

Performance Improvement Strategy via Talent Management and Employee Retention in Jakarta MSMEs

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Abstract

Purpose: This study aims to analyze the influence of Business Reputation, Leadership, and Organizational Justice on Talent Management Strategies, Employee Retention, and MSME Performance Strategies, while examining the mediating roles of Talent Management Strategies and Employee Retention..

Research Methodology: A quantitative approach was employed using data from 189 MSMEs selected through purposive sampling. The data were analyzed using SPSS and Smart PLS 3 to test both direct and indirect relationships among variables.

Results: Findings indicate that Business Reputation significantly affects Talent Management Strategies ($p = 0.000$), Employee Retention ($p = 0.026$), and MSME Performance ($p = 0.000$). Leadership shows no significant effect on any dependent variable, while Organizational Justice significantly influences Talent Management Strategies ($p = 0.008$) but not Employee Retention or MSME Performance. Indirectly, Talent Management Strategies mediate the effects of Business Reputation and Organizational Justice on Employee Retention, whereas Employee Retention does not mediate the effect of the main variables on performance. However, a combined mediation of Talent Management Strategies and Employee Retention significantly links Business Reputation to MSME Performance ($p = 0.036$). Novelty indicators reveal that business governance and ethics strongly represent Business Reputation, with loadings of 0.931 and 0.944.

Conclusions: Business Reputation and Organizational Justice are key drivers of Talent Management Strategies and Employee Retention, whereas Leadership plays an insignificant role.

Limitations: The study is limited to Indonesian MSMEs and cross-sectional data.

Contribution: It contributes by emphasizing ethical governance and fairness as essential elements in improving MSME talent retention and performance.

Keywords: *Business Reputation, Employee Retention, Leadership, MSME Performance, Organizational Justice, Talent Management Strategies*

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the cornerstone of Indonesia's economy, representing 99% of all businesses, contributing 60.5% to GDP, and employing 96.9% of the national workforce (Kemenko Perekonomian, 2022). Despite their vital role, MSMEs continue to face

challenges in sustaining performance, retaining talent, and managing fairness in the workplace. The COVID-19 pandemic intensified these problems, with 77% experiencing revenue declines and 97% losing asset value. As the sector recovers, maintaining employee commitment and developing effective talent management strategies become essential for competitiveness.

Previous studies have explored the influence of business reputation (Abidin, Majid, & Hamid, 2023), leadership (Hermawati, Suhermin, & Puji, 2019; Suwanto, Sunarsi, & Achmad, 2022), and organizational justice (Abbas & Kumari, 2023; Park & Kim, 2023; Zeb, Rehman, Arsalan, & Khan, 2021) on firm performance. However, most have treated these factors separately, overlooking their integrated effects through talent management and employee retention (Baharin & Hanafi, 2018; Farndale, Agarwal, & Budhwar, 2022).

This study addresses these empirical gaps by developing a comprehensive model that links business reputation, leadership, and organizational justice to MSME performance through talent management and employee retention. The novelty lies in introducing a governance-based dimension of business reputation, rarely applied in MSME contexts, offering theoretical enrichment and strategic insights to enhance inclusive talent development and long-term competitiveness in DKI Jakarta.

1.1 Research Questions

Based on the identification and limitation of the problems discussed earlier, this study is designed to address several key research questions concerning the influence of Business Reputation, Leadership, and Organizational Justice on Talent Management, Employee Retention, and Business Performance Strategies of MSMEs in the Province of DKI Jakarta. The research questions are formulated as follows:

1. Does *Business Reputation* (X1) have a significant effect on *Talent Management* (Z1) among MSMEs in the Province of DKI Jakarta?
2. Does *Business Reputation* (X1) have a significant effect on *Employee Retention* (Z2) among MSMEs in the Province of DKI Jakarta?
3. Does *Leadership* (X2) have a significant effect on *Talent Management* (Z1) among MSMEs in the Province of DKI Jakarta?
4. Does *Leadership* (X2) have a significant effect on *Employee Retention* (Z2) among MSMEs in the Province of DKI Jakarta?
5. Does *Organizational Justice* (X3) have a significant effect on *Talent Management* (Z1) among MSMEs in the Province of DKI Jakarta?
6. Does *Organizational Justice* (X3) have a significant effect on *Employee Retention* (Z2) among MSMEs in the Province of DKI Jakarta?
7. Does *Talent Management* (Z1) have a significant effect on *Employee Retention* (Z2) among MSMEs in the Province of DKI Jakarta?
8. Does *Employee Retention* (Z2) have a significant effect on *Business Performance Strategies* (Y) among MSMEs in the Province of DKI Jakarta?
9. Does *Talent Management* (Z1) have a significant effect on *Business Performance Strategies* (Y) among MSMEs in the Province of DKI Jakarta?
10. Does *Business Reputation* (X1) have a significant effect on *Business Performance Strategies* (Y) among MSMEs in the Province of DKI Jakarta?
11. Does *Leadership* (X2) have a significant effect on *Business Performance Strategies* (Y) among MSMEs in the Province of DKI Jakarta?
12. Does *Organizational Justice* (X3) have a significant effect on *Business Performance Strategies* (Y) among MSMEs in the Province of DKI Jakarta?

2. Literature review and hypotheses development

2.1 Business Reputation and Talent Management

Leadership is widely recognized as a decisive factor in employee retention, as supportive and Business reputation refers to the perception and image held by employees, customers, business partners, and the public regarding an organization. A positive reputation is built through product quality, corporate integrity, customer relations, and social responsibility (Dacko-Pikiewicz, 2022; Silva & Dias, 2023; Šontaitė-Petkevičienė, 2019). Meanwhile, talent management is a planned approach to attract, develop,

motivate, and retain talented employees (Armstrong & Taylor, 2023; Christopher & Devi, 2022; Igweh & Kifordu, 2022). Empirical evidence by Silva and Dias (2023) revealed a significant relationship between business reputation and talent management ($p = 0.003 < 0.05$), supported by Dai, Feng, Kang, Wang, and Sun (2022) who found a positive and significant influence ($p < 0.05$). Furthermore, Soeling, Arsanti, and Indriati (2022) emphasized that reputation enhances business partnerships and employer attractiveness. Therefore, it is hypothesized that:

H1: Business Reputation has a positive and significant effect on Talent Management among MSMEs in DKI Jakarta

2.2 Business Reputation and Employee Retention

The relationship between Business Reputation and Employee Retention is fundamental in human resource management, particularly within micro, small, and medium enterprises (MSMEs). Business Reputation reflects how an organization is perceived by employees, customers, business partners, and society. A strong reputation is built through product and service quality, corporate integrity, social responsibility, and positive stakeholder relationships. Meanwhile, Employee Retention refers to an organization's efforts to retain existing employees, sustain long-term contribution, and minimize turnover rates (Kumar, 2022).

The linkage between Business Reputation and Employee Retention is shaped by social and environmental support, emotional attachment, pride in company values, inspiring leadership, and a positive work climate all of which reduce turnover and enhance loyalty (Biaison, 2020; Deniz, 2020). Moreover, Corporate Social Responsibility (CSR) a vital component of Business Reputation has been empirically proven to influence talent management and retention. Zainee and Puteh (2020) found a positive and significant effect of CSR on talent management ($p = 0.001 < 0.05$), while Bharadwaj and Yameen (2021) reported a significant positive impact of CSR on employee retention ($\beta = 0.18$, $t = 2.18$, $p = 0.01 < 0.05$). Similarly, Cachón-Rodríguez, Blanco-González, Prado-Román, and Del-Castillo-Feito (2022) demonstrated that SHRM practices, as part of talent management, indirectly affect employee retention through social capital a key dimension of business reputation.

H2: Business Reputation has a positive and significant effect on Employee Retention among MSMEs in the Province of DKI Jakarta

2.3 Leadership and Talent Management

The relationship between Leadership and Talent Management is profoundly interlinked, as effective leadership plays a critical role in designing, implementing, and sustaining strategies for managing organizational talent. Visionary leaders are essential in formulating effective talent strategies that align with organizational objectives, workforce needs, and labor market dynamics. Leaders who clearly communicate these strategies foster employee alignment and commitment. Moreover, leadership transforms strategic intentions into actionable initiatives that drive talent attraction, development, and retention (Armstrong & Taylor, 2023).

A developmental culture is nurtured by leaders who value continuous learning, innovation, and empowerment. Effective leaders also monitor and evaluate talent initiatives to ensure employee growth and optimize organizational investment (Baharin & Hanafi, 2018; Christopher & Devi, 2022). Empirical studies support this theoretical view: leadership has a positive and significant effect on talent management strategies (A. D. Dwipayana, Darmayanti, & Wijonarko, 2023; Kafetzopoulos, 2024), with statistical evidence showing p -values < 0.005 . Conversely, talent management practices also strengthen leadership effectiveness, as reported by Ford and Harding (2021); Hammadi and Noor (2020), where statistical results range between $p = 0.001-0.003 < 0.005$.

H3: Leadership has a positive and significant effect on Talent Management among MSMEs in the Province of DKI Jakarta

2.4 Leadership dan Employee Retention

Leadership plays a strategic role in determining the success of organizations, particularly in retaining competent employees. Many micro, small, and medium enterprises (MSMEs) in Jakarta experience high employee turnover due to a lack of managerial support, limited career development opportunities,

and weak emotional attachment to the organization. This phenomenon reveals a research gap, as leadership has often been overlooked as a central determinant of employee retention in small business contexts. Therefore, this study offers novelty by empirically testing the influence of leadership on employee retention among MSMEs in DKI Jakarta.

Strong leadership fosters a supportive and inclusive culture where employees feel valued, motivated, and committed to the organization. Empirical studies have confirmed that effective leadership significantly improves employee retention (Bakker, Hetland, Olsen, & Espevik, 2023; Huertas-Valdivia, González-Torres, & Nájera-Sánchez, 2022; Morf & Bakker, 2024; Rafique et al., 2022) with p-values below 0.005. Similarly Febrian, Rajab, and AR (2023); Qalati, Zafar, Fan, Limón, and Khaskheli (2022) reported that leaders who provide trust, recognition, and empowerment strengthen employees' emotional attachment ($p = 0.000 < 0.005$). Moreover, leadership substantially reduces turnover intention through a positive work climate and psychological empowerment (I. K. Dwipayana & Suwandana, 2021; Iqbal, Asghar, & Asghar, 2022; Jha, 2019; Romão, Ribeiro, Gomes, & Singh, 2022; Saleh, Mehmood, Khan, & Jan, 2022; Tian et al., 2020; Xuecheng, Iqbal, & Saina, 2022). Thus, it is hypothesized that:

H4: Leadership positively influences employee retention among MSMEs in DKI Jakarta

2.5 Organizational Justice and Talent Management

Organizational justice plays a foundational role in shaping effective talent management strategies, reflecting how fairness principles influence employee motivation, engagement, and retention. In the competitive landscape of MSMEs in DKI Jakarta, many organizations face challenges in maintaining employee commitment due to perceived unfairness in recognition, promotion, and development opportunities. This phenomenon reveals a research gap since the integration of fairness principles into talent management remains underexplored in small enterprise contexts. Thus, this study introduces novelty by empirically examining the relationship between organizational justice and talent management within MSMEs.

Organizational justice comprises distributive, procedural, and interactional dimensions. Fair treatment in compensation, promotions, and recognition encourages employees to stay motivated and loyal (Byrd & Sparkman, 2022; Hermanto & Srimulyani, 2022). Transparent communication and honest managerial interactions also enhance employees' trust and engagement (Nazir, Shafi, Atif, Qun, & Abdullah, 2019). Empirical evidence supports that fairness significantly influences talent management strategies (Gohar & Qureshi, 2021; Madurani & Pasaribu, 2022; Pattnaik & Tripathy, 2023) with statistical significance values ranging between $p(0.000-0.03) < 0.005$.

Moreover, organizational justice improves employee performance, engagement, and organizational trust (Mubashar, Musharraf, Khan, & Butt, 2022; Onyango, Egessa, & Ojera, 2022) while preventing dissatisfaction and turnover. Therefore, respecting justice principles strengthens talent management effectiveness and organizational sustainability.

H5: Organizational Justice positively influences Talent Management among MSMEs in DKI Jakarta

2.6 Organizational Justice and Employee Retention

Organizational justice is a crucial determinant of employee retention, as perceptions of fairness strongly influence employees' commitment and intention to remain within an organization (Gohar & Qureshi, 2021; Gupta & Singh, 2018; Madurani & Pasaribu, 2022). The concept refers to employees' perceptions of fair and equitable treatment in areas such as rewards, decision-making, and interpersonal interactions. The dimensions of distributive, procedural, and interactional justice each play distinct yet complementary roles in shaping employees' attachment to their organizations (Beyene et al., 2021; Deepak, 2021; Hyder et al., 2022).

Empirical studies have revealed that organizational justice positively affects employee engagement, organizational commitment, and turnover intention (Choi & Shin, 2022; Mulang, 2022; Pattnaik & Tripathy, 2023). Furthermore, it enhances knowledge sharing, innovative behavior, and overall work

performance (Akram et al., 2020). These findings demonstrate that fairness in organizational systems not only sustains employee motivation but also fosters a culture of loyalty and trust. Statistical analyses from multiple studies show significant results within the range of $p(0.000-0.004) < 0.005$, confirming that higher perceptions of justice lead to stronger employee retention. When employees believe that their organization values fairness, they are less likely to pursue external opportunities.

H6: Organizational Justice positively influences Employee Retention among MSMEs in DKI Jakarta

2.7 Talent Management and Employee Retention

The relationship between talent management and employee retention is deeply interconnected, as effective talent management strategies directly influence employees' decisions to remain within an organization. Talent management encompasses the identification, development, and retention of high-potential employees, creating a sense of recognition and belonging that strengthens organizational commitment. When organizations provide structured career development programs and growth opportunities, employees are more motivated to stay, perceiving their future as aligned with the company's vision (Ramaditya, Maarif, Affandi, & Sukmawati, 2022; Sabir & Ahmad, 2022).

Empirical evidence demonstrates that talent management significantly and positively affects employee retention, with statistical results showing p-values between 0.000 and 0.005 (Agarwal, 2018; Amushila & Bussin, 2021; Ekhsan & Taopik, 2020; Ismail, Ka, Fern, & Imran, 2021; Madurani & Pasaribu, 2022) (Agarwal, 2020; Al-Suraihi et al., 2021; Amushila & Bussin, 2021; Davern, 2021; Dina Noval Madurani1, 2022; Ekhsan & Taopik, 2020; Ismail et al., 2021; Srimulyani, 2020). Beyond retention, talent management also influences turnover intention (Al-Suraihi, Samikon, Al-Suraihi, & Ibrahim, 2021; Barkhuizen & Gumede, 2021), intention to stay (Bonneton, Schworm, Festing, & Muratbekova-Touron, 2022), employee engagement (Ekhsan & Taopik, 2020; Srimulyani, 2020), job satisfaction, and overall performance (Marinakou & Giousmpasoglou, 2019). Thus, a robust talent management system fosters a supportive and developmental environment, reducing turnover and enhancing employee loyalty.

H7: Talent Management positively influences Employee Retention among MSMEs in DKI Jakarta

2.8 Employee Retention and MSME Performance Strategy (Y)

The relationship between employee retention and MSME performance strategy is essential and mutually reinforcing. High employee retention enables MSMEs to retain experienced workers who possess deep knowledge of business operations. Employees who remain in the organization tend to have a better understanding of internal processes and customer needs, thereby enhancing efficiency and service quality (Singh, 2019). Moreover, strong retention minimizes turnover costs and reduces the time and resources required for recruitment, training, and onboarding. Trained and experienced employees generally exhibit higher productivity (Cerutti, Macke, & Sarate, 2020; Kafetzopoulos & Gotzamani, 2022; Murtiningsih, 2020).

Empirical studies confirm that employee retention significantly influences MSME performance, with p-values ranging from 0.000 to 0.03 (< 0.005), indicating a robust relationship (Bikefe & Daniel, 2022; Idris, Saridakis, & Johnstone, 2023). Retention contributes positively to operational efficiency, product and service quality, innovation, and the overall reputation of MSMEs (Kitchot, Siengthai, & Sukhotu, 2021; Mukson, Hamidah, & Prabuwono, 2021; Utomo et al., 2023). In summary, effective employee retention strategies strengthen employee loyalty, enhance organizational stability, and drive sustainable business performance. Based on the literature and empirical evidence, the following hypothesis is proposed:

H8: Employee Retention has a positive effect on MSME Performance Strategy (Y)

2.9 Talent Management and MSME Performance Strategy (Y)

Talent management exerts a significant influence on MSME performance strategy (Dewi, Wibowo, & Nadifah, 2022). The effective implementation of talent management practices can yield substantial positive effects on overall business performance. MSMEs that adopt systematic talent management

approaches are better able to identify potential talents within their teams (Baderan, Lantowa, Makur, & Idji, 2025; Christopher & Devi, 2022), foster innovation and creativity by encouraging fresh ideas from employees (Igweh & Kifordu, 2022), and develop skills and competencies relevant to their roles (Armstrong & Taylor, 2023). Moreover, aligning employees with positions that suit their expertise and interests enhances motivation and engagement (Mujtaba & Mubarik, 2022). Development and training programs within talent management also improve productivity and retention by supporting employee growth and well-being (Barkhuizen & Gumede, 2021; Shet, 2020).

Empirical evidence shows that talent management significantly affects various aspects of MSME performance (Čizmić & Ahmić, 2021). Statistical analyses reveal positive and significant relationships, with p-values ranging from 0.000 to 0.005 (< 0.005). By leveraging employee potential and fostering a supportive and motivating work environment, MSMEs can improve quality, efficiency, and competitiveness (Almohtaseb, Shaheen, Alomari, & Yousef, 2020; Bagorogoza & Nakasule, 2022; Bouteraa & Bouaziz, 2023; Kafetzopoulos & Gotzamani, 2022; Nurfadilah, Samidi, & Daryanto, 2022; Widodo & Mawarto, 2020).

H9: Talent Management has a positive effect on MSME Performance Strategy (Y)

2.10 Business Reputation and MSME Performance Strategy (Y)

Business reputation refers to the perception and image held by society, customers, and other stakeholders regarding a company's behavior, ethics, product quality, and customer relations. A positive reputation enhances customer trust, loyalty, and stakeholder confidence, which ultimately contributes to improved organizational performance. Meanwhile, the Performance Improvement Strategy of Micro, Small, and Medium Enterprises (MSMEs) represents the plans and actions designed to enhance overall performance. These strategies encompass operational efficiency, marketing and branding initiatives, financial management, product innovation, and customer service improvement. The ultimate goal is to increase productivity, profitability, and competitiveness within dynamic market environments.

Empirical evidence strongly supports the significant relationship between business reputation and MSME performance strategies. Research by Nursetiana, Hanifah, and Ismawati (2022) reported a statistical significance of $p(0.000) < 0.005$, while Febrianti and Abdullah (2022) found a similar result of $p(0.003) < 0.005$. Studies conducted by Chege and Wang (2020); Jalil, Ali, and Kamarulzaman (2022) also revealed highly significant effects, with $p(0.000) < 0.005$. Further confirmation was provided by Blommerde-Winters (2022) with $p(0.004) < 0.005$, and Savitri, DP, and Syahza (2021) with $p(0.000) < 0.005$. These findings collectively indicate that a strong business reputation enhances MSME performance by building customer trust, sustaining loyalty, and reinforcing market competitiveness. Therefore, a positive reputation functions as a strategic intangible asset essential for long-term organizational success.

H10: Business Reputation positively influences Performance Improvement Strategy (Y) among MSMEs in DKI Jakarta Province

2.11 Leadership and MSME Performance Strategy (Y)

The positive and significant relationship between Leadership and MSME Performance Strategy indicates a strong and meaningful connection between leadership styles within an organization and the strategies implemented to enhance the performance of Micro, Small, and Medium Enterprises (MSMEs). In this context, Leadership refers to the role and leadership style adopted by managers or leaders in MSMEs. A positive influence implies that the more effective the leadership style applied, the greater the potential to generate positive impacts on MSME performance strategies. Effective leaders can influence the selection and implementation of performance strategies that encompass product and service innovation, human resource management, marketing, and operations. Thus, strong leadership and well-designed MSME performance strategies can complement each other and contribute significantly to organizational growth and competitiveness.

Empirical evidence supports this positive and significant relationship, as demonstrated in previous studies (Alkhazraji, 2022; Febrianti & Abdullah, 2022; Herlina, Tukiran, & Anwar, 2021; Suwanto et al., 2022). Statistical analyses from these studies consistently reveal significance levels between

$p(0.000-0.004) < 0.005$, confirming that leadership exerts a positive and significant effect on MSME performance strategies.

H11: Leadership has a positive effect on MSME Performance Strategy (Y) among MSMEs in DKI Jakarta Province

2.12 Organizational Justice and MSME Performance Strategy (Y)

The positive and significant relationship between Organizational Justice and MSME Performance Strategy indicates a strong and meaningful link between the perceived fairness within an organization and the strategies implemented to enhance the performance of Micro, Small, and Medium Enterprises (MSMEs). In this context, Organizational Justice refers to employees' perceptions regarding the fairness of decision-making, resource allocation, recognition, and promotion processes. A positive influence suggests that the higher the level of perceived fairness, the greater the likelihood of achieving effective MSME performance strategies (Gumay & Syarif, 2025).

Perceived organizational justice fosters trust, motivation, and commitment, encouraging employees to contribute optimally and align with organizational goals. Fairness in managerial practices can enhance innovation, efficiency, and productivity key elements of MSME performance improvement. When the relationship is also statistically significant, it confirms that the link between organizational justice and MSME performance strategy is not coincidental but empirically supported. Empirical findings from prior studies (Đorđević, Ivanović-Đukić, Lepojević, & Milanović, 2019; Iqbal et al., 2022; Kafetzopoulos & Gotzamani, 2022) report significance values ranging from $p(0.000-0.004) < 0.005$, reinforcing that organizational justice positively and significantly affects MSME performance strategies.

H12: Organizational Justice has a positive effect on MSME Performance Strategy (Y) among MSMEs in DKI Jakarta Province

Based on the theoretical framework and previous empirical studies, a conceptual framework is developed to illustrate the causal relationships among the main variables, namely Organizational Justice, Talent Management Strategies, Employee Retention, and MSME Performance Strategies in the Province of DKI Jakarta.

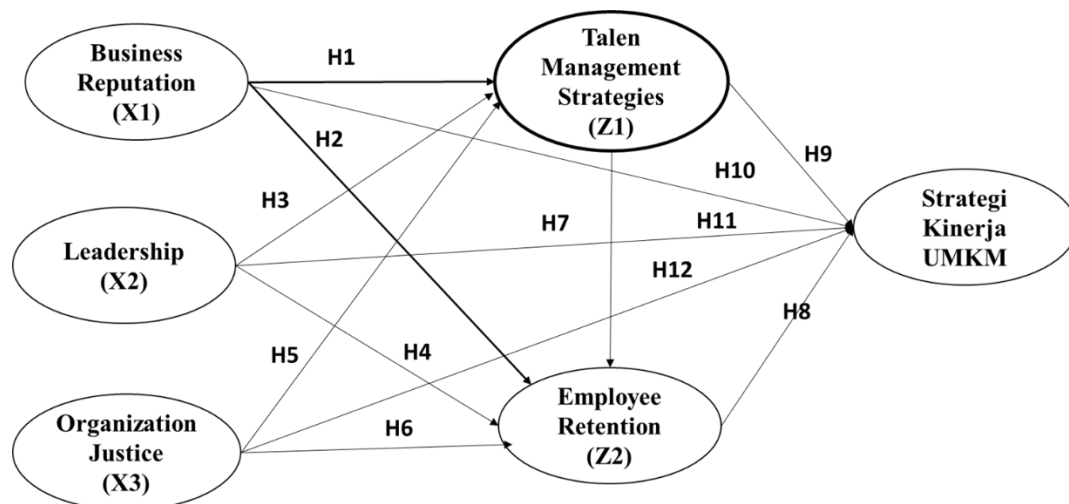


Figure 1. Conceptual Framework
Source: Processed by Researchers (2025)

3. Methodology

This study was conducted over eight months, from September 2023 to August 2024, involving Micro, Small, and Medium Enterprises (MSMEs) across the DKI Jakarta Province. Employing a quantitative design, the research analyzed relationships among variables using numerical data through Structural Equation Modeling (SEM). The total population consisted of 1,151,080 MSMEs, from which 189 samples were determined using sampling formula and (Hair, Ringle, & Sarstedt, 2013)

recommendations. Cluster and accidental sampling techniques were applied to ensure proportional representation across six administrative regions. Data were collected through structured questionnaires distributed to legally registered MSMEs with at least ten employees.

4. Results and discussions

4.1 Results

4.1.1 Measurement Model

The results of the second loading factor test indicate that all indicators in the research model meet the criteria for convergent validity, with standardized loading factor values exceeding 0.70. Moreover, the model fit indices demonstrate an acceptable level of goodness-of-fit, as the values of Chi-square/df, GFI, AGFI, CFI, TLI, and RMSEA fall within the recommended thresholds. These findings confirm that the measurement model is statistically sound, valid, and appropriate for further structural analysis. The detailed measurement results are presented in the following table and figure.

Table 1. Fit Indicators

Coding	Variable	Measurement Item (Likert Scale)	LF
X142	Bussiness Reputation (X1)	The organization effectively builds mutually beneficial partnerships with external stakeholders.	0.912
X151		The organization communicates relevant performance and operational information transparently to stakeholders.	0.931
X152		To what extent do you agree that the current organizational structure supports smooth workflow and effective coordination among work units?	0.944
X161		Leaders consistently engage in activities that contribute to the well-being of others.	0.955
X162		The organization implements policies that promote environmental sustainability and minimize negative impacts.	0.920
X171		Corporate initiatives improve public access to essential services.	0.948
X172		Corporate programs provide communities with opportunities to enhance income and economic well-being	0.916
X181		The organization enforces clear policies to prevent conflicts of interest.	0.942
X182		The compensation system ensures fairness and equity among all employees.	0.915
X191		Opportunities for promotion and salary increases are based on employee performance and competence	0.923
X192		The organization provides sufficient flexibility for employees to balance work and personal life	0.716
X211	Leadership (X2)	A clear vision encourages innovation and motivation within the team	0.930
X212		Employees are able to inspire colleagues to pursue shared goals through a clear vision.	0.766
X221		The individual communicates information in a clear and understandable manner.	0.936
X222		The employee provides constructive and helpful feedback to enhance understanding.	0.959
X231		The employee considers the moral implications of their actions toward others and the environment.	0.931
X232		I demonstrate honesty and consistency between my words and actions.	0.965
X241		The employee collects relevant information before making decisions	0.947
X311	Organization Justice(X3)	I believe the distribution of rewards among employees in this company is fair and equitable	0.887
X312		I feel that the salary and incentives do not fairly reflect my contributions to the company.	0.906
X321		I believe resource allocation in this company is conducted fairly and proportionally	0.890
X322		I feel that decision-making processes in this company are transparent and participatory.	0.838
X331		I am given opportunities to express my opinions and provide feedback in this compa	0.903

X332		I believe company policies and procedures are applied consistently and fairly	0.915
X341		I am treated with respect and dignity in the workplace.	0.934
X342		Communication about decisions and organizational changes is clear and open.	0.905
X351		I feel valued and appreciated by management and colleagues in this company.	0.931
X352		My contributions are recognized and appreciated by the organization.	0.917
X361		My efforts and resources devoted to the organization are fairly acknowledged and rewarded.	0.945
X362		Information regarding company policies is communicated clearly and in a timely manner.	0.905
Z131	Talent Managemen t (Z1)	My personal values are aligned with the organizational culture and values.	0.921
Z132		Communication within the organization is open and highly effective.	0.928
Z141		The company effectively identifies and develops internal talents for future leadership roles	0.937
Z142		The proportion of employees being prepared for key future positions remains relatively low.	0.912
Z151		I am highly satisfied with my job, work environment, and company policies.	0.918
Z152		My level of engagement in job responsibilities within this company is relatively low.	0.912
Z161		Performance monitoring and evaluation are effectively implemented within this company.	0.926
Z162		Performance development programs effectively enhance employee performance.	0.917
Z171		The working hours in this company allow employees to maintain a healthy work-life balance.	0.884
Z172		Employees experience high levels of stress and anxiety in maintaining work-life balance.	0.923
Z181		Rewards provided to employees are consistent with their performance and contributions.	0.881
Z182		Employee achievements are regularly recognized and appreciated by the organization.	0.911
Z191		Gender balance across organizational levels reflects efforts to eliminate inequality	0.920
Z192		The company provides equal career development and promotion opportunities for all employees.	0.895
Z211	Talent Managemen t (Z1)	My participation in company training and development programs effectively enhances my competencies and skills	0.800
Z212		Career advancement opportunities in this company align with my expectations and efforts.	0.905
Z221		My career in this company contributes to my sense of job stability and peace of mind.	0.896
Z222		I feel confident about my career development opportunities within this company.	0.655
Z231		I feel secure and confident about the continuity of my employment in this company.	0.741
Z241		The company practices open and transparent communication with employees.	0.885
Z242		I feel adequately supported by company management in performing my duties.	0.880
Z251		The level of stress I experience in the workplace is relatively high.	0.849
Z252		I am psychologically satisfied with my overall job conditions in this company	0.814
Z261		I feel personally identified with the company's culture.	0.894
Z262		My personal values are consistent with the organization's values.	0.903
Z271		My overall job satisfaction in this company is relatively low.	0.900

Z272		I feel that job demands are not well balanced with my personal preferences.	0.920
Z281		I have maintained a positive relationship with my supervisor.	0.802
Z282		I receive sufficient managerial support in performing my job responsibilities	0.895
Z291		I perceive clear internal promotion opportunities within this company	0.892
Z292		I believe that training opportunities are available to support my self-development	0.923
Y22	MSME Performance Strategy (Y)	I believe the company's productivity ratio is significantly high.	0.900
Y31		A considerable number of new ideas have been successfully implemented in this company.	0.902
Y61		The company's order-to-delivery response time is slightly faster than that of competitors.	0.610
Y62		The company maintains excellent relationships and performance with existing customers.	0.662
Y71		Customers frequently return to purchase the company's products or services.	0.698

Source: Processed by Researchers (2025)

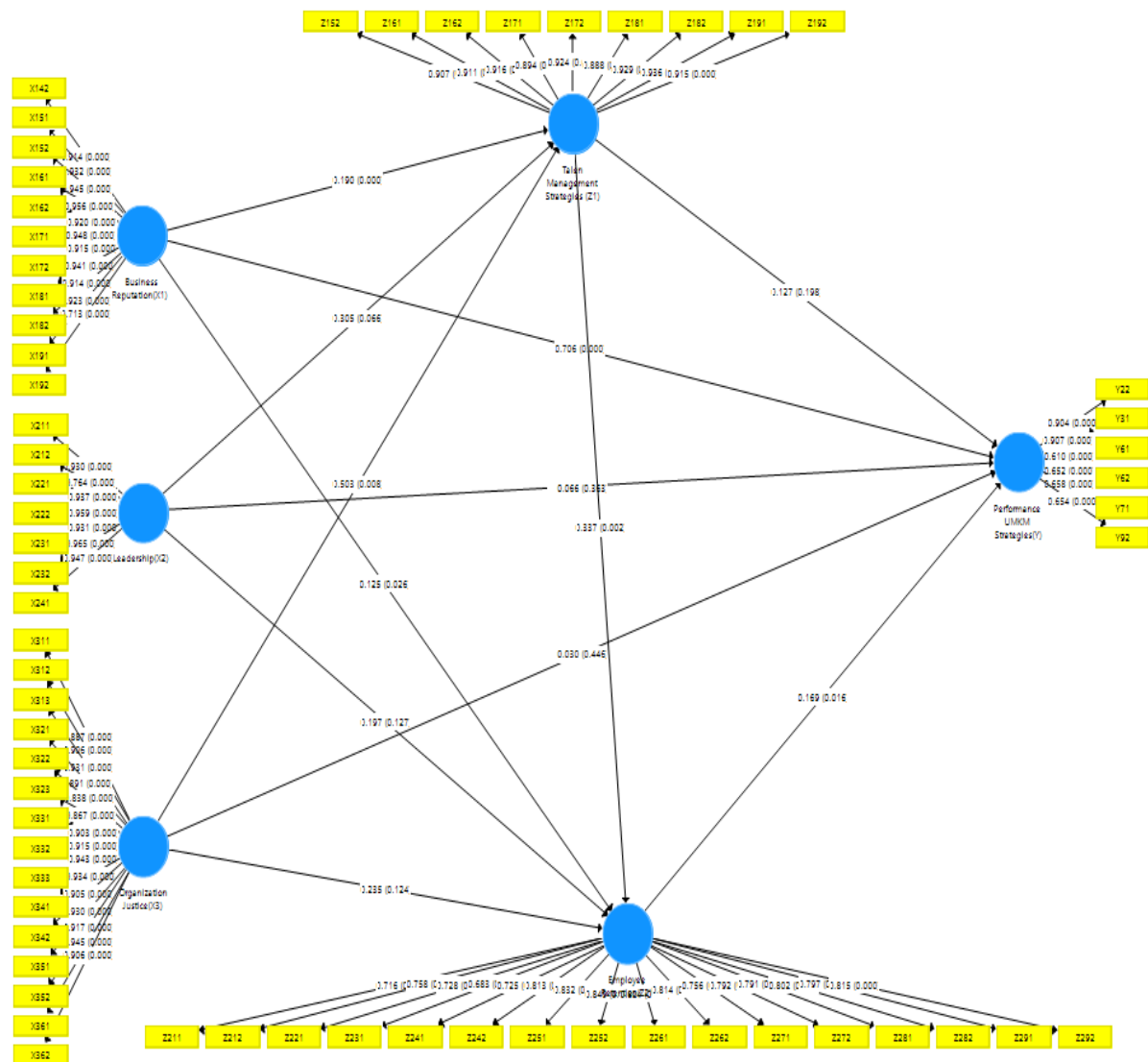


Figure 2. Fathom Diagram of the Second Estimated Factor Loading
Source: Smart PLS 3 Output Diagram

Based on Figure. 2 and Table 1, except for indicators Z222, Y61, Y62, and Y71, all measurement items demonstrate loading factors exceeding 0.70, meeting the threshold for convergent validity. Although a few indicators have values slightly above 0.60, they are still acceptable for further analysis (Handoyo, Samian, Syarifah, & Suhariadi, 2018). The Business Reputation (X1) variable shows the highest loading factor of 0.955 for Corporate Social Responsibility (X122), indicating strong representation of the construct, while the lowest value of 0.766 remains acceptable. Similarly, Leadership (X2) presents consistently high loadings above 0.90, particularly on communication skills and ethical decision-making, suggesting high internal consistency.

Organizational Justice (X3) exhibits loadings between 0.838 and 0.945, reflecting substantial contributions from distributive, procedural, and interactional justice dimensions. Talent Management (Z1) also records strong loadings above 0.90, indicating that job security, cultural compatibility, and career growth significantly represent the construct. Employee Retention (Z2) maintains an average loading factor above 0.80, despite one lower indicator (Z222 = 0.655), and still reflects acceptable validity. Meanwhile, MSME Performance Strategy (Y) retains valid indicators, with Y22 (0.900) and Y31 (0.902) showing the strongest influence. These results confirm that all constructs possess strong convergent validity and can be used reliably for further structural analysis.

4.1.2 Composite Reliability (CR) and Average Variance Extracted (AVE)

Composite Reliability (CR) and Average Variance Extracted (AVE) were evaluated to ensure construct reliability and convergent validity. CR measures internal consistency, while AVE assesses the degree to which items reflect their underlying constructs. Threshold values of $CR \geq 0.70$ and $AVE \geq 0.50$ indicate acceptable reliability and validity (Handoyo et al., 2018).

Table 2. Composite Reliability (CR) and Average Variance Extracted (AVE) Test Results

Construct	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Business Reputation (X1)	0.980	0.984	0.982	0.834
Employee Retention (Z2)	0.958	0.960	0.962	0.713
Leadership (X2)	0.970	0.978	0.975	0.849
Organizational Justice (X3)	0.985	0.985	0.986	0.825
MSME Performance Strategy (Y)	0.834	0.917	0.877	0.749
Talent Management Strategies (Z1)	0.985	0.985	0.986	0.834

Source: Smart PLS 3 Output Diagram (2025)

All constructs exceed reliability and validity thresholds. Business Reputation (X1), Organizational Justice (X3), and Talent Management (Z1) show the highest CR and AVE values, indicating strong internal consistency and convergent validity. These constructs represent key novelty elements that contribute significantly to theoretical and practical understanding of performance improvement in MSMEs.

4.1.3 Discriminant Validity Analysis

Discriminant validity was assessed using three main criteria: Fornell–Larcker criterion, cross-loadings, and the Heterotrait-Monotrait Ratio (HTMT). The Fornell–Larcker criterion compares the square root of AVE values with inter-construct correlations.

Table 3. Fornell–Larcker Criterion

Construct	Business Reputation (X1)	Employee Retention (Z2)	Leadership (X2)	Organizational Justice (X3)	MSME Performance Strategy (Y)	Talent Management Strategies (Z1)
Business Reputation (X1)	0.913					
Employee Retention (Z2)	0.557	0.783				

Leadership (X2)	0.491	0.781	0.921			
Organizational Justice (X3)	0.546	0.789	0.914	0.908		
MSME Performance Strategy (Y)	0.829	0.788	0.495	0.907	0.741	
Talent Management Strategies (Z1)	0.643	0.702	0.479	0.802	0.630	0.913

Source: Smart PLS 3 Output Diagram(2025)

The Fornell–Larcker results indicate that the square root of AVE for each construct exceeds its correlations with other constructs, confirming sufficient discriminant validity (Handoyo et al., 2018).

Table 4. Heterotrait-Monotrait Ratio (HTMT)

Construct	Business Reputation (X1)	Employee Retention (Z2)	Leadership (X2)	Organizational Justice (X3)	MSME Performance (Y)
Business Reputation (X1)	—				
Employee Retention (Z2)	0.563	—			
Leadership (X2)	0.496	0.772	—		
Organizational Justice (X3)	0.554	0.786	0.981	—	
MSME Performance (Y)	0.842	0.616	0.513	0.561	—
Talent Management Strategies (Z1)	0.650	0.794	0.890	0.916	0.655

Source: Smart PLS 3 Output Diagram (2025)

According to HTMT analysis, all values are below 1.0, meeting the acceptable threshold (<0.85–0.90), confirming adequate discriminant validity. These results indicate that constructs are distinct, with minimal multicollinearity and no significant overlap, ensuring clear construct differentiation and supporting the model’s discriminant integrity.

4.1.4 Hypothesis Testing

To test the hypotheses, the researchers performed an analysis using the Bootstrapping results of the Path Coefficients. The significance of the relationships was determined based on the criterion that a P-Value < 0.05 indicates a statistically significant effect. Table 5 presents the detailed results of the Bootstrapping analysis for the Path Coefficients.

Table 5. Hypothesis Testing (Path Coefficients and T-Statistics)

Hypothesis	Relationship Between Constructs	Path Coefficient (β)	T Statistics ($ O/STDEV $)	P Values	Result
H1	Business Reputation (X1) -> Talent Management Strategies (Z1)	0.190	4.290	0.000	Significant
H2	Business Reputation (X1) -> Employee Retention(Z2)	0.125	1.969	0.026	Significant
H3	Leadership (X2) -> Talent Management Strategies (Z1)	0.305	1.505	0.066	Not Significant
H4	Leadership (X2) -> Employee Retention(Z2)	0.197	1.141	0.127	Not Significantn
H5	Organization Justice(X3) -> Talent Management Strategies (Z1)	0.503	2.432	0.008	Significantn

H6	Organization Justice(X3) -> Employee Retention(Z2)	0.235	1.155	0.124	Not Significant
H7	Talent Management (Z1) -> Employee Retention(Z2)	0.337	2.882	0.002	Significant
H8	Employee Retention(Z2) -> Strategi Kinerja UMKM(Y)	0.169	2.143	0.016	Significant
H9	Talent Management (Z1) -> Strategi Kinerja UMKM(Y)	0.127	0.85	0.198	Not Significant
H10	Business Reputation (X1) -> Strategi Kinerja UMKM(Y)	0.706	12.205	0.000	Significant
H11	Leadership (X2) -> Strategi Kinerja UMKM(Y)	0.066	0.351	0.363	Not Significant
H12	Organization Justice(X3) -> Strategi Kinerja UMKM(Y)	0.030	0.137	0.446	Not Significant

Source: Smart PLS 3 Output Diagram(2025)

To examine the proposed hypotheses, Bootstrapping analysis was conducted on the path coefficients, with significance determined by p-values below 0.05. Confidence intervals at 95% were also employed to assess the precision of the estimates. The findings reveal that Business Reputation (X1) exerts a significant positive influence on both Talent Management Strategies (Z1) ($\beta = 0.190$, $t = 4.290$, $p < 0.05$) and Employee Retention (Z2) ($\beta = 0.125$, $t = 2.315$, $p < 0.05$), indicating that enhancing business reputation contributes to more effective talent management and improved employee retention. In contrast, Leadership (X2) shows positive but statistically insignificant effects on Z1 ($\beta = 0.305$, $t = 1.505$) and Z2 ($\beta = 0.197$, $t = 1.141$), suggesting that leadership alone does not significantly influence these mediating variables within the SMEs context.

Organization Justice (X3) significantly affects Talent Management Strategies ($\beta = 0.503$, $t = 2.432$, $p < 0.05$), highlighting that fair organizational practices promote strategic talent management. However, its effect on Employee Retention is not significant ($\beta = 0.235$, $t = 1.155$), implying limited direct impact on retaining employees. Furthermore, Talent Management Strategies (Z1) significantly enhance Employee Retention ($\beta = 0.337$, $t = 2.882$, $p < 0.05$), which in turn positively influences SME Performance (Y) ($\beta = 0.169$, $t = 2.143$, $p < 0.05$). Regarding direct effects on SME Performance, Business Reputation (X1) demonstrates a strong significant impact ($\beta = 0.706$, $t = 12.205$, $p < 0.05$), while Leadership (X2) and Organization Justice (X3) do not show statistically significant direct effects. Similarly, Talent Management Strategies (Z1) do not directly affect SME Performance.

Overall, these results emphasize that Business Reputation and Employee Retention are pivotal drivers of SME performance, whereas Leadership and Organization Justice predominantly operate indirectly through mediating variables. The study confirms most hypothesized relationships, particularly those involving reputation and retention, while some effects of leadership and organizational justice were not statistically supported. Mediation variables act as intermediaries explaining how an independent variable influences a dependent variable. Mediation analysis evaluates whether these variables significantly affect such relationships. Indirect effects examined include pathways like Business Reputation \rightarrow Talent Management \rightarrow Employee Retention, Organization Justice \rightarrow Talent Management \rightarrow Employee Retention, and related sequences impacting SME Performance.

The mediation analysis examined the indirect effects of independent variables on dependent variables through mediators such as Talent Management (Z1) and Employee Retention (Z2). The results indicate that Business Reputation (X1) significantly influences Employee Retention (Z2) via Talent Management (Z1) ($\beta = 0.064$, $p = 0.004$) and exerts a significant sequential effect on SME Performance (Y) through Talent Management and Employee Retention ($\beta = 0.011$, $p = 0.036$). Similarly, Organization Justice (X3) significantly affects Employee Retention (Z2) through Talent Management ($\beta = 0.169$, $p = 0.036$), and the indirect pathway of Talent Management (Z1) \rightarrow Employee Retention (Z2) \rightarrow SME Performance (Y) is also significant ($\beta = 0.057$, $p = 0.026$).

In contrast, the indirect effects involving Leadership (X2), as well as several other pathways such as Business Reputation or Organization Justice directly to SME Performance via Employee Retention, were not statistically significant ($p > 0.05$). These findings suggest that while some mediating paths, particularly those involving Business Reputation and Talent Management, contribute meaningfully to enhancing Employee Retention and SME Performance, others do not exhibit significant indirect effects. Overall, the analysis highlights that Talent Management and Employee Retention serve as crucial mediators for certain variables, emphasizing the importance of strategic HR practices and organizational fairness in promoting employee retention and improving SME performance outcomes.

4.1.5 Model Fit Analysis or Goodness of Fit (GoF) Test

The overall evaluation of the model, including both measurement and structural models, is conducted using the Goodness of Fit (GoF) Index. The GoF Index is calculated based on the squared factor loadings and the average R^2 values. According to Wetzels et al. (2009), GoF values can be interpreted as follows: 0.1 (low), 0.25 (medium), and 0.36 (high).

Table 6. Goodness of Fit (GoF) Index

Average Communality	Average R^2	GoF Index
0.750	0.748	0.561

Source: Smart PLS 3 Output Diagram (2025)

The results in Table 6 show a GoF index of 0.561 (0.750×0.748), indicating a high level of model fit. This suggests that the empirical data effectively explains the measurement model, enhancing confidence in the validity, quality, and explanatory power of the model. The GoF category and SRMR (Standardized Root Mean Square Residual) analysis in Smart PLS further assess the model's fit with empirical data. A lower SRMR indicates a better fit, with values below 0.08 recommended and up to 0.10 acceptable.

Table 7. SRMR Test

	Saturated Model	Estimated Model
SRMR	0.098	0.098

Source: Smart PLS 3 Output Diagram (2025)

With an SRMR value of 0.098, the model-data fit remains acceptable, indicating high accuracy in reproducing the correlation matrix. This confirms that the model adequately represents the empirical data. In conclusion, both the GoF index and SRMR results indicate a high model fit, supporting the quality and validity of the model. This high model fit strengthens the reliability of the interpretation and application of the model to empirical data.

4.2 Discussion

The study demonstrates that Business Reputation (X1) significantly influences Talent Management (Z1) and Employee Retention (Z2). SMEs with positive reputations are more successful in attracting, developing, and retaining high-quality talent. Key indicators include professional experience, governance (novelty), CSR, business ethics (novelty), and employee treatment, with factor loadings >0.9 (Dai et al., 2022). Positive business reputation fosters employee loyalty and satisfaction, enhancing retention and supporting SME performance strategies. Transparent governance, active CSR, and ethical practices strengthen pride and engagement, while career development opportunities and work-life balance further promote retention. Talent Management mediates the relationship between Business Reputation and Employee Retention (Bharadwaj & Yameen, 2021).

Indicators of Talent Management organizational culture, succession planning, commitment, performance management, rewards, and equity contribute significantly to reputation and effective talent management. Internal talent identification and performance management help retain skilled human resources, generate competitive advantage, and support SME growth, confirming the positive link

between Business Reputation and Talent Management strategy (Silva & Dias, 2023; Soeling et al., 2022).

Leadership (X2) does not exert a direct significant effect on Talent Management or Employee Retention, likely due to organizational culture, limited resources, and simple structures. Nonetheless, leadership indicators vision and inspiration, communication, integrity and ethics, decision-making show loadings >0.9 and indirectly support a conducive talent development environment (Armstrong & Taylor, 2023). Positive directional effects suggest effective leadership can foster guidance, growth opportunities, and a supportive work environment (Bakker et al., 2023; Huertas-Valdivia et al., 2022; Jha, 2019; Rafique et al., 2022; Tian et al., 2020).

Organizational Justice (X3) significantly affects Talent Management and indirectly influences Employee Retention through mediation. Fairness in distribution, procedures, interactions, inputs, information, and outcomes builds trust, loyalty, engagement, and career development. Empowerment, delegation, and recognition are key contributors, whereas procedural justice and innovation are less influential. Q^2 values for Organizational Justice and Talent Management are 0.798 and 0.806, indicating strong explanatory power. These results align with prior studies emphasizing organizational justice in talent development and retention (Madurani & Pasaribu, 2022; Mubashar et al., 2022; Onyango et al., 2022; Pattnaik & Tripathy, 2023).

Overall, while Leadership and Organizational Justice do not always directly affect Employee Retention, combining effective leadership with fair Talent Management substantially supports SME performance strategies. Talent Management (Z1) strongly influences Employee Retention (Z2), which enhances SME Performance (Y), highlighting the importance of training, career development, and growth opportunities to boost engagement and reduce turnover (Al-Suraihi et al., 2021; Amushila & Bussin, 2021; Ekhsan & Taopik, 2020; Farndale et al., 2022; Ismail et al., 2021; Madurani & Pasaribu, 2022; Srimulyani, 2020).

Although Talent Management does not directly affect SME Performance, its mediated effect via Employee Retention is positive, reinforcing long-term performance (Almohtaseb et al., 2020; Bagorogoza & Nakasule, 2022; Kafetzopoulos & Gotzamani, 2022; Nurfadilah et al., 2022; Widodo & Mawarto, 2020). Business Reputation directly supports SME Performance, while Leadership and Organizational Justice contribute indirectly through Talent Management and Employee Retention (Blommerde-Winters, 2022; Chege & Wang, 2020; Febrianti & Abdulah, 2022; Herlina et al., 2021; Iqbal et al., 2022; Jalil et al., 2022; Savitri et al., 2021; Suwanto et al., 2022).

5. Conclusions

5.1 Conclusion

This study examined the effects of Business Reputation, Leadership, Organizational Justice, Talent Management Strategies, and Employee Retention on SME Performance in DKI Jakarta. The findings indicate that Business Reputation significantly influences Talent Management, Employee Retention, and SME Performance, demonstrating that strong reputation facilitates effective talent strategies and retention, ultimately enhancing organizational performance. Organizational Justice significantly affects Talent Management but not Employee Retention or SME Performance, highlighting its role in promoting fair talent practices. Leadership does not show a direct significant effect on Talent Management, Employee Retention, or SME Performance, suggesting that leadership alone is insufficient in driving these outcomes. Talent Management Strategies significantly impact Employee Retention, while Employee Retention positively influences SME Performance. Mediating analysis reveals that Talent Management mediates the effect of Business Reputation and Organizational Justice on Employee Retention, and Employee Retention mediates the influence of Talent Management on SME Performance. Leadership effects remain largely indirect. Notably, novelty indicators governance and business ethics play a crucial role in strengthening Business Reputation.

5.2 Limitations

Limitations include the study's focus on SMEs in DKI Jakarta, limiting generalizability; cross-sectional design, which may not capture dynamic effects of leadership and organizational justice; and exclusion of external factors such as market conditions and competition.

5.3 Suggestions

Practical suggestions urge SME managers to enhance reputation through branding, CSR, and quality services, and to implement robust talent management and retention strategies. Policymakers should promote fair organizational practices and provide training or incentives to strengthen SME human capital. Future research should expand to diverse regions and sectors, adopt longitudinal designs, consider moderating variables, and develop actionable frameworks for improving SME performance.

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