

# Transformation of Social MSMEs through Participatory Leadership and Strategic Management in Karanggupito Village, Kendal District, Ngawi Regency

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## Abstract

This community service article examines the transformation of social MSMEs through participatory leadership and strategic management in Karanggupito Village, Kendal District, Ngawi Regency. Rural MSMEs often face limitations in inclusive leadership practices and strategic capacity, constraining their sustainability and social impact. The objective of this engagement was to strengthen participatory leadership and strategic management as drivers of organizational and social transformation. Using a Participatory Action Research (PAR) approach, the engagement involved MSME actors as co-researchers through iterative cycles of diagnosis, action, reflection, and evaluation. Data were collected through participatory observation, interviews, surveys, and reflective discussions, and analyzed using thematic analysis and correlation testing. The results demonstrate a significant improvement in participatory leadership practices and strategic clarity, with a strong positive correlation between inclusive leadership and strategic effectiveness. Beyond organizational outcomes, the engagement fostered social cohesion, collaborative networks, and enhanced community legitimacy of MSMEs. The study concludes that PAR-based participatory leadership is a critical mechanism for embedding strategic management within social MSMEs, offering both theoretical and practical contributions to community-based enterprise development.

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## Keywords

Community Engagemen, Participatory Leadership, Participatory Action Research, Social MSMES, Strategic Management.



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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute a foundational pillar of Indonesia's socio-economic structure, functioning not merely as engines of economic growth but also as drivers of employment, social inclusion, and community resilience. In an ideal context, social MSMEs embody dual mandates: to sustain economic viability while enhancing communal welfare through inclusive practices, shared governance, and strategic adaptability. The literature envisions social MSMEs as institutions capable of fostering participatory stakeholder engagement and evidence-based strategic management that enables sustainable performance in dynamic environments (Fatima & Bilal, 2020; Maula et al., 2019). These ideals presume empowered leadership and systematic strategic planning as catalysts for

organizational transformation and long-term sustainability.

However, empirical evidence across Indonesia reveals a persistent **gap between the ideal and the real conditions of MSMEs**, especially in rural settings. National statistics indicate that while MSMEs contribute more than 60% to the national Gross Domestic Product (GDP), their productivity and adaptive capacity remain significantly constrained relative to larger enterprises due to managerial, technological, and resource limitations (Central Bureau of Statistics, 2023; Rahma et al., 2022). European University of Veteran Economics Contemporary studies reveal leadership and strategic management as critical determinants of MSME performance and resilience; yet their application often remains superficial or inconsistent in practice. For instance, research in Bangka Belitung Islands found that strategic leadership characteristics influenced business performance but did not significantly enhance resilience, while social capital did not directly drive performance outcomes—a surprising deviation from theoretical expectations. Springer Likewise, MSME adaptation studies highlight reactive rather than proactive strategic behavior in response to digital transformation pressures, reflecting limitations in strategic foresight and management capacity among small enterprises. Jurnal Politeknik Negeri Jakarta

Within this gap between ideal leadership and actual practice in rural MSMEs, *specific problems* emerge prominently in Karanggupito Village, Kendal District, Ngawi Regency. First, participatory leadership—where leaders actively involve stakeholders in decision-making and organizational direction—remains underdeveloped or unevenly practiced among local social MSMEs. Empirical studies elsewhere confirm that participatory leadership significantly correlates with employee innovative behavior and organizational endurance, especially in crisis contexts such as the COVID-19 pandemic; yet, it remains an underutilized approach in many Indonesian MSME settings. MDPI Second, strategic management practices at the grassroots level are often fragmented, limited to short-term operational tactics rather than integrated strategies for sustainability and social impact. While strategic management generally enhances innovation performance and competitive advantage, recent studies also show that its direct influence on competitiveness is mediated through innovation rather than occurring independently. Jurnal IBIK This indicates that current approaches to strategy lack coherence and systemic integration with local innovation potential. Third, there is limited evidence on how the confluence of participatory leadership and strategic management contributes to social transformation among MSMEs, especially in rural Indonesian contexts where socio-cultural dynamics play a substantial role.

Although existing research has examined participatory leadership's role in enhancing employee innovation and enterprise endurance, and strategic management's influence on competitiveness and innovation, **critical gaps persist** in the literature. Specifically: (a) few studies operationalize participatory leadership within a *social transformation* framework in rural MSME settings; (b) there is limited integration of participatory leadership with strategic management practices as complementary forces in community-level MSME development; and (c) empirical evidence concerning how these hybrid leadership-strategy dynamics drive

*transformative change* in social MSMEs remains scarce, particularly for contexts outside large urban centers or industrial clusters. These lacunae suggest that prior research may overlook the compounded impact of collaborative governance and strategic planning in driving socio-economic transformation at the village level. The current article addresses these gaps by bridging leadership and management literatures within the *empirical context of Karanggupito Village*, where rural MSMEs must navigate unique socio-cultural, economic, and institutional constraints.

Consequently, the **goal of this community service article** is to analyze the mechanisms through which participatory leadership and strategic management coalesce to transform social MSMEs in Karanggupito Village, strengthening their performance, social impact, and resilience. The specific **objectives** of the study are: To identify current participatory leadership practices among social MSME leaders in Karanggupito Village; To examine how strategic management promotes innovation and long-term sustainability in these enterprises; To develop an inclusive and contextually grounded framework that integrates participatory leadership with strategic management to enhance organizational effectiveness and community welfare.

The **benefits of this community service** are manifold. For MSME actors, the study provides evidence-based recommendations to strengthen leadership capacity and strategic orientation. For policymakers and local stakeholders, it offers insights into designing tailored training and support programs that reinforce inclusive governance and strategic thinking among rural enterprises. Academically, this article contributes to the conceptualization of leadership–strategy synergies in MSME research by situating empirical analysis within a rural, social transformation context that has been underrepresented in existing studies.

The **scientific urgency** of this work is underscored by the accelerating pace of social, economic, and technological change affecting MSMEs nationwide. As rural economies increasingly confront competitive pressures, digital disruptions, and evolving community needs, there is a pressing need to cultivate leadership and management capacities that foster *transformative resilience* and socio-economic integration. By addressing current gaps and foregrounding participatory leadership as a strategic asset, this study advances both theoretical understanding and practical application at a critical juncture for Indonesia's MSME sector.

## METHODS

This community service employed a **Participatory Action Research (PAR)** approach, which was deliberately selected due to its epistemological alignment with the objectives of empowering social MSMEs through participatory leadership and strategic management. PAR is grounded in critical social theory and emphasizes co-learning, collective reflection, and transformative action involving community actors as co-researchers rather than passive beneficiaries (Kemmis et al., 2014). Given that the central problem addressed in this study concerns limited participatory leadership practices and weak strategic capacity within rural

social MSMEs, PAR was deemed the most appropriate method to generate contextual knowledge while simultaneously facilitating organizational change. Unlike conventional extension or training models, PAR allows leadership practices and strategic decisions to emerge organically through iterative cycles of reflection and action, ensuring contextual relevance and sustainability.

The engagement process was conducted in **Karanggupito Village, Kendal District, Ngawi Regency**, over a four-month period (March–June 2025). The primary participants consisted of **social MSME owners and managers**, village cooperative leaders, youth entrepreneur groups, and representatives of women-led microenterprises, all of whom were directly involved as partners in the engagement process. The methodological flow began with participatory planning and institutional coordination, including formal permission from village authorities and alignment with local development agendas. This was followed by baseline diagnosis through participatory mapping, focus group discussions, and reflective interviews to identify leadership patterns, strategic practices, and organizational constraints. The action phase involved co-designed leadership workshops, strategic planning clinics, and collective experimentation with participatory decision-making mechanisms within MSME operations. Continuous monitoring and evaluation were embedded through reflective meetings and participatory observation, enabling real-time adjustments and iterative learning cycles.

Data collection combined qualitative and quantitative participatory techniques, including reflective journals, semi-structured interviews, observation notes, and pre- and post-intervention surveys measuring leadership participation levels, strategic clarity, and perceived organizational performance. Data sources included MSME actors, village facilitators, and institutional documents. Qualitative data were analyzed using thematic and critical discourse analysis to capture shifts in leadership dynamics and strategic orientation, while quantitative data were processed using descriptive statistics and **Spearman correlation tests** to examine the relationship between participatory leadership intensity and strategic management effectiveness. This analytical integration ensured coherence between objectives, method, and analysis, enabling both explanatory depth and empirical rigor. The PAR framework thus functioned not merely as a data-gathering strategy but as a transformative process aligned with the social mission of the engagement.

## FINDINGS AND DISCUSSION

The results indicate a substantive transformation in leadership practices among participating social MSMEs following the PAR intervention. Prior to engagement, leadership was predominantly centralized, with decision-making concentrated in enterprise owners and limited stakeholder consultation. Post-intervention analysis demonstrates a measurable increase in participatory leadership practices, reflected in the establishment of regular collective forums, transparent decision-making procedures, and shared responsibility for operational planning. Survey results reveal a significant positive correlation between

participatory leadership intensity and strategic clarity ( $q = 0.61$ ,  $p < 0.01$ ), suggesting that inclusive leadership practices contributed directly to improved strategic coherence within MSME operations.

From a strategic management perspective, participating MSMEs exhibited enhanced capacity to articulate medium-term goals, identify competitive and social value propositions, and align daily operations with broader organizational missions. Qualitative analysis highlights a shift from reactive, short-term operational thinking toward more anticipatory and reflective strategic behavior. MSME actors increasingly framed challenges—such as market volatility and resource constraints—as collective problems requiring collaborative solutions rather than individual burdens. This cognitive shift represents a critical outcome of the PAR process, as strategic management became embedded within shared organizational learning rather than isolated managerial tasks.

Moreover, the engagement generated observable social outcomes beyond organizational performance. Strengthened trust relations, increased inter-enterprise collaboration, and heightened community legitimacy emerged as unintended but significant results. Social MSMEs began to position themselves not merely as economic units but as agents of community development, integrating social objectives into strategic decisions. These outcomes confirm that the transformation facilitated through participatory leadership and strategic management extended beyond technical improvements to encompass deeper social and institutional change.



Figure 1. A community training session local villagers

The image depicts a participatory community training session involving local villagers from diverse age and gender groups who are actively engaged in a workshop on cooperative-based business development. The session is facilitated by a presenter who explains fundamental principles of cooperative governance, collective decision-making, and shared economic responsibility. Through the use of visual aids and structured explanations, the activity seeks to strengthen participants' understanding and capacity to apply cooperative values in their daily economic practices. This interactive learning approach encourages active involvement, enhances collective awareness, and supports the practical adoption of cooperative business

models within a rural community context.



Figure 2. Local village community discussion session

The findings of this study corroborate and extend existing scholarship on participatory leadership and MSME development. Consistent with prior studies demonstrating that participatory leadership enhances innovation and organizational commitment (Li et al., 2021; Nguyen et al., 2023), the present engagement confirms that inclusive leadership practices also function as enablers of strategic clarity in rural social enterprises. However, this study advances the literature by demonstrating that such outcomes are not merely behavioral but structurally embedded through collective strategic processes facilitated by PAR. Unlike previous engagement models that emphasize training transfer, the PAR approach enabled leadership norms to be renegotiated through lived organizational practice.

Comparatively, earlier community service studies on MSME empowerment often reported limited sustainability due to top-down intervention designs and weak local ownership (Suhartini et al., 2020). The divergence observed in this study can be attributed to the epistemological orientation of PAR, which positions MSME actors as producers of strategic knowledge rather than recipients of external expertise. The strong correlation between participatory leadership and strategic effectiveness observed here contrasts with findings by Rahman et al. (2022), who reported fragmented strategy adoption among MSMEs despite leadership training. This difference suggests that leadership development detached from participatory organizational restructuring may be insufficient to generate sustained strategic transformation.

From a theoretical standpoint, the results align with social learning theory and strategic leadership frameworks, which posit that strategy emerges from collective sense-making processes rather than individual cognition alone (Nonaka & Takeuchi, 2021). The participatory spaces created through PAR functioned as arenas for shared interpretation, enabling MSMEs to integrate social values into strategic choices. Scientifically, this finding reinforces the argument that strategic management in social MSMEs cannot be reduced to formal planning tools but must be understood as a socially constructed process shaped by leadership relations and community context. The study thus contributes to closing the gap between leadership

theory, strategic management, and community-based enterprise development.

## **CONCLUSION**

In conclusion, this community service demonstrates that participatory leadership, when institutionalized through a PAR framework, significantly enhances the strategic management capacity and social orientation of rural MSMEs. The engagement successfully addressed the research problems by evidencing how inclusive leadership practices foster strategic clarity, collective ownership, and organizational resilience. Scientifically, the study contributes to the integration of participatory leadership theory and strategic management within the domain of community-based MSME development, particularly in rural contexts that remain underrepresented in empirical research.

Nevertheless, this engagement is not without limitations. The duration of intervention constrained the observation of long-term performance impacts, and the findings are context-specific to Karanggupito Village. Future community service and research should adopt longitudinal designs, integrate digital participatory tools, and explore comparative village contexts to strengthen external validity. Practically, policymakers and facilitators are encouraged to institutionalize PAR-based leadership development models within MSME support programs, while future engagements should prioritize scaling participatory governance mechanisms to inter-village MSME networks.

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