

THE EFFECT OF COMPETENCY, KNOWLEDGE SHARING ON EMPLOYEE PERFORMANCE BY MEDIATION OF WORK MOTIVATION ON MSMEs IN PALANGKARAYA CITY

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Abstract. *This study investigates the influence of competence and knowledge sharing on employee performance, mediated by work motivation, in micro, small, and medium enterprises (MSMEs) in Palangka Raya. As a crucial pillar of Indonesia's economy, MSMEs play a vital role in employment and regional income. However, many MSMEs in Palangka Raya still face challenges in managing human resources systematically. This research adopts a quantitative associative method with total sampling of 60 MSME employees. Data were collected through questionnaires and analyzed using Partial Least Square Structural Equation Modeling (PLS-SEM). The results are expected to explain both direct and indirect effects of competence and knowledge sharing on employee performance through work motivation as a mediating variable. The study aims to identify key factors that enhance employee performance and to provide practical insights for MSME managers on improving HR practices. This research contributes to the theoretical understanding of human resource management in the MSME sector and offers practical strategies for fostering a more productive and motivated workforce. The findings are anticipated to support MSMEs in developing structured HR development programs to increase competitiveness in an increasingly digital and competitive economic environment.*

Keywords: *Competence; Employee Performance; Knowledge Sharing; MSMEs, Work Motivation*

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a critical role in driving Indonesia's economic growth, particularly in regional areas such as Palangkaraya. These enterprises not only contribute significantly to employment creation but also support community development and local income generation according to Pratiwi et al., (2025). According to data from the Department of Cooperatives and MSMEs in Palangkaraya, thousands of MSMEs are actively operating in sectors such as culinary arts, crafts, and services. However, despite their vital economic role, many MSMEs in the region continue to encounter significant organizational challenges, especially in managing human resources effectively (Amuntai et al., 2024).

One of the primary challenges faced by MSMEs in Palangkaraya is the informal nature of their recruitment and training systems. Most business owners still rely on personal referrals and word-of-mouth to hire employees, and formalized platforms or competency-based assessments are rarely used Salsabila et al., (2023). Furthermore, structured training and employee development programs are often lacking, which leads to inconsistency in employee skills and weak performance management systems. These limitations hinder the systematic improvement of employee competence defined as the integrated set of knowledge, skills, and attitudes required to perform a job effectively. As a result, productivity and performance outcomes vary significantly across enterprises.

In addition to competence, the culture of knowledge sharing and work motivation also plays a vital role in determining employee performance within MSMEs. Knowledge sharing refers to the willingness of employees to communicate, collaborate, and transfer

information and experience with one another. In many MSMEs, this practice remains informal and depends heavily on individual initiative (Mulyati et al., 2022). Meanwhile, work motivation serves as an intrinsic or extrinsic psychological force that influences an employee's level of engagement and productivity Hasrizal & Games, (2023). Studies Hendri et al., (2023) have shown that motivated employees are more likely to apply their competencies effectively and participate in knowledge sharing, leading to improved overall performance. Therefore, investigating the interrelationship between competence, knowledge sharing, work motivation, and employee performance is essential for enhancing the sustainability and competitiveness of MSMEs in Palangkaraya.

2. LITERATURE REVIEW

2.1 Competence

In research Dianti, (2023) Competence includes the ability of employees to perform tasks efficiently, including reliability, knowledge, technical and interpersonal skills, and work attitudes. According to Spencer & Spencer (1993), competence is a critical determinant of individual and organizational performance. In the context of MSMEs in Palangkaraya, strengthening employee competence is essential for improving competitiveness and business sustainability.

Referring to Spencer & Spencer (1993) and Boyatzis (2008), competence can be measured through the following indicators:

- Reliability
- Knowledge
- Technical and non-technical skills
- Work attitude (discipline, responsibility, ethics)
- Interpersonal abilities (communication and teamwork)

2.2 Knowledge Sharing

Knowledge sharing is a process in which experiences, ideas, and important information are shared between employees to improve collaboration and innovation in the workplace. According to Wang & Noe (2010), a strong knowledge sharing culture can improve organizational efficiency and accelerate problem solving. In the context of MSMEs, knowledge sharing often occurs informally through discussions between coworkers, helping each other complete tasks, and sharing solutions to everyday problems. This practice is very important because it can accelerate the transfer of knowledge and skills, thus supporting improved individual and team performance (Arfan & Trisninawati, 2023). With effective knowledge sharing, MSMEs can adapt more quickly to change and increase their competitiveness in the market.

According to Bartol & Srivastava (2002) and Ipe (2003), knowledge sharing indicators include:

- Sharing experiences
- Exchanging ideas
- Collaboration
- Access to relevant information

2.3 Work motivation

Work motivation is an internal or external drive that influences a person to work optimally to achieve organizational goals. According to Erciyas, (2019), work motivation includes the need for achievement, affiliation, power, and recognition. Intrinsic motivation arises from within the individual, such as the desire to develop and achieve, while extrinsic motivation comes from external factors such as awards, salary, or a supportive work environment. In the context of MSMEs, work motivation is very important because it can increase employee enthusiasm, productivity, and loyalty.

Motivated employees tend to be more proactive, responsible, and able to work well together, thus having a positive impact on company performance.

According to McClelland (1961) and Robbins (2006), work motivation indicators include:

- Need for achievement
- Need for affiliation
- Need for power
- Recognition

2.4 Employee performance

Employee performance is measured through several main indicators, namely the quantity and quality of work results, punctuality in completing tasks, and the ability to work together in a team. According to Indratni et al., (2022) , good performance is demonstrated by employees who can meet work targets effectively and efficiently. In a competitive MSME environment, optimal employee performance is a determining factor for business success and competitiveness. Employees who have high performance tend to make a positive contribution to the growth and development of the organization.

According to Mathis & Jackson (2011) and Mangkunegara (2017), employee performance can be measured through the following indicators:

- Work quantity
- Work quality
- Timeliness
- Teamwork

3. RESEARCH METHODS

This study uses an associative quantitative approach to test the causal relationship between variables with Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis. This study focuses on MSMEs in the culinary and craft sectors in Palangkaraya that have been operating for at least three years, have at least five permanent employees, and a clear organizational structure, so that the sample reflects the dynamics of work and established MSME HR practices (Sugiyono, 2020). The four main constructs measured are Competence (X1), Knowledge Sharing (X2), Work Motivation (Z), and Employee Performance (Y). Data collection was carried out through a structured questionnaire using a five-point Likert scale to assess the level of respondent agreement with various statements related to the four variables.

3.1 Sampling and Data Collection

- Population and Sample

The target population of this study consists of 60 employees across five selected MSMEs in Palangkaraya. Due to the manageable population size, the research employed a total sampling (census) technique. This approach ensures full representation of the population by including all eligible respondents, thereby increasing the statistical power and accuracy of the results (Sugiyono, 2020).

- Sampling Criteria

The MSMEs were selected based on the following criteria:

1. Active operation in the food and crafts sectors.
2. Minimum operational period of three years.
3. Having at least five permanent employees and a defined job structure.

- Data Collection Method

Data were collected using structured questionnaires, distributed directly to the respondents at the workplace. The questionnaire was also supported by digital tools (Google Forms), although in-practice distribution was primarily conducted in person to

ensure completeness and clarity of responses.

3.2 Data analysis

- Descriptive Statistics

Descriptive analysis was used to classify respondent demographics and to summarize responses for each indicator of the studied variables. This provides an overview of the tendencies and distributions of responses before proceeding with structural modeling.

- PLS-SEM Analysis

The main analytical tool employed was Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS version 4. This method was selected due to its suitability for complex models with small to medium sample sizes and its ability to handle both reflective and formative constructs (Hair & Alamer, 2022).

• Measurement Model (Outer Model):

The outer model assesses the reliability and validity of the indicators, using the following criteria:

- ✓ Convergent validity: Loading factor > 0.70 and AVE > 0.50.
- ✓ Discriminant validity: Cross-loading and Fornell-Larcker criterion assessments.
- ✓ Reliability: Cronbach's Alpha and Composite Reliability > 0.70.

• Structural Model (Inner Model):

The inner model examines the relationships between latent variables, including the evaluation of:

- ✓ Path coefficients (direct and indirect effects).
- ✓ t-statistics (significant if > 1.64 for one-tailed tests).
- ✓ p-values (significant if < 0.05).
- ✓ R-square (R^2) values indicating the explanatory power of the independent variables.

• Mediation Analysis:

Mediation effects are tested to determine the role of Work Motivation (Z) in mediating the relationships between:

- ✓ Competence (X1) and Employee Performance (Y).
- ✓ Knowledge Sharing (X2) and Employee Performance (Y).

Mediation types (full, partial, or none) are identified using Zhao et al. (2010)'s approach based on the significance of direct and indirect effects.

4. RESULTS AND DISCUSSION

Although this research is still ongoing and has not yet reached the stage of empirical data collection and analysis, several expected outcomes can be projected based on the theoretical model, previous studies, and contextual observations of MSMEs in Palangkaraya.

Key Theoretical Findings (Projected)

1. Direct Effects

Referring to the structural framework developed in this study, it is anticipated that both competence (X1) and knowledge sharing (X2) will exhibit a significant and positive direct effect on employee performance (Y). Competent employees those equipped with sufficient knowledge, technical skills, and behavioral attributes tend to demonstrate higher productivity and quality of output (Lapian et al., 2020). Likewise, an environment that encourages active knowledge sharing among employees is expected to foster innovation, problem-solving, and team efficiency, all of which contribute to improved performance.

2. Indirect Effects (Mediating Role of Work Motivation)

Another key hypothesis in this study is that work motivation (Z) will serve as a partial mediator in the relationship between competence and performance, as well as between knowledge sharing and performance. Theoretically, competence boosts employee confidence and autonomy, which in turn enhances intrinsic motivation (Astuti & Suhana, 2022). Similarly, employees engaged in active knowledge exchange feel more involved and valued, resulting in heightened motivation. This motivational boost is predicted to partially enhance the impact of both competence and knowledge sharing on overall job performance.

2. Alignment with Prior Research

These projected findings align with the empirical conclusions of previous studies, such as those conducted by Hasrizal & Games, (2023) and Hendri et al., (2023). Both studies affirm that motivation not only improves employee performance but also mediates the effects of other organizational variables such as competence and knowledge culture. Thus, this study reinforces the theoretical consensus that motivation is a critical linking factor in achieving optimal employee outcomes.

Practical Implications for MSMEs

1. Informal HR Practices in Palangkaraya's MSMEs

Field observations and preliminary interviews highlight that many MSMEs in Palangkaraya still employ informal recruitment methods, often relying on recommendations or personal networks. Furthermore, most do not implement structured training or development programs, which restricts the systematic development of employee competencies. This informal approach, while practical in a small business context, creates inconsistencies in performance and hinders long-term organizational growth.

2. The Role of Peer Collaboration and Motivation

Even without a formal HR system, MSMEs often benefit greatly from a family-like organizational culture and informal interpersonal support where employees help each other, exchange knowledge, and maintain open communication with the owner. These dynamics strengthen motivation and partly offset the lack of formal HR strategies. This finding is supported by research Maulidafi & Abdiyah, (2022) , for example on MSMEs in Kampung Klepon Sidoarjo which showed that knowledge sharing, family-like organizational culture, and perceived organizational support significantly contribute to performance, including satisfaction and work effort.

3. Recommendations for MSME Development

In line with the expected results, it is recommended that MSMEs begin to adopt more structured human resource practices Rahmaturrahman, (2023). This includes:

- Implementing competency-based recruitment and selection processes to ensure that new hires meet job-specific criteria.
- Providing formalized training programs and workshops to enhance both technical and soft skills.
- Establishing structured knowledge sharing mechanisms, such as regular team meetings, peer mentoring, or digital platforms, to encourage consistent information flow.
- Cultivating a motivational work environment through recognition systems, opportunities for growth, and clear performance targets.

By integrating these practices, MSMEs in Palangkaraya will be better positioned to leverage employee competence and collaborative culture toward sustained performance improvement.

Limitations of the Current Study

As an ongoing research project, the current study is still in the preparatory and conceptual phase. Consequently, no empirical data has yet been analyzed. This limits the ability to confirm hypotheses or validate the strength of the proposed structural relationships. Additionally, the study focuses only on a relatively small population (60 employees from five MSMEs), which may affect the generalizability of the findings. Since MSMEs in Palangkaraya often vary widely in management style, scale, and sector, the outcomes may not fully represent the broader Indonesian MSME landscape. Moreover, reliance on self-reported questionnaire data may introduce response bias, particularly when measuring subjective variables such as motivation or perceived competence.

Theoretical Contributions

Despite its current phase, this research holds strong potential to contribute to the body of knowledge in human resource management (HRM), particularly in the context of developing economies and small enterprise ecosystems. By integrating competence, knowledge sharing, and work motivation within the PLS-SEM framework, the study responds to the call for more nuanced models that account for indirect relationships and mediating mechanisms. If the projected hypotheses are confirmed in the empirical stage, this research could reinforce and extend previous findings by Hasrizal & Games, (2023) , Hendri et al., (2023) and (Astuti & Suhana, 2022) , particularly around the mediating role of motivation in performance models within informal work settings.

Directions for Future Research

The findings of this study are expected to serve as a baseline for broader future investigations. Subsequent research could expand the population scope to include MSMEs across multiple cities or provinces in Indonesia, allowing for comparative analysis and greater external validity. Furthermore, future studies could explore additional mediators or moderators, such as organizational culture, leadership style, or digital literacy, which may also influence the competence-performance relationship. Incorporating qualitative methods (e.g., interviews, focus groups) alongside quantitative SEM analysis could also provide deeper contextual insights, especially in understanding informal HR practices and their underlying social dynamics in MSMEs.

CONCLUSION

This ongoing research underscores the theoretical significance of competence, knowledge sharing, and work motivation in enhancing employee performance within MSMEs in Palangkaraya. The projected findings suggest that competence and knowledge sharing both have a direct and positive effect on performance, while work motivation serves as a partial mediator that strengthens these relationships. These interconnections are supported by prior research, reinforcing the idea that motivated employees, equipped with the right skills and supported by a culture of knowledge sharing, are more likely to achieve optimal job performance.

In practice, the study highlights the limitations of informal human resource practices still prevalent in MSMEs, such as unstructured recruitment and limited employee development programs. Despite these constraints, peer collaboration and intrinsic motivation play a crucial role in sustaining performance. To maximize their workforce potential, MSMEs are encouraged to adopt structured HR strategies including competency-based recruitment, formal training initiatives, and systematic knowledge sharing mechanisms. These improvements will not only enhance motivation and performance but also position MSMEs to compete more effectively in an increasingly dynamic business environment.

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