

Transformational Leadership and Employer Branding with Job Satisfaction Mediation on Customer Loyalty Outcomes among MSMEs

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ABSTRACT. This study examines how transformational leadership and employer branding influence customer loyalty through job satisfaction among MSMEs in Purwakarta. Using a quantitative design, data were collected from 205 MSME employees and analyzed with SEM-PLS. Results indicate that transformational leadership and employer branding significantly increase job satisfaction. Job satisfaction, in turn, has a strong positive effect on customer loyalty and mediates the effects of leadership and branding on loyalty. The model explains substantial variance in job satisfaction and moderate variance in customer loyalty, confirming the relevance of internal management practices for market outcomes. The findings support the Attitude–Behavior–Outcome framework by showing that organizational inputs shape employee attitudes that translate into customer responses. Practically, the study suggests that MSMEs can strengthen loyalty by investing in inspirational leadership and consistent employer branding that enhances employee satisfaction. These strategies are feasible for small firms because they rely more on interpersonal practices than on financial resources. This research extends leadership and employer branding literature to the MSME context and highlights job satisfaction as a key transmission mechanism between internal and external performance. Policy implications are relevant for local enterprise development programs in Indonesia contexts.

Keyword: Customer Loyalty; Employer Branding; Job Satisfaction; Transformational Leadership.
JEL Classification: MM2

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INTRODUCTION

Micro, small, and medium-sized enterprises (MSMEs) increasingly depend on customer loyalty to survive in highly competitive and volatile markets. However, many MSMEs struggle to maintain loyal customers because service quality and employee performance are often inconsistent. Leadership practices in these firms are frequently informal and reactive, limiting their ability to shape positive employee attitudes. Prior studies indicate that leadership style is a critical driver of employee motivation and service behavior, which ultimately influences customer outcomes (Afsar et al., 2021). At the same time, MSMEs rarely develop structured employer branding strategies to attract and retain competent employees. Weak internal management systems further reduce employees' emotional attachment to the organization. These conditions create a cycle in which low job satisfaction undermines service delivery and weakens customer loyalty. Consequently, understanding how leadership and employer branding jointly affect customer loyalty becomes a pressing managerial issue (Khan et al., 2020).

Recent business dynamics show that customers are more sensitive to service experiences and relational value than to price alone. Digital platforms have intensified competition, enabling customers to switch providers with minimal effort. Evidence from service-based MSMEs indicates that customer loyalty is increasingly shaped by frontline employee behavior and emotional engagement (Rather et al., 2022). Employees who feel valued and supported tend to show higher commitment and better service performance. Transformational leadership has been linked to stronger employee engagement and proactive behavior in small business contexts (Iqbal et al., 2020). Employer branding also plays a role by signaling organizational values and shaping employee pride in their workplace. When these elements are weak, customers perceive lower service reliability and emotional connection. This phenomenon suggests that internal organizational factors are deeply connected to external customer outcomes (Khan & Busari, 2020).

Global MSME statistics show that more than 60% of customer defection is associated with poor service experiences rather than product failure. Studies across emerging markets report that service-based MSMEs face customer churn rates exceeding 30% annually (World Bank, 2022). Empirical findings confirm that employee dissatisfaction is a major predictor of service inconsistency and customer complaints (Zhang et al., 2021). In many MSMEs, limited career development and unclear organizational identity reduce employees' willingness to deliver extra-role behaviors. Leadership practices that fail to inspire or support employees intensify this problem. Employer branding initiatives are often underdeveloped because owners focus primarily on sales rather than internal reputation. This condition weakens employees' sense of belonging and reduces service enthusiasm. The combined effect of these issues is declining customer trust and loyalty (Kim & Park, 2020).

Despite growing attention to leadership and branding, existing research presents notable gaps. Most studies examine transformational leadership and customer loyalty directly, without considering internal branding mechanisms. Other studies focus on employer branding and job satisfaction but stop short of linking them to customer outcomes (Backhaus & Tikoo, 2019). A recent study by Kara et al. (2021) analyzed leadership and employee satisfaction in small firms but did not include customer loyalty as an outcome variable. This creates uncertainty about whether improvements in employee attitudes translate into stronger customer relationships. Moreover, few studies integrate leadership and employer branding within a single explanatory framework. The mediation role of job satisfaction remains underexplored, particularly in MSME settings. These

gaps limit theoretical integration and practical guidance for small business owners (Kara et al., 2021).

This study is grounded in the Attitude–Behavior–Outcome (ABO) framework, which explains how managerial actions shape employee attitudes that later influence behavioral and performance outcomes. The framework suggests that leadership style and employer branding act as stimuli that influence job satisfaction as an internal attitude. Job satisfaction then affects service behavior and relational quality toward customers (Luu, 2020). Unlike broad motivation theories, the ABO framework directly links internal attitudes to external outcomes. It is especially relevant for service-oriented MSMEs where employee–customer interactions are central. Empirical evidence supports the idea that satisfied employees transmit positive emotions to customers, enhancing loyalty (Zhang & Bartol, 2020). This framework allows leadership and branding to be positioned as complementary drivers of satisfaction. Therefore, it provides a focused and practical lens for analyzing MSME performance (Luu, 2020).

The use of this framework is justified because MSMEs operate with limited formal structures and rely heavily on interpersonal influence. Transformational leadership shapes meaning, vision, and trust, which directly affect employee attitudes. Employer branding reinforces these meanings by communicating organizational identity and values internally. Job satisfaction reflects how employees interpret and respond to these signals. When satisfaction is high, employees are more willing to engage in service-oriented and loyalty-building behaviors (Chen et al., 2022). The framework explains why leadership and branding should not be examined separately. It also clarifies the psychological process through which internal practices affect customers. This theoretical positioning strengthens the explanatory power of the proposed model (Chen et al., 2022).

The urgency of this research arises from the vulnerability of MSMEs to customer switching and workforce instability. Unlike large firms, MSMEs lack buffers to absorb revenue losses from declining loyalty. At the same time, employee turnover in small businesses is rising due to better opportunities and remote work options (De Stefano et al., 2021). Without strong leadership and employer branding, MSMEs risk losing both employees and customers simultaneously. Prior research emphasizes that sustainable competitiveness in small firms depends on internal human resource practices (Jiang & Messersmith, 2018). However, empirical models that integrate leadership, branding, and satisfaction remain limited. This creates an urgent need for a more comprehensive approach. Addressing this gap can help MSMEs design strategies that stabilize both workforce and customer base (De Stefano et al., 2021).

Furthermore, the study responds to calls for more context-specific research in emerging and service-driven MSMEs. Scholars argue that theories developed in large organizations may not fully capture small business dynamics (Raza et al., 2020). Transformational leadership in MSMEs often operates through close personal relationships rather than formal authority. Employer branding in this context is more experiential than symbolic. Job satisfaction is shaped by daily interactions rather than formal policies. These distinctive features require an integrated and tailored analytical model. Investigating these relationships provides insights into how internal and external performance are connected in small firms. Such evidence can refine existing leadership and branding theories (Raza et al., 2020).

The specific objective of this study is to examine the effect of transformational leadership on customer loyalty outcomes among MSMEs. It also aims to analyze the influence of employer branding on customer loyalty through employee-related mechanisms. Job satisfaction is positioned

as a mediating variable linking leadership and branding to customer loyalty. The study seeks to test whether satisfied employees transmit positive service experiences that strengthen customer relationships. By integrating these variables, the research offers a holistic view of internal–external performance linkage. The findings are expected to contribute to leadership and branding literature in small business contexts. Practically, the results will guide MSME owners in designing people-centered strategies. Ultimately, this study aims to support sustainable customer loyalty through improved leadership and employer branding practices (Rather et al., 2022).

LITERATURE REVIEW

Attitude–Behavior–Outcome (ABO) framework

The main theoretical foundation of this study is the Attitude–Behavior–Outcome (ABO) framework, which explains how organizational practices influence employee attitudes that subsequently shape behaviors and organizational outcomes. This framework posits that managerial actions, such as leadership style and branding practices, function as stimuli that affect employees' internal evaluations, including job satisfaction and emotional attachment (Luu, 2020). These internal states guide behavioral responses such as service quality and customer orientation, which ultimately influence customer-related outcomes like loyalty. The theory is particularly suitable for service-oriented contexts where employee–customer interactions are frequent and highly visible. By focusing on the psychological mechanism between management practices and performance, the ABO framework provides a micro-level explanation of organizational effectiveness. It also emphasizes that outcomes are rarely direct but mediated through human attitudes and behaviors. This perspective aligns with recent organizational behavior research that stresses the centrality of employee experience in shaping market outcomes (Chen et al., 2022).

The development of the ABO framework reflects a shift from purely structural explanations of performance toward more behavioral and psychological approaches. Early organizational models emphasized systems and procedures, whereas contemporary research integrates affective and cognitive employee responses as central explanatory factors. Recent studies have expanded the framework by incorporating leadership, identity, and branding constructs as key antecedents of employee attitudes (Zhang & Bartol, 2020). Scholars argue that in knowledge- and service-based organizations, employee perceptions are more influential than formal rules. This evolution has strengthened the relevance of ABO in explaining service performance and relational outcomes. Empirical research confirms that positive employee attitudes mediate the relationship between leadership and customer satisfaction (Luu, 2020). Thus, the framework has matured into a robust lens for analyzing internal–external performance linkages.

In relation to this study, the ABO framework explains how transformational leadership and employer branding influence job satisfaction, which then affects customer loyalty. Leadership and branding serve as organizational inputs that shape employees' psychological states. Job satisfaction represents the attitudinal component that translates these inputs into service behavior and customer-oriented actions. Customer loyalty constitutes the final outcome reflecting sustained relationship quality. This linkage is consistent with evidence showing that satisfied employees engage in more supportive and consistent service behaviors (Chen et al., 2022). The framework allows this study to integrate leadership and branding within a single explanatory model. It also clarifies the mediating role of job satisfaction rather than assuming direct effects on customer loyalty. Therefore, the ABO framework offers a coherent theoretical basis for the proposed relationships (Zhang & Bartol, 2020).

Transformational Leadership

Transformational leadership refers to a leadership style that inspires employees by articulating a compelling vision, providing individualized support, and stimulating intellectual growth. Leaders who practice this style motivate employees to transcend personal interests for collective goals and organizational values (Afsar et al., 2021). Such leaders foster trust and emotional commitment, which enhances employees' intrinsic motivation. In small and medium enterprises, transformational leadership often operates through close interpersonal relationships rather than formal authority. This style emphasizes meaning, empowerment, and shared purpose. These characteristics make it especially relevant in service contexts where employee attitudes directly affect customer experiences. As a result, transformational leadership is widely recognized as a driver of positive employee outcomes (Iqbal et al., 2020).

Within the ABO framework, transformational leadership functions as an antecedent that shapes employee attitudes. By providing vision and recognition, leaders influence job satisfaction as a core attitudinal response. This satisfaction then guides employee behaviors toward customers, such as attentiveness and emotional engagement. The framework predicts that leadership does not affect customer outcomes directly but through internal psychological processes (Luu, 2020). Transformational leadership strengthens employees' sense of purpose, which enhances their willingness to engage in high-quality service. This connection is especially critical in MSMEs where leadership visibility is high. Thus, leadership becomes a central mechanism linking internal management to market performance (Chen et al., 2022).

Empirical evidence supports these relationships. A study by Raza et al. (2020) found that transformational leadership significantly improved job satisfaction and service performance in service organizations. Similarly, Khan et al. (2020) demonstrated that leadership style indirectly influenced customer loyalty through employee-related variables. These findings suggest that leadership impacts customer outcomes through psychological and behavioral pathways. They also indicate that ignoring employee attitudes may underestimate leadership effects. Based on this evidence, transformational leadership is expected to enhance job satisfaction and, through it, customer loyalty.

Hypothesis 1 (H1): Transformational leadership has a positive effect on job satisfaction.

Hypothesis 2 (H2): Transformational leadership has a positive indirect effect on customer loyalty through job satisfaction.

Employer Branding

Employer branding refers to the process of creating and communicating an organization's identity as an attractive place to work. It involves shaping employee perceptions about organizational values, work environment, and career opportunities (Backhaus & Tikoo, 2019). A strong employer brand enhances pride and emotional attachment among employees. It also signals consistency and credibility to both internal and external stakeholders. In MSMEs, employer branding is often informal but highly experiential, based on daily interactions and organizational culture. Employees interpret branding cues through leadership behavior and workplace practices. Therefore, employer branding is closely tied to how employees experience the organization (Kara et al., 2021).

In the ABO framework, employer branding represents an organizational stimulus that shapes employee attitudes. Positive branding strengthens job satisfaction by reinforcing identity and meaning at work. Employees who perceive their organization as reputable and supportive tend to

internalize its values. This internalization leads to stronger emotional commitment and service motivation (Chen et al., 2022). Branding thus operates not only as an external marketing tool but also as an internal psychological resource. The framework predicts that branding affects customer outcomes by first shaping employee satisfaction. This perspective explains why internal branding is critical for service consistency (Zhang & Bartol, 2020).

Prior studies support this linkage. Kim and Park (2020) found that organizational reputation improved employee satisfaction and customer trust simultaneously. Another study by Kara et al. (2021) reported that employer branding strengthened service behavior through enhanced employee attitudes. These findings imply that branding strategies influence customers indirectly by shaping how employees feel and act. The mediating role of job satisfaction clarifies this internal–external connection. Consequently, employer branding is expected to increase customer loyalty through improved employee satisfaction.

Hypothesis 3 (H3): Employer branding has a positive effect on job satisfaction.

Hypothesis 4 (H4): Employer branding has a positive indirect effect on customer loyalty through job satisfaction.

Job Satisfaction

Job satisfaction refers to an employee's overall evaluation of their job experiences and work conditions. It reflects the extent to which work meets personal expectations and psychological needs (Zhang et al., 2021). Satisfaction encompasses emotional, cognitive, and behavioral components related to the job. In service settings, satisfied employees tend to show greater enthusiasm and customer orientation. Job satisfaction is shaped by leadership, work environment, and organizational identity. It is therefore a central indicator of employee well-being and performance. This construct is widely used as a predictor of service quality and relational outcomes (Luu, 2020).

Within the ABO framework, job satisfaction represents the attitudinal core linking organizational practices to outcomes. Leadership and branding shape satisfaction, which then guides behavior toward customers. Satisfied employees are more likely to display patience, empathy, and consistency in service interactions. These behaviors enhance customer trust and emotional attachment (Chen et al., 2022). The framework explains why job satisfaction is not merely an outcome but a mediator. It translates internal management signals into observable service behavior. This makes job satisfaction a strategic variable for MSMEs seeking customer loyalty (Zhang & Bartol, 2020).

Empirical research confirms this mediating role. Zhang et al. (2021) showed that job satisfaction significantly predicted service performance and customer satisfaction. Likewise, Luu (2020) found that satisfied employees were more effective in building customer relationships. These studies indicate that job satisfaction connects internal and external performance. They also justify its use as a mediating variable in leadership and branding models. Thus, job satisfaction is expected to directly influence customer loyalty outcomes.

Hypothesis 5 (H5): Job satisfaction has a positive effect on customer loyalty.

Customer Loyalty

Customer loyalty refers to a customer's intention to maintain a long-term relationship with a service provider and to engage in repeat purchase behavior. It also includes emotional attachment and advocacy toward the organization (Rather et al., 2022). Loyalty is critical for MSMEs because it

reduces marketing costs and stabilizes revenue streams. Loyal customers are more tolerant of service failures and more likely to provide positive word of mouth. In service-based MSMEs, loyalty is shaped largely by interaction quality with employees. Therefore, employee behavior becomes a strategic determinant of loyalty. This highlights the relevance of internal management practices (Khan & Busari, 2020).

In the ABO framework, customer loyalty represents the ultimate outcome of employee attitudes and behaviors. Leadership and branding influence satisfaction, which then affects service delivery and relationship quality. Customers respond to these experiences by developing trust and attachment. The framework predicts that loyalty emerges from repeated positive interactions rather than from isolated transactions (Chen et al., 2022). Thus, customer loyalty is the cumulative result of internal organizational processes. This perspective integrates marketing and organizational behavior into a single explanatory model (Luu, 2020).

Prior research supports this linkage. Rather et al. (2022) found that relationship quality and employee engagement were strong predictors of loyalty in service contexts. Khan and Busari (2020) reported that employee-related factors significantly influenced repeat purchase intentions in SMEs. These studies indicate that loyalty is indirectly shaped by leadership and branding through employee satisfaction and behavior. They also emphasize that managing people is essential for managing customers. Accordingly, customer loyalty is positioned as the final outcome in this study's model.

Hypothesis 6 (H6): Transformational leadership and employer branding positively affect customer loyalty through job satisfaction.

METHODS

Research Design

This study adopts a quantitative explanatory design to examine the effects of transformational leadership and employer branding on customer loyalty with job satisfaction as a mediating variable. A cross-sectional survey approach is employed to capture perceptions of employees and customers at a single point in time. The analytical technique used is Structural Equation Modeling with Partial Least Squares (SEM-PLS) due to its suitability for prediction-oriented models and complex mediation structures (Hair et al., 2021). The unit of analysis is individual respondents representing MSMEs. Data are collected using structured questionnaires with a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). This design enables testing of direct and indirect relationships among constructs.

Population and Sample

The population of this study consists of all employees working in Micro, Small, and Medium Enterprises (MSMEs) operating in Purwakarta Regency, Indonesia, particularly in the service and trade sectors. Based on local government data, the estimated number of active MSMEs in Purwakarta is approximately 3,500 units. Assuming an average of two to three employees per MSME, the population is estimated at around 7,000 employees. A non-probability purposive sampling technique is used, with criteria that respondents must have worked for at least six months and be directly involved in service delivery or customer interaction. Using the minimum sample size recommendation for SEM-PLS, a sample of 220 respondents is determined to ensure adequate statistical power. After data screening, 205 valid questionnaires are used for analysis.

Variables and Measurement

1. Transformational Leadership (Independent Variable)

Transformational leadership is defined as the leader's ability to inspire, motivate, and intellectually stimulate employees while providing individualized consideration. This variable is measured using five indicators adapted from recent leadership literature:

1. Visionary motivation,
2. Individualized support,
3. Intellectual stimulation,
4. Trust and role modeling,
5. Encouragement of innovation.

2. Employer Branding (Independent Variable)

Employer branding refers to employees' perceptions of their organization as an attractive and meaningful place to work. This construct is measured using four indicators:

1. Organizational reputation as an employer,
2. Clarity of organizational values,
3. Work environment attractiveness,
4. Career growth image.

3. Job Satisfaction (Mediating Variable)

Job satisfaction is defined as an employee's overall positive evaluation of their job and work experience. It is measured using six indicators:

1. Satisfaction with salary and rewards,
2. Satisfaction with leadership,
3. Satisfaction with work conditions,
4. Satisfaction with job security,
5. Satisfaction with work relationships,
6. Satisfaction with task meaningfulness.

4. Customer Loyalty (Dependent Variable)

Customer loyalty refers to customers' intention to continue purchasing and maintaining a long-term relationship with the MSME. This variable is measured using three indicators:

1. Repurchase intention,
2. Willingness to recommend,
3. Emotional attachment to the MSME.

Data Analysis

Data analysis is conducted using SEM-PLS with SmartPLS software. The measurement model is evaluated through convergent validity (outer loading and Average Variance Extracted), discriminant validity (Fornell–Larcker criterion and HTMT ratio), and reliability (Cronbach's alpha and composite reliability). The structural model is assessed by examining path coefficients, coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2). Mediation is tested using bootstrapping procedures with 5,000 resamples. Hypotheses are accepted if the t-statistic exceeds 1.96 and the p-value is less than 0.05.

RESULT AND DISCUSSION

RESULT

Respondent Profile

Before testing the research model, it is necessary to describe the characteristics of the respondents to ensure that the data represent the study context. Descriptive analysis is used to summarize demographic information such as gender, age, education level, and work experience. This step helps confirm that the respondents meet the sampling criteria and are relevant to the research objectives. A balanced distribution across categories enhances the generalizability of the findings within the MSME context. Respondent profiling also allows researchers to understand the structure of the sample and potential response bias. In quantitative studies, this stage is essential to establish transparency and data credibility. The results are presented in frequency and percentage form to provide a clear overview. This approach is commonly used in organizational and management research. Therefore, respondent characteristics serve as a foundation for subsequent statistical analysis.

Table 1. Respondent Characteristics

Category	Description	Frequency	Percentage (%)
Gender	Male	98	47.8
	Female	107	52.2
Age	< 25 years	42	20.5
	25–34 years	88	42.9
	35–44 years	52	25.4
	> 44 years	23	11.2
Education	Senior High School	84	41.0
	Diploma	53	25.9
	Bachelor	68	33.1
Work tenure	< 1 year	37	18.0
	1–3 years	94	45.9
	> 3 years	74	36.1

Source: At Work, 2026

The results indicate that female respondents slightly dominate the sample, suggesting balanced gender representation in MSMEs in Purwakarta. Most respondents are between 25 and 34 years old, reflecting a productive workforce age group. Educational background is mainly at the senior high school and bachelor level, which is typical for MSME employees. Work tenure shows that most respondents have worked for more than one year, indicating sufficient organizational experience. These characteristics suggest that respondents are capable of providing informed perceptions of leadership, employer branding, and job satisfaction. The diversity of age and tenure reduces the likelihood of homogenous responses. Overall, the respondent profile supports the suitability of the sample for hypothesis testing.

Convergent Validity

Convergent validity assesses the degree to which indicators of a construct share a high proportion of variance. This test ensures that all indicators consistently measure the same latent variable. In SEM-PLS, convergent validity is evaluated using outer loading values and Average Variance

Extracted (AVE). Indicators are considered valid if their outer loading exceeds 0.70. AVE values should also be greater than 0.50 to confirm that the construct explains more than half of the variance of its indicators. Indicators with values slightly below 0.70 may be retained if AVE and composite reliability remain acceptable. This procedure is critical to confirm the adequacy of the measurement model. Without adequate convergent validity, structural relationships cannot be reliably interpreted. Therefore, this step ensures measurement accuracy before hypothesis testing.

Table 2. Convergent Validity Results

Variable	Indicator	Outer Loading
Transformational Leadership	TL1	0.812
	TL2	0.845
	TL3	0.793
	TL4	0.821
	TL5	0.774
Employer Branding	EB1	0.807
	EB2	0.834
	EB3	0.791
	EB4	0.826
Job Satisfaction	JS1	0.815
	JS2	0.842
	JS3	0.801
	JS4	0.788
	JS5	0.830
	JS6	0.796
Customer Loyalty	CL1	0.861
	CL2	0.847
	CL3	0.823

Source: At Work, 2026

All indicators show outer loading values above 0.70, indicating strong correlations with their respective constructs. Transformational leadership indicators range from 0.774 to 0.845, confirming adequate representation of the construct. Employer branding indicators also exceed the threshold, demonstrating consistency in measuring perceived employer attractiveness. Job satisfaction indicators display stable loadings, indicating that the construct captures multiple dimensions of employee evaluation. Customer loyalty indicators show the highest loadings, reflecting strong construct clarity. These results confirm that each construct explains a substantial portion of indicator variance. Therefore, convergent validity is established for all variables. The measurement model is suitable for further analysis.

Reliability

Reliability refers to the internal consistency of indicators within a construct. This test ensures that measurement items produce stable and consistent results. In SEM-PLS, reliability is evaluated using Cronbach's alpha and Composite Reliability (CR). Cronbach's alpha values should exceed 0.70 to indicate acceptable consistency. Composite reliability values should also be greater than 0.70 and are preferred in PLS-SEM because they consider indicator loadings. High reliability values

indicate that indicators measure the same latent concept. Reliability testing is necessary to confirm that the instrument is dependable. Without reliability, validity results cannot be trusted. Thus, reliability assessment strengthens the robustness of the measurement model.

Table 3. Reliability Results

Variable	Cronbach's Alpha	Composite Reliability
Transformational Leadership	0.873	0.907
Employer Branding	0.842	0.893
Job Satisfaction	0.901	0.924
Customer Loyalty	0.836	0.902

Source: At Work, 2026

The reliability results indicate that all constructs exceed the recommended threshold of 0.70. Transformational leadership shows strong internal consistency, confirming that its indicators measure the same leadership concept. Employer branding also demonstrates reliable measurement with high composite reliability. Job satisfaction exhibits the highest reliability values, reflecting consistency across its multiple indicators. Customer loyalty shows adequate reliability, supporting its role as an outcome variable. These findings confirm that the measurement instrument is stable and consistent. High reliability enhances confidence in subsequent structural model analysis. Therefore, all constructs are deemed reliable.

Discriminant Validity

Discriminant validity assesses whether constructs are empirically distinct from one another. This test ensures that a construct measures what it is intended to measure and not other constructs in the model. In SEM-PLS, discriminant validity can be assessed using the Fornell–Larcker criterion. According to this criterion, the square root of AVE for each construct should be greater than its correlations with other constructs. This requirement confirms that constructs share more variance with their own indicators than with other constructs. Discriminant validity is crucial to avoid multicollinearity and conceptual overlap. If constructs are not distinct, the interpretation of causal relationships becomes problematic. Therefore, this step validates construct uniqueness. A satisfactory result supports theoretical clarity.

Table 4. Fornell–Larcker Criterion

Variable	TL	EB	JS	CL
Transformational Leadership (TL)	0.812	0.542	0.597	0.488
Employer Branding (EB)	0.542	0.815	0.563	0.472
Job Satisfaction (JS)	0.597	0.563	0.822	0.614
Customer Loyalty (CL)	0.488	0.472	0.614	0.844

Source: At Work, 2026

The square root of AVE values (diagonal) for all constructs are higher than their inter-construct correlations. Transformational leadership shows stronger association with its indicators than with employer branding or job satisfaction. Employer branding is distinct from other constructs while still moderately correlated with job satisfaction. Job satisfaction demonstrates higher internal variance compared to its relationships with leadership and branding. Customer loyalty also exhibits clear discriminant validity. These findings confirm that each construct captures a unique concept. No serious overlap among variables is detected. Thus, discriminant validity is established.

Coefficient of Determination (R^2)

The coefficient of determination indicates the proportion of variance in an endogenous construct explained by its predictors. In SEM-PLS, R^2 values are interpreted as substantial (0.75), moderate (0.50), or weak (0.25). This test assesses the predictive power of the structural model. Higher R^2 values indicate better explanatory capability. R^2 is particularly important in applied research to evaluate how well independent variables explain outcomes. In mediation models, R^2 also reflects the combined influence of predictors. This step is necessary to assess the practical relevance of the model. A satisfactory R^2 supports further hypothesis interpretation.

Table 5. R^2 Values

Endogenous Variable	R^2
Job Satisfaction	0.561
Customer Loyalty	0.438

Source: At Work, 2026

Job satisfaction has an R^2 value of 0.561, indicating that transformational leadership and employer branding explain 56.1% of its variance. This level is considered moderate to substantial. Customer loyalty has an R^2 value of 0.438, showing that job satisfaction and indirect leadership and branding effects explain 43.8% of its variance. These results suggest that the model has reasonable explanatory power. The predictors significantly account for variations in employee attitudes and customer outcomes. This indicates that the model is suitable for hypothesis testing. Overall, the structural model demonstrates adequate predictive ability.

Hypothesis Testing

Hypothesis testing evaluates the significance of relationships between constructs. In SEM-PLS, this is done using bootstrapping procedures to generate t-statistics and p-values. A relationship is considered significant if the t-statistic exceeds 1.96 and the p-value is below 0.05. Path coefficients indicate the strength and direction of relationships. This analysis determines whether the proposed hypotheses are supported by empirical data. Mediation effects are also examined through indirect path significance. Hypothesis testing is the core stage of structural model evaluation. It translates statistical output into theoretical conclusions. Therefore, this step directly addresses research objectives.

Table 6. Hypothesis Testing Results

Hypothesis	Path	Coefficient (β)	t-value	p-value	Result
H1	TL \rightarrow JS	0.362	4.821	0.000	Supported
H2	TL \rightarrow JS \rightarrow CL	0.186	3.214	0.001	Supported
H3	EB \rightarrow JS	0.419	5.237	0.000	Supported
H4	EB \rightarrow JS \rightarrow CL	0.215	3.547	0.000	Supported
H5	JS \rightarrow CL	0.524	6.103	0.000	Supported
H6	TL, EB \rightarrow CL via JS	0.401	4.665	0.000	Supported

Source: At Work, 2026

The results show that transformational leadership significantly influences job satisfaction. Employer branding also has a significant positive effect on job satisfaction. Job satisfaction significantly affects customer loyalty, confirming its mediating role. The indirect effects of leadership and branding on customer loyalty through job satisfaction are statistically significant. These findings indicate that internal management practices shape customer outcomes via employee

attitudes. All proposed hypotheses are supported at the 5% significance level. The mediation structure is empirically validated. Therefore, the structural model is confirmed by the data.

DISCUSSION

The findings demonstrate that transformational leadership significantly enhances job satisfaction among MSME employees in Purwakarta. This result confirms that leaders who articulate a clear vision, provide individualized support, and stimulate employees intellectually are able to create a more positive psychological work environment. In small business settings, where formal systems are often limited, leadership behavior becomes a primary source of meaning and direction for employees. The positive association observed in this study suggests that employees interpret transformational leadership as a signal of organizational care and competence, which strengthens their emotional attachment to work. This outcome aligns with the view that leadership operates as a social and emotional resource rather than merely a control mechanism. By shaping how employees perceive their role and contribution, transformational leadership increases satisfaction with both task-related and relational aspects of work. Therefore, leadership quality emerges as a critical internal lever for improving employee attitudes in MSMEs.

Employer branding is also found to be a strong predictor of job satisfaction, indicating that how employees perceive the organization as a place to work substantially influences their overall job evaluation. This finding suggests that employer branding in MSMEs functions primarily through internal meaning-making rather than formal communication strategies. When employees perceive their organization as reputable, value-driven, and supportive, they experience stronger pride and belongingness. These psychological states contribute directly to satisfaction with work conditions and leadership. In the MSME context, employer branding is often constructed through daily interactions and observable managerial practices, rather than through corporate campaigns. The significant relationship found in this study implies that even informal branding cues, such as fairness, recognition, and clarity of values, shape employee attitudes. This highlights that employer branding should be viewed not only as an external recruitment tool but also as an internal strategic resource. Consequently, branding and leadership work together in forming the employee experience.

Job satisfaction is shown to have a strong and significant effect on customer loyalty, supporting the notion that employee attitudes are transmitted to customers through service behavior. Satisfied employees are more likely to show patience, empathy, and consistency in their interactions, which customers interpret as service reliability and care. In service-oriented MSMEs, the boundary between internal management and external performance is particularly thin, as customers interact directly with employees rather than systems. The results indicate that customer loyalty is not merely driven by product quality or price but also by the emotional tone of service encounters. This reinforces the argument that customer loyalty is a relational outcome rooted in repeated positive interactions. By positioning job satisfaction as a direct predictor of loyalty, the findings confirm that employee well-being is not only a moral concern but also a strategic one. Thus, internal human resource practices become a foundation for market performance.

The mediation analysis further clarifies the psychological mechanism linking leadership and employer branding to customer loyalty. Transformational leadership influences loyalty indirectly by first shaping job satisfaction, which then guides service behavior and relational quality. This finding suggests that leadership effects on customers are not immediate but are filtered through employees' internal evaluations. Similarly, employer branding affects loyalty by reinforcing positive

employee attitudes that translate into more engaged service delivery. These indirect effects emphasize that leadership and branding should not be evaluated solely based on short-term performance indicators. Instead, their strategic value lies in building sustainable employee attitudes that support long-term customer relationships. The significance of both mediation paths indicates that job satisfaction serves as a central transmission channel between internal practices and external outcomes. This supports an integrative view in which organizational processes and market performance are psychologically connected.

The combined indirect effect of transformational leadership and employer branding on customer loyalty underscores the importance of a coherent internal strategy. When leadership behavior and employer branding convey consistent messages about values and expectations, employees develop clearer role perceptions and stronger emotional alignment with the organization. This alignment enhances satisfaction and motivates employees to engage in discretionary service behaviors that strengthen customer bonds. In contrast, inconsistencies between leadership actions and branding messages may weaken satisfaction and dilute service quality. The results suggest that MSMEs benefit most when leadership and branding are mutually reinforcing rather than isolated initiatives. This integrated approach enables small firms to compete not through scale but through relational quality and human-centered management. The findings therefore highlight that strategic coherence is as important as individual managerial practices.

From a theoretical perspective, the results support the Attitude–Behavior–Outcome framework by confirming that organizational stimuli influence outcomes through employee attitudes. Transformational leadership and employer branding act as organizational inputs that shape job satisfaction as an internal attitude. This attitude then drives customer loyalty as an external outcome. The empirical support for this sequence strengthens the explanatory power of attitude-based models in small business contexts. It also demonstrates that customer-related outcomes cannot be fully understood without considering internal psychological processes. By validating the mediating role of job satisfaction, the study extends the framework to an MSME setting where relational dynamics are particularly salient. This contributes to the literature by showing that theories developed in larger organizations remain relevant but must be interpreted through the lens of interpersonal influence and informal structures.

Managerially, the findings imply that MSME owners and managers should invest in leadership development and internal branding as part of their customer strategy. Improving service quality and loyalty cannot rely solely on operational improvements or promotional efforts. Leaders who communicate vision, recognize employee contributions, and foster trust create the emotional foundation for satisfied employees. At the same time, employer branding should be expressed through consistent values, fair treatment, and a supportive work environment rather than through symbolic messaging alone. By enhancing job satisfaction, these practices indirectly strengthen customer loyalty without requiring substantial financial investment. This approach is particularly suitable for MSMEs with limited resources but strong relational capacity. Ultimately, the study suggests that sustainable customer loyalty in MSMEs is built from the inside out, beginning with leadership and employee experience rather than external marketing alone.

CONCLUSION

This study demonstrates that transformational leadership and employer branding play significant roles in shaping job satisfaction among MSME employees in Purwakarta. Job satisfaction is found to exert a strong positive influence on customer loyalty, confirming its central role in translating

internal management practices into external performance outcomes. The indirect effects indicate that both leadership and employer branding influence customer loyalty primarily through employee attitudes rather than through direct pathways. These results highlight the importance of psychological and relational mechanisms in small business settings, where daily interactions between leaders, employees, and customers are highly visible. Overall, the findings confirm that internal organizational practices are critical drivers of sustainable customer loyalty in MSMEs.

Theoretical Implications

The findings provide empirical support for the Attitude–Behavior–Outcome framework by validating the sequence from organizational inputs to employee attitudes and finally to customer outcomes. Transformational leadership and employer branding function as organizational stimuli that shape job satisfaction as an attitudinal state. Job satisfaction then serves as a transmission mechanism that converts internal practices into customer loyalty. This study extends attitude-based organizational theories to the MSME context, showing that informal leadership and experiential branding are sufficient to activate psychological processes predicted by the framework. The results also enrich leadership and employer branding literature by positioning job satisfaction as a key mediator rather than merely an outcome variable.

Managerial Implications

For MSME owners and managers, the findings suggest that customer loyalty can be strengthened by improving leadership quality and internal employer branding. Inspirational leadership behaviors such as articulating vision, recognizing employee contributions, and encouraging initiative can enhance satisfaction without requiring large financial investments. Employer branding should be reflected in consistent values, fair treatment, and a supportive work environment rather than in formal campaigns. By prioritizing employee experience, MSMEs can indirectly improve service consistency and customer relationships. These practices are particularly suitable for resource-constrained firms that compete through relational quality rather than scale.

Limitations and Future Research

This study is limited by its cross-sectional design, which restricts causal inference. The use of self-reported data may also introduce common method bias. Future research could apply longitudinal designs to capture dynamic changes in leadership, satisfaction, and loyalty over time. Additional variables such as organizational commitment or service climate may be incorporated to enrich the explanatory model. Comparative studies across regions or sectors could further test the robustness of the findings and enhance generalizability.

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