisfies convergent validity, construct reliability, and discriminant validity. The results show that transformational leadership and local wisdom both have a positive and significant effect on consumer satisfaction, that consumer satisfaction has the strongest effect on MSME performance, and that local wisdom also affects performance directly. The direct effect of transformational leadership on MSME performance is not significant, so its contribution runs entirely through consumer satisfaction (indirect-only mediation), whereas local wisdom shows complementary partial mediation. The findings position consumer satisfaction as the central transmission mechanism through which internal leadership capability and culturally embedded resources are converted into MSME performance.

Keywords: transformational leadership, local wisdom, consumer satisfaction, MSME performance, PLS-SEM

INTRODUCTION

Over the past two decades the global economic order has undergone a fundamental structural shift. Rising economic uncertainty, waves of digital disruption, changing consumer behaviour, and increasingly explicit sustainability demands have reshaped the way organisations operate and create economic value (Bank, 2022). Consumer considerations have also moved beyond price and product function; quality, environmental impact, ethical values, and producer social responsibility now enter the purchasing decision (OECD, 2023)

Micro, small, and medium enterprises (MSMEs) occupy a strategic position in this landscape. MSMEs account for roughly 90 per cent of business units worldwide and absorb more than half of the global workforce, making the sector a principal engine of job creation and inclusive growth ((Bank, 2023)). In Indonesia, MSMEs number around 64.2 million units, employ more than 97 per cent of the national workforce, and contribute more than 61 per cent of gross domestic product (UKM, 2021)). Their role is not confined to labour absorption; MSMEs also drive innovation, entrepreneurship, and locally grounded economic growth (Utomo et al., 2024).

Nevertheless, the sector still carries persistent constraints: limited access to financing, weak marketing capability, uneven digital infrastructure, and low human resource competence, which jointly restrain business growth (Octasyilva et al., 2022); (Herawati et al., 2026). National data for 2018 to 2023 illustrate a structural paradox. The number of MSME units keeps increasing, indicating a high capacity to adapt, yet the shift in market preference towards quality, sustainability, and consumer experience is not matched by a comparable improvement in productivity and competitiveness.

This paradox is particularly visible in emerging regions such as Sumbawa Regency, West Nusa Tenggara. The regional economy is still dominated by primary sectors while shifting towards an entrepreneurship-based structure, and the number of food and beverage MSMEs based on local resources continues to expand. Two internal determinants are theoretically decisive in this setting. First, transformational leadership, because the owner or main manager of an MSME simultaneously defines vision, allocates resources, and shapes service behaviour. Second, local wisdom, understood as culturally embedded values, knowledge, and practices that are difficult to imitate and therefore qualify as a strategic resource under the resource-based view.

Empirical findings on the leadership-performance link remain inconsistent, some studies report a strong direct effect while others report a weak or insignificant one. This inconsistency suggests the presence of a transmission mechanism rather than a purely



direct relationship. Consumer satisfaction is proposed here as that mechanism: leadership quality and locally embedded value are first converted into a superior consumer experience, and only through that experience do they translate into sales, loyalty, and business performance.

Accordingly, this study aims to (1) analyse the effect of transformational leadership and local wisdom on consumer satisfaction, (2) analyse the effect of transformational leadership, local wisdom, and consumer satisfaction on MSME performance, and (3) examine the mediating role of consumer satisfaction in those relationships within the food and beverage MSME sector of Sumbawa Regency.

Literature Review and Hypotheses

2.1. Resource-Based View and Dynamic Capability

The resource-based view (RBV) explains competitive advantage through the ownership of resources that are valuable, rare, difficult to imitate, and non-substitutable. In the MSME context, such resources rarely take the form of capital or technology; they appear instead as leadership quality, tacit knowledge, and locally rooted cultural values. Dynamic capability theory extends this logic by emphasising the firm's ability to sense opportunity, seize it, and reconfigure its resource base as the environment changes. Both perspectives frame transformational leadership as the orchestrating capability and local wisdom as the distinctive resource base of regional MSMEs.

2.2. MSME Performance

MSME performance is treated as a multidimensional construct covering sales growth, profitability, market expansion, and business continuity. Because financial records in micro and small enterprises are often incomplete, performance is measured through the owner or manager's perception of these dimensions, an approach widely used in MSME studies.

2.3. Transformational Leadership

Transformational leadership is characterised by idealised influence, inspirational motivation, intellectual stimulation, and individualised consideration. In small firms, this style shapes work climate, service orientation, and the willingness of employees to respond to consumer needs. Previous studies report that transformational leadership improves performance mainly through satisfaction-related mediators rather than through a direct path (Hilton et al., 2023);(Aldossari & Alanizan, 2025).



2.4. Local Wisdom

Local wisdom comprises values, norms, traditional knowledge, and cultural practices that guide how a business produces and serves. For food and beverage MSMEs, it materialises in authentic recipes, local raw materials, traditional processing techniques, and culturally grounded service etiquette. These attributes create product distinctiveness that competitors cannot easily replicate and thus function as a source of competitive advantage (Gunawan et al., 2024); (Roy & Swargiary, 2025).

2.5. Consumer Satisfaction as a Mediating Variable

Consumer satisfaction reflects the evaluative gap between expectation and perceived performance of a product or service. Satisfied consumers repurchase, recommend, and tolerate price differences, which directly supports business performance. Positioned between internal capability and performance outcomes, consumer satisfaction is theoretically the mechanism that converts leadership behaviour and culturally embedded value into economic results (Maharani et al., 2024); (Gimeno-Arias et al., 2021).

2.6. Hypotheses

1. H1: Transformational leadership has a positive and significant effect on consumer satisfaction.
2. H2: Local wisdom has a positive and significant effect on consumer satisfaction.
3. H3: Transformational leadership has a positive and significant effect on MSME performance.
4. H4: Local wisdom has a positive and significant effect on MSME performance.
5. H5: Consumer satisfaction has a positive and significant effect on MSME performance.
6. H6: Consumer satisfaction mediates the effect of transformational leadership on MSME performance.
7. H7: Consumer satisfaction mediates the effect of local wisdom on MSME performance.

RESEARCH METHOD

This study applies a quantitative approach with an explanatory cross-sectional survey, a design suited to testing causal relationships among latent variables measured at a single point in time. The unit of analysis is the MSME actor, specifically the owner or main manager, because that party holds authority over strategic decisions, resource management, product development, and consumer relations.

The population consists of food and beverage MSMEs operating in Sumbawa Regency, West Nusa Tenggara, in accordance with the MSME criteria set out in Law Number 20 of 2008. Respondents were selected through purposive sampling, requiring that the respondent owns or manages the business, has operated for at least two years, and is directly involved in production, marketing, and consumer service decisions. Following (Hair et al., 2022), a sample of five to ten times the number of indicators is recommended. The instrument was first validated on 50 respondents, and hypothesis testing was conducted on 100 respondents distributed across the sub-districts of Sumbawa Regency.

Data were collected using a closed questionnaire with a five-point Likert scale. Transformational leadership is measured by four reflective indicators (X1.1 to X1.4), local wisdom by five indicators (X2.1 to X2.5), consumer satisfaction by four indicators (Z1 to Z4), and MSME performance by four indicators (Y1 to Y4). Item validity was assessed through item-total Pearson correlation and internal consistency through Cronbach's Alpha. Classical assumption diagnostics for normality, heteroscedasticity, and multicollinearity were run as supporting checks.

The main analysis uses Partial Least Squares Structural Equation Modelling (PLS-SEM) with SmartPLS. PLS-SEM was chosen because it does not require normally distributed data, accommodates moderate sample sizes, and handles mediation testing in models with reflective latent constructs. Evaluation follows the standard sequence: designing the inner model, designing the outer model, evaluating the measurement and structural models, and bootstrapping with 500 subsamples at a five per cent significance level using two-tailed tests and bias-corrected and accelerated (BCa) confidence intervals.

RESULTS AND DISCUSSION

4.1. Instrument Validity and Reliability (N = 50)

All item-total correlation coefficients are positive and significant at $p < 0.001$, ranging from 0.734 to 0.903, so every indicator is strongly related to the construct it measures. Internal consistency is also adequate, with Cronbach's Alpha above the 0.70 threshold for all four constructs.

Table 1. Summary of instrument validity and reliability (N = 50)

Construct	Items	Range of item-total r	Cronbach's Alpha	Decision
Transformational Leadership (X1)	4	0.787 – 0.888	0.862	Valid and reliable



Construct	Items	Range of item-total r	Cronbach's Alpha	Decision
Local Wisdom (X2)	5	0.734 – 0.865	0.849	Valid and reliable
Consumer Satisfaction (Z)	4	0.785 – 0.903	0.893	Valid and reliable
MSME Performance (Y)	4	0.772 – 0.816	0.805	Valid and reliable

Source: SPSS output, processed (2026).

4.2. Classical Assumption Diagnostics (N = 100)

The Kolmogorov-Smirnov test on the unstandardised residual yields a statistic of 0.060 with an asymptotic significance of 0.200, so the normality assumption is not rejected. Heteroscedasticity testing using absolute residuals produces significance values of 0.889 for transformational leadership, 0.549 for local wisdom, and 0.235 for consumer satisfaction, all above 0.05. Tolerance values range from 0.592 to 0.675 and VIF values from 1.483 to 1.690, indicating no disturbing multicollinearity.

Table 2. Summary of classical assumption tests (N = 100)

Test	Statistic	Criterion	Conclusion
Normality (Kolmogorov-Smirnov)	0.060; Sig. 0.200	Sig. > 0.05	Assumption met
Heteroscedasticity (absolute residual)	Sig. 0.889; 0.549; 0.235	Sig. > 0.05	No indication
Multicollinearity	Tolerance 0.592–0.675; VIF 1.483–1.690	Tolerance > 0.10; VIF < 10	No indication

Source: SPSS output, processed (2026).

4.3. Measurement Model (Outer Model)

All outer loadings fall between 0.731 and 0.884 and exceed the 0.70 threshold, so no indicator required elimination. Average variance extracted (AVE) ranges from 0.660 to 0.744, Cronbach's Alpha from 0.827 to 0.885, and composite reliability from 0.885 to 0.921, confirming convergent validity and internal consistency.

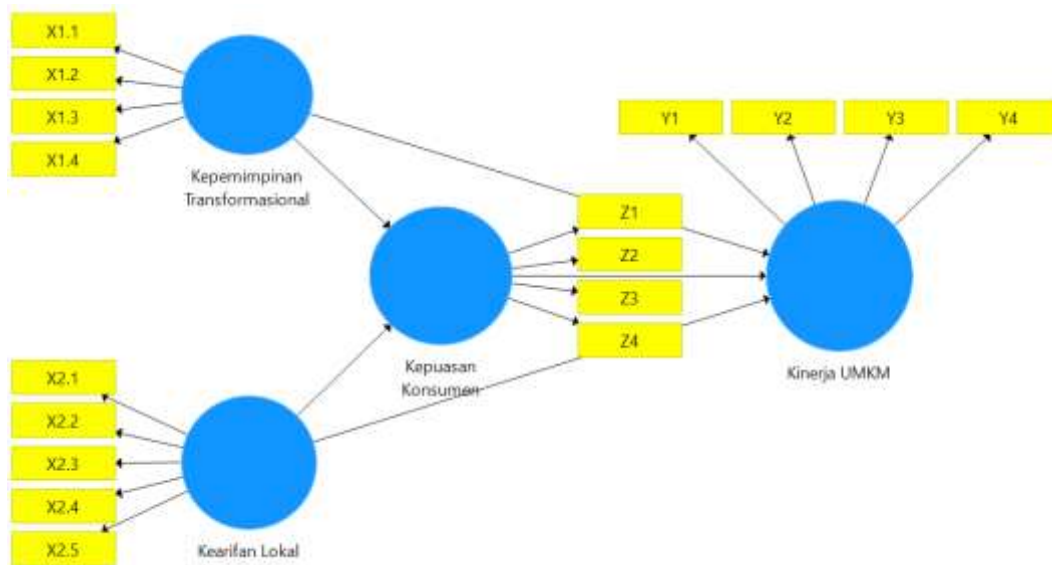


Figure 1. Measurement Model (Outer Model)

Table 3. Convergent validity and construct reliability

Construct	Outer loading range	Alpha	rho_A	CR	AVE	Decision
Transformational Leadership	0.731 – 0.875	0.827	0.842	0.885	0.660	Met
Local Wisdom	0.813 – 0.849	0.885	0.891	0.915	0.684	Met
Consumer Satisfaction	0.796 – 0.855	0.856	0.859	0.902	0.698	Met
MSME Performance	0.784 – 0.884	0.885	0.890	0.921	0.744	Met

Source: SmartPLS output, processed (2026).

Discriminant validity is supported by three consistent pieces of evidence. Each indicator loads highest on its own construct, the square root of AVE (0.812 for transformational leadership, 0.827 for local wisdom, 0.835 for consumer satisfaction, and 0.862 for MSME performance) exceeds the corresponding inter-construct correlations under the Fornell-Larcker criterion, and the highest HTMT value of 0.724 remains below the 0.85 threshold.

4.4. Structural Model (Inner Model)

Structural collinearity is low, with inner VIF between 1.282 and 1.721 and outer VIF between 1.587 and 2.548. The R Square of consumer satisfaction is 0.419, meaning 41.9 per cent of its variance is jointly explained by transformational leadership and local wisdom, while the R Square of MSME performance is 0.472. Both values fall in the moderate category. Global predictive relevance is $Q^2 = 1 - (1 - 0.419)(1 - 0.472) = 0.693$, confirming that the model has predictive relevance.

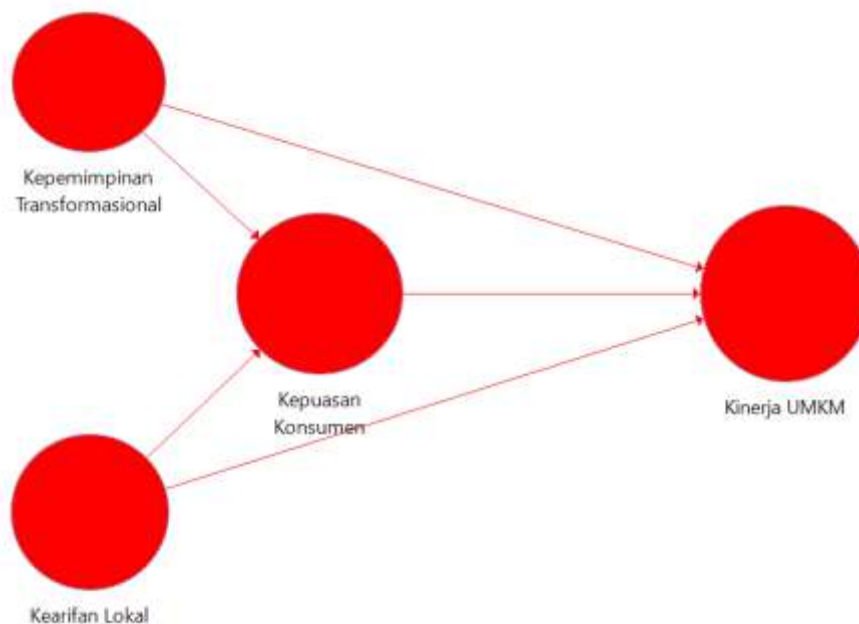


Figure 2. Structural Model (Inner Model)

Table 4. Coefficient of determination and effect size

Relationship / endogenous construct	R Square	Adjusted R Square	f Square	Interpretation
Consumer Satisfaction	0.419	0.407	—	Moderate
MSME Performance	0.472	0.456	—	Moderate
Transformational Leadership → Consumer Satisfaction	—	—	0.158	Medium
Local Wisdom → Consumer Satisfaction	—	—	0.226	Medium
Transformational Leadership → MSME Performance	—	—	0.010	Very small

Relationship / endogenous construct	R Square	Adjusted R Square	f Square	Interpretation
Local Wisdom → MSME Performance	–	–	0.098	Small
Consumer Satisfaction → MSME Performance	–	–	0.200	Medium

Source: SmartPLS output, processed (2026).

4.5. Hypothesis Testing

Bootstrapping with 500 subsamples shows that four of the five direct effects are statistically supported. Consumer satisfaction exerts the largest direct effect on MSME performance ($\beta = 0.426$), followed by the effect of local wisdom on consumer satisfaction ($\beta = 0.410$). The direct effect of transformational leadership on MSME performance is not significant, with $p = 0.341$ and a confidence interval that crosses zero.

Table 5. Direct effects

Hypothesis / path	β	t	p-value	95% BCa CI	Decision
H1: Transformational Leadership → Consumer Satisfaction	0.344	4.488	<0.001	[0.179; 0.492]	Supported
H2: Local Wisdom → Consumer Satisfaction	0.410	6.068	<0.001	[0.290; 0.540]	Supported
H3: Transformational Leadership → MSME Performance	0.088	0.954	0.341	[-0.101; 0.255]	Not supported
H4: Local Wisdom → MSME Performance	0.285	2.799	0.005	[0.059; 0.477]	Supported
H5: Consumer Satisfaction → MSME Performance	0.426	4.802	<0.001	[0.259; 0.610]	Supported

Source: SmartPLS bootstrapping output, processed (2026).

Table 6. Indirect effects and type of mediation

Hypothesis / indirect path	β	t	p-value	95% BCa CI	Type of mediation
H6: Transformational Leadership → Consumer Satisfaction → MSME Performance	0.146	3.193	0.001	[0.065; 0.238]	Indirect-only mediation
H7: Local Wisdom → Consumer Satisfaction → MSME Performance	0.175	3.330	0.001	[0.088; 0.285]	Complementary partial mediation

Source: SmartPLS specific indirect effects, processed (2026).

DISCUSSION

The results confirm that transformational leadership shapes consumer satisfaction ($\beta = 0.344$). In micro and small food and beverage businesses, the owner is present in daily operations, so an inspiring vision, intellectual stimulation, and individual attention translate quickly into service standards experienced by consumers. This finding is consistent with studies reporting that transformational leadership operates through satisfaction-type mediators rather than through a direct performance path ((Hilton et al., 2023); (Aldossari & Alanizan, 2025).

Local wisdom emerges as the strongest predictor of consumer satisfaction ($\beta = 0.410$) and also affects performance directly ($\beta = 0.285$). Authentic recipes, local raw materials, traditional processing, and culturally grounded service produce a distinctive value proposition that competitors cannot easily copy. This dual pathway supports the resource-based view: culturally embedded resources act both as a differentiator in the consumer experience and as a direct source of competitive advantage (Gunawan et al., 2024).

Consumer satisfaction has the largest effect on MSME performance ($\beta = 0.426$), positioning it as the central transmission mechanism of the model. Satisfied consumers repurchase, recommend the business, and are less sensitive to price differences, which sustains turnover and business continuity even under limited marketing budgets.

The rejection of the direct effect of transformational leadership on performance ($p = 0.341$, $f^2 = 0.010$) is theoretically meaningful rather than a null result. Combined with a significant indirect effect of 0.146, the pattern indicates indirect-only mediation: leadership improves performance strictly through the quality of the consumer experience it produces. Leadership behaviour that does not reach the consumer interface therefore leaves no measurable performance footprint. Local wisdom, by contrast, shows complementary

partial mediation, since both its direct and indirect effects are significant and point in the same direction.

Practically, the findings suggest that MSME development programmes in Sumbawa Regency should treat leadership training and the codification of local wisdom as instruments aimed explicitly at the consumer experience, for instance through service standards, product authenticity, consistent quality, and complaint handling, rather than as generic managerial exercises.

CONCLUSION

This study examined the effect of transformational leadership and local wisdom on the performance of food and beverage MSMEs in Sumbawa Regency, with consumer satisfaction as a mediating variable. Transformational leadership and local wisdom both significantly increase consumer satisfaction, consumer satisfaction exerts the strongest effect on MSME performance, and local wisdom additionally affects performance directly. The direct effect of transformational leadership on performance is not significant, so its influence is fully transmitted through consumer satisfaction (indirect-only mediation), while local wisdom demonstrates complementary partial mediation. The model explains 41.9 per cent of the variance in consumer satisfaction and 47.2 per cent of the variance in MSME performance, with confirmed predictive relevance.

Theoretically, the study strengthens the resource-based view by showing that culturally embedded resources and leadership capability require a consumer-facing mechanism before they convert into performance. Practically, MSME owners and local government agencies are advised to direct leadership capacity building and the preservation of local wisdom towards measurable improvements in consumer experience.

The study is limited by its cross-sectional design, its single-regency and single-sector coverage, its reliance on perceptual self-reported performance measures, and a sample of 100 respondents. Future research is encouraged to use longitudinal data, to compare regions and sectors, to add objective performance indicators, and to extend the model with variables such as product quality, green innovation, government policy, and digital marketing as moderators.

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