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## Responsible Leadership and Organizational Agility in Enhancing Organizational Performance through Psychological Safety and Employee Engagement

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### Abstract

Micro, Small, and Medium Enterprises (MSMEs) are increasingly required to sustain performance in dynamic and uncertain environments; however, existing studies often emphasize structural capabilities such as leadership and organizational agility without sufficiently explaining the psychological mechanisms through which these factors translate into performance outcomes. Addressing this gap, the present study examines how Responsible Leadership and Organizational Agility influence Organizational Performance through the mediating roles of Psychological Safety and Employee Engagement within the framework of Dynamic Capabilities Theory. Using a quantitative explanatory design, data were collected from 155 MSME owners and employees in the food, creative, and manufacturing sectors in Jember Regency through a six-point Likert-scale questionnaire and analyzed using SEM-PLS with SmartPLS 4. The results indicate that Organizational Agility and Employee Engagement have significant positive effects on Organizational Performance, while Responsible Leadership does not directly affect performance but significantly enhances Psychological Safety and Employee Engagement. Furthermore, Psychological Safety does not exhibit a significant direct effect on performance, suggesting its role as an enabling condition rather than a primary driver, whereas Employee Engagement emerges as the strongest predictor of performance. These findings extend the application of Dynamic Capabilities Theory by demonstrating that organizational capabilities and leadership practices require psychological and behavioral pathways particularly employee engagement to effectively generate performance outcomes. Consequently, this study highlights the importance of integrating ethical leadership, adaptive capability, and employee-centered psychological processes in strengthening sustainable MSME performance.

### KEYWORDS

responsible leadership, organizational agility, psychological safety, employee engagement, organizational performance.

### Introduction

In an era of global uncertainty marked by technological disruption, market volatility, geopolitical crises, and accelerating digital transformation, organizations are required to not only maintain performance, but also improve adaptability and strategic sustainability. Changes in work patterns, increasingly complex stakeholder expectations, and ethical governance demands have shifted the management paradigm from a short-term performance orientation to a more responsible, inclusive, and sustainable approach (Alhosani & Ahmad, 2024). In this context, leadership is no longer understood solely as a tool of organizational control, but as a moral, social, and strategic mechanism that is able to balance economic interests, employee welfare, and broader social impacts. Therefore, there is an urgent need to examine a leadership model that is able to create organizational value while building trust, legitimacy, and long-term resilience.

As the complexity of the business environment increases, the concept of organizational agility is becoming increasingly relevant as a strategic capability that allows organizations to respond to changes quickly, flexibly, and innovatively (Marsaditha & Nurhayati, 2025). Organizational agility is not only related to the speed of decision-making, but also involves the ability of organizations to adjust the structure, processes, culture, and competencies of human resources to remain competitive in the midst of changing dynamics. However, structural and technical agility alone is not enough to guarantee the continuous performance of the organization (Saleem et al., 2023). Superior performance increasingly depends on psychological and social factors within the organization, including psychological safety and the level of emotional and cognitive attachment of employees to work and organization (employee engagement). The combination of responsible leadership, organizational agility, and internal psychological mechanisms is an important foundation in building adaptive, innovative, and sustainable organizational performance.

Various global and national reports show that the main challenges of organizations today have to do with leadership quality, employee engagement levels, and organizational adaptability. The Gallup report (2023) reveals that only about 23% of the world's employees are classified as engaged, while about 77% are in the category of not engaged or actively disengaged, which contributes to global productivity losses of up to USD 8.8 trillion per year or equivalent to nearly 9% of global GDP (Cyfert et al., 2022). In addition, studies show that organizations with low levels of psychological safety tend to experience decreased innovation and team learning, where employees prefer to remain silent rather than pass on ideas or admit mistakes due to concerns about social and professional risks (Aslani & Bakhtiyari, 2024). In Indonesia, similar challenges are also seen, especially in the MSME sector, public organizations, and private companies, where the national labor productivity rate is still below the average of developed ASEAN countries, and the employee turnover rate in certain sectors is reported to reach more than 20% per year.

Previous research has extensively examined the relationship between leadership, organizational agility, and organizational performance in various contexts. (Nakra, 2024) Introducing the concept responsible leadership as a form of leadership that is ethical, stakeholder, and sustainability-oriented, and demonstrates that responsible leadership contributes significantly to organizational legitimacy and long-term performance. (Patil, 2023) found that psychological safety plays an important role in improving team learning, the courage to convey ideas, and the effectiveness of group performance, emphasizing that a psychologically safe work environment encourages more productive innovation and collaboration. (Ekhsan et al., 2023a) shows that employee engagement has a strong positive relationship with productivity, employee loyalty, profitability, and service quality, so that work attachment is a strategic factor in driving organizational performance. Most previous studies have examined leadership, organizational agility, psychological safety, and employee engagement in a partial and isolated manner, focusing primarily on their direct effects rather than clarifying the mechanisms that connect them. As a result, although these relationships are individually established, there is still limited understanding of how leadership and organizational agility are translated into performance outcomes through underlying psychological processes. Integrating these constructs in a single empirical model is therefore not merely a matter of combining variables, but is intended to explain the missing linkage specifically, how psychological safety and employee engagement function as interconnected pathways that mediate and shape the

effectiveness of leadership and agility in driving organizational performance.

Based on prior studies, the relationship between leadership, organizational agility, and organizational performance has been widely examined; however, the findings remain fragmented and reveal several unresolved issues. Existing research consistently shows that organizational agility has a direct effect on performance, while the role of leadership particularly responsible leadership produces mixed results, with some studies reporting significant effects and others indicating weak or indirect relationships. Moreover, although psychological factors such as psychological safety and employee engagement have been individually linked to performance, prior studies tend to examine them separately rather than as an integrated mechanism that explains how leadership and organizational capabilities are translated into behavioral outcomes. As a result, there is still limited empirical evidence that simultaneously tests whether psychological safety and employee engagement function as sequential or complementary pathways connecting responsible leadership and organizational agility to organizational performance. This gap becomes more pronounced in the context of developing MSMEs in non-metropolitan regions, where organizational structures are less formalized and leadership practices are more relational, potentially altering the way these mechanisms operate. Therefore, this study specifically addresses the unresolved issue of how leadership and organizational agility influence performance through internal psychological processes, by testing an integrated model that clarifies the mediating roles of psychological safety and employee engagement within the MSME context in Jember, thereby offering a more precise and theory-grounded explanation of performance formation.

The selection of research objects is focused on owners and employees of MSMEs in the food, creative industry, and manufacturing sectors in Jember Regency, which are currently experiencing a growth phase while facing challenges of adapting to market changes, digitalization, and increasing business competition. MSMEs in these sectors have a high dependence on the quality of business owners' leadership, organizational flexibility, and employee involvement in maintaining business productivity and innovation. However, in practice, there are still various obstacles such as leadership that is not fully oriented to social responsibility and sustainability, low levels of psychological safety that hinder openness of ideas and learning, and employee engagement levels that are not optimal. Therefore, MSMEs developing in Jember is seen as a relevant empirical context to test the role of responsible leadership and organizational agility in improving organizational performance through psychological safety and employee engagement mechanisms, as well as producing practical recommendations that are applicable to strengthening the competitiveness of MSMEs at the local and regional levels.

This study aims to empirically analyze the influence of responsible leadership and organizational agility on organizational performance through the mediating role of psychological safety and employee engagement. In particular, this study seeks to examine the direct relationship between responsible leadership and organizational agility to organizational performance, identify how psychological safety and employee engagement function as psychological mechanisms that bridge these relationships, and evaluate the power of dual mediating pathways in improving organizational performance in a sustainable manner. In addition, this study aims to develop a conceptual model that can enrich the literature on strategic management, organizational behavior, and leadership, as well as provide practical recommendations for organizational leaders in Jember and Indonesia in building ethical leadership, an agile organization, and a work

environment that is psychologically safe and able to increase employee engagement.

## Methods

### Research Design

This study employs a quantitative approach using an explanatory research design and a cross-sectional survey method to examine the influence of Responsible Leadership and Organizational Agility on Organizational Performance through the mediating roles of Psychological Safety and Employee Engagement in developing MSMEs within the food, creative, and manufacturing sectors in Jember Regency (Hair et al., 2021). The unit of analysis in this study is the individual organizational member, consisting of MSME owners, supervisors/managers, and employees who are actively involved in operational activities and organizational processes. These respondents were analyzed within a single SEM-PLS model because they operate within the same organizational environment and evaluate the same organizational phenomena, including leadership practices, organizational agility, psychological conditions, employee involvement, and perceived organizational performance. Although respondents occupy different organizational roles, their perceptions are considered relevant and comparable since MSMEs generally have relatively informal and closely integrated organizational structures, where owners, managers, and employees interact directly in daily operations and share similar experiences regarding organizational dynamics. Data were collected through a structured questionnaire using a six-point Likert scale, allowing the relationships among variables to be empirically examined through a causal modeling approach based on SEM-PLS.

### Data Collection Timeline and Procedures

Data collection in this study was conducted from October 2025 to December 2025, considering respondent readiness, MSME operational schedules, and the need to obtain representative and reliable data. The data collection process was carried out in several stages, beginning with coordination and permission requests to MSME owners, followed by the socialization of the research objectives to prospective respondents, and continued with the distribution and completion of questionnaires both directly and online. The three-month data collection period was selected to provide respondents with adequate time to understand and respond appropriately to the research instruments while minimizing potential bias arising from time limitations and operational business pressures.

This study used a six-point Likert scale to measure respondents' perception of each variable indicator, which

included responsible leadership, organizational agility, psychological safety, employee engagement, and organizational performance (see Table 1). The use of an even scale without a neutral choice aims to encourage respondents to give a clearer attitude to each statement, so as to reduce the central tendency bias. The six-point scale is also considered to be able to increase the sensitivity of measurement to variations in respondents' attitudes and perceptions, as well as produce more discriminatory and reliable data to be analyzed using the SEM-PLS approach through SmartPLS 4.

### Population, Sample, and Sampling Techniques

The population in this study includes owners and employees of MSMEs in the food, creative industry, and manufacturing sectors in Jember Regency, who are actively involved in operational activities and organizational decision-making (Hair et al., 2017). MSMEs were chosen as a research context because they have dynamic organizational characteristics, a leadership structure that is relatively close to employees, and a high level of dependence on organizational flexibility and human resource involvement in maintaining business performance. In addition, MSMEs in Jember are in a phase of growth and adaptation to digital transformation, changes in consumer preferences, and increased competitive pressures, so that it becomes a relevant empirical context to examine the influence responsible leadership and organizational agility against organizational performance through the mechanism psychological safety and employee engagement. Population restrictions on MSMEs are implemented to ensure that the analysis unit has a relatively stable organizational structure, observable leadership practices, and work processes that allow the formation of

**Table 1.** Six Point Likert Scale

| Score | Answer Categories | Remarks                                        |
|-------|-------------------|------------------------------------------------|
| 1     | Strongly Disagree | Respondents strongly reject the statement      |
| 2     | Disagree          | Respondents reject the statement               |
| 3     | Tend to disagree  | Respondents somewhat rejected the statement    |
| 4     | Tend to Agree     | Respondents somewhat agreed with the statement |
| 5     | Agree             | Respondents agree with the statement           |
| 6     | Strongly agree    | Respondents strongly agreed with the statement |

Source: Processed Data (2026)

**Table 2.** Population Distribution and Research Sample Based on MSMEs in Jember Regency

| No    | MSME Name                          | Sector        | Population (Owners & Employees) | Sample (Proportional) | Sample Proportion (%) |
|-------|------------------------------------|---------------|---------------------------------|-----------------------|-----------------------|
| 1     | UD Purnama Jaya Food (Jember)      | Food          | 28                              | 17                    | 11.0                  |
| 2     | Argopuro Coffee MSMEs              | Food          | 24                              | 15                    | 9.7                   |
| 3     | CV Sari Rasa Nusantara             | Food          | 22                              | 14                    | 9.0                   |
| 4     | Jember Creative Craft              | Creative      | 20                              | 12                    | 7.7                   |
| 5     | Batik Rolla Jember                 | Creative      | 18                              | 11                    | 7.1                   |
| 6     | MSME Digital Printing Jember       | Creative      | 16                              | 10                    | 6.5                   |
| 7     | CV Jember Prosperous Manufacturing | Manufacturing | 30                              | 18                    | 11.6                  |
| 8     | UD Source of Engineering           | Manufacturing | 27                              | 17                    | 11.0                  |
| 9     | PT Agro Processing Jember          | Manufacturing | 25                              | 15                    | 9.7                   |
| 10    | CV Mekar Jaya Production           | Manufacturing | 23                              | 14                    | 9.0                   |
| 11    | MSMEs Snack & Bakery Jember        | Food          | 20                              | 12                    | 7.7                   |
| Total |                                    |               | 253                             | 155                   | 100%                  |

Source: Processed Data (2026)

psychological dynamics and real employee involvement.

The sample size in this study was determined based on the minimum sample requirement for Structural Equation Modeling using Partial Least Squares (SEM-PLS), rather than relying on the Slovin formula. Following the recommendation of (Hair Jr. et al., 2019), the adequacy of the sample was evaluated using the “ten-times rule” and statistical power considerations. The ten-times rule suggests that the minimum sample size should be at least ten times the maximum number of structural paths directed at a particular endogenous construct. In this study, the most complex construct (Organizational Performance) receives multiple direct and indirect paths, requiring a minimum sample well below the final sample used. Furthermore, a sample size of 155 respondents exceeds the commonly recommended threshold for medium-complexity PLS-SEM models and is considered sufficient to achieve adequate statistical power ( $\geq 0.80$ ) for detecting significant path coefficients at a 5% significance level. Therefore, the selected sample size is deemed appropriate and robust for model estimation and hypothesis testing (see Table 2).

This study uses a combination of purposive sampling and proportionate stratified random sampling. Purposive sampling is applied at the MSME selection stage to ensure that the research object meets the criteria as MSMEs develop and are operationally active. Furthermore, proportionate stratified random sampling was used to determine the number of respondents from each MSME proportionally based on the number of owners and employees, so that each business unit obtained a fair representation in the research sample. The criteria for inclusion of respondents in this study include:

1. Owners or permanent employees of MSMEs in the food, creative, or manufacturing sectors in Jember Regency.
2. Have worked or managed a business for at least 6 months, so that they understand leadership patterns and organizational dynamics.
3. Involved in daily operational activities and/or business decision-making.
4. Be at least 18 years old.
5. Willing to fill out a complete research questionnaire according to the established procedures.

#### Data Analysis Techniques

The data analysis in this study was carried out using the Structural Equation Modeling approach based on Partial Least Squares (SEM-PLS) with the help of SmartPLS 4 software, which was chosen for its ability to analyze complex causal models as well as suitable for intermediate sample sizes and data that are not fully distributed normally. The analysis stage includes the evaluation of the measurement model (outer model) through the validity and reliability test of the indicators, including the examination of the outer loading value,

Cronbach's alpha, Composite Reliability, Average Variance Extracted (AVE), and discriminant validity using the Fornell-Larcker and HTMT criteria. Furthermore, structural model testing (inner model) was carried out to assess the relationship between latent variables through the estimation of path coefficients, the value of the determination coefficient ( $R^2$ ), and the significance of direct and indirect influences, including testing the mediating effect of psychological safety and employee engagement through a bootstrapping procedure with an adequate amount of resampling to ensure the stability of parameter estimation. This approach allows researchers to gain a comprehensive understanding of the mechanisms of the influence of responsible leadership and organizational agility on organizational performance empirically and robustly.

In addition to ensuring sample adequacy, this study strengthened methodological rigor through systematic instrument development and data quality control procedures. The measurement items for Responsible Leadership were adapted from the scales developed by Maak and Pless consisting of 8 items, Organizational Agility was adapted from prior organizational agility studies by Teece and related empirical research consisting of 8 items, Psychological Safety was adapted from the scale developed by Amy Edmondson consisting of 10 items, Employee Engagement was adapted from established engagement scales by Schaufeli and related studies consisting of 16 items, while Organizational Performance was adapted from prior organizational performance literature consisting of 13 items. All measurement items were adjusted to the MSME context in Jember Regency to ensure contextual relevance and conceptual consistency. Prior to the main survey, a pretesting process was conducted involving 30 respondents consisting of MSME owners and employees to evaluate the clarity, wording, and relevance of the questionnaire items. Based on the pretesting results, several revisions were made, including simplifying technical terminology, refining ambiguous wording, and improving sentence structure to enhance respondent understanding and reduce interpretation bias. To minimize the risk of common method bias (CMB), several procedural remedies were implemented, including ensuring respondent anonymity, randomizing item arrangement, separating predictor and criterion constructs within the questionnaire structure, and emphasizing that there were no right or wrong answers. Harman's single-factor test was conducted, and the first factor accounted for 38.6% of the total variance, which was below the recommended threshold of 50%, indicating that common method bias was not a serious concern in this study. During the SEM-PLS analysis, bootstrapping was performed using 5,000 resampling procedures in SmartPLS 4 to ensure the stability and robustness of parameter estimation.

## Result and Discussion

#### Respondent Demographics

The characteristics of the respondents in this study are

**Table 3. Respondents Characteristics**

| Criteria                       | Frequency (people) | Percentage (%) |
|--------------------------------|--------------------|----------------|
| <b>Gender</b>                  |                    |                |
| Male                           | 92                 | 59,35          |
| Women                          | 63                 | 40,65          |
| Total                          | 155                | 100,00         |
| <b>Respondent Age</b>          |                    |                |
| < 25 years old                 | 28                 | 18,06          |
| 25–34 years old                | 67                 | 43,23          |
| 35–44 years old                | 41                 | 26,45          |
| > 44 years old                 | 19                 | 12,26          |
| Total                          | 155                | 100,00         |
| <b>Working Period in MSMEs</b> |                    |                |
| < 1 year                       | 22                 | 14,19          |
| 1–3 years                      | 48                 | 30,97          |
| 4–6 years                      | 52                 | 33,55          |
| > 6 years old                  | 33                 | 21,29          |
| Total                          | 155                | 100,00         |
| <b>Position in MSMEs</b>       |                    |                |
| Pemilik / Owner                | 39                 | 25,16          |
| Supervisor / Manager           | 27                 | 17,42          |
| Employees                      | 89                 | 57,42          |
| Total                          | 155                | 100,00         |

Source: Processed Data (2026)

presented to provide an overview of the demographic profile and background of the research subjects, which include gender, age, working period in MSMEs, and positions or roles in the organization.

Based on Table 3, the majority of respondents were male at 59.35%, which reflects the dominance of male workers in

the food, creative, and manufacturing MSME sectors in Jember, while female respondents at 40.65% showed significant involvement of women in business activities. In terms of age, the 25–34 year group was the largest category (43.23%), indicating that most respondents were of productive age with relatively high levels of work energy and adaptability

**Table 4. Results of Convergent Test Outer Loading After Dropping Process**

| Variable                       | Indicator | Statement                                                                                  | Outer Loading |
|--------------------------------|-----------|--------------------------------------------------------------------------------------------|---------------|
| Responsible Leadership (X1)    | X1.1      | I judge leaders to act ethically in decision-making.                                       | 0.742         |
|                                | X1.2      | I see leaders consider the social impact in every policy.                                  | 0.800         |
|                                | X1.3      | I consider leaders to be responsible to employees and stakeholders.                        | 0.720         |
|                                | X1.4      | I think leaders encourage sustainable business practices.                                  | 0.854         |
|                                | X1.5      | I feel leaders build trust through transparency and fairness.                              | 0.847         |
|                                | X1.6      | I consider that leaders set an example in maintaining the integrity of the organization.   | 0.704         |
|                                | X1.7      | I feel that leaders involve employees in strategic decision-making.                        | 0.810         |
|                                | X1.8      | I think leaders support employee well-being and development.                               | 0.736         |
| Organizational Agility (X2)    | X2.1      | I think organizations are able to respond quickly to market changes.                       | 0.831         |
|                                | X2.2      | I see organizations being flexible in adjusting their operational strategies.              | 0.907         |
|                                | X2.3      | I think organizations are quick to adapt to technological developments.                    | 0.942         |
|                                | X2.4      | I think the organization is able to change the work process effectively when needed.       | 0.906         |
|                                | X2.5      | I see organizations driving innovation in the face of environmental change.                | 0.935         |
|                                | X2.6      | I think organizations are able to make decisions quickly in uncertain situations.          | 0.846         |
|                                | X2.7      | I consider the organization to be agile in taking advantage of new business opportunities. | 0.945         |
|                                | X2.8      | I see organizations supporting continuous learning and improvement.                        | 0.875         |
| Organizational Performance (Y) | Y1.1      | I consider that MSMEs show an increase in operational performance.                         | 0.777         |
|                                | Y1.2      | I consider MSMEs to increase employee work productivity.                                   | 0.798         |
|                                | Y1.3      | I consider that MSMEs are able to maintain business competitiveness.                       | 0.795         |
|                                | Y1.4      | I consider that MSMEs have good service quality to customers.                              | 0.779         |
|                                | Y1.5      | I consider that MSMEs show positive business growth.                                       | 0.823         |
|                                | Y1.6      | I consider that MSMEs increase operational cost efficiency.                                | 0.887         |
|                                | Y1.7      | I consider that MSMEs show good innovation performance.                                    | 0.865         |
|                                | Y1.8      | I consider MSMEs to have a positive business reputation.                                   | 0.864         |
|                                | Y1.9      | I consider MSMEs to be able to maintain long-term business sustainability.                 | 0.912         |
|                                | Y1.10     | I consider that MSMEs have a stable increase in income.                                    | 0.912         |
|                                | Y1.11     | I consider that MSMEs have a high level of customer satisfaction.                          | 0.831         |
|                                | Y1.12     | I consider that MSMEs are able to expand their market share.                               | 0.913         |
|                                | Y1.13     | I consider that MSMEs show better performance than competitors.                            | 0.929         |
| Psychological Safety (Z1)      | Z1.1      | I feel safe to pitch ideas at work.                                                        | 0.778         |
|                                | Z1.2      | I feel not afraid to admit mistakes at work.                                               | 0.912         |
|                                | Z1.4      | I feel free to express my opinion without fear of negative consequences.                   | 0.789         |
|                                | Z1.5      | I feel that my colleagues support each other in solving problems.                          | 0.838         |
|                                | Z1.6      | I feel valued when I give feedback or suggestions.                                         | 0.882         |
|                                | Z1.7      | I feel that the work environment encourages openness and discussion.                       | 0.915         |
|                                | Z1.8      | I feel comfortable collaborating with the team.                                            | 0.816         |
| Employee Engagement (Z2)       | Z1.9      | I feel that organizations create a work environment that trusts each other.                | 0.913         |
|                                | Z1.10     | I feel safe trying new things at work.                                                     | 0.910         |
|                                | Z2.1      | I feel enthusiastic about doing my job.                                                    | 0.929         |
|                                | Z2.2      | I am willing to put in the extra effort for the success of the organization.               | 0.948         |
|                                | Z2.3      | I feel proud to be a part of this organization.                                            | 0.951         |
|                                | Z2.4      | I stayed motivated despite the challenges of work.                                         | 0.931         |
|                                | Z2.5      | I have a high commitment to the organization's goals.                                      | 0.968         |
|                                | Z2.6      | I am actively involved in the activities and development of the organization.              | 0.942         |
|                                | Z2.7      | I feel this job means a lot to me.                                                         | 0.955         |
|                                | Z2.8      | I show a high dedication to work.                                                          | 0.957         |
|                                | Z2.9      | I have a strong loyalty to the organization.                                               | 0.934         |
|                                | Z2.10     | I am driven to give my best performance.                                                   | 0.903         |
|                                | Z2.11     | I feel emotionally connected to the organization.                                          | 0.976         |
|                                | Z2.12     | I show high work ethic every day.                                                          | 0.950         |
|                                | Z2.13     | I am willing to be involved in organizational innovation.                                  | 0.958         |
|                                | Z2.14     | I have a sense of ownership of my work.                                                    | 0.951         |

Source: SmartPLS Output (2026)

to organizational changes. The distribution of tenure showed that most of the respondents had worked for 4–6 years (33.55%) and 1–3 years (30.97%), which indicates sufficient work experience to understand leadership dynamics, organizational culture, and work processes in MSMEs. In addition, the composition of respondents' positions was dominated by employees (57.42%), followed by business owners (25.16%) and supervisors/managers (17.42%), so that the data obtained represented an operational and strategic perspective in the organization.

#### Measurement Model Evaluation

The convergent validity test is performed to ensure that each indicator in the research construct has a strong degree of correlation with the latent variable it is measuring. This test uses the outer loading value obtained from the SEM-PLS analysis via SmartPLS 4, with a general feasibility limit of  $\geq 0.70$  as an indicator that an item has an adequate contribution to its construct.

Based on Table 4, most retained indicators exhibit outer loading values above the recommended threshold of 0.70, indicating adequate convergent validity and satisfactory representation of their respective latent constructs. During the measurement model evaluation, several indicators were removed due to outer loading values below the minimum acceptable threshold of 0.70. Specifically, indicator Z1.3 from the Psychological Safety construct and indicators Z2.15 and Z2.16 from the Employee Engagement construct were excluded from the final model because their outer loading values were below the recommended level, indicating insufficient contribution to the construct measurement. The deletion process was conducted not only based on statistical criteria but also by considering conceptual relevance to preserve the theoretical integrity of each construct. Indicator Z1.3 was removed because it demonstrated weak empirical representation of psychological safety within the MSME context and overlapped conceptually with stronger retained indicators related to openness and interpersonal trust. Similarly, indicators Z2.15 and Z2.16 were excluded because they showed relatively low correlations with the overall employee engagement construct and were considered less capable of capturing the core dimensions of emotional, cognitive, and behavioral engagement compared to the

retained indicators.

For the retained indicators Responsible Leadership demonstrated outer loading values ranging from 0.704 to 0.854, reflecting a consistent representation of ethical, transparent, and stakeholder-oriented leadership practices. Organizational Agility showed loading values ranging from 0.831 to 0.945, indicating strong representation of organizational adaptability, responsiveness, and innovation capability. Organizational Performance exhibited outer loading values between 0.777 and 0.929, capturing multiple dimensions of organizational outcomes effectively. Psychological Safety demonstrated loading values ranging from 0.778 to 0.915, indicating that the retained indicators adequately represented employees' perceptions of interpersonal safety, openness, and supportive work environments. Meanwhile, Employee Engagement showed very high loading values ranging from 0.903 to 0.976, suggesting strong internal consistency in measuring employees' emotional, cognitive, and behavioral attachment to the organization. Nevertheless, these very high loading values should be interpreted cautiously because they may also indicate potential indicator redundancy or conceptual overlap among several retained items.

The results of the reliability and convergent validity tests in Table 5 indicate that the measurement model generally meets the recommended criteria; however, the interpretation should be approached with caution. Cronbach's alpha values for all variables exceed 0.90, indicating high internal consistency, but such elevated values particularly for Employee Engagement may also suggest potential item redundancy or limited conceptual breadth rather than purely reflecting measurement quality. Similarly, Composite Reliability values ( $\rho_a$  and  $\rho_c$ ) above 0.70 confirm acceptable reliability, while AVE values ranging from 0.606 to 0.897 indicate that a substantial portion of indicator variance is explained by their respective constructs. Nevertheless, very high reliability and AVE values may reflect overlapping items or common method variance, which necessitates careful evaluation. Therefore, in addition to these metrics, discriminant validity (e.g., HTMT results) and conceptual distinctiveness between constructs were considered to ensure that each variable captures a unique theoretical domain. These results suggest that while the measurement model is adequate for analysis, its quality should

**Table 5. Reliability and Convergent Validity Assessment of Measurement Constructs**

| Variabel                      | Cronbach's alpha | Composite reliability ( $\rho_a$ ) | Composite reliability ( $\rho_c$ ) | Average Variance Extracted (AVE) |
|-------------------------------|------------------|------------------------------------|------------------------------------|----------------------------------|
| X1. Responsible Leadership    | 0.906            | 0.909                              | 0.924                              | 0.606                            |
| X2. Organizational Agility    | 0.966            | 0.969                              | 0.971                              | 0.809                            |
| Y. Organizational Performance | 0.969            | 0.971                              | 0.972                              | 0.73                             |
| Z1. Psychological Safety      | 0.957            | 0.96                               | 0.963                              | 0.745                            |
| Z2. Employee Engagement       | 0.991            | 0.991                              | 0.992                              | 0.897                            |

Source: SmartPLS Output (2026)

**Table 6. Heterotrait-Monotrait Ratio (HTMT)**

| Variabel                      | X1.<br>Responsible<br>Leadership | X2.<br>Organizational<br>Agility | Y.<br>Organizational<br>Performance | Z1.<br>Psychological<br>Safety | Z2.<br>Employee<br>Engagement |
|-------------------------------|----------------------------------|----------------------------------|-------------------------------------|--------------------------------|-------------------------------|
| X1. Responsible Leadership    |                                  |                                  |                                     |                                |                               |
| X2. Organizational Agility    | 0.578                            |                                  |                                     |                                |                               |
| Y. Organizational Performance | 0.877                            | 0.850                            |                                     |                                |                               |
| Z1. Psychological Safety      | 0.781                            | 0.632                            | 0.843                               |                                |                               |
| Z2. Employee Engagement       | 0.726                            | 0.635                            | 0.661                               | 0.781                          |                               |

Source: SmartPLS Output (2026)

be interpreted as acceptable rather than unequivocally excellent, with attention to potential redundancy and measurement overlap.

Based on the results of the Heterotrait–Monotrait Ratio (HTMT) test in Table 6, the entire value of the relationship between constructs is below the threshold of 0.90, which indicates that each variable in the model has good discriminant validity. The highest HTMT scores were seen in the relationship between Responsible Leadership and Organizational Performance (0.877) and between Organizational Performance and Psychological Safety (0.843), which are still within tolerance limits and reflect conceptual relationships without indicating overlapping constructs. The relationship between other variables, such as between Organizational Agility and Employee Engagement (0.635) and between Responsible Leadership and Employee Engagement (0.726), showed a moderate level of correlation that supported the clarity of the differences between the concepts measured.

The model fit results presented in Table 7 indicate that the structural model demonstrates an acceptable but not strong level of fit. The SRMR values for both the saturated model (0.089) and the estimated model (0.096) fall below the commonly suggested threshold of 0.10, suggesting that the model residuals are within an acceptable range. However, other fit indicators should be interpreted with caution. The relatively low NFI values (0.564–0.558) indicate that the model does not achieve a high level of comparative fit, while the large Chi-square values reflect both model complexity and sensitivity to sample size rather than model quality alone. In addition, the d\_ULS and d\_G values are reported as descriptive discrepancy measures without clear cutoff criteria, limiting their interpretive strength. Therefore, rather than indicating a strong model fit, these results suggest that the model is adequate for predictive and exploratory purposes in SEM-PLS, but still requires cautious interpretation and potential refinement in future studies.

#### Structural Model Evaluation

Based on Figure 1 and Table 8, the structural model demonstrates strong explanatory power across all endogenous variables. Psychological Safety ( $R^2 = 0.854$ ) and Employee Engagement ( $R^2 = 0.802$ ) are substantially explained by Responsible Leadership and Organizational Agility, indicating that leadership practices and organizational capabilities play important roles in shaping internal psychological conditions within MSMEs. Meanwhile, Organizational Performance ( $R^2 = 0.901$ ) demonstrates a very high level of explained variance, suggesting that the combination of leadership, organizational agility, and psychological mechanisms accounts for a substantial proportion of performance outcomes. However, these relatively high  $R^2$  values should be interpreted cautiously, as they may also indicate overlapping constructs or shared measurement variance, emphasizing the importance of considering model parsimony and robustness when interpreting the structural model results.

Responsible Leadership → Organizational Performance ( $\beta = -0.029$ ;  $p = 0.383$ ) (Table 9)

The results indicate that Responsible Leadership does not have a significant direct effect on Organizational Performance, as reflected by the negative path coefficient and non-significant p-value. This finding suggests that, within the context of this study, responsible leadership is not directly associated with measurable performance outcomes. Rather than drawing immediate theoretical conclusions, this result should be interpreted as empirical evidence that the direct pathway is not supported. Consistent with the observation of

Table 7. FIT Model Test Results

|            | Saturated | Forecast |
|------------|-----------|----------|
| SRMR       | 0.089     | 0.096    |
| d_ULS      | 10.821    | 12.702   |
| d_G        | 20.575    | 21.166   |
| Chi-square | 8394.465  | 8518.664 |
| NFI        | 0.564     | 0.558    |

Source: SmartPLS Output (2026)

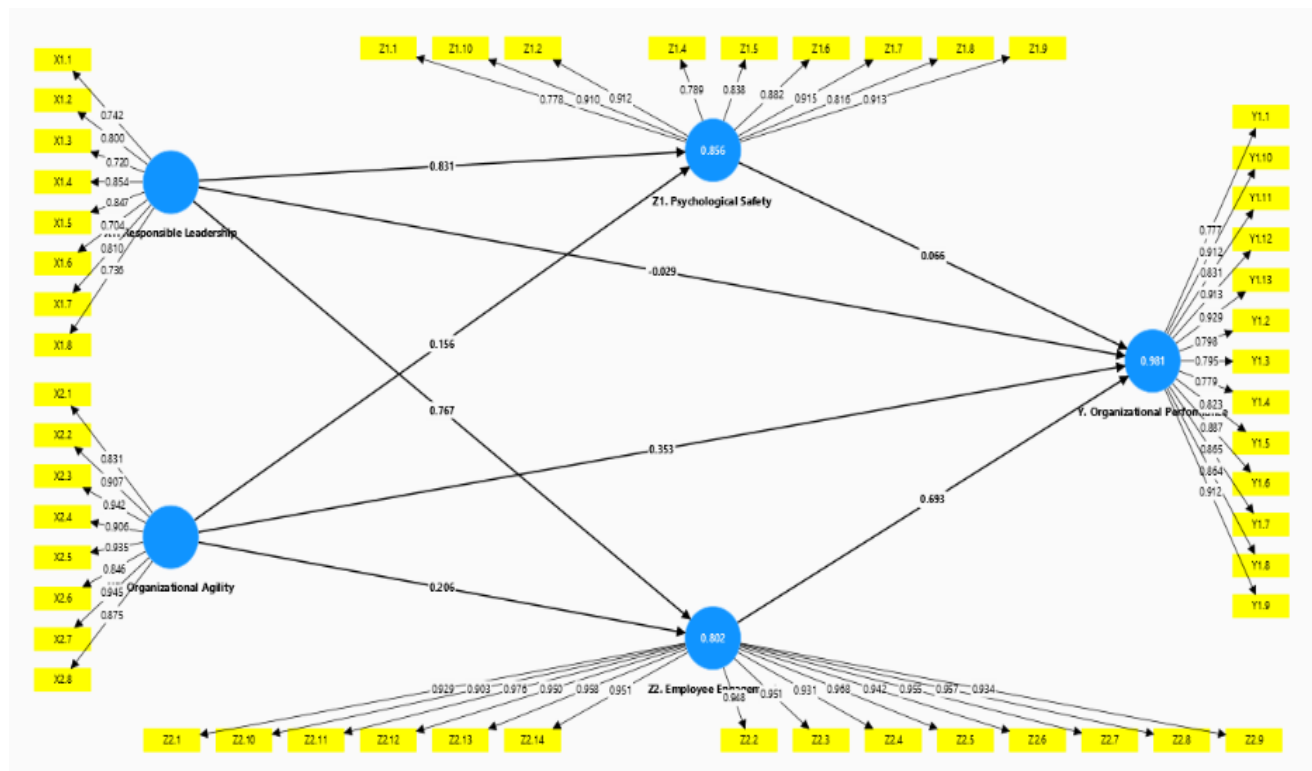


Figure 1. R Square Value

Source: SmartPLS Output (2026)

(Pless et al., 2022), prior studies may overemphasize direct relationships without fully capturing underlying processes; however, in this study, the role of Responsible Leadership in influencing performance requires further examination through indirect pathways. As noted by (Welch, 2023; Y. Zhang et al., 2022), responsible leadership is often associated with relational and normative dimensions, but its performance implications should be interpreted cautiously and in conjunction with the mediation analysis presented in subsequent sections.

Responsible Leadership → Psychological Safety ( $\beta = 0.831$ ;  $p = 0.000$ )

Responsible Leadership shows a positive and statistically significant association with Psychological Safety, as indicated by the relatively high path coefficient ( $\beta = 0.831$ ) and significant p-value ( $p = 0.000$ ). This finding suggests that ethical, fair, and stakeholder-oriented leadership practices are associated with a greater perception of psychological safety among employees, where individuals feel more comfortable expressing ideas, admitting mistakes, and participating in organizational activities and innovation. The strength of the coefficient also indicates that Responsible Leadership represents one of the most influential predictors of Psychological Safety within the proposed model. This result is consistent with the perspective of (Welch, 2023; Y. Zhang et al., 2022), who emphasize that responsible leadership contributes to the development of social trust and organizational legitimacy. In addition, the finding aligns with prior studies by (Mahmoud et al., 2021) and (Siyal, 2023), which suggest that psychological safety is closely associated with organizational learning, open communication, and collaborative work environments.

Responsible Leadership → Employee Engagement ( $\beta = 0.767$ ;  $p = 0.000$ )

Responsible Leadership also shows a positive and significant influence on Employee Engagement, indicating that responsible leaders are able to improve employee cognitive, emotional, and behavioral attachment. Leadership that emphasizes ethics, fairness, and sustainability creates a sense of work meaning, trust, and organizational commitment, which ultimately drives higher work engagement. These findings support the definition of engagement as a strategic mechanism in Human Resource Management (Na & Chelliah, 2022a), and reinforce the results of (Ekhsan et al., 2023b) who show that engagement

correlates with productivity, loyalty, and performance quality. Theoretically, these results confirm the view of (Kustiawan, 2022) that employee engagement is the main behavioral pathway that connects leadership practices with organizational outcomes.

Organizational Agility → Organizational Performance ( $\beta = 0.353$ ;  $p = 0.000$ )

Organizational Agility has been proven to have a positive and significant influence directly on Organizational Performance, showing that the organization's ability to respond to change quickly, flexibly, and proactively is a key determinant in improving performance. These findings are in line with the perspective of Dynamic Capabilities, where agility is understood as a manifestation of an organization's ability to detect opportunities, take strategic actions, and transform resources (Çakmak, 2023). These results also support the view that agility strengthens an organization's competitiveness, innovation, and resilience to technological disruption. Thus, organizational agility serves as a direct strategic capability that drives organizational performance in the context of a dynamic business environment.

Organizational Agility → Psychological Safety ( $\beta = 0.156$ ;  $p = 0.000$ )

The results of the analysis showed that Organizational Agility had a positive and significant influence on Psychological Safety, although with relatively moderate strength. This indicates that agile organizations tend to create a more flexible work environment, open to experimentation, and supportive of learning, thereby increasing employees' psychological security. However, the magnitude of the influence is smaller than that of responsible leadership confirms the criticism of (Desalegn et al., 2024) that agility is often treated as a purely structural capability, without fully paying attention to human and

**Table 8. R-Square Value**

| No | Endogenous Variable            | R-Square (R <sup>2</sup> ) | Category    |
|----|--------------------------------|----------------------------|-------------|
| 1  | Psychological Safety (Z1)      | 0.854                      | Strong      |
| 2  | Employee Engagement (Z2)       | 0.802                      | Strong      |
| 3  | Organizational Performance (Y) | 0.901                      | Very Strong |

Source: SmartPLS Output (2026)

**Table 9. Bootstrapping Test Results and Hypothesis Testing**

|                                                            | Original sample (O) | Sample average (M) | Standard deviation (STDEV) | T statistics ( O/STDEV ) | P values |
|------------------------------------------------------------|---------------------|--------------------|----------------------------|--------------------------|----------|
| X1. Responsible Leadership → Y. Organizational Performance | -0.029              | -0.028             | 0.034                      | 0.872                    | 0.383    |
| X1. Responsible Leadership → Z1. Psychological Safety      | 0.831               | 0.832              | 0.035                      | 23.689                   | 0.000    |
| X1. Responsible Leadership → Z2. Employee Engagement       | 0.767               | 0.769              | 0.044                      | 17.289                   | 0.000    |
| X2. Organizational Agility → Y. Organizational Performance | 0.353               | 0.354              | 0.024                      | 14.588                   | 0.000    |
| X2. Organizational Agility → Z1. Psychological Safety      | 0.156               | 0.155              | 0.04                       | 3.914                    | 0.000    |
| X2. Organizational Agility → Z2. Employee Engagement       | 0.206               | 0.203              | 0.045                      | 4.541                    | 0.000    |
| Z1. Psychological Safety → Y. Organizational Performance   | 0.066               | 0.065              | 0.062                      | 1.062                    | 0.288    |
| Z2. Employee Engagement → Y. Organizational Performance    | 0.693               | 0.692              | 0.062                      | 11.14                    | 0.000    |

Source: SmartPLS Output (2026)

psychological factors. These findings also reinforce the view that effective agility must be accompanied by a supportive and safe work culture so as not to trigger work burnout and resistance to change (Motwani & Katatria, 2024).

Organizational Agility → Employee Engagement ( $\beta = 0.206$ ;  $p = 0.000$ )

Organizational Agility has a positive and significant effect on Employee Engagement, showing that a dynamic, adaptive, and innovative work environment can increase employee enthusiasm, dedication, and engagement. Agility creates opportunities for employees to engage in decision-making, innovation, and organizational development, thereby reinforcing a sense of belonging and commitment to work. These findings support the argument that agility is not only technical, but also depends on the interaction between adaptive structure and human resource readiness (Çakmak, 2023; Motwani & Katatria, 2024). Thus, agility serves as a contextual enabler that strengthens employee work engagement.

Psychological Safety → Organizational Performance ( $\beta = 0.066$ ;  $p = 0.288$ )

Although Psychological Safety plays an important role in creating an open and supportive work environment, the results show that its direct influence on Organizational Performance is not significant. These findings indicate that psychological safety functions more as an enabler than as a direct determinant of organizational performance. This is in line with the criticism of (Qu et al., 2024) who stated that psychological safety is often more effective as a mediator that explains how leadership practices and organizational capabilities translate into behavior and performance, rather than as a direct predictor of organizational outcomes.

Employee Engagement → Organizational Performance ( $\beta = 0.693$ ;  $p = 0.000$ )

Employee Engagement has been proven to have the most powerful and significant influence on Organizational Performance, confirming that employee engagement is a key mechanism in translating leadership and agility into real performance. High engagement reflects the level of commitment, dedication, and discretionary effort of employees that contribute directly to the productivity, quality of service, innovation, and sustainability of the organization. These findings reinforce the findings of (Ekhsan et al., 2023b) who show that engagement correlates with better financial and operational performance, and supports the view of (Na & Chelliah, 2022a) that engagement is a strategic link between management practices and organizational outcomes. Thus, employee engagement has emerged as the most dominant behavioral mediator in improving the performance of MSME organizations.

Table 10 demonstrates that the mediating mechanisms in this study operate selectively rather than uniformly across variables. Psychological Safety does not show a significant mediating effect in both pathways ( $X1 \rightarrow Z1 \rightarrow Y$  and  $X2 \rightarrow Z1 \rightarrow Y$ ), as indicated by insignificant coefficients and p-values, suggesting that although it contributes to a supportive work environment, it does not directly translate leadership and agility into performance outcomes. In contrast, Employee Engagement plays a crucial mediating role, with a strong and significant indirect effect in the relationship between Responsible Leadership and Organizational Performance ( $\beta = 0.531$ ;  $p < 0.001$ ), indicating full mediation where leadership influences performance primarily through enhancing employee engagement. Similarly, Employee Engagement partially mediates the effect of Organizational Agility on

performance ( $\beta = 0.143$ ;  $p < 0.001$ ), meaning that agility affects performance both directly and indirectly through increased employee involvement. These findings highlight that employee engagement serves as the primary behavioral pathway through which organizational capabilities and leadership practices are converted into tangible performance outcomes.

Table 11 shows that most hypothesized relationships are supported, particularly those involving Organizational Agility and Employee Engagement. Responsible Leadership does not have a direct effect on Organizational Performance (H1 not supported), but it significantly influences Psychological Safety and Employee Engagement (H2 and H3 supported), indicating an indirect pathway. Similarly, Psychological Safety does not significantly affect performance (H7 not supported) and fails to mediate the relationships (H9 and H11 not supported). In contrast, Employee Engagement consistently demonstrates a significant role, both as a direct predictor of performance (H8 supported) and as a mediator in the relationships between Responsible Leadership and performance (H10 supported) as well as Organizational Agility and performance (H12 supported). These results confirm that Employee Engagement is the key mechanism linking leadership and organizational capability to performance outcomes.

Effect of Responsible Leadership, Organizational Agility, Psychological Safety, and Employee Engagement on Organizational Performance

The results reveal complex structural associations in explaining Organizational Performance, indicating that not all exogenous variables demonstrate strong direct relationships and that psychological and behavioral mechanisms function as conditional pathways rather than universal drivers within the proposed SEM-PLS model. Notably, Responsible Leadership does not show a statistically significant direct association with Organizational Performance, suggesting that in the MSME context, ethical and stakeholder-oriented leadership practices may not be directly reflected in measurable performance outcomes. Based on the observed relationships,

Table 10. Indirect Effects and Mediation Analysis

| No | Path (Indirect Effect)            | Coefficient ( $\beta$ ) | T-Statistic | P-Value | Mediation Type    |
|----|-----------------------------------|-------------------------|-------------|---------|-------------------|
| 1  | $X1 \rightarrow Z1 \rightarrow Y$ | 0.055                   | 0.98        | 0.327   | Not Significant   |
| 2  | $X1 \rightarrow Z2 \rightarrow Y$ | 0.531                   | 8.75        | 0.000   | Full Mediation    |
| 3  | $X2 \rightarrow Z1 \rightarrow Y$ | 0.010                   | 0.89        | 0.374   | Not Significant   |
| 4  | $X2 \rightarrow Z2 \rightarrow Y$ | 0.143                   | 3.98        | 0.000   | Partial Mediation |

Source: SmartPLS Output (2026)

Table 11. Summary of Hypothesis Testing

| Hypothesis | Relationship                | Result        |
|------------|-----------------------------|---------------|
| H1         | $X1 \rightarrow Y$          | Not Supported |
| H2         | $X1 \rightarrow Z1$         | Supported     |
| H3         | $X1 \rightarrow Z2$         | Supported     |
| H4         | $X2 \rightarrow Y$          | Supported     |
| H5         | $X2 \rightarrow Z1$         | Supported     |
| H6         | $X2 \rightarrow Z2$         | Supported     |
| H7         | $Z1 \rightarrow Y$          | Not Supported |
| H8         | $Z2 \rightarrow Y$          | Supported     |
| H9         | $X1 \rightarrow Y$ via $Z1$ | Not Supported |
| H10        | $X1 \rightarrow Y$ via $Z2$ | Supported     |
| H11        | $X2 \rightarrow Y$ via $Z1$ | Not Supported |
| H12        | $X2 \rightarrow Y$ via $Z2$ | Supported     |

Source: SmartPLS Output (2026)

this finding may indicate that MSMEs tend to prioritize short-term operational efficiency, flexibility, and market responsiveness over more abstract leadership values, causing the influence of Responsible Leadership to operate indirectly through employee-related mechanisms. This interpretation is consistent with the argument of (Mubarok, Sari, Wibowo, 2025) that responsible leadership functions primarily as a normative and relational construct, while studies by (Welch, 2023; X. Zhang et al., 2022) emphasize its role in developing trust and organizational legitimacy, which may require internalization through employee perceptions and behaviors before being associated with organizational performance. Therefore, rather than contradicting prior literature, the present findings extend previous studies by suggesting that the relationship between Responsible Leadership and Organizational Performance may depend on how leadership practices are perceived and enacted within relatively informal MSME organizational structures.

Organizational agility, in contrast, demonstrates a strong and significant direct effect on performance, reflecting its more tangible and operational nature in MSMEs. The ability to respond quickly to market changes, adjust strategies, and innovate provides immediate performance benefits, consistent with the core logic of Dynamic Capabilities Theory (David J. Teece, Gary Pisano, 1997). However, this study goes beyond confirmatory evidence by showing that agility alone is not sufficient to sustain performance without supportive psychological conditions. While prior studies (Çakmak, 2023), highlight agility as a performance driver, the present findings align with critiques by (Desalegn et al., 2024) and (Motwani & Katatria, 2024) by indicating that excessive agility without employee support may lead to fatigue, resistance, or disengagement. This suggests a boundary condition in which agility is most effective when it is complemented by internal readiness and employee involvement.

A particularly important insight emerges from the non-significant direct effect of psychological safety on organizational performance. While previous literature often positions psychological safety as a key driver of performance, the findings of this study indicate that its role is more indirect and contextual. In MSMEs, where performance is closely tied to productivity and tangible outputs, a psychologically safe environment alone may not be sufficient unless it leads to active behavioral contributions. This supports the view of (Mahmoud et al., 2021) that psychological safety functions as an enabling condition rather than a direct determinant, and is consistent with (Siyal, 2023) in emphasizing its role in fostering openness and learning. As argued by (Edmondson, 1999), psychological safety facilitates risk-taking and idea sharing, but these conditions must be translated into action to produce measurable outcomes. Therefore, the findings suggest that psychological safety operates as a necessary but not sufficient condition for performance.

Employee engagement emerges as the most decisive factor, both as a direct predictor and as a mediating mechanism. This indicates that performance improvements in MSMEs are largely driven by the extent to which employees are cognitively, emotionally, and behaviorally involved in their work. Engagement acts as the key mechanism through which leadership and organizational agility are converted into tangible outcomes, supporting (Na & Chelliah, 2022b) and (Ekhsan et al., 2023b). Furthermore, this finding refines (Kustiawan, 2022) by demonstrating that engagement is not only a supporting factor but the primary pathway through which leadership values and adaptive capabilities become operational. In practical terms, this suggests that leadership and agility create potential value, but it is employee engagement that actualizes that potential into performance.

Overall, these findings extend Dynamic Capabilities Theory by demonstrating that organizational performance is

not solely determined by structural adaptability, but also by how effectively these capabilities are internalized and enacted through employee behavior. While (Teece, 2007) emphasizes the importance of sensing, seizing, and transforming capabilities, this study shows that these processes are incomplete without psychological and behavioral activation. Thus, this research contributes by refining existing theory: rather than viewing leadership, agility, and psychological factors as parallel determinants, it positions them within a conditional and sequential mechanism, where performance emerges from the interaction between structural capability and employee engagement.

#### Limitations and Cautions

This study has several methodological limitations that need to be considered in interpreting the results. First, the cross-sectional design of the study limits the ability to capture the dynamics of changes in the relationship between variables over time, so that the findings obtained are more reflective of the conditions in a given period. Second, data is collected through questionnaires based on respondent perceptions, which has the potential to cause common method bias and subjectivity in assessing leadership, organizational agility, psychological safety, employee engagement, and organizational performance. In addition, the use of self-report techniques can lead to social bias, where respondents tend to give answers that are considered more positive or normative than actual conditions in the field.

Limitations also arise from the context and scope of the research sample focused on developing MSMEs in the Jember region, so that the results of this research cannot necessarily be generalized directly to large-scale organizations, different industrial sectors, or other geographical areas with different socio-economic characteristics. This research model also does not include other contextual variables such as organizational culture, governance structure, external environmental pressures, and digital technology factors, which have the potential to affect the relationship between responsible leadership, organizational agility, and organizational performance. Therefore, the findings of this study should be understood as specific contextual evidence, as well as the basis for further broader, longitudinal, and multi-sectoral research to enrich the external validity and depth of the analysis.

#### Recommendations for Future Research

Future research is encouraged to expand the empirical scope beyond a single regional context by comparing MSMEs across different provinces or conducting cross-country studies to enhance external validity and theoretical generalization. Longitudinal research designs would be valuable to examine how responsible leadership, organizational agility, psychological safety, and employee engagement develop over time and influence sustained organizational performance. Researchers may also integrate multi-source data, including objective financial indicators, productivity metrics, or customer satisfaction measures, to complement perceptual data and reduce potential bias. Furthermore, incorporating additional mediating or moderating variables such as organizational culture, innovation climate, digital capability, or environmental turbulence could refine the structural model and provide deeper insight into the boundary conditions of Dynamic Capabilities Theory.

## Conclusion

This study finds that organizational performance in MSMEs is more strongly associated with organizational agility and employee engagement, while responsible leadership does not show a significant direct effect on performance but relates to

internal psychological conditions. Psychological safety does not directly influence performance, indicating that its role is supportive rather than determinative. These results suggest that performance in MSMEs is more closely linked to adaptive capability and active employee involvement than to leadership influence alone. The main theoretical contribution of this study is to refine the application of Dynamic Capabilities Theory by showing that organizational capabilities and leadership practices require behavioral activation particularly employee engagement to translate into performance outcomes.

#### Implications

The findings imply that MSME leaders should prioritize strengthening organizational agility and fostering employee engagement, as engagement emerges as the most influential mechanism in driving performance. Leadership practices may be more effective when directed toward creating conditions that encourage employee involvement, rather than expecting direct performance impact.

#### Limitations and Future Research

This study is based on a cross-sectional design and perceptual data from a specific MSME context in Jember, which may limit causal interpretation and generalizability. Future research is recommended to use longitudinal designs, include objective performance measures, and expand contextual variables to provide a more comprehensive understanding of organizational performance dynamics.

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## Author contributions

Author 1 led the conceptual development of the study by formulating the research framework and integrating Responsible Leadership, Organizational Agility, and employee psychological mechanisms within a Dynamic Capabilities perspective, as well as designing the methodological approach, conducting data collection, and performing SEM-PLS analysis. Author 2 contributed through critical intellectual input by refining the theoretical positioning of the study, particularly in strengthening the linkage between leadership ethics, organizational agility, and behavioral mechanisms, as well as reviewing the statistical interpretation and enhancing the discussion to better articulate the study's theoretical contribution. Both authors collaboratively contributed to the development of the manuscript, critically reviewed its content, and approved the final version, taking full responsibility for the integrity and accuracy of the work.

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