Volume 6 Issue 2 (2026) Pages 137 - 156
Amkop Management Accounting Review (AMAR)
ISSN : 2828-2248 (Online)

The Influence of Employee Engagement and Digital Skills on the Performance of Generation Z Employees in MSMEs in West Lombok Regency

Regina Rendisti Pratiwi[1], Agusdin[2]
[1,2] University of Mataram, Mataram,Indonesia

Abstract

Digital transformation in the MSME sector requires employees to have good work engagement and digital skills to be able to increase work productivity. This study aims to analyze the effect of employee engagement and digital skills on the performance of Generation Z employees in MSMEs in West Lombok Regency. The study used a quantitative approach with a causal associative method. The study population was 34,081 MSMEs in West Lombok Regency, with a sample of 100 respondents selected using a purposive sampling technique. Data were collected through a Likert scale questionnaire, observation, interviews, and documentation. Data analysis was carried out using SPSS through validity tests, reliability tests, classical assumption tests, multiple linear regression, t-tests, F-tests, and coefficients of determination. The results showed that digital skills had a positive and significant effect on employee performance, while employee engagement had no significant effect partially. In addition, employee engagement and digital skills simultaneously had a significant effect on employee performance with an Adjusted R Square value of 72.9%. The conclusion of the study shows that digital skills are a dominant factor in improving the performance of Generation Z employees in MSMEs in the digital era.

Keywords: Digital Skills, Employee Engagement, Employee Performance, Generation Z, SMEs

✉ Corresponding author :
Email Address : reginaapratiwii8@gmail.com

INTRODUCTION

Digital transformation has transformed work patterns and human resource management across various sectors, including MSMEs. The advancement of digital technology demands that organizations employ an adaptable workforce with strong digital skills to compete in the modern economy (Buil *et al*., 2022; Mohsin & Rampalli, 2021). In Indonesia, MSMEs significantly contribute to the national economy by absorbing a significant portion of the workforce and contributing significantly to GDP. Therefore, strengthening human resource quality, particularly in employee engagement and digital skills, is crucial for supporting MSME sustainability (Nugroho *et al*., 2023; Sari & Wahyudi, 2024).

DOI : 10.37531/amar.v6i2.3873

West Lombok Regency is one of the regions with rapid MSME development, particularly in the culinary, crafts, and tourism sectors. The local government has encouraged MSME digitalization through online marketing programs and strengthening digital literacy. However, many MSMEs still face challenges in utilizing technology and managing a young workforce. Meanwhile, Generation Z, which dominates the current workforce, is known for its close relationship with technology and its creative and adaptive characteristics to digital change (Katili *et al*., 2021; Kurnia & Hendriani, 2023).

Previous research has shown that employee engagement and digital skills influence employee performance improvement. Employee engagement boosts employee morale, loyalty, and productivity, while digital skills help employees work more effectively and innovatively in the face of technological advancements (Nienaber & Martins, 2020; Albrecht *et al*., 2022).

Furthermore, mutual commitment between the company and employees also significantly influences employee performance. To build this commitment, companies need to be more sensitive to the work environment by proactively addressing various obstacles. This creates a comfortable and conducive work environment that improves performance and employee engagement (Latifa, *et al*., 2025). In the context of MSMEs, these factors are crucial because they can support operational efficiency and business competitiveness.

However, previous research still shows mixed findings. Some studies emphasize that employee engagement is a dominant influence on performance, while others indicate that digital skills are a key factor in increasing work productivity (Katili *et al*., 2021; Al-Haziazi, 2024). Furthermore, most research focuses on large companies, so studies related to Generation Z in the MSME sector are still limited.

Based on these conditions, there is a research gap regarding the influence of employee engagement and digital skills on the performance of Generation Z employees in MSMEs, particularly in West Lombok Regency. Low digital literacy, minimal technology training, and low work engagement are suspected to be the causes of the suboptimal performance of young workers in MSMEs. Therefore, this study is important to analyze the influence of employee engagement and digital skills on the performance of Generation Z employees in MSMEs in West Lombok Regency.

This study aims to analyze the influence of employee engagement and digital skills on the performance of Generation Z employees in MSMEs in West Lombok Regency. This study is novel in combining these two variables in the context of regional MSMEs dominated by Generation Z workers. The results are expected to provide theoretical contributions in the field of human resource management and

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provide practical input for MSMEs and local governments in improving workforce quality in the digital era.

METHODOLOGY

This study uses a quantitative approach with a causal associative method to analyze the influence of employee engagement and digital skills on the performance of Generation Z employees in MSMEs in West Lombok Regency. The quantitative approach was used because the study focuses on measuring the relationship between variables through statistical analysis (Sugiyono, 2022; Creswell & Creswell, 2023). The study was conducted in MSMEs in West Lombok Regency because this area has a high number of MSMEs and is dominated by a Generation Z workforce. Furthermore, the development of MSME digitalization in the region makes the research location relevant to the research objectives (Emzir, 2021; Sudaryono, 2021).

The study population was all MSMEs in West Lombok Regency, totaling 34,081 business units based on data from the Cooperatives and SMEs Office in 2025. The population focused on MSMEs that employ Generation Z and utilize digital technology in their business operations (Sugiyono, 2019). The sampling technique used non-probability sampling with a purposive sampling method. The sample was selected based on certain criteria, namely MSMEs that have a Generation Z workforce, use digital skills in their business operations, and have a minimum of two employees. Based on the Slovin formula with a 10% error rate, a sample size of 100 respondents was obtained (Sudaryono, 2021; Sugiyono, 2022).

This study used primary and secondary data. Primary data were obtained through questionnaires distributed to respondents, while secondary data were obtained from official documents, scientific journals, and relevant previous research (Sugiyono, 2016). Data collection techniques included observation, interviews, documentation, and questionnaires. The research instrument used a five-point Likert scale. Employee engagement variables were measured through the work environment, leadership, work relationships, training, and compensation (Kurnia & Hendriani, 2023). Digital skills variables were measured through the ability to use technology, manage digital information, communicate digitally, and adapt to technology (Buil *et al.*, 2022). Meanwhile, employee performance was measured through work targets, creativity, discipline, communication, and understanding of work tasks (Mangkunegara, 2020; Abadiyah, 2019).

Data analysis was conducted using SPSS through validity and reliability tests to ensure the research instrument was suitable for use. The instrument was declared valid if the item correlation value was greater than r table and reliable if the Cronbach's Alpha value was greater than 0.60 (Ghozali, 2016). Next, classical assumption tests were conducted, including normality, multicollinearity, and heteroscedasticity tests. After all assumptions were met, the data were analyzed

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using multiple linear regression to determine the effect of employee engagement and digital skills on the performance of Generation Z employees. Hypothesis testing was carried out using t-tests, F-tests, and coefficients of determination (R^2) (Sugiyono, 2022; Ghozali, 2016).

The research procedure began with problem identification and a literature review related to employee engagement, digital skills, and the performance of Generation Z employees. Next, the researchers developed a research instrument based on predetermined variable indicators. The next stage was data collection through observation, interviews, and questionnaires distributed to respondents who met the sample criteria. The data obtained were then analyzed using SPSS to obtain research results and conclusions that align with the research objectives.

RESULTS AND DISCUSSION

Respondent Characteristics

Table 1 Respondent Identity Based on Gender (Owner)

No	Gender	Percentage
1	Woman	75%
2	Man	25%
	Total	100%

It can be seen that the respondents from MSME owners were mostly female, namely 75 people (75%) compared to male respondents, namely 25 people (25%).

Table 2 Respondent Identity Based on Gender (Employee)

No	Gender	Percentage
1	Woman	73%
2	Man	27%
	Total	100%

Respondent Identity (Owner)

Table 3 Respondent Identity Based on Business Type

No	Types of MSMEs	Amount	Percentage
1	Culinary	63	63%
2	Fashion	15	15%

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3	Service	17	17%
4	Agribusiness	5	5%
	Total	100	100%

Table 4 Respondent Identity Based on Length of Establishment of MSMEs

No	Range	Amount	Percentage
1	1-3 Years	55	55%
2	4-6 Years	27	27%
3	7-10 Years	13	13%
4	More than 10 years	5	5%
	Total	**100**	**100%**

Table 5 Respondent Identity Based on Occupation

No	Type	Amount	Percentage
1	Contract employees	52	52%
2	Permanent employees	48	48%
	Total	**100**	**100%**

Description of Research Variables

1. Employee Performance (Y)

Table 6 Average Scores and Categories of Employee Performance Variables (Y)

No	Question	Average	Category
Y1	Generation Z employees in my MSME are able to produce work with quality that meets business standards.	3.94	Very good
Y2	Generation Z employees are able to complete work neatly and with minimal errors.	3.97	Very good
Y3	Generation Z employees demonstrate good abilities and skills in completing their tasks.	4.06	Very good
Y4	Generation Z employees are able to complete work according to the	4.04	Very good

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	target number set by MSMEs.		
Y5	Generation Z employees are able to handle multiple work tasks at one time.	4.01	Very good
Y6	Generation Z employees demonstrate work productivity that is in line with business needs.	4.07	Very good
Y7	Generation Z employees are able to complete work according to the specified time.	4.09	Very good
Y8	Generation Z employees are able to manage their work time so that work is not delayed.	3.96	Very good
Y9	Generation Z employees can complete tasks without needing frequent reminders about work deadlines.	3.99	Very good
Y10	Generation Z employees are able to optimally utilize available work facilities and equipment.	4.14	Very good
Y11	Generation Z employees are able to complete work in an efficient manner.	4.00	Very good
Y12	Generation Z employees are able to produce maximum work results with available business resources.	4.08	Very good

Based on the descriptive analysis results, the Employee Performance (Y) variable obtained an overall average value of 4.03, categorized as very good. This indicates that Generation Z employees in MSMEs have good performance in completing their work. The highest average value was found in statement Y10 at 4.14, while the lowest value was found in statement Y1 at 3.94. Overall, all indicators were in the very good category, indicating that employee performance was optimal.

2. Employee Engagement (X1)

Table 7 Average Score and Category of Employee Engagement Variable (X)

No	Question	Average	Category

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X1.1	I have high enthusiasm in carrying out my work.	4.20	Very high
X1.2	I feel like I have enough energy when I work.	4.11	Very high
X1.3	I still try my best even though the work I do is quite hard.	4.17	Very high
X1.4	I feel proud of the work I do.	4.18	Very high
X1.5	I feel my work means a lot to me.	4.19	Very high
X1.6	I show sincerity in completing the tasks given	4.17	Very high
X1.7	I am focused and serious when doing the assigned tasks.	4.20	Very high
X1.8	I am able to concentrate fully while working.	4.13	Very high
X1.9	I enjoy the work being done.	4.15	Very high
X1.10	I enjoy the work being done.	4.18	Very high
X1.11	I took the opportunity to learn and improve my work skills.	4.18	Very high
X1.12	Generation Z employees are able to work independently in completing their tasks.	4.11	Very high
X1.13	I am willing to receive and utilize feedback to improve my work.	4.14	Very high
X1.14	I showed increased work enthusiasm after receiving an award for my performance.	4.21	Very high
X1.15	I feel motivated when my work is recognized.	4.23	Very high
X1.16	I try to improve my performance after getting appreciation for the work done.	4.18	Very high
X1.17	I show interest in the work being done.	4.12	Very high

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X1.18	I feel that this work contributes to the development of MSMEs.	4.17	Very high
X1.19	I show seriousness because I feel the work I do is important.	4.18	Very high

Based on the results of the descriptive analysis, the Employee Engagement variable (X1) obtained an overall average value of 4.17 with a very high category. This indicates that Generation Z employees have a very good work engagement with their jobs. The highest average value is found in statement X1.15 at 4.23, while the lowest average values are found in statements X1.2 and X1.12 at 4.11. Overall, all indicators are in the very high category, thus indicating that employees have high enthusiasm, motivation, and work involvement in supporting MSME activities.

3. Digital Skills

Table 8 Average Scores and Categories of Digital Skills Variables (X2)

No	Question	Average	Category
X2.1	I am able to operate a computer or smartphone to support my work.	4.07	Very high
X2.2	I am able to use digital applications such as marketplaces, social media, or business administration applications.	4.19	Very high
X2.3	I am able to utilize the internet to support the completion of work assignments.	4.17	Very high
X2.4	I am able to search and use information from the internet to support my work.	4.22	Very high
X2.5	I use digital media wisely and according to work ethics.	4.26	Very high
X2.6	I have an awareness to maintain the privacy and security of business data.	4.30	Very high
X2.7	I am able to troubleshoot simple technical issues on digital devices or applications used in my work.	4.15	Very high

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X2.8	I am able to find solutions when there are problems in using work technology.	4.13	Very high
X2.9	I utilize digital technology to help speed up work completion.	4.22	Very high
X2.10	I am able to use digital technology to collaborate with colleagues.	4.20	Very high
X2.11	I am able to utilize digital media to create promotional content or business activities.	4.19	Very high
X2.12	I actively contribute to teamwork through the use of digital platforms.	4.13	Very high
X2.13	I am able to use online communication applications (such as WhatsApp, email, or social media) to support my work.	4.28	Very high
X2.14	I am able to convey job information clearly through digital media.	4.23	Very high
X2.15	I understand the importance of keeping my business accounts and data secure.	4.25	Very high
X2.16	I am wary of suspicious messages or links that could potentially harm business systems.	4.27	Very high
X2.17	I follow the digital security procedures implemented in MSMEs.	4.22	Very high
X2.18	I feel that this work contributes to the development of MSMEs.	4.17	Very high

Based on the results of the descriptive analysis, the Digital Skills variable (X2) obtained an overall average value of 4.21 with a very high category. This indicates that Generation Z employees have excellent digital skills to support

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work in MSMEs. The highest average value is found in statement X2.6 at 4.30, while the lowest average value is found in statement X2.1 at 4.07. Overall, all indicators are in the very high category, thus indicating that employees are able to utilize digital technology effectively, safely, and productively to support their work.

Data Analysis Techniques and Research Results

Table 9. Results of the Validity Test of the Employee Engagement Instrument (X1)

Item	r count	r table	Information
X1.1	0.874678	0.1966	VALID
X1.2	0.8679257	0.1966	VALID
X1.3	0.8818421	0.1966	VALID
X1.4	0.8983907	0.1966	VALID
X1.5	0.8608309	0.1966	VALID
X1.6	0.8900609	0.1966	VALID
X1.7	0.8873568	0.1966	VALID
X1.8	0.8706203	0.1966	VALID
X1.9	0.8643579	0.1966	VALID
X1.10	0.8916913	0.1966	VALID
X1.11	0.8274789	0.1966	VALID
X1.12	0.8423737	0.1966	VALID
X1.13	0.8849036	0.1966	VALID
X1.16	0.88264	0.1966	VALID
X1.17	0.8585212	0.1966	VALID
X1.18	0.8808863	0.1966	VALID
X1.19	0.8964776	0.1966	VALID

Table 10 Results of the Validity Test of the Digital Skills Instrument (X2)

Item	r count	r table	Information
X1.1	0.8506779	0.1966	VALID
X1.2	0.8698514	0.1966	VALID

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X1.3	0.883826	0.1966	VALID
X1.4	0.898949	0.1966	VALID
X1.5	0.8938628	0.1966	VALID
X1.6	0.8327269	0.1966	VALID
X1.7	0.8343741	0.1966	VALID
X1.8	0.8965543	0.1966	VALID
X1.9	0.9007762	0.1966	VALID
X1.10	0.8316428	0.1966	VALID
X1.11	0.8272953	0.1966	VALID
X1.12	0.8815534	0.1966	VALID
X1.13	0.9000063	0.1966	VALID
X1.16	0.908007	0.1966	VALID
X1.17	0.8818023	0.1966	VALID
X1.18	0.872722	0.1966	VALID
X1.19	0.8547001	0.1966	VALID

Table 11 Results of the Validity Test of the Employee Performance Instrument (Y)

Item	r count	r table	Information
X1.1	0.7083744	0.1966	VALID
X1.2	0.7259832	0.1966	VALID
X1.3	0.7994489	0.1966	VALID
X1.4	0.7273742	0.1966	VALID
X1.5	0.7608789	0.1966	VALID
X1.6	0.7923191	0.1966	VALID
X1.7	0.779859	0.1966	VALID
X1.8	0.6743052	0.1966	VALID
X1.9	0.7832301	0.1966	VALID
X1.10	0.7648445	0.1966	VALID

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X1.11	0.7828904	0.1966	VALID
X1.12	0.7954175	0.1966	VALID
X1.18	0.872722	0.1966	VALID
X1.19	0.8547001	0.1966	VALID

Based on the validity test results, all questions had a calculated r value greater than the table r of 0.1966, thus all research instruments were declared valid. Furthermore, the reliability test using the Cronbach's Alpha method showed a value greater than 0.6, thus the questionnaire was declared reliable and able to provide consistent results (Ghozali, 2016).

Table 12 Reliability Test Results

Variables	Cronbach Alpha	Alpha Value Standard	Information
X1 (Employee Engagement)	0.98916	0.6	Reliable
X2 (Digital Skills)	0.9867	0.6	Reliable
Y (Employee Performance)	0.97346	0.6	Reliable

Based on the results of the reliability test, all instruments used in this study showed a Cronbach's Alpha value of more than 0.6, which indicates that the instruments are reliable. Variable X1 (employee engagement) has a Cronbach's Alpha value of 0.98916, variable X2 (digital skills) has a value of 0.9867, and variable Y (employee performance) has a value of 0.97346. Thus, all instruments in this study can be relied upon to measure the variables studied.

Classical Assumption Test

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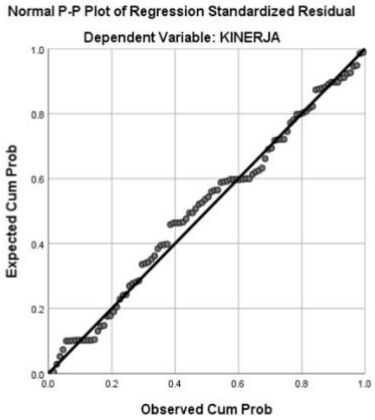

Figure 1 Results of PP Plot Normality Test

Based on the Normal PP Plot graph, it can be concluded that the residual data is normally distributed. This is evident from the points spread around the diagonal line and following the direction of the line. Thus, the assumption of normality in the regression model has been met.

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		100
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	5.83978118
Most Extreme Differences	Absolute	.078
	Positive	.048
	Negative	-.078
Test Statistic		.078
Asymp. Sig. (2-tailed)		.137[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Figure 2 Results of the Kolmogorov Smirnov Normality Test

Based on the results of the normality test using the One-Sample Kolmogorov-Smirnov, the Asymp. Sig. (2-tailed) value was 0.137. This value is greater than 0.05 (0.137 > 0.05), so it can be concluded that the residual data is normally distributed. Thus, the normality assumption in the regression model has been met.

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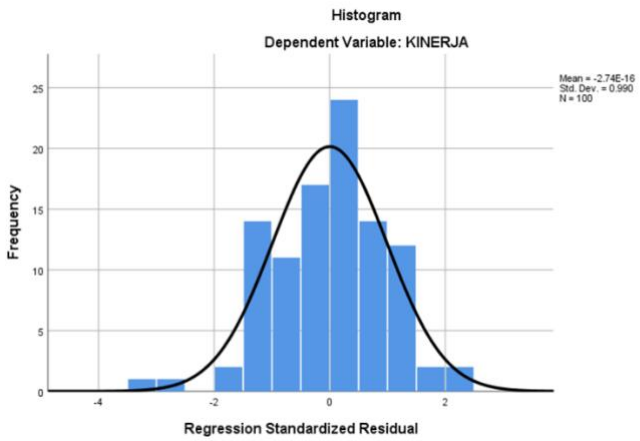

Figure 3 Histogram of Residual Normality Test

Based on the normality test histogram displayed, it can be concluded that the residual data for the employee performance variable is normally distributed. This is evident from the bell-shaped histogram and the relatively symmetrical distribution of the data around the mean, which is close to zero. Furthermore, the normal curve line that follows the histogram pattern indicates that the normality assumption in the regression model has been met.

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	EMPLOYEE ENGAGEMENT	.217	4.602
	DIGITAL SKILLS	.217	4.602

a. Dependent Variable: KINERJA

Figure 4 Multicollinearity Test Results

Based on the multicollinearity test, the employee engagement and digital skills variables have a Tolerance value > 0.10 and VIF < 10. This indicates that the regression model does not experience multicollinearity and is suitable for further analysis.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.285	1.922		2.750	.007
	EMPLOYEE ENGAGEMENT	-.037	.048	-.167	-.770	.443
	DIGITAL SKILLS	.029	.053	.117	.538	.592

a. Dependent Variable: ABSRES

Figure 5 Heteroscedasticity Test Results

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Based on the heteroscedasticity test (Glejser), the employee engagement variable has a Sig. value of 0.443 and digital skills of 0.592, both of which are greater than 0.05. Thus, the regression model does not exhibit heteroscedasticity.

Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.416	.089		27.216	.000
	EMPLOYEE ENGAGEMENT	.003	.002	.130	1.160	.249
	DIGITAL SKILLS	.016	.002	.740	6.588	.000

a. Dependent Variable: KINERJA

Figure 6 Results of Multiple Linear Regression Analysis

A constant value of 2.416 indicates that when employee engagement and digital skills are both zero, employee performance increases by 2.416. A positive regression coefficient indicates that increasing employee engagement and digital skills will improve employee performance.

Hypothesis Testing

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.416	.089		27.216	.000
	EMPLOYEE ENGAGEMENT	.003	.002	.130	1.160	.249
	DIGITAL SKILLS	.016	.002	.740	6.588	.000

a. Dependent Variable: KINERJA

Figure 7 t-Test Results

Based on the t-test results, the employee engagement variable has a coefficient value of 0.003 with a calculated t-value of 1.160 and a significance level of 0.249, which is greater than 0.05. These results indicate that employee engagement does not have a significant effect on employee performance, so the first hypothesis (H1) is rejected. This finding indicates that employee engagement has not been able to directly improve performance without other supporting factors such as motivation, work environment, and organizational support. Meanwhile, the digital skills variable has a calculated t-value of 6.588 with a significance level of 0.000, which is smaller than 0.05. These results indicate that digital skills have a positive and

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significant effect on employee performance. This means that the better the digital skills an employee has, the higher the resulting performance. Overall, the t-test results indicate that the performance of generation Z employees in MSMEs in Kabupaten

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.661	2	3.831	134.066	.000[b]
	Residual	2.771	97	.029		
	Total	10.433	99			

a. Dependent Variable: KINERJA

b. Predictors: (Constant), DIGITAL SKILLS, EMPLOYEE ENGAGEMENT

Figure 8 Test Results f

The F-test was used to determine the effect of all independent variables simultaneously on the dependent variable. Based on the ANOVA table, the calculated F-value was 34.066 with a significance value of 0.000, which is less than 0.05. This indicates that employee engagement and digital skills simultaneously have a significant effect on employee performance. Thus, the regression model is deemed suitable for use.

Coefficient of Determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.857[a]	.734	.729	.16903

a. Predictors: (Constant), DIGITAL SKILLS, EMPLOYEE ENGAGEMENT

Figure 9 Results of the Determination Coefficient

Based on the model summary table, the Adjusted R Square value was 0.729, indicating that 72.9 percent of employee performance variation can be explained by employee engagement and digital skills, while the remaining 27.1 percent is influenced by other variables outside this study.

1. **The Influence of Employee Engagement on Employee Performance**
   The first hypothesis test shows that employee engagement has a positive but not significant effect on employee performance with a regression coefficient of β = 0.003 and a significance value of 0.249 > 0.05. This means that employee engagement has not been able to significantly improve employee performance, therefore H1 is rejected.

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Employee engagement is a crucial factor that can influence employee performance within an organization. According to Schaufeli and Bakker (2004), employee engagement is a positive state characterized by vigor, dedication, and absorption, where employees exhibit high levels of enthusiasm, a sense of involvement, and full concentration in their work. Employees with high levels of engagement tend to perform better because they work with full energy and commitment. Furthermore, according to Robbins and Judge (2017), employee engagement reflects employees' emotional and cognitive involvement in their work and organization, which drives them to make maximum contributions. This suggests that the higher the level of employee engagement, the higher the resulting performance.

According to Saks (2006), employee engagement directly influences employee work behavior, such as increased responsibility, loyalty, and a desire to deliver the best possible results. Employees who feel engaged in their work are more proactive, disciplined, and highly motivated in completing their tasks. Based on these expert theories, it can be concluded that employee engagement has a positive influence on employee performance. The higher the level of employee engagement, the better the employee's performance in carrying out their duties and responsibilities.

Theoretically, employee engagement positively impacts employee performance because highly engaged employees work enthusiastically, feel a sense of ownership in their work, and strive to deliver the best results for the organization. Therefore, numerous previous studies have shown that employee engagement is a key determinant of improved employee performance.

2. The Influence of Digital Skills on Employee Performance

Digital skills are one of the essential competencies employees must possess to navigate the rapid development of technology. Digital skills reflect an individual's ability to effectively use information and communication technology to support their work. In the context of MSMEs, digital skills are becoming increasingly important because they can help improve work efficiency, expand market access, and enhance business competitiveness. According to van Laar *et al*. (2017), digital skills encompass technical, cognitive, and social abilities in using digital technology to complete tasks and solve problems. Employees with strong digital skills will be more adaptable to change, able to work more quickly and efficiently, and can leverage technology to increase work productivity.

Furthermore, according to the OECD (2021), digital skills are a key competency that plays a role in improving individual performance in the workplace, as they can accelerate work processes, increase accuracy, and support data-driven decision-making. Employees with strong digital skills tend to be more adaptable to change and able to work more effectively.

Theoretically, digital skills have a positive impact on employee performance. This is because the use of technology can help employees complete

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tasks more quickly, improve the quality of their work, and facilitate communication and coordination within the organization. Therefore, the higher the level of digital skills an employee possesses, the greater the potential for performance improvement.

3. **The Influence of Employee Engagement and Digital Skills on Employee** Performance Simultaneously

Based on the results of simultaneous testing (F-test), it was shown that employee engagement and digital skills variables together significantly influence employee performance in MSMEs in West Lombok Regency. This indicates that the combination of employee engagement and digital skills can make a significant contribution to improving employee performance. In other words, although employee engagement is not significantly affected partially, when tested together with digital skills, the two variables are able to explain variations in employee performance more comprehensively.

Empirically, this situation demonstrates that employee performance is not influenced by a single factor, but rather the result of the interaction of various factors, both psychological, such as employee engagement, and technical, such as digital skills. Employees with strong digital skills will more easily complete their work effectively and efficiently, while employee engagement plays a role in fostering positive work attitudes, such as responsibility and commitment to their work.

The results of this study align with the concept of human capital theory, which states that individual performance is influenced by a combination of knowledge, skills, and work attitudes. Digital skills represent the skill aspect, while employee engagement reflects the attitude and emotional involvement of employees in their work. The combination of the two will have a stronger impact on improving performance than if only one factor is considered. Furthermore, according to Wilmar Schaufeli and Arnold Bakker, employee engagement can improve work performance if supported by adequate work resources, including relevant abilities and skills such as digital skills. Therefore, when employees are engaged at work and supported by good digital skills, their performance will be more optimal.

Thus, it can be concluded that employee engagement and digital skills simultaneously play a crucial role in improving employee performance. Therefore, MSME owners are advised to focus not only on improving employees' digital skills through training but also on building employee engagement through a supportive work environment to achieve maximum and sustainable performance.

CONCLUSION

Based on the research results, it can be concluded that digital skills have a positive and significant effect on the performance of Generation Z employees in

DOI : 10.37531/amar.v6i2.3873

MSMEs in West Lombok Regency. The better the digital skills possessed by employees, the higher the resulting performance. Meanwhile, employee engagement did not have a significant effect partially on employee performance. However, simultaneously, employee engagement and digital skills were proven to have a significant effect on employee performance. The results of this study indicate that digital skills are a dominant factor in increasing the effectiveness and productivity of Generation Z employees in the era of digital transformation of MSMEs. This study has limitations in the number of samples that only include 100 respondents and the research focus is limited to MSMEs in West Lombok Regency, so the results of the study cannot be generalized widely. In addition, this study only used two independent variables so there are still other factors that can influence employee performance, such as work motivation, job satisfaction, organizational culture, and leadership style.

The practical implications of this study indicate that MSME owners need to improve their employees' digital capabilities through technology training, strengthening digital literacy, and utilizing digital platforms in business operations to optimize employee performance. Furthermore, MSMEs also need to build a supportive work environment to increase the engagement and work enthusiasm of Generation Z employees. For local governments and related agencies, the results of this study can serve as a basis for developing digital-based human resource development programs in the MSME sector. Further research is recommended to expand the research area, increase the number of respondents, and include other relevant variables to make the research results more comprehensive and able to provide a broader picture of the factors that influence the performance of Generation Z employees in MSMEs.

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