Research Article

The Effect of Knowledge-Oriented Leadership and Reward on Employee Performance in Bantar Gebang MSMEs

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Abstract: MSMEs can play a significant role in bolstering a community's economy, with their growth highly dependent on workforce performance. Effective leadership and appropriate incentives significantly enhance employee productivity, motivation, and engagement. The purpose of this study is to ascertain how employee performance in MSMEs in the Bantar Gebang market is impacted by knowledge-oriented leadership and incentives. 135 employees of MSMEs in the Bantar Gebang market were given paper questionnaires to complete in order to gather data. Validity and reliability tests were performed using SPSS version 27 for data analysis in this study. CFA with KMO, Anti-Image, and Factor Loading was used for the validity test; Kolmogrov-Smirnov was used for the normalcy test; multiple linear regression and t-tests were used for hypothesis testing. The findings supported hypothesis 1 by demonstrating that knowledge-oriented leadership significantly and favorably affected worker performance. Additionally, the data supported hypothesis 2 by demonstrating that rewards significantly and favorably impacted employee performance. Employees need to be encouraged by MSMEs leaders to expand their knowledge and abilities through a variety of experiences. MSMEs must put in place extra incentive programs to show their staff how much they are valued. MSMEs owners are required to evaluate and recognize staff members who exhibit strong initiative and go above and beyond the call of duty.

Keywords: Employee; Knowledge; Leadership; Performance; Reward.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in developing countries by creating employment opportunities and supporting economic growth (Chaithanapat et al., 2022). In traditional markets, MSMEs contribute to local creativity while preserving community traditions and culture, yet their development is influenced by several internal factors, particularly human resources(Pranogyo & Hendro, 2023). Employees are key drivers of SME growth, as they contribute their labor in exchange for agreed compensation and are directly affected by leadership styles within the organization (Kamaluddin et al., 2022). Effective leadership can enhance employee motivation, engagement, and productivity, highlighting the strategic importance of employees for MSMEs sustainability. However, in the era of globalization, many MSMEs in traditional markets still face challenges in developing employee quality to meet existing standards. Therefore, leaders need to understand employee capabilities and evaluate their contributions through employee performance, enabling MSMEs to assess, improve, and develop their human resources effectively.

Leadership plays a central role in determining the future of a business, particularly in MSMEs operating in traditional markets, where leaders are expected to base their decisions on knowledge and learning. Knowledge-oriented leaders emphasize learning, innovation, and the use of relevant information in strategic decision-making, encourage a learning culture, promote knowledge sharing, and support continuous skill development, thereby creating an adaptive and competitive organizational environment (Malik et al., 2023; Naqshbandi &

Jasimuddin, 2018).In addition to leadership, rewards are an important factor influencing employee performance, as they serve as a key motivator for employees to contribute innovative ideas and improve both financial and non-financial organizational outcomes (Winda & Astuti, 2018). Rewards, defined as financial or non-financial compensation received in return for employee contributions, are expected to enhance employee performance, particularly within MSMEs (Kenelak et al., 2016).

In some cases, reward systems may shift employees' focus toward extrinsic gains, leading them to work primarily for compensation rather than intrinsic satisfaction, which can ultimately reduce motivation and performance. Similar challenges arise in knowledge-oriented leadership within MSMEs, where employees may lack the capacity to meet leaders' knowledge-driven standards. Hermastho (2021) found that knowledge-oriented leadership can negatively affect employee performance due to weak leader-employee relationships and ineffective communication, limiting leaders' ability to act as advisors and implement knowledge management practices. Although such leadership promotes knowledge development, it may fail to foster a psychologically safe environment that encourages trust and knowledge sharing among employees.

Conversely, several studies emphasize the positive potential of knowledge-oriented leadership in enhancing innovation, organizational learning, and productivity when supported by effective interaction and a conducive work environment (Malik et al., 2023; Donate & de Pablo, 2015). Leaders who encourage learning, tolerate mistakes, and promote collaboration enable employees to explore and utilize knowledge for organizational benefit. Chaithanapat et al. (2022)further highlight that employee involvement in knowledge management strengthens motivation, engagement, and performance at both individual and organizational levels. However, prior research presents mixed findings regarding the effects of both knowledge-oriented leadership and rewards on employee performance, indicating the need for further empirical investigation to clarify these relationships.

2. Literature Review

Knowledge-Oriented Leadership

Leadership is a goal-oriented social process that influences others through communication, motivation, and encouragement to achieve organizational outcomes, making it a critical determinant of MSME success (Rahman & Iqbal, 2020).Knowledge-oriented leadership refers to behaviors and actions that promote the creation, sharing, and utilization of knowledge, leading to changes in collective thinking and outcomes (Naqshbandi & Jasimuddin, 2018; Safari & Azadehdel, 2015). In the era of globalization, effective knowledge management is essential for organizational sustainability, as leaders play a central role in facilitating knowledge creation, transfer, and application to enhance innovation and employee performance (Uhl-Bien et al., 2007; Donate & de Pablo, 2015).Particularly in traditional-market MSMEs, leaders are required not only to possess knowledge but also the managerial skill to adapt guidance, training, and evaluation to the unique characteristics of their workforce, thereby supporting employee development and improving organizational performance.

Reward

Rewards or commissions are a key factor in improving employee performance in Micro, Small, and Medium Enterprises (MSMEs), particularly those operating in traditional markets that face challenges such as limited capital, intense competition, and diverse human resource backgrounds. Appropriate reward systems help maintain employee motivation, loyalty, and responsibility by making employees feel valued, thereby encouraging greater contribution and creativity (Winda & Astuti, 2018). Rewards may take the form of financial or non-financial compensation, including direct rewards such as salaries, overtime pay, and performance bonuses, as well as indirect rewards such as meals, transportation assistance, facilities, and leave benefits (Kenelak et al., 2016; Williams et al., 2008). Consistently providing rewards aligned with employee needs can enhance job satisfaction, strengthen relationships between owners and employees, and improve organizational sustainability in small-scale businesses.

Employee Performance

Employees are a crucial factor in the success and sustainability of MSMEs operating in traditional markets, where businesses face challenges such as limited human resource quality, simple infrastructure, and inadequate facilities. In this concern, employee performance becomes a key determinant of business survival and competitiveness, reflecting employees' abilities, motivation, and efforts in carrying out tasks effectively (Pranogyo & Hendro, 2023). Employee performance in MSMEs influences the achievement of business targets, customer satisfaction, work quality, timeliness, and commitment, all of which are essential in resource-constrained environments (Wardhana, 2024).   (Silaen et al., 2021). Furthermore, employee performance is shaped by factors such as experience, motivation, work environment, and organizational support, making effective performance management critical for improving productivity, service quality, employee loyalty, and long-term business stability in traditional-market MSMEs (Agus et al., 2023; Campbell et al., 2018).

Hypothesis

Knowledge-oriented leadership influences employees' engagement in knowledge management practices, which subsequently enhances their job performance by encouraging innovation, learning initiatives, and active involvement at work (Donate & de Pablo, 2015; Shamim et al., 2019).This leadership style emphasizes vision, mentoring, consultation, delegation, facilitation, recognition, and support for knowledge-based practices, enabling leaders to guide employee development and improve work quality through continuous learning and innovation (Donate & de Pablo, 2015). **H1:** Knowledge-oriented leadership has a positive effect on employee performance.

Rewards are widely used as a strategy to improve employee performance in organizations, particularly in MSMEs, where employee contributions strongly influence business outcomes. Employee performance reflects the quality, quantity, timeliness, effectiveness, and commitment demonstrated in completing work tasks (Silaen et al., 2021).   Prior studies show mixed results regarding the effect of rewards on performance: compensation has been found to positively and significantly improve employee performance by increasing motivation and effor (Mediaty et al., 2023), while Motivation Crowding Theory suggests that external incentives may reduce intrinsic motivation in certain conditions (Putra et al., 2017). **H2:** Rewards have a positive effect on employee performance.

3. Proposed Method

Research Design

This study employs a quantitative research design using a survey approach to collect numerical data through questionnaires distributed to employees of MSMEs in the Bantar Gebang Traditional Market (Hair et al., 2010).Primary data were obtained directly from respondents, as primary sources provide relevant and specific information aligned with research objectives (Sekaran, 2016). The population consisted of 203 permanent employees working in MSMEs at the Bantar Gebang market, excluding temporary workers. A probability sampling method with simple random sampling was applied to ensure equal selection opportunities for all population members (Sekaran, 2016). The sample size was determined using the Slovin formula, resulting in 135 respondents, which was considered sufficient to represent the population and support statistical generalization (Hair et al., 2014).

3.2. Operational Definition

Variable operationalization involves developing clear and specific operational definitions for the concepts being measured (Larry et al., 2014).

Table 1. Operational Definition.

Variable	Definition	Indicator	Scale
Knowledge-Oriented Leadership (X1)	Knowledge-oriented leadership is a leadership approach that emphasizes the development, application, and management of knowledge within organizations to support innovation and employee performance through effective communication, knowledge-sharing practices, and leader role modeling (Donate & de Pablo, 2015).	a. Knowledge Management Practices b. Knowledge Transfer c. Leadership d. Innovation Performance	Likert
Reward (X2)	Reward refers to all forms of compensation, whether monetary or non-monetary, received by employees in return for the services they provide to the organization (Kenelak et al., 2016).	a. Direct Rewards b. Indirect Rewards	Likert
Employee Performance (Y)	Employee performance refers to the work outcomes achieved by employees within a specific period, reflected in work quality, quantity, timeliness, effectiveness, and commitment (Silaen et al., 2021).	a. Performance Quality b. Performance Quantity c. Timeliness d. Effectiveness e. Commitment	Likert

Measurement and Data Analysis

This study employed a questionnaire as the research instrument to collect primary data, using a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5) (Sekaran, 2016). Instrument testing was conducted to ensure validity and reliability, with validity assessed through Confirmatory Factor Analysis (CFA) to examine factor and item validity, while reliability was evaluated using Cronbach's Alpha, where values above 0.70 indicated acceptable internal consistency. Data testing included a normality test to confirm that the data met the assumptions required for parametric analysis(Sekaran, 2016). Hypothesis testing was carried out using multiple linear regression analysis and t-tests with SPSS to examine the relationships between independent and dependent variables and determine the significance of each hypothesis (Hair et al., 2010).

4. Results and Discussion

Result

Instrument Testing

Table 2. Validity Test.

Variable	Item	KMO	Bart-tlet's test	Anti-Image Correlation	Loading Factor	Result
Knowledge-Oriented Leadership	X1.1	0,707	0,000	0,696	0,624	Valid
	X1.2			0,738	0,515	
	X1.3			0.694	0,812	
	X1.4			0,713	0,511	
	X1.5			0,723	0,699	
	X1.6			0,661	0,860	
Reward	X2.1	0,588	0,000	0,591	0,873	Valid
	X2.2			0,603	0,872	
	X2.3			0,775	0,692	
	X2.4			0,520	0,914	
	X2.5			0,530	0,907	
Employee Performance	Y.1	0,763	0,000	0,860	0,577	Valid
	Y.2			0,842	0,547	
	Y.3			0,682	0,811	
	Y.4			0,724	0,530	
	Y.5			0,787	0,629	
	Y.6			0,774	0,502	
	Y.7			0,777	0,689	
	Y.8			0,787	0,705	
	Y.9			0,721	0,596	
	Y.10			0,725	0,517	
	Y.11			0,775	0,734	
	Y.12			0,777	0,544	

The KMO values for all variables were >0.50 and Bartlett's Test was significant ($p < 0.05$), indicating that factor analysis was appropriate. All Anti-Image Correlation and factor loading values exceeded 0.50, showing that all measurement items were valid.

Table 3. Reliability Test.

Variable	Cronbach's Alpha	Result
Knowledge-Oriented Leadership	0,648	
Reward	0,640	Reliable
Employee Performance	0,732	

The table indicates that all variables have Cronbach's Alpha values above 0.60, meaning the instruments are reliable and consistent.

Data Testing

Table 4. Normality Test.

Asymp. Sig(2- talled)	Sig. Value	Condition	Result
0,2	0,05	0,2 > 0,05	Normal

The One-Sample Kolmogorov–Smirnov normality test yields an Asymp. Sig. value of 0.200, which is higher than 0.05, indicating that the data follow a normal distribution.

Quantitative Analysis Results and Hypothesis Testing

Table 5. Multiple Linear Regression & t-Test.

		Coefficients[a]				
		Unstandardized Coef.		Standardized Coef.		
	Model	B	Std. Error	B	t	Sig.
1	(Constant)	25,666	3,093		8,299	0,000
	Knowledge-Oriented Leadership	0,427	0,111	0,297	3,821	0,000
	Reward	0,667	0,129	0,400	5,181	0,000
a. Dependent Variable: Employee Performane						

Based on the regression results, the equation is:

$$Y = 0.297X1 + 0.4X2$$

The knowledge-oriented leadership and reward both have positive and significant effects on employee performance. The regression coefficient for knowledge-oriented leadership is 0.297 with a significance value of 0.000, indicating that an increase in knowledge-oriented leadership leads to higher employee performance. Meanwhile, the reward variable has a regression coefficient of 0.4 with a significance value of 0.000, showing that higher rewards also improve employee performance. Since the model has no constant, employee performance is assumed not to exist when both independent variables are absent.

The t-test results show that knowledge-oriented leadership (X1) and reward (X2) have t-values higher than the t-table value (1.978) and significance levels below 0.05. This indicates that both variables have a positive and significant effect on employee performance, so H1 and H2 are accepted.

Discussion

The Effect of Knowledge-Oriented Leadership on Employee Performance

Knowledge-oriented leadership has a positive and significant effect on employee performance in MSMEs at the Bantar Gebang Market. This is evidenced by the t-value (3.821) exceeding the t-table value (1.978), indicating a partial significant influence. These findings align with Chaithanapat et al. (2022), who argue that employee performance quality depends on a leader's ability to understand business conditions and employee characteristics in order to design effective development strategies for MSMEs. Responses from 135 participants indicate a favorable perception of this leadership style, with the highest mean value (4.6) suggesting that employees tend to show greater responsibility and commitment when leaders set a positive example.

Furthermore, knowledge-oriented leadership enhances employee capability, motivation, and responsibility through structured tasks and relevant training, such as customer service, basic financial management, product quality control, teamwork, and work ethics (Donate &

Pablo, 2015). In the MSMEs concern, where employee characteristics differ from other sectors, leaders need tailored approaches by effectively managing key resources (human resources, financial support, materials, tools, work methods, and market orientation) to foster innovation, efficiency, and sustained employee performance (Donate & Pablo, 2015; Chaithanapat et al., 2022).

The Effect of Reward on Employee Performance

Rewards have a positive and significant effect on employee performance, as indicated by the t-value (5.181) exceeding the t-table value (1.978). This finding supports Mediaty et al. (2023), who state that better compensation increases employee motivation and performance. In MSMEs at the Bantar Gebang Market, rewards are provided in both direct forms (basic salary, overtime pay, and performance bonuses) and indirect forms (holiday allowances, work facilities, meals, and annual leave). An analysis involving 135 respondents indicates a positive perception of rewards, with the highest mean scores (4.4) suggesting that employees perceive their compensation as fair and feel more motivated by the incentives provided. However, benefits alone do not necessarily increase employee loyalty, as reflected by a lower mean score (4.1) on loyalty-related items (Mediaty et al., 2023).

5. Conclusions

This study concludes that knowledge-oriented leadership and rewards both have positive and significant effects on employee performance at MSMEs in Bantar Gebang Market, confirming Hypotheses 1 and 2; better implementation of knowledge-based leadership and more meaningful reward systems are associated with higher employee performance. Based on these findings, MSMEs leaders are advised to continuously encourage learning and skill development, maintain fair and transparent incentive systems, and provide recognition for high initiative and outstanding performance to strengthen motivation and commitment. Future research is recommended to involve broader and more diverse MSMEs populations, explore additional sectors beyond traditional markets, and consider longitudinal approaches to capture changes in employee behavior over time.

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