

THE INFLUENCE OF COMPETENCE AND WORK EXPERIENCE ON THE PERFORMANCE OF THE PEOPLE'S ECONOMY BANK WITH DEMOCRATIC LEADERSHIP AS AN INTERVENING VARIABLE

I Nyoman Yudiarsa¹, Yuniningsih², Ika Korika Swasti³

^{1,2,3}Magister Manajemen, Fakultas Ekonomi Dan Bisnis,
Universitas Pembangunan Nasional "Veteran" Jawa Timur
Corresponding Author : yudi_certif@yahoo.com

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Abstract

This research is motivated by the importance of improving the performance of the People's Economic Bank (BPR) which has a strategic role in strengthening the local economy and encouraging financial inclusion. Human resource competencies and work experience are seen as key factors that contribute to performance, but their effectiveness is highly dependent on the leadership carried out in the organization. The limited research that examines the role of democratic leadership as a mediation mechanism is the basis for the need for this study. The theoretical framework used is Herzberg's Two-Factor Theory, which emphasizes the role of motivating factors in improving individual and organizational performance.

This study aims to analyze: (1) the influence of competence on BPR performance, (2) the influence of work experience on BPR performance, (3) the role of democratic leadership in mediating the relationship between competence and performance, and (4) the role of democratic leadership in mediating the relationship between work experience and performance. The quantitative approach was used using the Structural Equation Modeling–Partial Least Squares (SEM–PLS) method. The research sample consisted of 93 BPR Directors who were selected using simple random sampling techniques. Data was obtained through a structured questionnaire and analyzed using SmartPLS.

The results of the study show that: (1) competence has a significant effect on BPR performance, (2) work experience does not have a direct effect on performance, (3) democratic leadership does not mediate the relationship between competence and performance, and (4) democratic leadership has proven to be significant in mediating the relationship between work experience and performance. These findings confirm that competence is a direct determinant of performance, while work experience will be more optimal if managed through participatory, open, and rewarding democratic leadership for employee contributions.

Keywords: Competence, Work experience, Democratic leadership, performance BPR

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INTRODUCTION

Bank Perekonomi Rakyat (BPR) has a strategic role in Indonesia's financial system, especially in encouraging grassroots economic growth and expanding financial inclusion for micro, small, and medium enterprises (MSMEs). Until December 2024, there are 1,369 BPRs operating throughout Indonesia with an increasing business scale. The increase is reflected in the consistent increase in total assets, credit disbursement, and third-party funds in the last five years as shown in Table 1.

Table 1. BPR Performance Growth in the Last Five Years

Yes	Description	2020	2021	2022	2023	2024
1	Total Assets (Trillion Rp)	155,1	168,4	182,3	194,9	204,7
2	Credit (Trillion Rp)	110,8	116,6	129,3	140,8	148,9
3	Third-Party Funds (Trillion Rp)	106,2	117,1	126,9	137,9	143,8

Source: Data Processed, 2025

Although the scale of BPR's business continues to grow, financial performance indicators in the last five years show symptoms of stagnation and even decline in certain aspects. Return on Assets (ROA), which is the main measure of profitability, decreased from 1.9% in 2020 to 1.4% in 2024. This indicates a decline in the ability of BPRs to generate profits from their assets and potential inefficiencies in asset utilization. The Operating Expense to Operating Income (BOPO) ratio has indeed improved from 93.2% to 88.9%, but this figure is still relatively high compared to industry best practices below 85%, indicating challenges in cost management. More worrying is the sharp increase in Non-Performing Loans (NPLs) from 7.2% to 11%, or more than three times the ideal limit set by the regulator of 3%. This condition reflects high credit risk and weaknesses in the process of analysis, supervision, and loan collection. A summary of BPR's financial performance during the period is presented in Table 2.

Table 2. BPR's Financial Performance in the Last Five Years

Yes	Description	2020	2021	2022	2023	2024
1	LENGTH (%)	1,9	1,8	1,7	1,0	1,4
2	BOPO (%)	93,2	91,9	90,5	89,8	88,9
3	NPL (%)	7,2	6,7	7,9	9,9	11,0

Source: Data Processed, 2025

This condition shows that improving BPR performance cannot only rely on business expansion and financial management, but requires a strategic approach that emphasizes strengthening internal organizational factors, especially the quality of human resources. In the operational context of BPR, human capital is a determining factor in service quality, operational efficiency, and risk management effectiveness.

According to Herzberg's Two-Factor Theory (1966), competencies and work experience are included in the category of motivational factors that can improve performance if supported by a conducive organizational climate and effective leadership. Competencies include the integration of knowledge, technical skills, professional attitudes, and work behaviors that enable employees to carry out their duties effectively (Burnett & Dutsch,

2006). In the increasingly competitive and regulated banking industry, the competencies of BPR employees not only include technical aspects, but also regulatory compliance, the ability to build relationships with customers, and digital literacy to deal with financial technology developments.

Meanwhile, work experience defined as the length and variety of professional roles that individuals have (Ilham, 2022) is also seen as a motivational factor that contributes to increased efficiency, problem-solving skills, and strategic decision-making. However, empirical evidence on the influence of work experience on performance still shows mixed results. Several studies (Sari & Wijaya, 2021; Rahmawati et al., 2020) found a positive effect, while another study (Kitta et al., 2019) did not prove a significant effect. This indicates that work experience does not automatically improve performance, but is influenced by contextual factors such as the quality of the work environment, mentoring system, and prevailing leadership style.

In this case, the democratic leadership style is seen as a key variable that can optimize the utilization of competencies and work experience. Democratic leadership is characterized by participatory decision-making, recognition of individual contributions, and openness to feedback (Nasution et al., 2023). A number of studies confirm that this leadership style is able to encourage employee involvement, increase intrinsic motivation, and strengthen organizational performance (Hikmat & Ghorbandi, 2024). Thus, democratic leadership is believed to play a role as a mediation mechanism that can channel the influence of competence and work experience on improving BPR performance.

Although many studies have been conducted on competencies, work experience, and leadership styles, there is still little research that integrates these three variables in a single empirical framework that is specific to the BPR context. Most previous studies only partially tested the influence of each variable, leaving a research gap related to the simultaneous interaction between variables. Answering these gaps, this study developed a conceptual model that examines the influence of competence and work experience on BPR performance with democratic leadership as an intervening variable. The objectives of this study are: (1) analyzing the direct influence of competence on BPR performance, (2) analyzing the direct influence of work experience on BPR performance, (3) examining the role of democratic leadership as a mediation variable, and (4) providing strategic recommendations for human resource development and leadership within BPR.

2. THEORY

This research is based on Herzberg's Two-Factor Theory (1966), which distinguishes factors that affect performance into two categories, namely hygiene factors and motivator factors. Hygiene factors include working conditions, relationships between colleagues, and organizational policies, which if not met can cause dissatisfaction, but their fulfillment does not always increase motivation. On the other hand, motivator factors include achievements, recognition, responsibility, competence, and work experience that can directly increase individual motivation and performance. In the context of BPR, competence and work experience are seen as motivating factors that can make a significant contribution to improving organizational performance. However, in order for these two factors to be realized

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optimally, an appropriate leadership style is needed. Democratic leadership is positioned as a mechanism that is able to create a participatory work climate, provide recognition for employee contributions, and encourage active involvement in decision-making, so as to strengthen the influence of competencies and work experience on BPR performance.

Competence

Competence is a set of abilities that consist of knowledge, skills, attitudes, and values possessed by individuals so that they can carry out tasks effectively (Burnett & Dutsch, 2006). Within the framework of human resource management theory, competence is seen as the main capital that determines the success of the organization. Competence is also often associated with human capital theory, which states that investment in improving the quality of individuals will result in better organizational output. In the context of BPR, employee competencies have a strategic role because this institution operates in an environment that is strictly regulated by the Financial Services Authority (OJK). Competencies include not only technical skills in financial and banking management, but also non-technical aspects such as regulatory compliance, digital literacy, credit risk management, and interpersonal skills in customer service. A high level of competence allows BPR employees to provide quality services, innovate products, and respond quickly to market dynamics.

Some empirical research supports this view. Alavi et al. (2015) found that competencies combined with organizational culture can improve performance through balanced scorecards. Ulyanah et al. (2021) also emphasized that competence has a significant effect on the effectiveness of employee performance. Thus, competence can be seen as a motivational factor that drives the achievement of higher performance, according to Herzberg's Two-Factor Theory.

Work Experience

Work experience is defined as the accumulation of length of time and the variety of roles that individuals play in an organization (Ilham, 2022). The longer and more diverse the experience, the greater the opportunity for a person to develop technical skills, problem-solving skills, and flexibility in dealing with changes in the work environment. In human capital theory, work experience is often considered a form of long-term investment that enriches employees' practical knowledge. In practice, work experience at BPR not only includes technical banking skills, but also an understanding of OJK compliance procedures, credit risk management strategies, and interactions with various customer segments. Employees who have long experience in the BPR sector tend to be more adaptive to market challenges, able to anticipate risks, and can make more informed decisions.

However, the results of previous studies showed inconsistencies. Research by Rahmawati et al. (2020) proves that work experience contributes to the operational efficiency of BPR, while Kitta et al. (2023) found that work experience does not always have

a significant effect on employee performance. This indicates that new work experience provides real value if it is managed properly through a supportive leadership system, mentoring, and organizational culture. Therefore, this study positions work experience as an independent variable whose influence can be strengthened through the mediation role of democratic leadership.

Democratic Leadership

Democratic leadership is a leadership style characterized by active participation of employees in decision-making, recognition of individual contributions, and openness in communication (Nasution et al., 2023). From the perspective of modern management theory, democratic leadership is believed to be able to create a collaborative work climate, increase employee engagement, and encourage intrinsic motivation.

In the context of BPR, democratic leadership is very relevant because the relatively small organizational structure facilitates two-way communication between leaders and employees. This leadership style can transform individual work experiences into collective learning, while channeling employee competencies towards achieving organizational goals. Previous research supports this view, such as Affainie & Qutieshat (2024) who show that democratic leadership increases organizational commitment, as well as Koirala et al. (2024) who find that this leadership style can mediate the relationship between individual factors and organizational performance.

Thus, democratic leadership in this study is positioned as an intervening variable that bridges the influence of competence and work experience on BPR performance. This leadership style is expected to be able to optimize the potential of human resources so that it has an impact on more sustainable organizational performance.

Performance of the People's Economic Bank (BPR)

Organizational performance can be defined as the level of achievement of strategic goals set by the company, both in the financial and non-financial dimensions (Auliyani & Mulyanti, 2023). In BPR, performance indicators generally include asset growth, profitability measured through Return on Assets (ROA), and operational efficiency which is reflected in the BOPO ratio. In addition, BPR performance is also determined by non-financial aspects such as service quality, regulatory compliance, and the effectiveness of credit risk management.

In the perspective of Herzberg's Two-Factor Theory, employee performance is influenced by motivator factors such as competence and work experience, which can increase intrinsic motivation when supported by an appropriate work environment. Some studies support this. Auliyani & Mulyanti (2023) show that competence and work motivation have a significant effect on BPR performance in East Java. Meanwhile, Sarifuddin, Lestari,

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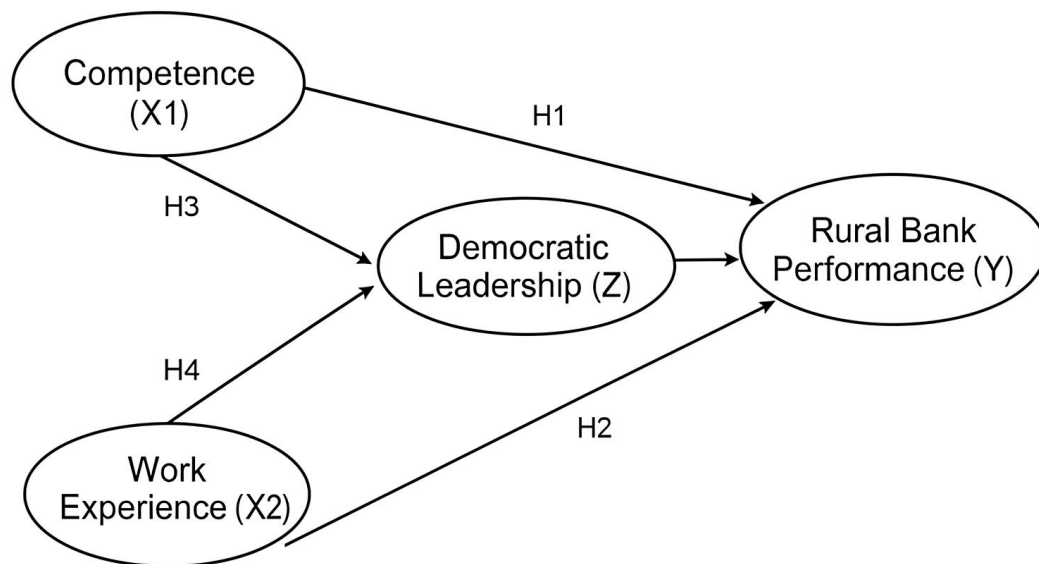
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& Prabowo (2022) emphasized the importance of the role of democratic leadership in bridging the influence of competence on organizational performance.

Thus, the performance of BPR in this study is seen as an outcome that is directly influenced by the competence and work experience of employees, as well as indirectly through democratic leadership. This framework of thought is expected to provide a comprehensive overview of BPR performance improvement strategies through strengthening the quality of human resources and implementing the right leadership style.

Conceptual Framework

Figure 1. Conceptual Framework



Source: Data Processed, 2025

Hypothesis

1. Competence has a positive effect on the performance of the People's Economic Bank (BPR).
2. Work experience has a positive effect on the performance of the People's Economic Bank (BPR).
3. Competence through democratic leadership as an intervening variable has a positive effect on the performance of the People's Economic Bank (BPR).
4. Work experience through democratic leadership as an intervening variable has a positive effect on the performance of the People's Economic Bank (BPR).

3. RESEARCH METHOD

This study uses a quantitative approach with an explanatory research type that aims to explain the causal relationship between variables. The focus of the research is to analyze the influence of competence and work experience on the performance of the People's Economic Bank (BPR) with democratic leadership as an intervening variable. The research population consists of 1369 BPRs spread throughout Indonesia by 2024. The research sample is the Director of BPR with a minimum working period of one year, to ensure that the respondents have adequate practical experience in carrying out managerial functions and have passed the annual operational cycle. The sampling technique used is simple random sampling, so that each member of the population has the same opportunity to be selected. Based on Slovin's calculation with an error rate of 10%, a sample size of 93 respondents was obtained, this number was considered adequate to meet the requirements of the Structural Equation Modeling–Partial Least Squares (SEM–PLS) analysis.

The data of this study is sourced from primary data obtained through the distribution of questionnaires to selected respondents. The questionnaire instrument was compiled using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Competency variables are measured through indicators of knowledge, skills, and work attitudes; work experience through indicators of length of work, variety of tasks, and skill level; democratic leadership through indicators of participation in decision-making, recognition of subordinates, and openness of leaders in receiving criticism and suggestions; while BPR performance is measured through asset growth, profitability (ROA), and operational efficiency (BOPO) indicators. In addition, secondary data in the form of OJK reports and academic literature were used to strengthen the analysis.

Data analysis was carried out using the Structural Equation Modeling–Partial Least Squares (SEM–PLS) method using SmartPLS software. The analysis stage includes testing the measurement model (outer model) to assess convergent validity, discriminant validity, and construct reliability, as well as structural model testing (inner model) to evaluate the relationship between latent variables through path coefficients, t-statistical values, and p-values with bootstrapping procedures. The R-square value is also used to assess the predictive ability of the model. The SEM–PLS method was chosen because it is suitable for relatively small sample sizes, is able to overcome non-normal data distribution, and is effective for testing direct and indirect influences (mediation) simultaneously.

3. RESULTS AND DISCUSSION

The results of the description of the research variables showed that the average respondents' answers were in the category of quite high to high. The competency variable obtained an average score of 4.12 which was in the high category, reflecting that the BPR Board of Directors already has adequate knowledge, skills, and work attitude. The democratic leadership variable is also in the high category with an average score of 4.05, which shows that the participatory leadership style is quite dominant in BPR operations. On the other hand, work experience obtained an average score of 3.87 and BPR performance of 3.95, both in the category of quite high. This indicates that even though work experience and performance have been good, both still have room for improvement. A summary of the description of the research variables is presented in Table 3.

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Table 3. Variable Descriptive Statistical Results

Variabel_ Indicators	Mean	Std	Loading Factor
Kompetensi_Pengetahuan	4,675	0,4697	0.8471
Kompetensi_Keterampilan	4,603	0,5044	0.7951
Kompetensi_Sikap	4,623	0,4999	0.8366
Pengalaman_Tahun	4,497	0,5759	0.7598
Pengalaman_VariasiTugas	4,596	0,5057	0.8335
Pengalaman_Keahlian	4,603	0,5044	0.8353
Kepemimpinan_Keputusan Participatory	3,974	0,7655	0.6980
Kepemimpinan_Penghargaan	4,470	0,6089	0.9067
Kepemimpinan_Saran	4,377	0,6082	0.8426
Kinerja_PertumbuhanAset	4,371	0,6595	0.8214
Kinerja_ROA	4,291	0,7265	0.8373
Kinerja_BOPO	4,351	0,6851	0.7903

Source: Data Processed, 2025

Testing the validity and reliability of the construct through external model analysis showed that all research variables met the valid and reliable criteria. This can be seen from the Average Variance Extracted (AVE) value which is above 0.50, as well as the Composite Reliability (CR) and Cronbach's Alpha values which are higher than 0.70. Thus, all indicators used in this study are able to measure constructs consistently and accurately. The results of the validity and reliability tests are shown in Table 4.

Table 4. Construct Validity and Reliability Test Results

Variable	AVE	Composite Reliability	Cronbach's Alpha	Information
Competence	0,683	0,901	0,847	Valid & Reliable
Work Experience	0,657	0,889	0,821	Valid & Reliable
Democratic Leadership	0,766	0,932	0,901	Valid & Reliable
BPR Performance	0,667	0,904	0,856	Valid & Reliable

Source: Data Processed, 2025

Furthermore, the results of the internal model test showed that the competency and work experience variables were able to explain the variation in democratic leadership by 21.6%, while all independent variables in this study were able to explain the performance of BPR by 16.3%. This value is included in the weak to moderate category, which means that

there are other factors outside the research model that also affect BPR performance. The results of the R-Square test are summarized in Table 5.

Table 5. R-Square Value of Endogenous Variables

Endogenous variable	R-Square	R-Square Adjusted	Information
Democratic Leadership	0,216	0,205	Moderate
BPR Performance	0,163	0,147	Weak–Moderate

Source: Data Processed, 2025

The results of the hypothesis test showed that competence had a positive and significant effect on BPR performance, with a coefficient value of 0.228 and a significance level of 0.013. This indicates that the competencies possessed by the Board of Directors make a real contribution to improving the performance of the institution. On the other hand, work experience was not proven to have a direct effect on BPR performance, with a significance value of 0.239, so the length of service period and the variation in experience did not necessarily result in better performance. The results of the mediation test also showed that democratic leadership did not mediate the relationship between competence and BPR performance, but significantly mediated the relationship between work experience and performance, with a significance value of 0.037. A summary of the path test results is shown in Table 6. and Table 7.

Table 6. Direct Effect Test Results

Influence Path	Coefficient	T-Statistics	P-Value	Conclusion
BPR Performance → Competencies	0,228	2,241	0,013	Significant (+)
Work Experience → BPR Performance	0,076	0,710	0,239	Insignificant

Source: Data Processed, 2025

Table 7. Indirect Effect Test Results (Mediation)

Influence Path	Coefficient	T-Statistics	P-Value	Conclusion
BPR Performance → Competencies through Democratic Leadership	0,021	0,631	0,265	Insignificant
Work Experience → BPR Performance through Democratic Leadership	0,076	1,804	0,037	Significant (+)

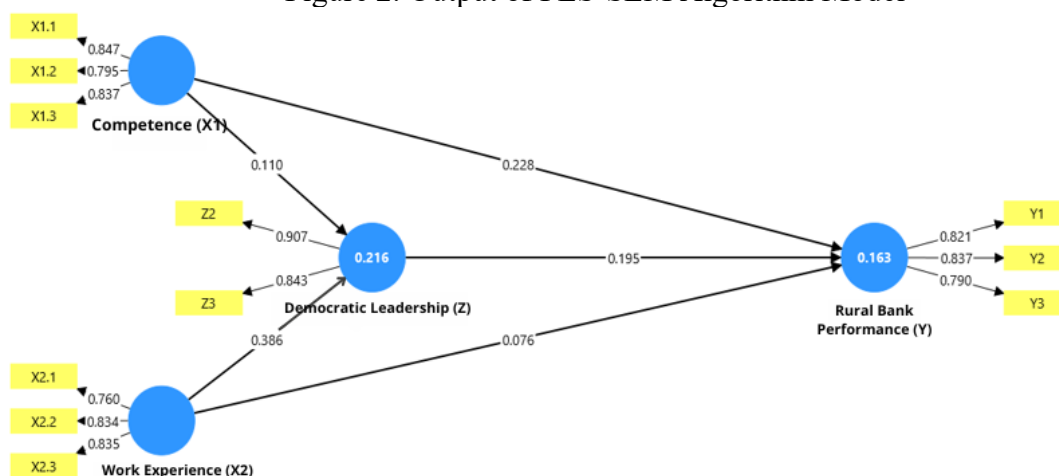
Source: Data Processed, 2025

Overall, the results of this study confirm that competence is a determinant factor that can directly improve the performance of BPR, while new work experience contributes if supported by democratic leadership. These findings imply that employee competency development needs to be made a strategic priority for BPRs, while work experience must be managed with a participatory leadership approach in order to truly impact improving organizational performance.

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Figure 2. Output of PLS-SEM Algorithm Model



Source: Data Processed, 2025

DISCUSSION

This chapter discusses the results of research that have been obtained through the analysis of Structural Equation Modeling–Partial Least Squares (SEM–PLS) with the aim of answering the formulation of the problem and testing the hypotheses that have been proposed. The discussion was carried out by interpreting the results of testing the relationship between variables, comparing them with the theoretical framework used, and relating them to the findings of previous research. In addition, the discussion is also directed to provide relevant theoretical and practical implications for the development of the People's Economic Bank (BPR).

The results of this study show that competence has a positive and significant effect on BPR performance, which emphasizes the importance of the quality of human resources in encouraging operational success and achieving organizational goals. The knowledge, skills, and work attitude possessed by employees, especially the Board of Directors, which play a direct role in strengthening organizational performance. In particular, the knowledge indicator showed the greatest contribution with a loading factor value of 0.8471, which made it the most dominant dimension in explaining competence. In the context of BPR, practical knowledge related to banking regulation, credit risk management, and the use of digital technology in financial services plays a vital role in maintaining asset growth, improving cost efficiency, and ensuring healthy profitability. These findings are in line with Herzberg's Two-Factor Theory (1966), which places competence as an intrinsic motivational factor that drives work motivation through achievement and self-development. Research by Soetrisno & Gilang (2018) and Ulyanah et al. (2021) also shows that competence has a significant effect on employee performance. Therefore, the development of human resource competencies, especially at the leadership level, must be seen as a strategic investment that can improve BPR performance in the long term.

On the contrary, the results of this study show that work experience does not have a direct effect on BPR performance. This indicates that the length of service or the diversity of roles that have been undertaken by the Board of Directors does not automatically result in an improvement in organizational performance. The indicator with the greatest contribution to the construction of work experience is expertise, with a loading factor of 0.8353. Expertise gained from experience, such as skills in creditworthiness analysis, financing risk management, or the use of digital banking applications, does not automatically improve performance if it is not supported by advanced training, involvement in decision-making, and performance-based rewards policies. These findings are in line with Kitta et al. (2023) who show that work experience has not always had a significant effect on employee performance, especially if it is not facilitated by a supportive managerial system. This underscores that while work experience is an important factor, its impact on organizational performance can only be realized with the right leadership support and organizational structures that support continuous learning.

The results of this study also confirm that democratic leadership does not play a mediator role in the relationship between competence and BPR performance, but has been proven to significantly mediate the influence of work experience on BPR performance. These findings suggest that competencies play a direct role in improving performance, while work experience requires a democratic leadership role to transform that experience into a tangible contribution to organizational performance. Democratic leadership, characterized by participation in decision-making, open communication, and appreciation for individual contributions, has proven effective in facilitating work experiences to translate into collective learning that strengthens organizational performance. The indicator of democratic leadership with the highest loading factor was the reward for subordinates (0.9067), which shows that the reward has an important role in increasing employee motivation and involvement in achieving organizational goals. These findings support the research of Koirala et al. (2024) who emphasize that democratic leadership can play a role as a mediating variable that strengthens the influence of work experience on organizational performance, and is in line with Affainie & Qutieshat (2024) who show that this leadership style increases employee engagement and commitment to the organization.

Theoretically, these findings reinforce the relevance of Herzberg's Two-Factor Theory, which explains that both competence and work experience can affect performance, but by different mechanisms. Competency has been proven to have a direct effect on performance, while work experience only has a significant impact when mediated by democratic leadership. This study expands on the existing literature by showing that democratic leadership not only plays a role as a contextual factor in improving performance, but also functions as an important intervening variable in optimizing the influence of work experience on organizational performance. These findings make an important contribution

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to the literature on human resource management and organizational behavior, particularly in the context of BPR, by affirming the importance of a leadership style that encourages active participation and recognition of employee contributions.

The practical implication of these findings is the need for BPR management to focus efforts on developing employee competencies, especially at the leadership level, through continuous training, professional certification, and strengthening digital literacy. In addition, employee work experience needs to be optimally utilized with democratic leadership that encourages active participation in decision-making and rewards individual contributions. Thus, competence and work experience can be a competitive advantage that not only contributes to the productivity, efficiency, and sustainability of organizational performance, but also strengthens the overall performance of BPR. To achieve this, BPR managers need to ensure that existing HR development policies not only focus on improving technical skills, but also include interpersonal and social dimensions, so that employees can develop their full potential in supporting BPR's strategic goals.

4. CONCLUSION

This study found that competence has a positive and significant influence on BPR performance, confirming that improving employee competencies, which includes knowledge, skills, and work attitudes, can contribute directly to operational effectiveness and the achievement of organizational goals. However, work experience has not been shown to have a significant influence on BPR performance directly. These findings indicate that while work experience is important, job rotation and career development opportunities need to be implemented to maximize their contribution to performance. In addition, the results of the study show that competence through democratic leadership mediation does not significantly affect performance, because democratic leadership requires broader contextual factors than technical competence alone. Meanwhile, work experience mediated by democratic leadership has been proven to have a positive and significant influence on BPR performance, which emphasizes that experience can only be realized as a real contribution if supported by a participatory leadership style.

The model built in this study shows that the influence of variables on BPR performance is not only direct, but can also be through indirect relationships or mediation mechanisms. The SEM-PLS approach used has provided a comprehensive understanding of the role of democratic leadership as a mediating variable that strengthens the impact of work experience on performance. This enriches the literature on human resource management in the BPR sector, by showing the importance of integration between competencies, work experience, and leadership in improving organizational performance.

Based on these findings, a number of practical suggestions can be implemented by BPR management. First, employee competencies need to be combined with a work system that allows the actualization of competencies in achieving organizational performance, such as through results-based training and involvement in decision-making. Second, work experience must be managed as a strategic asset through job rotation and mentoring programs. Third, strengthening democratic leadership is a priority in organizational

development to create a participatory work environment. Fourth, competency development must include social and leadership aspects in order to support the organization's overall goals. Finally, follow-up research is recommended to integrate additional variables such as organizational culture and work motivation, as well as use a mixed methods approach to enrich understanding of the factors that affect BPR performance.

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