Transformational Leadership in SMES: Leveraging Initiative Climate and Employee Engagement for Enhanced Proactive Service Performance

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Abstract

This research explores the mediating role of initiative climate and employee engagement in the influence of transformational leadership on proactive service performance in Small and Medium Enterprises (SMEs) in Balikpapan. Adopting a quantitative approach and utilizing Structural Equation Modeling (SEM), the study surveys 200 employees from the service sector. The results reveal that transformational leadership significantly enhances proactive service performance. Additionally, it is found that the initiative climate and employee engagement mediate the relationship between transformational leadership and proactive service performance. The initiative climate is vital in fostering an environment that encourages proactive behaviors, while employee engagement boosts motivation and involvement in service tasks. These findings underscore the importance of transformational leadership in promoting superior service performance by creating an initiative-driven work climate and fostering high employee engagement. The practical implications suggest that SMEs should strengthen transformational leadership and cultivate an initiative climate alongside employee engagement to improve service performance.

Keywords: *Transformational leadership; initiative climate; employee engagement; proactive service performance; SMEs; human resource management.*

Introduction

Background

In the era of the Fourth Industrial Revolution, marked by rapid advancements in technology and a shift towards digitalization, Small and Medium Enterprises (SMEs) face unique challenges and opportunities. SMEs, which play a critical role in economic development by driving innovation, creating employment, and contributing to GDP, are under constant pressure to adapt to these changes to maintain competitiveness. Particularly in Indonesia, where SMEs represent a significant portion of the business landscape, their ability to innovate and provide exceptional service is essential for sustaining growth and ensuring resilience in the face of economic disruptions.

The Imperative of Proactive Service Performance

Proactive service performance is defined as employee behaviors that go beyond standard service expectations, characterized by a forward-looking approach, self-initiation, and persistent efforts to exceed customer needs. In the service sector, where customer satisfaction and loyalty are crucial, such proactive behaviors can significantly enhance service quality, customer retention, and overall business success. For SMEs, which often operate in highly competitive and resource-constrained environments, proactive service performance can serve as a critical differentiator, enabling them to respond swiftly to market changes and customer demands.

Despite its importance, proactive service performance is not an inherent quality but rather a behavior that can be cultivated through effective leadership and organizational practices. Transformational leadership, which involves inspiring and motivating employees towards achieving higher levels of performance by creating a vision, encouraging intellectual stimulation, and providing personal support, is posited to play a

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crucial role in fostering these behaviors. However, the mechanisms through which transformational leadership impacts proactive service performance, particularly within SMEs, remain underexplored.

The Role of Transformational Leadership in SMEs

Transformational leadership is widely recognized for its ability to inspire and engage employees, driving organizational change and performance improvement. This leadership style is particularly relevant in the context of SMEs, where leaders often play a direct role in shaping organizational culture and employee behaviors. Transformational leaders are adept at articulating a compelling vision, encouraging innovation, and providing individualized support, all of which are critical for cultivating a proactive service mindset among employees.

In SMEs, where resources and formal structures may be limited, the influence of transformational leadership can be more pronounced. Leaders who can effectively communicate a vision and foster a supportive and engaging work environment are more likely to see employees take initiative and engage in proactive service behaviors. However, the direct impact of transformational leadership on proactive service performance is often mediated by several factors, including the organizational climate and employee engagement.

Mediating Factors: Initiative Climate and Employee Engagement

Initiative climate refers to the organizational environment that supports and encourages self-starting, persistent efforts to improve work processes and outcomes. In a climate that fosters initiative, employees feel empowered to take proactive actions without waiting for explicit instructions. This environment is crucial for translating the inspirational aspects of transformational leadership into concrete proactive service behaviors.

Employee engagement is another critical mediator that reflects the emotional and cognitive attachment of employees to their work. Engaged employees are more likely to exhibit enthusiasm, dedication, and a willingness to go beyond the minimum requirements of their job roles. Transformational leadership, by fostering a sense of purpose and involvement, can significantly enhance employee engagement, which in turn, promotes proactive service performance.

Moreover, harmonious passion for work—where employees find personal satisfaction and joy in their work—and deep acting—a form of emotional regulation where employees align their internal feelings with organizational expectations—are proposed to influence this dynamic further. Harmonious passion motivates employees to engage deeply with their work out of intrinsic enjoyment, while deep acting helps them manage their emotional expressions to meet customer expectations effectively. These factors, therefore, enrich the understanding of how leadership behaviors influence proactive service performance through both motivational and emotional channels.

Contextual Relevance and Research Gaps

The context of SMEs in Balikpapan, Indonesia, provides a unique setting to explore these dynamics. SMEs in this region face particular challenges, including limited resources, high competition, and a need for adaptability in service delivery. Understanding how transformational leadership can enhance proactive service performance through mediating and moderating factors is crucial for developing strategies that address these challenges.

Current research has often overlooked the specific mechanisms through which transformational leadership impacts proactive service performance in SMEs. There is a need for empirical studies that integrate the roles of initiative climate and employee engagement, as well as the moderating effects of harmonious passion and deep acting, to provide a comprehensive framework for understanding this relationship.

This study aims to fill these gaps by examining the mediating roles of initiative climate and employee engagement in the relationship between transformational leadership and proactive service performance in SMEs. It also explores the moderating effects of harmonious passion for work and deep acting, offering a nuanced understanding of how leadership influences employee behaviors in the SME context.

Problem Statement

The role of transformational leadership in enhancing organizational outcomes has been well-documented. However, in the context of SMEs, the direct link between transformational leadership and proactive service performance is complex and often mediated by factors such as initiative climate and employee engagement. Initiative climate refers to an organizational environment that promotes self-starting and persistent efforts, while employee engagement represents the emotional and cognitive attachment of employees to their work.

Moreover, harmonious passion for work—a form of intrinsic motivation where employees find personal satisfaction and joy in their work—and deep acting—an emotional regulation strategy where employees attempt to align their internal feelings with organizational expectations—are proposed to influence this dynamic further. This study seeks to address the gap in understanding how these factors mediate and moderate the impact of transformational leadership on proactive service performance in SMEs.

Research Objectives

The primary objective of this study is to explore the mediating roles of initiative climate and employee engagement in the relationship between transformational leadership and proactive service performance in SMEs. The specific objectives are to:

- Examine the direct effect of transformational leadership on proactive service performance.

- Investigate the mediating role of initiative climate in the relationship between transformational leadership and proactive service performance.

- Assess the mediating effect of employee engagement on the impact of transformational leadership on proactive service performance.

- Explore the moderating roles of harmonious passion for work and deep acting in the relationship between transformational leadership and proactive service performance.

Literature Review

Transformational Leadership

Transformational leadership is a leadership style characterized by the ability to bring about significant change in an organization through inspiration, motivation, and individualized consideration of employees. Burns (1978) first introduced the concept, distinguishing it from transactional leadership, which is based on exchanges between leaders and followers. Bass (1985) further developed the theory, identifying four key components: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration.

Idealized influence refers to leaders acting as role models, instilling trust and respect among followers. Inspirational motivation involves articulating a vision that inspires and motivates employees to exceed expectations. Intellectual stimulation encourages innovation and creativity by challenging assumptions and promoting problem-solving. Individualized consideration entails recognizing individual employee needs and providing personalized support.

Research has consistently shown that transformational leadership is positively related to various organizational outcomes, including employee performance, satisfaction, and organizational commitment (Judge & Piccolo, 2004). However, the pathways through which transformational leadership influences these outcomes, particularly proactive service performance, require further exploration.

Proactive Service Performance

Proactive service performance involves behaviors that are anticipatory, change-oriented, and self-initiated, aimed at improving service delivery and customer satisfaction. Rank et al. (2007) define it as behaviors that go beyond the standard service expectations, characterized by forward-looking actions and persistent efforts to enhance customer experiences. Proactive service behaviors are critical in the service industry, where employee interactions significantly impact customer perceptions and loyalty.

Studies have shown that proactive service performance leads to higher customer satisfaction, increased customer loyalty, and better overall service quality (Raub & Liao, 2012). However, fostering such behaviors requires a supportive organizational environment and effective leadership. Transformational leadership,

with its focus on vision, inspiration, and individual support, is well-positioned to promote proactive service behaviors, but the mechanisms of this influence remain underexplored.

Initiative Climate

Initiative climate refers to the organizational environment that supports and encourages self-starting, proactive behaviors among employees. Baer and Frese (2003) describe it as an environment where employees are encouraged to take initiative, anticipate problems, and implement solutions without waiting for explicit instructions.

A positive initiative climate has been linked to increased innovation, better problem-solving, and improved performance outcomes (Frese & Fay, 2001). Transformational leaders can foster an initiative climate by promoting a vision that values proactive behaviors, providing intellectual stimulation that encourages creativity, and offering individualized support that empowers employees to take initiative.

Raub and Liao (2012) found that an initiative climate mediates the relationship between transformational leadership and proactive service performance, suggesting that the environment created by transformational leaders enables employees to engage in proactive behaviors.

Employee Engagement

Employee engagement is a psychological state characterized by vigor, dedication, and absorption in work activities (Schaufeli et al., 2002). Engaged employees are energetic, enthusiastic, and fully involved in their work, often going above and beyond their job requirements.

Research has shown that employee engagement is a critical predictor of various positive outcomes, including job performance, organizational citizenship behaviors, and reduced turnover intentions (Saks, 2006). Transformational leadership has been identified as a significant antecedent of employee engagement, as leaders who provide vision, inspiration, and individual support can enhance employees' emotional and cognitive connection to their work (Breevaart et al., 2014).

Harmonious Passion for Work

Harmonious passion for work refers to a form of intrinsic motivation where employees find personal satisfaction and joy in their work. Vallerand et al. (2003) differentiate between harmonious passion and obsessive passion, with harmonious passion leading to more positive outcomes such as well-being, job satisfaction, and work performance.

Employees with harmonious passion are likely to be more engaged, proactive, and resilient in the face of challenges. Transformational leaders can foster harmonious passion by creating a work environment that aligns with employees' values and interests, providing opportunities for growth and development, and recognizing individual contributions.

Deep Acting

Deep acting is an emotional regulation strategy where employees align their internal feelings with organizational expectations, resulting in authentic emotional expressions. Grandey (2003) describes it as an effort to genuinely experience the emotions required by one's role, as opposed to surface acting, where emotions are faked.

Deep acting has been linked to higher levels of job satisfaction, better customer service outcomes, and lower emotional exhaustion (Brotheridge & Grandey, 2002). In the context of transformational leadership, deep acting can enhance the impact of leadership behaviors on proactive service performance by ensuring that employees' emotional expressions are consistent with the organization's service standards.

Integrating the Constructs

The integration of transformational leadership, initiative climate, employee engagement, harmonious passion, and deep acting provides a comprehensive framework for understanding how leadership influences proactive service performance in SMEs. Transformational leaders, through their inspirational and supportive behaviors, can create an organizational climate that fosters initiative and engagement. This,

in turn, enhances employees' intrinsic motivation and emotional alignment with their roles, leading to higher levels of proactive service performance.

Mediating Role of Initiative Climate and Employee Engagement: The initiative climate serves as a mediating variable that translates transformational leadership into proactive service behaviors by providing a supportive environment for initiative-taking. Similarly, employee engagement mediates this relationship by enhancing employees' emotional and cognitive involvement in their work, promoting proactive behaviors.

Moderating Role of Harmonious Passion and Deep Acting: Harmonious passion and deep acting further moderate the effects of transformational leadership by ensuring that employees are intrinsically motivated and emotionally aligned with their roles. These factors amplify the positive impact of transformational leadership on proactive service performance, leading to superior service delivery and customer satisfaction.

Research Gaps and Hypotheses

Despite the extensive research on transformational leadership and proactive service performance, there is a lack of empirical studies that examine the mediating and moderating roles of initiative climate, employee engagement, harmonious passion, and deep acting in this relationship. This study aims to fill these gaps by proposing and testing the following hypotheses:

Table 1. Testing the hypothesis.

H1	Transformational leadership positively influences proactive service performance.
H2	Initiative climate mediates the relationship between transformational leadership and proactive service performance.
H3	Employee engagement mediates the relationship between transformational leadership and proactive service performance.
H4	Harmonious passion for work moderates the relationship between transformational leadership and proactive service performance.
H5	Deep acting moderates the relationship between transformational leadership and proactive service performance.

This literature review highlights the critical roles of transformational leadership, initiative climate, employee engagement, harmonious passion, and deep acting in fostering proactive service performance in SMEs. By integrating these constructs, the study provides a comprehensive framework for understanding how leadership influences service behaviors, offering valuable insights for both researchers and practitioners in the field.

Methodology

Research Design

This study adopts a quantitative research design to examine the relationships between transformational leadership, initiative climate, employee engagement, harmonious passion for work, deep acting, and proactive service performance in SMEs. The research employs a cross-sectional survey method, collecting data at a single point in time to provide a snapshot of these relationships.

Population and Sample

The population for this study consists of employees working in SMEs in the service sector in Balikpapan, Indonesia. SMEs were chosen due to their significant role in the local economy and the unique challenges they face in maintaining competitive service performance. The sample size was determined based on Krejcie and Morgan's (1970) formula for determining sample size, ensuring representativeness and statistical power.

A total of 300 employees from various SMEs were targeted, with a final valid response rate of 200 participants after accounting for incomplete and unusable responses. The sampling technique used was stratified random sampling to ensure diverse representation across different service industries, including hospitality, healthcare, and logistics.

Data Collection

Data were collected using a structured questionnaire distributed both online and in-person. The questionnaire was designed to measure the constructs of transformational leadership, initiative climate, employee engagement, harmonious passion for work, deep acting, and proactive service performance. The survey was administered over a period of three months.

Instrument Design: Transformational Leadership: Measured using the Multifactor Leadership Questionnaire (MLQ) developed by Bass and Avolio (1995), which includes 20 items across four dimensions: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration.

Initiative Climate: Assessed using the Initiative Climate Scale developed by Baer and Frese (2003), comprising 10 items that evaluate the organizational environment supporting proactive behaviors.

Employee Engagement: Measured with the Utrecht Work Engagement Scale (UWES) by Schaufeli et al. (2002), which includes 17 items covering three dimensions: vigor, dedication, and absorption.

Harmonious Passion for Work: Evaluated using the Passion Scale by Vallerand et al. (2003), which includes 14 items distinguishing between harmonious and obsessive passion.

Deep Acting: Assessed using the Emotional Labor Scale by Brotheridge and Lee (2003), focusing on the deep acting dimension with 5 items.

Proactive Service Performance: Measured using a scale adapted from Rank et al. (2007), which includes 7 items assessing self-initiated, forward-looking service behaviors.

Each item was rated on a 7-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree).

Data Analysis

Data analysis was conducted using Structural Equation Modeling (SEM) with Partial Least Squares (PLS) approach, employing WarpPLS 7.0 software. SEM-PLS was chosen due to its robustness in handling complex models and smaller sample sizes, making it suitable for exploratory and confirmatory research.

Steps in Data Analysis:

- Descriptive Statistics: Calculating means, standard deviations, and frequencies to describe the sample characteristics and the distribution of responses.

- Reliability and Validity: Assessing the reliability of the constructs using Cronbach's alpha and composite reliability. Validity was evaluated through convergent validity (Average Variance Extracted - AVE) and discriminant validity (Fornell-Larcker criterion).

- Measurement Model Assessment: Confirming the measurement model by checking factor loadings, composite reliability, and AVE for each construct.

- Structural Model Assessment: Testing the hypothesized relationships among the constructs using path analysis in SEM-PLS. The significance of path coefficients was evaluated using bootstrapping with 5000 resamples.

- Mediation Analysis: Examining the mediating effects of initiative climate and employee engagement using the bootstrapping method for indirect effects.

- Moderation Analysis: Assessing the moderating effects of harmonious passion and deep acting by including interaction terms in the SEM-PLS model.

Ethical Considerations

Ethical approval for the study was obtained from the Institutional Review Board of the authors' affiliated university. Participants were informed about the purpose of the study, the voluntary nature of their participation, and the confidentiality of their responses. Informed consent was obtained from all participants before they completed the survey.

Limitations and Delimitations

The study acknowledges several limitations. The cross-sectional design restricts the ability to infer causality between the variables. Future research could employ a longitudinal design to address this limitation. Additionally, the study is confined to SMEs in Balikpapan, which may limit the generalizability of the findings to other contexts or regions.

Delimitations of the study include the focus on SMEs in the service sector, excluding other sectors that might present different dynamics in leadership and performance. The selection of specific constructs, such as harmonious passion and deep acting, was based on their relevance to the research objectives, potentially omitting other relevant variables.

This study employs a robust quantitative methodology to explore the complex relationships between transformational leadership, initiative climate, employee engagement, harmonious passion, deep acting, and proactive service performance in SMEs. The use of SEM-PLS allows for a comprehensive analysis of both direct and indirect effects, providing valuable insights for both academic research and practical applications in SME management.

Results

Descriptive Statistics

The demographic profile of the 200 participants reveals that the majority (55%) are female, with 45% male participants. The average age of respondents is 34.5 years, with a standard deviation of 8.2 years. Most respondents have completed undergraduate education (60%), followed by postgraduate education (25%), and high school education (15%). The sectors represented include hospitality (40%), healthcare (35%), and logistics (25%).

Measurement Model

Reliability and Validity

The reliability of the constructs was assessed using Cronbach's alpha and composite reliability (CR). All constructs exceeded the recommended threshold of 0.70 for Cronbach's alpha and 0.80 for CR, indicating good internal consistency (Table 2).

Table 2. Cronbach's Alpha and Composite Reliability.

Construct	Cronbach's Alpha	Composite Reliability (CR)
Transformational Leadership	0.91	0.94
Initiative Climate	0.88	0.91
Employee Engagement	0.89	0.92
Harmonious Passion for Work	0.87	0.9
Deep Acting	0.86	0.89
Proactive Service Performance	0.9	0.93

Convergent validity was evaluated using Average Variance Extracted (AVE), with all constructs meeting the threshold of 0.50, indicating adequate convergence (Table 3).

Table 3. Average Variance Extracted.

Construct	AVE
Transformational Leadership	0.68
Initiative Climate	0.65
Employee Engagement	0.7
Harmonious Passion for Work	0.63
Deep Acting	0.66
Proactive Service Performance	0.71

Discriminant validity was confirmed using the Fornell-Larcker criterion, with each construct's square root of AVE greater than its correlations with other constructs (Table 4).

Table 4. Discriminant validity

Construct	TL	IC	EE	HP	DA	PSP
Transformational Leadership (TL)	0.8	0.6	0.6	0.5	0.5	0.6

Initiative Climate (IC)	0.6	0.8	0.6	0.6	0.5	0.6
Employee Engagement (EE)	0.6	0.6	0.8	0.6	0.6	0.7
Harmonious Passion (HP)	0.5	0.6	0.6	0.8	0.6	0.6
Deep Acting (DA)	0.5	0.5	0.6	0.6	0.8	0.6
Proactive Service Performance (PSP)	0.6	0.6	0.7	0.6	0.6	0.8

Structural Model

The structural model was assessed through path coefficients, t-values, and R^2 values. The model explained 48% of the variance in proactive service performance ($R^2 = 0.48$), indicating a moderate to strong explanatory power.

Table 5. Structural Model.

Hypothesis	Path Coefficient	t-value	p-value	Result
H1: TL → PSP	0.42	6.34	< 0.001	Supported
H2: TL → IC → PSP	0.31	4.92	< 0.001	Supported (Mediation)
H3: TL → EE → PSP	0.36	5.28	< 0.001	Supported (Mediation)
H4: HP moderates TL → PSP	0.27	3.89	< 0.001	Supported (Moderation)
H5: DA moderates TL → PSP	0.25	3.67	< 0.001	Supported (Moderation)

Mediation Analysis

Initiative climate and employee engagement significantly mediated the relationship between transformational leadership and proactive service performance. Bootstrapping results confirmed the significance of indirect effects (IC: $\beta = 0.21$, $p < 0.01$; EE: $\beta = 0.24$, $p < 0.01$).

Moderation Analysis

Harmonious passion for work and deep acting significantly moderated the relationship between transformational leadership and proactive service performance, enhancing the strength of this relationship (HP: $\beta = 0.27$, $p < 0.01$; DA: $\beta = 0.25$, $p < 0.01$).

Discussion

Transformational Leadership and Proactive Service Performance

The findings confirm that transformational leadership positively influences proactive service performance. Leaders who exhibit transformational qualities inspire and motivate employees to exceed their standard roles, fostering a proactive service culture. This aligns with Bass's (1985) proposition that transformational leadership drives employees to achieve higher levels of performance by instilling a shared vision and encouraging innovation.

Role of Initiative Climate

The initiative climate significantly mediates the relationship between transformational leadership and proactive service performance. Transformational leaders create an environment that encourages initiative, empowering employees to take proactive actions. This finding supports Baer and Frese's (2003) argument that a supportive climate for initiative enhances proactive behaviors by providing employees with the autonomy and resources needed to act on their ideas.

Role of Employee Engagement

Employee engagement also mediates the relationship between transformational leadership and proactive service performance. Engaged employees, who feel emotionally and cognitively invested in their work, are more likely to go beyond their formal job requirements. This is consistent with Schaufeli et al. (2002), who found that engaged employees exhibit higher levels of performance and organizational citizenship behaviors.

Moderating Effects of Harmonious Passion and Deep Acting

Harmonious passion for work and deep acting were found to moderate the relationship between transformational leadership and proactive service performance. Employees with harmonious passion

derive intrinsic satisfaction from their work, enhancing their proactive behaviors. This aligns with Vallerand et al. (2003), who noted that harmonious passion fosters sustained motivation and well-being.

Deep acting, as an emotional regulation strategy, helps employees align their internal emotions with their service roles, leading to more authentic and effective service behaviors. This finding supports Grandey's (2003) model of emotional labor, suggesting that deep acting contributes to better service outcomes by enabling employees to genuinely engage with their roles.

Implications for Practice

The study's findings have several practical implications for SME managers:

Enhancing Transformational Leadership: Training programs should focus on developing transformational leadership skills, particularly in inspiring and motivating employees and fostering a supportive organizational climate.

Promoting Initiative Climate: Creating an environment that encourages initiative can significantly enhance proactive service behaviors. Managers should empower employees by providing the autonomy and resources needed to act on their ideas.

Fostering Employee Engagement: Strategies to increase employee engagement, such as providing opportunities for personal growth and recognizing individual contributions, can lead to higher levels of proactive service performance.

Encouraging Harmonious Passion and Deep Acting: Supporting employees in finding intrinsic satisfaction in their work and developing their emotional regulation skills can enhance their proactive service behaviors.

Conclusion

Summary of Findings

This study investigated the impact of transformational leadership on proactive service performance in SMEs, emphasizing the mediating roles of initiative climate and employee engagement and the moderating roles of harmonious passion for work and deep acting. The findings confirm that transformational leadership positively influences proactive service performance, which is consistent with the theoretical framework that leaders who inspire, motivate, and support their employees foster a culture of proactive service.

Transformational Leadership's Direct Effect: The study demonstrates a significant positive relationship between transformational leadership and proactive service performance. Leaders who articulate a compelling vision, challenge employees intellectually, and offer personalized support drive employees to engage in proactive behaviors that exceed standard service expectations.

Mediating Role of Initiative Climate: Initiative climate was found to mediate the relationship between transformational leadership and proactive service performance. A supportive organizational climate that encourages initiative enables employees to act proactively, translating the inspirational and motivational aspects of transformational leadership into tangible service outcomes.

Mediating Role of Employee Engagement: Employee engagement also mediates the relationship between transformational leadership and proactive service performance. Engaged employees, who are emotionally and cognitively invested in their work, are more likely to demonstrate proactive behaviors. Transformational leadership enhances this engagement by providing a sense of purpose and involvement in work activities.

Moderating Role of Harmonious Passion: Harmonious passion for work moderates the relationship between transformational leadership and proactive service performance. Employees who find intrinsic satisfaction in their work and align their personal interests with their professional roles are more likely to exhibit proactive service behaviors, amplifying the effects of transformational leadership.

Moderating Role of Deep Acting: Deep acting, an emotional regulation strategy, also moderates the relationship between transformational leadership and proactive service performance. Employees who

genuinely align their internal emotions with their organizational roles provide more authentic and effective service, further enhancing proactive service performance.

Limitations and Future Research

This study has certain limitations. The cross-sectional design restricts the ability to establish causality, and the focus on SMEs in Balikpapan may limit the generalizability of the findings. Future research should consider longitudinal designs and explore these relationships in diverse contexts and regions. Additionally, examining other potential mediators and moderators, such as organizational support or job autonomy, could provide a more nuanced understanding of the factors influencing proactive service performance.

Conclusion

The study concludes that transformational leadership significantly enhances proactive service performance in SMEs through its influence on initiative climate and employee engagement. Harmonious passion for work and deep acting further moderate this relationship, contributing to a more comprehensive understanding of how leadership behaviors translate into proactive service outcomes. These findings provide valuable insights for both academic research and practical applications, highlighting the importance of effective leadership in fostering a proactive service culture in SMEs.

By integrating these insights into leadership development and organizational practices, SMEs can improve their service performance, achieve higher customer satisfaction, and maintain a competitive edge in the evolving market landscape.

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