

Digital Competencies and Flexible Work Practices as Performance Determinants Through Textile Center Employee Engagement

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Abstract

The era of digitalization requires the adaptation of organizations, including the MSME sector, in integrating technology, but there are still obstacles in its implementation. Micro, Small and Medium Enterprises in the mosquito net and curtain textile industry in Blawe Village are experiencing problems related to the weak digital capabilities of employees and the implementation of a less flexible work system, thus affecting business productivity and competitiveness. This study aims to examine the relationship between digital competency development, flexible work practices, and employee performance by involving employee involvement as mediators. The method used is a quantitative approach of the type of explanatory survey of 111 MSME workers with purposive sampling techniques with SEM-PLS analysis and the SmartPLS 4.0 application. The results of the study showed that all hypotheses proved to be positive significantly. Digital competence has a significant effect on employee engagement ($\beta=0.344$; $p=0.001$) and employee performance ($\beta=0.174$; $p=0.010$). Flexible work practices had a significant effect on employee engagement ($\beta=0.409$; $p=0.001$) and employee performance ($\beta=0.258$; $p=0.001$). Employee involvement had a significant effect on employee performance ($\beta=0.507$; $p=0.000$). The mediating effect of employee engagement was also shown to be significant on the digital competency pathway on performance ($\beta=0.174$; $p=0.009$) and flexible work practices on performance ($\beta=0.208$; $p=0.001$). In conclusion, the development of digital capabilities and flexible work practices have a strategic role in increasing employee productivity in the center of the mosquito net and curtain industry in Blawe Village, both through direct and indirect influences.

Keywords: Digital Competence, Flexible Work Practices, Employee Engagement, Employee Performance, Textile Industry

INTRODUCTION

The development of technology has brought fundamental transformations to business operations and the way organizations work. The digital age requires organizations to adapt quickly to technological advancements (Prastika et al., 2024), where digital technology has become the main necessity in business implementation (Alam et al., 2023). Digital transformation is understood as the process of integrating information technology that aims to create significant changes in the performance of an entity (Qiao et al., 2024). This digital transformation reaches all business sectors, especially Micro, Small, and Medium Enterprises (MSMEs) which dominate the Indonesian economy. According to (Subagyo et al., 2021) MSMEs are one of the sectors that are most concerned by the government because their position is very crucial. Data from the Ministry of Cooperatives and MSMEs shows that in 2023 there will be 65.5 million micro businesses or 99% of the total businesses in Indonesia (Suhayati, 2023). However, based on data from the Deputy Minister of Communication and Information at the August 2024 Workshop, only 27 million businesses have adopted digitalization with a target of 30 million businesses by 2024 (Ministry of State Apparatus Empowerment and Bureaucratic Reform, 2024). This shows that there is still a significant digital gap among Indonesian MSMEs.

One of the real examples of the phenomenon of the digital divide occurred in MSMEs in the center of the mosquito net and curtain industry in Blawe Village, Kediri Regency. The majority of MSME employees in this location are still carrying out traditional work with minimal digital technology adoption, thus creating differences in technology use skills between business actors (Fadilla, 2020). This condition is exacerbated by the low digital competence of employees,

which is defined as the ability to use digital technology to support work (Fadilah & Hikmah, 2024). As a result, there is fierce competition between MSMEs that have digital competence and those that do not, thus creating a competitive gap. Another problem faced is flexible work practices for MSME employees of the mosquito net and curtain industry center in Blawe, Kediri Regency which also experiences implementation problems. Although flexible working practices as an organizational method of responding to the challenges of changing conditions have been implemented as they are considered beneficial (Stella et al., 2020), but in practice it has not gone perfectly. This is shown by the still complaints of MSME owners about non-optimal employee performance and non-compliance with mutually agreed regulations.

In this context, employee engagement is a crucial factor that can bridge the relationship between digital competencies and flexible work practices and employee performance. Employee engagement is defined as a positive state of mind that results in job satisfaction, characterized by passion, high dedication, and absorption (De-La-Calle-Durán & Rodríguez-Sánchez, 2021). This research supports previous research from (Arviansyah & Saraswati, 2025; Sustenance et al., 2023) shows that employee involvement has a significant positive effect on employee performance, and even involvement can mediate the influence of various organizational factors on performance improvement. According to (Asri & Anggraini, 2022), employee involvement is an important factor in improving organizational performance because it can give rise to professional commitment through employee attitudes, work achievements, and a sense of belonging to the organization (Savitri et al., 2023).

This research is important considering the lack of studies that combine digital competency development analysis and flexible work practices simultaneously in the center of the mosquito net industry, especially in the context of MSMEs or the traditional textile industry. Previous research from (Wibowo & Kusdiyanto, 2024) combining work-life balance with other factors and research (Hidayat et al., 2023) Combining digital competencies with other factors. In addition, the development of digital competencies has been proven to increase work productivity by up to 64% (Awlia et al., 2024), so it is necessary to examine how it affects flexible work practices on performance through employee involvement. The lack of understanding of the relationship between the three variables results in inaccuracy of performance improvement strategies among MSMEs. Based on the description of these problems, this study aims to analyze the influence of digital competency development and flexible work practices on employee performance through employee involvement in the mosquito net and curtain industry center in Blawe Kediri Village.

RESEARCH METHODS

This study uses a quantitative approach with an explanatory survey type to explain causality relationships and test the influence of independent variables on dependent variables (Sari et al., 2022). The subjects of the study were MSME employees of the mosquito net and curtain industry center in Blawe Village, Purwoasri District, Kediri Regency with a population of 153 people from 51 MSME units. The number of samples was determined using the Slovin formula with a margin of error of 5% for 111 respondents. The sampling technique used is non-probability sampling with purposive sampling (Mutaqin et al., 2023) With the criteria of being willing to be a respondent, work for at least 1 year, have used digital technology and get a flexible work system.

The variables measured by independent variables are Digital Competency (X1) with indicators of digital technology awareness, digital technology literacy, digital technology capacity, digital technology creativity, and digital technology criticality (Triyono et al., 2023). Flexible Work Practice Variable (X2) with indicators of acceleration of working hours, flexible

working hours, co-working, contracts, platform work, digital workforce, nomadic work, and portfolio careers (Dunn et al., 2023). The mediation variable is Employee Involvement (Z) with indicators of enthusiasm, dedication, and absorption (Okojie et al., 2024). The dependent variable is Employee Performance (Y) with indicators of quantity, quality, creativity, and loyalty (Ganyang, 2018).

The data collection technique used a questionnaire with a Likert scale of 1-5. The results of the instrument validity test with significance value and reliability test with Cronbach's Alpha value. Data analysis using Structural Equation Modeling with Partial Least Squares (SEM-PLS) through SmartPLS 4.0 software. Analysis techniques include external model evaluation to test validity and reliability, internal model evaluation to test structural relationships, and hypothesis testing using bootstrapping. The measurement model is evaluated through convergent validity, discriminant validity, and construct reliability. The structural model is evaluated through R-square values, path coefficients, and f-squares to determine the predictive strength and significance of the relationships between variables.

RESULT AND DISCUSSION

Respondent Characteristics

This study involved 111 respondents of MSME employees of the mosquito net and curtain industry center in Blawe Village. The majority of respondents were female (71.17%), reflecting the characteristics of this industry dominated by sewing jobs. The largest age group is 35-44 years old (33.3%), indicating that the productive age is becoming the backbone of this industry. Most respondents had 1.5-5 years of work experience (53.2%), and the majority worked as tailors (53.2%).

Measurement Model Evaluation

The measurement model test in this study showed satisfactory results in terms of validity and reliability of the construct. All the values of the indicator loading factor are above the mean of 0.7 which confirms a strong relationship between the measurement item and its latent construct. The validity of the convergence was verified based on the Average Variance Extracted (AVE) value which entirely exceeded the standard of 0.5, indicating that the construct was able to explain more than half of the variance of the indicators. Excellent internal reliability is indicated by the composite reliability value and Cronbach's Alpha consistently above the 0.7 limit.

Evaluation of discriminatory validity using the Fornell-Larcker method and cross loading confirmed that although there is a correlation between constructs, it is theoretically justified considering the interrelated nature of human resource management practices in the context of textile industry MSMEs

Table 1. Validity and Reliability Results

	<i>Cronbach's Alpha</i>	<i>rho_A</i>	<i>Composite Reliability</i>	<i>Average Variance Extracted (AVE)</i>
Digital Competence Development	0,867	0,968	0,892	0,624
Flekxible Working Practices	0,923	0,926	0,937	0,653
Employee Engagement	0,769	0,772	0,866	0,684
Employee Performance	0,740	0,749	0,834	0,557

Source: Smart PLS Output Results, 2025

The test results showed an AVE value of > 0.50 indicating adequate convergent validity, Cronbach's Alpha and Composite Reliability values > 0.70 indicating good internal reliability, and meeting the criteria for discriminant validity based on the Fornell-Larcker criterion. The Flexible Working Practices construct showed the highest values with Composite Reliability = 0.937 and AVE = 0.653, indicating superior internal consistency and convergent validity. Digital Competence Development also showed high reliability with Cronbach's Alpha = 0.867 and Composite Reliability = 0.892. Employee Engagement has the highest AVE value = 0.684 indicating that this construct is most effective in explaining the variance of the indicators. Overall, the measurement model has met the eligibility requirements to proceed to structural model analysis with a high level of confidence in the measurement accuracy in the context of the MSME textile industry in Blawe Village. This is important in the context of textile industry MSMEs where digital competence and flexible working practices have a close conceptual relationship but are still empirically different constructs.

Structural Model Results

Evaluation of the structural model confirms that the entire research hypothesis is proven to be significant. Digital Competence Development and Flexible Working Practices have a positive effect on Employee Engagement and Employee Performance, both directly and indirectly. Employee Engagement has been shown to play an effective role as a mediator in the relationship between the two independent variables on Employee Performance. The model shows substantial predictive power, confirming that the development of digital competencies and flexible work practices are key determinants of improving the performance of textile industry MSME employees through employee engagement.

Hypothesis Testing Results

All seven research hypotheses received strong empirical support. The development of digital competencies shows a significant positive influence on employee engagement, confirming that investments in digital technology capabilities can effectively increase employee engagement through increased confidence and relevance of their roles. These findings are in line with the Technology Acceptance Model's theoretical argument that digital competence creates a perception of usability that encourages active engagement. This relationship extends beyond mere technical mastery to include the dimensions of adaptability and creativity that determine the effectiveness of digital transformation.

Table 2. Results of the Inner Model Significance Test

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Influence
Digital competencies -> Employee Engagement	0,344	3,405	0,001	Significant
Flexible Work Practices -> Employee Engagement	0,409	3,201	0,001	Significant
Employee Engagement -> Employee Performance	0,507	5,847	0,000	Significant
Digital competencies -> Employee Performance	0,174	2,601	0,010	Significant
Flexible Work Practices-> Employee Performance	0,258	3,414	0,001	Significant

Source: Smart PLS Output Results, 2025

Flexible work practices show a significant impact on employee engagement, validating the Job Demands-Resources theory that emphasizes flexibility as an important resource for increasing engagement. However, this relationship encompasses more than the freedom of time and place, including the autonomy and work-life balance factors that determine the true effectiveness of engagement. These findings support the argument for HR management strategies that address the dimensions of structural and psychological flexibility in the work environment.

Employee engagement shows a significant influence on employee performance, confirming the engagement theory proposition that engagement fundamentally determines performance outcomes. This relationship shows that the passion, dedication, and absorption of employees collectively contribute to improving productivity and quality of work. These findings emphasize the importance of investing in employee engagement as a fundamental strategy for continuous performance improvement.

The direct relationship between digital competencies and employee performance receives empirical support, suggesting that technological capabilities serve as performance enablers rather than just providing work tools. These findings show that digital competencies achieve optimal impact when integrated with work practices that support productivity and innovation because according to (Faisol et al., 2022) This innovation ability is used to create a new product to respond to progress and changes in the environment.

Flexible work practices significantly affect employee performance directly, revealing a path of improvement where flexibility builds individual performance capacity. This relationship shows that flexible working provides a conducive environment, reduces work stress, and creates a balance that supports optimizing employee performance in the context of the MSME textile industry.

Mediation Analysis

This analysis was conducted to test the role of employee engagement as an intermediate variable in the relationship between digital competency development and flexible work practices on employee performance. Indirect effects testing uses bootstrapping techniques with 5000 subsamples to ensure the estimated accuracy of path coefficients and statistical significance.

Table 3. Mediation Analysis Results (Indirect Effect)

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Influence
Digital Competencies -> Employee Engagement -> Employee Performance	0,174	2,624	0,009	Significant
Flexible Work Practices -> Employee Engagement -> Employee Performance	0,208	3,361	0,001	Significant

Source: Smart PLS Output Results, 2025

The results of the analysis showed that employee engagement played a significant role as a mediator in both pathways tested. The mediating pathway of digital competencies on employee performance through employee engagement resulted in confirmation of significant mediation effects. These findings show that the development of digital competencies not only has a direct effect on performance, but also through increased employee engagement first.

The mediation pathway of flexible work practices on employee performance through employee engagement showed a stronger effect. This indicates that flexible working practices have a more effective mediation mechanism through employee engagement compared to digital competencies. These two results confirm the strategic role of employee engagement as a bridge

that connects investment in digital competencies and work flexibility with improved employee performance in the center of the MSME textile industry.

Discussion of Findings

Digital Competency Development Has a Significant Effect on Employee Engagement

The results of the study show that the development of digital competencies has a significant positive influence on employee engagement in the center of the mosquito net and curtain industry in Blawe Village. These findings are in line with the view (Ferrari, 2013) which emphasizes that digital competencies encompass five main areas: information, communication, content creation, safety, and problem-solving, which when mastered well will increase employee confidence and engagement on the job.

Digital transformation has brought fundamental changes in MSME operations, as stated by (Qiao et al., 2024) that digitalization is a process of integrating information technology that aims to create significant changes in the performance of entities. In the center of the mosquito net and curtain industry, the development of digital competencies that include technology awareness, digital literacy, technological capacity, digital creativity, and the criticality of digital technology has been proven to be able to increase employee confidence in carrying out their duties. When employees master the use of digital devices such as smartphones for work coordination, e-commerce platforms for online marketing, and simple management apps for production logging, they feel more relevant and needed in the modern work ecosystem. This encourages the emergence of high work morale, strong dedication, and deep absorption into their work.

According to (Brečko et al., 2014) affirming that good digital competencies allow employees to feel more confident and efficient at work, thereby increasing engagement. In the context of creative industries such as mosquito nets and curtains, mastery of digital technologies allows employees to explore new designs, expand marketing reach, and improve operational efficiency, which ultimately increases their sense of ownership and engagement with the work.

Flexible Work Practices Have a Significant Impact on Employee Engagement

The results of the study prove that flexible work practices have a significant positive influence on employee engagement. These findings support the concept put forward by (Dunn et al., 2023) that work flexibility is a work arrangement that provides flexibility for employees in determining how to fulfill their job responsibilities.

Flexible work practices implemented in mosquito net and curtain industry centers include accelerated working hours, flexible working hours, co-working, contract systems, platform work, digital workforce, nomadic work, and portfolio careers. According to (Allen et al., 2013), work flexibility includes policies such as non-rigid working hours, part-time work, and working from home, which aim to improve work-life balance and employee well-being. In the center of the mosquito net and curtain industry, this flexibility is especially important considering that the majority of employees are housewives who have to perform dual roles. When employees are given the trust to set their own work schedules, work locations, and methods of completing tasks, they feel more valued and have more control over their work. According to (Kossek & Thompson, 2015) It also adds that flexible working practices create a work climate that supports active participation, creativity, and loyalty to the work group. This creates positive psychological conditions that encourage passion, dedication, and deep engagement in the work.

Employee Involvement Has a Significant Effect on Employee Performance

The results of the study show that employee involvement has a significant positive influence on employee performance. These findings are consistent with the definition of employee engagement according to (De-La-Calle-Durán & Rodríguez-Sánchez, 2021) as a positive mental state that results in job satisfaction, characterized by feelings of enthusiasm, high dedication, and deep absorption.

According to (Scott, 2018) Identify four important factors related to employee performance: effectiveness, efficiency, tasks, and specific periods. Engaged employees tend to demonstrate these four aspects better because they have a strong intrinsic motivation. They not only complete tasks according to the target, but are also proactive in improving the quality of work and looking for innovative ways to improve production efficiency. While (Asri & Anggraini, 2022) emphasizing that employee engagement is a very important factor in improving organizational performance. In creative industries such as mosquito net and curtain manufacturing that require technical skills, design creativity, and quality consistency, employee engagement is a key to success. Employees involved have initiative in solving problems, are proactive in improving product quality, and are committed to achieving common goals.

Digital Competency Development Has a Significant Effect on Employee Performance

The results of the study prove that the development of digital competencies has a significant positive influence on employee performance. These findings are in line with the view (Triyono et al., 2023) which defines digital competence as competence at a mature level that utilizes digital technology as a support for work.

The development of digital competencies allows employees to work more efficiently and effectively in the digital era. According to (Fadilah & Hikmah, 2024), digital competence is the ability and skill in using digital technology to support work, daily activities, and communication. In the center of the mosquito net and curtain industry, digitally competent employees can leverage technology to speed up the design process using simple applications, manage orders through digital platforms, and communicate with customers online. According to (Awlia et al., 2024) In his research, it is shown that employees with good digital competence are able to increase work productivity by up to 64%. The era of digitalization demands technological adaptation as a basic need, no longer as an option. While (Alam et al., 2023) It also emphasized that digital technology has become the main necessity in business implementation, it can no longer be used as an option.

By (Prastika et al., 2024) explains that digital transformation requires organizations to adapt quickly and responsively to changes in technological advancements. Employees with good digital competencies can optimize the use of technology to improve the quality of work, reduce production time, and expand market reach through digital marketing. This has a direct impact on increasing productivity, reducing work errors, and accelerating order completion.

Flexible Work Practices Have a Significant Effect on Employee Performance

The results of the study show that flexible work practices have a significant positive influence on employee performance. These findings support the concept put forward by (Stella et al., 2020) that flexible working practices are a common method used by organizations to respond to the challenges that exist due to changing conditions. Flexible working practices create a work environment that supports work-life balance, which is especially important in the context of rural family MSMEs. According to (Saputri et al., 2022) The work environment itself is considered very crucial because a clean, healthy and comfortable environment can hypnotize employees there. According to (Oktavia & Fernos, 2023), performance is the result of a process of employees and organizations concerned doing work that has been planned at the time and place.

Flexibility in working time arrangements, work locations, and task completion methods allows employees to work in optimal conditions according to their life rhythms and personal responsibilities. According to (Without et al., 2022) Explains that flexible work practices include unlimited time in doing work, unlimited space, types of communication used, and information use. This has a positive impact when employee performance increases, productivity also increases and results in an increase in the number of products. But (Bjärntoft et al., 2020) Reminded that work flexibility can also pose challenges in the form of work and personal life conflicts. Therefore, (Azza & Hendriani, 2023) emphasizing the importance of clear work rules

to minimize negative impacts and maximize the positive impact of flexible work practices on performance. In home industries such as mosquito net and curtain manufacturing, well-managed work flexibility allows for productivity optimization as employees can tailor work schedules to personal conditions that support maximum concentration and creativity.

Digital Competency Development Has a Significant Effect on Employee Performance Through Employee Engagement

The results of the study prove that the development of digital competencies has a significant effect on employee performance through the mediation of employee engagement. These findings are in line with the Human Capital theory put forward by (Lawal et al., 2024) that human capital is knowledge, skills, and health accumulated throughout an individual's life that is realized in the form of potential as a productive individual.

The development of digital competencies not only has a direct impact on performance, but also through increased employee engagement first. Based (Antonietti et al., 2022) The Technology Acceptance Model (TAM) emphasizes that the perceived usefulness of technology will convince individuals that by using technology, job performance will improve. When employees develop their digital skills, they feel more confident and competent in carrying out their duties.

According to (Chandani et al., 2016) Employee engagement is influenced by a variety of factors including career development and effective talent management. Digital competency development provides employees with the opportunity to learn new skills and develop their latent talents in mastering technology. This feeling of competence increases their emotional and cognitive engagement with work, which in turn encourages more optimal performance improvement. At (Savitri et al., 2023) It also emphasizes that employee involvement triggers professional commitment in a person through employee attitudes, work achievements, and a sense of belonging to an organization. In the center of the mosquito net and curtain industry, employees who master digital technology feel more engaged because they can contribute to business development through online marketing, digital management, and production process innovation.

Flexible Work Practices Have a Significant Effect on Employee Performance Through Employee Engagement

The results of the study show that flexible work practices have a significant effect on employee performance through employee involvement mediation. These findings support the Social Exchange Theory proposed by Cropanzano et al. (2017) in (Rajâa & Mekkaoui, 2025), which states that a harmonious exchange between the organization and employees will create a positive relationship.

Flexible work practices create positive psychological conditions that increase employee engagement, which in turn impacts improved performance. When employees are given flexibility in working, they tend to be more involved in their work because they feel comfortable with the conditions of the work system created. This high engagement then encourages them to give maximum effort in achieving the set production and quality targets. Overall, the study provides empirical evidence supporting the experts' view that digital competency development and flexible work practices play an important role in improving employee performance in the Blawe Village mosquito net and curtain industry center, both directly and through increased employee engagement. Employee engagement has proven to be an effective mediator in strengthening the relationship between the two independent variables and employee performance, in accordance with the theories put forward by experts in the field of human resource management and organizational behavior.

Policy Implications

The findings of this study provide significant policy implications for various stakeholders in the development of MSMEs in the mosquito net and curtain industry centers. For local

governments, it is necessary to develop comprehensive and sustainable digital literacy programs, develop adequate digital infrastructure, and formulate labor regulations that accommodate flexible work practices for home-based MSMEs. For MSME managers, the results suggest the importance of allocating investment for employee digital competency training on an ongoing basis, implementing a flexible work system structured with clear SOPs, and developing employee empowerment programs that increase engagement through participation in decision-making and competency-based career development. For educational institutions, it is necessary to integrate a curriculum based on the needs of the creative industry which includes digital marketing, e-commerce management, and digital design, as well as the establishment of sustainable MSME research and development centers. For the central government, these findings can be the basis for accelerating the national MSME digitalization program and developing digital competency standards that are tailored to the characteristics of the traditional creative industry. For the supporting ecosystem, financial institutions need to develop digital financial products that support the transformation of MSMEs, while corporations can implement CSR programs in the form of digitalization assistance and technology transfer. The implementation of these policies must be carried out in stages in three phases (foundation building, capacity building, and sustainability) with a measurable monitoring and evaluation system, so as to create an ecosystem that supports digital transformation and modernization of work practices in the MSME sector of the traditional creative industry to improve competitiveness and employee welfare in a sustainable manner.

CONCLUSION

This study successfully proves that the development of digital competencies and flexible work practices have a significant positive influence on employee performance in the mosquito net and curtain industry center of Blawe Village, both directly and through the mediation of employee involvement. The results of the analysis show that employee engagement acts as an effective mediator in strengthening the relationship between digital competencies and flexible work practices and employee performance. These findings confirm the relevance of the Technology Acceptance Model (TAM), Job Demands-Resources (JD-R) theory, and Social Exchange Theory in the context of traditional creative industry MSMEs, where employees who have digital competencies and are given work flexibility tend to show higher engagement, which ultimately has an impact on improving superior performance.

This research provides a theoretical contribution by integrating the three key variables (digital competence, flexible work practices, and employee engagement) in a holistic model for the creative industry MSME sector, as well as filling the research gap in the MSME management literature which has not explored the simultaneous influence of these two independent variables. In practical terms, these findings provide concrete guidance for MSME managers that investment in digital competency development and the implementation of flexible work practices will provide significant returns through performance improvements, provided that the strategy is designed to increase employee engagement. The policy implications of this research are very relevant to support government programs in accelerating the digitalization of MSMEs and developing the creative economy, especially in designing effective digital training programs and labor regulations that accommodate flexible work practices.

Although this study has limitations related to focusing on one type of industry and cross-sectional design, these findings provide strong empirical evidence that digital transformation and modernization of work practices in the MSME sector of the traditional creative industry must be carried out holistically with attention to the aspect of employee engagement. Future research is suggested to replicate this model in other creative industry sectors and use longitudinal designs for more robust causality analysis. With the right approach, MSMEs in the mosquito net and curtain

industry center have great potential to become a model for the development of successful traditional creative industries in the digital era, which will ultimately contribute to improving community welfare and sustainable local economic development.

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