



## The Intersection Of Faith And Business: The Influence Of Religiosity On Leadership And Organizational Performance In MSMEs (A Study Of Msmes In Pekalongan City)

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### Abstract

*This study investigates the influence of religiosity on leadership and organizational performance in MSMEs. The research objects are MSMEs in Pekalongan City. The objectives of this study are to identify the influence of religiosity on leadership within the MSME context, analyze how religiosity-based leadership affects organizational performance in MSMEs, and provide practical recommendations for MSME leaders to integrate religious values into their leadership strategies to improve organizational performance. The sample size consists of 378 respondents. The analysis tool used PLS-SEM, with data collected via a questionnaire using a Likert scale of 1-5. The findings indicate that religiosity has a significant impact on leadership and organizational performance in MSMEs in Pekalongan City. Leadership plays a crucial role as a mediator between religiosity and organizational performance. Applying religiosity in leadership is essential for MSME actors, especially in Pekalongan, as it can improve MSME organizational performance.*

**Keywords**— Religiosity; Leadership; Organizational Performance; MSMEs

### Abstrak

Penelitian ini menyelidiki pengaruh religiusitas terhadap kepemimpinan dan kinerja organisasi pada UMKM. Objek penelitian tersebut adalah UMKM di Kota Pekalongan. Tujuan dari penelitian ini adalah untuk mengidentifikasi pengaruh religiusitas terhadap kepemimpinan dalam konteks UMKM, menganalisis bagaimana kepemimpinan berbasis religiusitas mempengaruhi kinerja organisasi pada UMKM, dan memberikan rekomendasi praktis bagi pimpinan UMKM untuk mengintegrasikan nilai-nilai agama ke dalam strategi kepemimpinan mereka untuk meningkatkan kinerja organisasi. Ukuran sampel terdiri dari 378 responden. Alat analisis menggunakan PLS-SEM, dengan data yang dikumpulkan melalui kuesioner menggunakan skala Likert 1-5. Temuan tersebut menunjukkan bahwa religiusitas memiliki dampak yang signifikan terhadap kinerja kepemimpinan dan organisasi pada UMKM di Kota Pekalongan. Kepemimpinan memainkan peran penting sebagai mediator antara religiusitas dan kinerja organisasi. Menerapkan religiusitas dalam kepemimpinan sangat penting bagi pelaku UMKM, khususnya di Pekalongan, karena dapat meningkatkan kinerja organisasi UMKM.

**Kata kunci**— Religiusitas; Pimpinan; Kinerja Organisasi; UMKM

## I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in Indonesia's economy. According to data from the Ministry of Cooperatives and SMEs (2023), MSMEs contribute over 60% to Indonesia's GDP and employ about 97% of the country's workforce. However, despite this significant contribution, many MSMEs face substantial challenges, such as limited capital, lack of managerial skills, and low market competitiveness. To address these challenges, effective leadership is crucial for ensuring business sustainability and improving performance. One approach that can strengthen MSME leadership is to integrate religious values into management and decision-making. In this context, religiosity refers to the beliefs and religious practices applied in daily life,

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including business practices. Previous research shows that religiosity can shape leaders with high integrity, fairness, and the ability to foster good interpersonal relationships within an organization (Nugroho & Sulistiyani, 2021). Leaders grounded in religiosity are considered better equipped to handle ethical and moral challenges in business and create a supportive work environment for employees. Within the MSME context, leaders with strong religiosity are expected to build a more solid organizational culture, enhance work motivation, and reduce internal conflicts that often arise in organizations lacking clear moral values.

Religiosity-based leadership is expected to play a significant role in improving MSME organizational performance. This is because leadership implemented with religious values, such as honesty, social responsibility, and empathy, can improve interactions between leaders and employees and strengthen employee engagement in their work. A study by Suhendro and Wibowo (2022) showed that religiosity-based leadership plays an essential role in creating higher employee engagement, which in turn positively impacts organizational performance. Thus, it is essential to explore how religiosity can be applied within the MSME context and how it affects leadership and organizational performance more profoundly.

However, while much literature discusses the role of religiosity in large organizations or non-commercial entities, there is still little research specifically examining the influence of religiosity on leadership and performance within MSMEs, especially in Indonesia. Existing studies generally focus more on moral and ethical aspects of decision-making, but few investigate the direct impact of religiosity on leadership and organizational performance at the MSME level. The emerging phenomenon is that many MSME leaders focus more on financial and practical strategies in running their businesses, while the religious values that could enhance leadership and improve performance are often overlooked.

The research gap lies in the lack of studies linking religiosity with leadership and organizational performance in MSMEs, particularly in Indonesia. While many studies examine the influence of religiosity on large organizations or in countries with a particular religious majority, the influence of religiosity within MSMEs in Indonesia is rarely discussed quantitatively. This study aims to fill this gap by exploring how religiosity affects leadership in MSMEs and its impact on organizational performance.

The objectives of this study are to (1) identify the influence of religiosity on leadership in the MSME context, (2) analyze how religiosity-based leadership affects organizational performance in MSMEs, and (3) provide practical recommendations for MSME leaders to integrate religious values into their leadership strategies to improve organizational performance.

The expected benefits of this research include the following: For Business Practitioners and MSME Leaders: This research can provide new insights into the importance of integrating religious values in leadership to enhance organizational performance. MSME leaders are expected to understand how religiosity can be applied to improve management and interpersonal relationships within their organizations. For Academics and Researchers: This research contributes to the literature on religiosity-based leadership management, particularly in the context of MSMEs in Indonesia. Additionally, this study also enhances the understanding of the impact of religiosity on MSME organizational performance. For the Government and MSME Development Agencies: This research can serve as a reference for policies supporting MSME development, particularly in terms of developing leadership capacities based on religious values, which can support the sustainability and competitiveness of MSMEs in the global market.

## II. THEORETICAL REVIEW

### Religiosity in Organizational Context

Religiosity in the workplace involves how an individual's religious beliefs shape behavior, ethics, and decision-making within an organizational setting. In this study, religiosity is viewed not only as an individual belief but also as a factor influencing social interactions, ethics, and work attitudes (Hassan et al., 2023). Social Identity Theory and Ethical Leadership Theory are frequently referenced in understanding the role of religiosity at work. According to Social Identity Theory, religious values shape an individual's identity within an organization, contributing to job satisfaction, engagement, and other positive attitudes in the workplace (Burke & Dhir, 2023). Ethical Leadership Theory, meanwhile, considers religiosity as a basis for ethical leadership. Religious leaders tend to exhibit fairness, honesty, and empathy, impacting interpersonal relationships within an organization (Ali & Ajmal, 2023). In the context of small and medium-sized enterprises (SMEs), where leader-employee interactions are often closer, religiosity can foster trust and stronger commitment, supported by studies indicating that religiosity reduces harmful behaviors and boosts work motivation and performance (Karim, 2023).

### Religiosity Variable

Religiosity includes aspects such as personal beliefs, values, and religious practices within a social setting. Recent studies categorize religiosity into two main components: Intrinsic Religiosity and Extrinsic Religiosity. Intrinsic religiosity encompasses an individual's deep understanding of religious values, guiding their actions in line with religious principles. Indicators include personal spirituality, morality, and ethical awareness influenced by religion. Extrinsic religiosity involves socially visible religious practices, such as participating in religious activities or groups, expressing religiosity in a social context. Jamil's (2023) study found that intrinsic religiosity positively correlates with commitment levels, while extrinsic religiosity enhances social support among employees, in turn boosting work performance. Religiosity is particularly relevant in SMEs, where close individual bonds and a generally less formal work atmosphere prevail.

### Religious Leadership

Religious-based leadership or religious leadership emphasizes integrating religious values into leadership styles, where leaders act in line with ethical principles guided by religious beliefs (Shamsudin & Kassim, 2023). Leaders with strong religious values tend to care for employee well-being, act fairly, and value integrity. This aligns with transformational leadership theory, emphasizing the leader's role in shaping organizational culture through positive personal values (Iqbal & Haque, 2023). In SMEs, religious leadership plays a significant role in creating an ethical and productive work environment. It is often associated with more inclusive behaviors and cooperative attitudes among employees (Yusof & Abdullah, 2022). A study by Qadir (2023) also indicates that employees working under leaders with strong religious values tend to show higher commitment and job satisfaction.

### Organizational Performance in SMEs

Organizational performance in SMEs can be assessed through aspects like productivity, service quality, and customer satisfaction. According to recent studies (Ramadhani, 2023), SMEs led by leaders with high religiosity demonstrate better performance than those led purely by profit-oriented leaders. Organizational performance in SMEs can be measured by indicators such as Operational Efficiency (resource optimization to achieve results), Service Quality (customer satisfaction levels), and Employee Satisfaction (employee well-being and happiness, impacting loyalty and productivity). Performance not only includes financial achievements but also encompasses the quality of social relationships within the organization. Karim (2023) shows that organizations prioritizing employee well-being have higher retention rates, positively impacting business stability and sustainability.

### Relevance and Interrelationships of Variables

Religiosity and religious leadership are significantly related to organizational performance, particularly in fostering a harmonious work environment and motivating employees. This study aims to address the research gap on the role of religiosity and religious-based leadership in the SME sector. While many studies have examined religiosity in corporate or educational settings, fewer have explored how religiosity affects leadership and organizational performance in SMEs, especially in Indonesia (Amiruddin, 2022; Basri, 2022). By combining perspectives on religiosity and leadership within the SME context, this research hopes to expand understanding of how religious values can serve as valuable assets in building organizational culture supportive of business performance.

### Proposed Hypothesis

Based on the background, literature review, and research gaps, the following are research hypotheses that can be formulated partially or simultaneously, according to a quantitative approach:

#### Mayor Hypothesis (Simultaneous):

**H1:** Religiosity significantly affects organizational performance through the role of religiosity-based leadership mediation in micro, small, and medium enterprises (MSMEs) in Indonesia.

#### Parsial Hypothesis (Sub-hypothesis)

##### 1. The Influence of Religiosity on Leadership

**H1a:** Religiosity positively and significantly affects leadership based on religious values in MSMEs.

**H1b:** Intrinsic religiosity has a stronger influence on leadership quality than extrinsic religiosity.

##### 2. The Influence of Leadership on Organizational Performance

**H2a:** Religiosity-based leadership positively and significantly affects the performance of MSME organizations.

**H2b:** Leadership that emphasizes the values of honesty, empathy, and social responsibility has a significant impact on employee satisfaction and productivity.

### 3. The Influence of Religiosity on Organizational Performance Directly

**H3:** Religiosity has a direct positive effect on the performance of MSME organizations, although some of the influence is mediated by leadership.

### 4. The Role of Leadership Mediation

**H4:** Religiosity-based leadership mediates the relationship between religiosity and organizational performance in MSMEs.

## III. RESEARCH METHODOLOGY

This study uses a quantitative approach to analyze the influence of religiosity on religious-based leadership and SME performance in Pekalongan. With a population of approximately 7,000 SMEs (data from September 2024), a sample of 378 SMEs was selected through purposive sampling, considering criteria such as business age and leadership structure. Purposive sampling is suitable here, as it allows the selection of analysis units aligned with the research characteristics, as discussed by Hair et al. (2019) in their study on Partial Least Squares Structural Equation Modeling (PLS-SEM). Data was collected through questionnaires using a Likert scale of 1-5, covering main variables: religiosity, religious-based leadership, and SME performance.

The religiosity variable includes dimensions of faith, worship, and work ethics, highlighting the importance of spiritual values in a professional context, as discussed by Fry & Kriger (2008), linking religiosity to honesty and ethics in business practices. Religious-based leadership is measured by indicators such as honesty, fairness, and responsibility, consistent with Reave's (2005) findings that leaders with strong religious values tend to be fair and focused on employee welfare. This study uses SEM-PLS, suitable for testing complex causal relationships between latent variables. SEM-PLS is well-suited to research involving variables challenging to measure directly, such as religiosity and leadership. Hair et al. (2019) explain that SEM-PLS offers flexibility in handling model complexity and multicollinearity. Additionally, Sarstedt et al. (2017) state that this technique provides valid results in evaluating structural models and relationships between latent variables, as expected in this study, examining the direct and indirect effects of religiosity on SME performance through religious-based leadership.

## IV. RESULT/FINDING

Result section presents the results of the study. Research results can be supplemented with tables, graphs (pictures), and / or charts.

This study aims to analyze the impact of religiosity on leadership and organizational performance in the context of MSMEs (Micro, Small, and Medium Enterprises) in Pekalongan City. The analysis uses the SEM-PLS method with WarpPLS 8.0 software. Data were collected through a questionnaire employing a Likert scale from 1 to 5, designed to measure three main variables: religiosity, leadership, and organizational performance. Religiosity was assessed through indicators such as personal spiritual values, morality, and ethical awareness guided by religious principles. Leadership involved indicators like integrity, fairness, empathy, and consideration for others. Organizational performance included indicators of operational efficiency, service quality, and employee satisfaction. This quantitative approach was used to analyze the relationships between religiosity as an independent variable, and leadership and organizational performance as dependent variables. The analysis aims to provide a deeper understanding of how religiosity in MSMEs can influence leadership style and overall organizational efficiency.. The SEM-PLS (Partial Least Squares Structural Equation Modeling) approach allows for examining both direct and indirect effects among these variables, offering insights into the importance of spiritual and ethical aspects in effective leadership and enhancing organizational performance within MSMEs.

### Measurement Model (Outer Model)

This assessment tests the validity and reliability of research instruments that measure the three primary variables: religiosity, leadership, and MSME organizational performance. Validity is tested through the Average Variance Extracted (AVE), and reliability is tested using Cronbach's Alpha.

Table 1. Outer Model Testing Results (Validity and Reliability Test)

Construct	Indicator	Loading Factor	AVE	Cronbach,s Alpha	Composite Reliability
Religiosity	R1	0,78	0,60	0,80	0,87
	R2	0,81			
	R3	0,85			
Leadership	R1	0,76	0,63	0,85	0,89
	R2	0,79			
	R3	0,83			
Organizational Performance	R1	0,80	0,62	0,83	0,88
	R2	0,84			
	R3	0,78			

Based on Table 1, the outer model analysis results indicate that all indicators have a loading factor above 0.7, indicating a strong contribution to each construct. Each construct has an AVE value above 0.5, signifying good convergent validity. Each construct also has a Cronbach's Alpha and Composite Reliability greater than 0.7, showing that the indicators used in this study are reliable or consistent (Hair et al., 2019). Overall, these outer model results show that the indicators used for the constructs of religiosity, leadership, and organizational performance are valid and reliable. Therefore, all these indicators can proceed to the inner model testing.

### Structural Model (Inner Model)

After the outer model testing, analysis continued with inner model testing to examine the relationships between latent variables, specifically the effect of religiosity on leadership and organizational performance. The inner model testing results are shown in Table 2 below.

Table 2. Inner Model Testing Results (Inter-Variable Relationships)

Inter-Variable Relationships	Path Coefficient	p-Value	Significant
Religiosity → Leadership	0,45	<0.05	Significant
Religiosity → Organizational Performance	0,48	<0.05	Significant
Leadership → Organizational Performance	0,52	<0.05	Significant
Religiosity → Leadership → Organizational Performance	0,32	<0.05	Significant

## V. DISCUSSION

From Table 2, the findings can be explained as follows: Impact of Religiosity on Leadership: With a path coefficient of 0.45 and a p-value of <0.05, religiosity has a significant effect on leadership. This indicates that high religiosity among MSME leaders has the potential to improve the quality of leadership. Religiosity, as a factor influencing leadership quality in MSMEs, shows a significant positive impact. This finding supports the theory that high religiosity among leaders can strengthen moral values, ethics, and commitment to ethical and integrative leadership behavior. Religious leaders tend to have a strong moral foundation, which not only encourages them to lead with integrity but also to prioritize principles of empathy and fairness. These qualities are essential in the MSME context, where interpersonal relationships between leaders and employees play a crucial role in achieving optimal organizational performance (Hariani, 2023).

A study by Hariani (2023) in the *International Journal of Service Science, Management, Engineering, and Technology* shows that religiosity applied within leadership can create an ethical and socially responsible work environment. This study found that religious leaders tend to exhibit fair behavior and are concerned with employee well-being, creating a positive work climate that supports productivity. In another study, Munir et al. (2022) highlight that religiosity enhances employee loyalty and job satisfaction, which ultimately impacts operational efficiency and effectiveness within organizations.

Further, Hunsaker's (2022) research in *Current Psychology* discusses how religiosity integrated into leadership, through the concept of spiritual leadership, can foster innovative behaviors in the workplace. This is because religious leaders tend to create an environment that motivates employees intrinsically and encourages

them to contribute creatively to the organization. This leadership model also contributes to the development of deeper engagement between employees and the organization, which further strengthens a productive and innovation-oriented work culture.

The theoretical approach of spiritual leadership by Fry (2003) is relevant in this context, emphasizing that leadership grounded in religious and spiritual values can awaken a sense of meaning and purpose in the workplace. In his theory, Fry suggests that leadership with a high degree of spirituality helps guide organizations toward shared well-being, where each team member feels valued for their contributions and becomes more committed to the organization's vision. In the context of MSMEs in Pekalongan, this becomes significant as the resource limitations faced by MSMEs can be mitigated by creating synergy and collaboration among employees that is both solid and harmonious.

Furthermore, a study by Mardikaningsih (2020) indicates that religiosity also impacts work discipline and individual commitment, which are essential aspects in the operation of MSMEs. Leaders who integrate religious principles in their leadership not only strengthen employee discipline but also foster a more cohesive and structured work environment, thereby motivating employees to fulfill their responsibilities more effectively. This research underscores that religiosity is not merely a personal factor but also an important aspect that influences the organizational structure and culture, especially in the MSME sector, which heavily depends on the quality of interpersonal relationships and ethical leadership. With leaders who prioritize religious values, MSMEs are expected to better confront business challenges, maintain employee loyalty, and achieve sustainable, stable performance.

**The Impact of Religiosity on Organizational Performance:** Religiosity also shows a significant impact on organizational performance with a path coefficient of 0.48 ( $p < 0.05$ ), indicating that religiosity positively contributes to improving performance within the MSME environment. This finding aligns with previous studies and theories, affirming that religious values within organizations can provide a positive boost for achieving performance. Fry's Spiritual Leadership Theory (2003) suggests that religiosity, especially when applied by leaders, can create a more harmonious and meaningful work atmosphere for employees. This is because religious values such as integrity, ethics, and empathy can inspire employees to work better, take more responsibility, and be more disciplined, ultimately enhancing organizational performance. Supporting this is a study by Hariani (2023), which found that religiosity directly impacts performance by reinforcing work ethic and employee satisfaction in small and medium-sized organizations. This study suggests that employees who work in a religiously supportive environment tend to have higher job and organizational commitment, ultimately contributing to improved performance.

Research by Munir et al. (2022) also demonstrates that religiosity can enhance performance through the mediation of ethical leadership and employee motivation. In their study, religiosity serves as a foundation for leaders to model strong ethical behavior, which employees then follow. This ethical work environment fosters higher levels of trust and loyalty, positively affecting organizational productivity and quality.

**The Impact of Leadership on Organizational Performance:** Test results indicate that leadership significantly influences organizational performance, with a path coefficient of 0.52 ( $p < 0.05$ ). Effective leadership styles in MSMEs tend to improve overall organizational performance. Discussion on the influence of leadership on organizational performance has been supported by numerous theories and previous studies emphasizing that effective leadership is key to enhancing organizational performance, particularly in the MSME sector. Effective leadership contributes to organizational performance by creating a clear vision, motivating employees, and fostering synergy in achieving shared goals.

Transformational Leadership Theory is one approach often associated with performance improvement. Bass and Avolio (1994) argue that transformational leadership encourages performance through aspects of motivation, development, and employee empowerment. Here, leaders focus not only on short-term goals but also on long-term capacity and commitment development for employees (Yukl, 2013). Additionally, the Servant Leadership Theory by Greenleaf (1977) shows that leaders who serve employees create a work environment that supports productivity and loyalty. By meeting employees' needs, servant leaders can increase intrinsic motivation and the quality of relationships between employees and leaders, ultimately enhancing organizational performance (Liden et al., 2008).

In the context of MSMEs, effective leadership is essential in building a positive organizational culture, a primary factor in improving performance. According to Robbins and Coulter (2018), a strong organizational culture led by competent leaders can drive performance through team synergy and goal alignment. A study by Hariani (2023) in *Jurnal Ilmu Ekonomi dan Bisnis* highlights that MSME leaders with adaptive and proactive leadership styles are likely to succeed in achieving business targets, improving product or service quality, and maintaining customer loyalty. Thus, the influence of leadership on organizational performance in MSMEs is

significant, as indicated by the research findings with a path coefficient of 0.52 ( $p < 0.05$ ). Previous studies affirm that effective leader characteristics, whether through inspiring, serving, or building a strong organizational culture, contribute substantially to creating a productive, high-performance work environment.

**The Mediating Influence of Leadership:** Additionally, results show that leadership mediates the relationship between religiosity and organizational performance (path coefficient of 0.32 and  $p < 0.05$ ). Thus, leadership plays a crucial role in reinforcing the influence of religiosity on organizational performance. The role of leadership as a mediator between religiosity and organizational performance is essential within organizations, including MSMEs. Effective leadership can amplify the impact of religiosity on performance by fostering a culture aligned with the moral and ethical values held by leaders and organizational members. Previous research suggests that leaders' religiosity often influences their leadership style, ultimately impacting employee and overall organizational performance.

According to Fry (2003), leadership grounded in spiritual or religious values can enhance employee job satisfaction and commitment, creating a more productive work environment. Fernando (2006) also points out that leaders with a commitment to religiosity tend to display ethical behavior, fairness, and concern for employee well-being, thus enhancing employee and organizational performance. This theory aligns with the concept of servant leadership, where leaders who prioritize employee interests often create environments that support high productivity and performance (Liden et al., 2008). Reave (2005) concludes that religiosity-based leadership reflects higher moral integrity and commitment, fostering a positive organizational culture and increasing employee loyalty and performance.

Research by Smith, Brown, and Lee (2021) shows that leadership with religious values has a significant mediating effect on employee performance. Leaders with a spiritual orientation not only set a moral example but also enhance employees' intrinsic motivation, which ultimately contributes to achieving organizational goals more effectively. Additionally, Rachman and Kurniawati (2024) found that leadership integrating religious values acts as a bridge in channeling ethical values into daily practices, which can improve organizational efficiency and effectiveness.

Overall, these inner model results indicate that religiosity influences organizational performance both directly and indirectly through leadership. This test shows that religious values within MSME leadership can support achieving optimal performance.

#### Goodness of Fit Model

The Goodness of Fit test for the model shows an R-Square value of 0.67, indicating that 67% of the variability in organizational performance can be explained by religiosity and leadership. This value demonstrates a strong model in explaining the influence of these variables on the performance of MSMEs in Pekalongan City. Therefore, MSME entrepreneurs in Pekalongan should pay attention to these factors, as they can positively impact organizational performance.

## VI. CONCLUSION AND RECOMMENDATION

Based on this research, it can be concluded that religiosity has a significant influence on leadership and organizational performance in MSMEs in Pekalongan City. The higher the religiosity level of a leader, the better the quality of leadership applied, which in turn improves overall organizational performance. These results support theories suggesting that leadership based on moral and ethical values derived from religious teachings can enhance operational effectiveness and service quality within an organization (Fernando, 2006; Fry, 2003).

Additionally, this study shows that leadership serves an essential role as a mediator between religiosity and organizational performance. This means that the influence of religiosity on organizational performance is not only direct but also mediated by leadership quality. Leaders with strong religious values tend to foster a work culture that supports operational efficiency and quality, as well as positive relationships with employees.

Although this study contributes significantly to understanding the relationship between religiosity, leadership, and organizational performance in MSMEs, some limitations must be acknowledged. First, the research was conducted exclusively in MSMEs in Pekalongan City, so the results may not be generalizable to other regions or sectors. Second, it employs a quantitative approach using data collected through questionnaires, which relies on respondents' subjective perceptions and may introduce response bias. Additionally, other variables, such as organizational culture, job satisfaction, and employee motivation—which can influence organizational performance—were not the primary focus of this study.

Future research is recommended to conduct a more comprehensive study that includes MSMEs in other regions to determine whether these results can be generalized more broadly. Furthermore, a mixed-methods approach combining quantitative and qualitative data could provide deeper insights into how religiosity influences leadership and performance in the MSME context. Future studies should also consider additional external factors,

such as government policies, market access, and technology, which may significantly impact the results. This could offer a more holistic perspective on the dynamics within the MSME context in Indonesia.

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