

## **Islamic Human Capital Management and Compensation as Drivers of Employee Productivity: Insights from a Small Service Enterprise in Indonesia**

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### **Abstract**

The disparity in employee productivity among organizations within the same industry has necessitated advancements in human resource management. Consequently, Islamic Human Capital management emerges as a practical approach to enhance staff productivity. This research, conducted at Istana Laundry Samarinda, aims to provide insights into how Islamic Human Capital management and remuneration influence staff productivity, offering valuable guidance for HR strategies. The study employed quantitative methodologies with a sample of 65 employees. A Likert-scale questionnaire was used as the instrument. Multiple linear regression analysis was utilized as one of the analytical strategies. The findings suggest that Islamic Human Capital management enhances employee productivity, whereas remuneration does not. Based on these results, it is recommended that Istana Laundry improve its Islamic Human Capital management and evaluate its compensation system to boost employee productivity.

**Keywords:** Islamic Human Capital Management, Compensation Strategies, Employee Productivity

### **INTRODUCTION**

Firm performance within the same sector differs. Certain companies yield substantial profits, whilst others incur losses. These disparities compel organizations to enhance their competitive edge by continually refining all business operations. Only companies that endure over the long run can achieve victory (Brata & Wening, 2023). This prompts managers to enhance human resources, the principal catalyst and source of innovation for organizations. In contrast to other resources, human resources are crucial in establishing enduring competitive advantages that empower organizations to succeed (Yuniarsih *et al.*, 2022)

Enhancing the quality of human resources is essential for addressing dynamic commercial competitiveness. Low competitiveness engenders issues about corporate survival. Consequently, managers consistently endeavor to implement development strategies that turn personnel into highly competitive individuals. This is essential for employees to adjust to alterations in the competitive business landscape (Amir *et al.*, 2022). Well-trained individuals are highly sought after for their requisite knowledge and abilities to execute duties efficiently and on time. They possess a superior understanding of corporate objectives, foster team cohesion, and devise innovative solutions to challenges. Consequently, investing in staff skill development is essential for enhancing a company's productivity and operational efficiency, as well as for achieving sustained competitive advantage (Megawati *et al.*, 2024).

Employee productivity is crucial in ascertaining a company's success. Elevated productivity levels indicate the efficiency and efficacy of resource utilization within a corporation, including time, labor, and capital (Ulum *et al.*, 2020). Departments within a firm typically seek ongoing improvements in staff productivity, enabling the organization to produce the maximum quantity of goods and services with minimal resources. A corporation is genuinely productive when it can optimize productivity by incorporating individuals into the comprehensive operating system (Robbins & Coutler, 2021). Enhanced employee productivity significantly influences profitability, as productive employees contribute to increased corporate output and income (Darni & Febriansyah, 2024). Consequently, staff productivity is a crucial determinant of a company's sustained growth, alongside profitability (Buallay *et al.*, 2021).

Islamic Human Capital management is regarded as a factor that enhances total employee productivity. This concept entails corporations viewing staff not solely as operational expenses but also as strategic assets with enduring value. Islamic Human Capital is regarded as an investment capable of generating substantial returns if effectively managed, not just as a component of the company's fundamental assets, but as an asset that can be enhanced, broadened, and cultivated over time (Ulum *et al.*, 2020). By treating people as valuable assets, organizations are more inclined to invest in enhancing overall employee productivity, thereby leveraging their competitive edge to secure business opportunities (Hamadamin & Atan, 2019).

Organizations vary in their effectiveness in managing human resources, underscoring that distinct personnel overseeing the same asset can deliver disparate value (Brata & Wening, 2023). It underscores the significance of Islamic Human Capital management as a cohesive initiative to cultivate and augment human competencies for performance enhancement. Human Resource Management (HCM) is a strategic approach aimed at generating value for an organization through various approaches and strategies (Sohel-Uz-Zaman *et al.*, 2019). The implementation of HCM involves multiple stages, including recruitment, selection, training, performance evaluation, compensation, benefits, and employee relations. Incorporating these elements enables an organization to attain optimal performance (Maharani *et al.*, 2020).

Compensation is a crucial element in the execution of Islamic Human Capital management aimed at enhancing total employee productivity (Daramola, 2019). Every person in a company inherently seeks remuneration for their contributions. Compensation serves as a vital motivator, enhancing employee productivity and engagement (Berlian & Rafida, 2022). The mechanism of compensation delivery substantially impacts its efficacy. Consequently, remuneration systems must be equitable and transparent, and be customized to each employee's contributions (Lestari *et al.*, 2021). This study seeks to analyze the impact of Islamic Human Capital management and remuneration distribution on enhancing employee productivity.

## LITERATURE REVIEW

Resource-based theory emphasizes resources that possess valuable, uncommon, inimitable, and non-substitutable attributes, which empower a corporation to achieve competitive advantage (Syarif *et al.*, 2023). Resource-based theory shifts the emphasis from external study in conventional industrial-organizational economics to a more comprehensive internal examination. This approach underscores the importance of the firm's diverse resources. Resource-based theory aims to elucidate variations in corporate performance by emphasizing the distinctive and important resources of firms. This encompasses the methods by which organizations manage their assets, talents, and expertise to establish a competitive advantage that rivals find difficult to replicate. In the realm of enhancing employee productivity, Islamic Human Capital management and remuneration are direct applications of the Resource-Based Theory (RBT). Investing in employee skill development and establishing a competitive remuneration framework enables a company to optimize its human resources as a strategic asset (Syarif, 2021).

Prior investigations into Islamic Human Capital management by Humaerah *et al.* (2023) revealed a favorable correlation between Islamic Human Capital and employee productivity; however, a study by Ulum *et al.* (2020) found a negative correlation. Moreover, prior studies by Lestari *et al.* (2021) and Ramadhan *et al.* (2023) reported a favorable correlation with employee productivity. In contrast, a study by Berlian & Rafida (2022) concluded that remuneration did not influence employee productivity. This study's results illustrate the intricacies and challenges of understanding the relationship between Islamic Human Capital and remuneration to enhance employee productivity. Nonetheless, these data solely record the quantitative impact of these parameters (Rahmatullah *et al.*, 2024).

Islamic Human Capital refers to human resources that embody Islamic features and adhere to Islamic norms. Proper management of Islamic Human Capital can foster a peaceful work environment and help allocate human resources based on their abilities and knowledge, thereby boosting firm performance. Equitable and Sharia-compliant remuneration enhances employees' financial well-being and

cultivates harmonious, trusting workplace relationships. It fosters enhanced productivity, integrity, and loyalty among employees towards the organization.

Dessler (2020) asserts that compensation plans should correspond with the company's strategic objectives by developing compensation packages that promote employee behavior consistent with the competitive strategy. Each award must be explicitly connected to distinct business objectives. Pentury (2022) asserts that establishing remuneration requires a thorough evaluation of multiple factors, including job analysis, job descriptions, job specifications, positions, external benchmarks, and adherence to regulatory norms. The policy aims to cultivate a harmonious workplace, promote collaboration, and guarantee satisfaction among all stakeholders.

## METHOD

This study is quantitative approach, and the independent factors comprised Islamic Human Capital management and compensation, whilst the dependent variable was employee productivity. This study encompassed all 65 employees at Istana Laundry Samarinda, constituting the research population. A saturation sampling strategy was employed in the sample selection procedure due to the relatively small population. Consequently, 65 employees from Istana Laundry Samarinda were chosen as the research sample.

The questionnaire was created online via Google Forms because the employees' work locations are dispersed across several areas of Samarinda City. Employees indicated their responses by selecting one of the following options on the Google Form: Strongly Agree, Agree, Disagree, or Strongly Disagree. In the concluding phase, all surveys with replies from Istana Laundry personnel were evaluated utilizing a Likert scale.

The tool used in this study was a questionnaire with indicators representing the examined variables. Table 1 displays the indicators for the independent and dependent variables utilized in this research instrument.

**Table 1.** Measurement of Variables

Variabel	Definisi	Indikator Variabel
Islamic Human Capital ( $X_1$ )	incorporation of Islamic moral and spiritual values in all labor activities to attain collective prosperity	1. Proficiency 2. Reliability 3. Integrity 4. Self-control 5. Collaboration
Compensation ( $X_2$ )	Compensation includes both financial and non-financial benefits provided to employees in acknowledgment of their contributions and work performance	1. Salary 2. Bonuses 3. Allocations 4. Amenities
Employee Productivity ( $Y$ )	the efficiency and effectiveness with which employees produce goods or services	1. Quality of Work 2. Timeliness 3. Volume of Work

The data collected from the questionnaire replies were subsequently organized in Excel and analyzed using SPSS. The characteristics of respondents were illustrated graphically, showcasing descriptive statistics, and the research findings were displayed in SPSS output, reflecting parametric statistics. This study employed multiple linear regression analysis as its data analysis technique.

In this investigation, hypothesis testing was performed under the condition that the null hypothesis is rejected if the significance value is below 0.05. The hypotheses of this study are articulated as follows:

H0: Islamic Human Capital Management and Compensation exert no substantial influence on employee productivity.

H1: Islamic Human Capital Management significantly influences employee productivity.

H2: Compensation significantly influences employee productivity

## RESULT AND DISCUSSION

### RESULT

The respondents in this study were categorized according to gender, age, and length of work. Table 2 indicates that the number of female employees surpasses that of male employees. This table is attributable to the particularities of laundry tasks, such as washing and ironing, which necessitate greater expertise and precision, typically exhibited by female staff.

**Table 2: Respondent Description**

No	Characteristic	Total	Percentage
<b>A. Gender</b>			
1.	Male	17	26,2 %
2.	Female	48	73,8 %
<b>Total</b>		<b>65</b>	<b>100 %</b>
<b>B. Age</b>			
1.	< 25 years	36	55,4 %
2.	26-39 years	24	36,9 %
3.	> 40 years	5	7,7 %
<b>Total</b>		<b>65</b>	<b>100%</b>
<b>C. Length of Work</b>			
1.	< 1 year	21	32,3 %
2.	1-3 years	16	24,6 %
3.	> 3 years	28	43,1 %
<b>Total</b>		<b>65</b>	<b>100%</b>

Simultaneously, positions occupied by male employees are often restricted to couriers and assistants. Moreover, employees under 30 are increasingly common. It arises from the company's need for a proficient, dynamic workforce, which is more common in this demographic. Employees with over three years of service are also more common. It indicates that employees are satisfied with the organization's working conditions and amenities, thereby leading to longer tenure. Adequate validity and reliability are essential for trustworthy results; this section assesses these aspects to ensure data quality. A questionnaire

is deemed valid if the computed  $r$  exceeds the tabulated  $r$ . The outcomes of the validity assessment in this study are as follows:

**Table 3: Validity Test**

Variables	Indicator	R <sub>count</sub>	R <sub>table</sub>	Exp
<b>Islamic Human Capital (X1)</b>	X1.1	0,732	0,2441	Valid
	X1.2	0,767	0,2441	Valid
	X1.3	0,733	0,2441	Valid
	X1.4	0,748	0,2441	Valid
	X1.5	0,830	0,2441	Valid
	X1.6	0,786	0,2441	Valid
	X1.7	0,646	0,2441	Valid
	X1.8	0,708	0,2441	Valid
	X1.9	0,798	0,2441	Valid
	X1.10	0,669	0,2441	Valid
<b>Compensation (X2)</b>	X2.1	0,509	0,2441	Valid
	X2.2	0,545	0,2441	Valid
	X2.3	0,484	0,2441	Valid
	X2.4	0,509	0,2441	Valid
	X2.5	0,503	0,2441	Valid
	X2.6	0,484	0,2441	Valid
	X2.7	0,483	0,2441	Valid
	X2.8	0,545	0,2441	Valid
<b>Productivity (Y)</b>	Y.1	0,880	0,2441	Valid
	Y.2	0,844	0,2441	Valid
	Y.3	0,829	0,2441	Valid
	Y.4	0,779	0,2441	Valid
	Y.5	0,738	0,2441	Valid
	Y.6	0,711	0,2441	Valid

Source: Primary data

Table 3 demonstrates that all indicators included in this study were validated for measuring the examined variables. A reliability test was performed, requiring that each variable have a Cronbach's Alpha value of at least 0.6. The findings of the reliability assessment in this study are as follows:

**Table 4: Test of Reliability**

No.	Variable	Cronbach's Alpha	cut-off	Exp
1.	<i>Islamic Human Capital (X<sub>1</sub>)</i>	0,916	0,60	Reliable
2.	Compensation (X <sub>2</sub> )	0,943	0,60	Reliable
3.	Productivity (Y)	0,891	0,60	Reliable

Source: data processed

According to Table 4, all Cronbach's alphas for each variable exceed 0.60, indicating the questionnaire statements are reliable in this study.

**Table 5. Result of Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.810 <sup>a</sup>	.656	.645	1.69130

Table 5 above demonstrates that the correlation coefficient of 0.810 signifies a strong and reliable association between Islamic Human Capital management, remuneration, and employee productivity. The coefficient of determination of 64.5% indicates that these variables account for a substantial portion of employee productivity, thereby reinforcing the audience's confidence in the study's conclusions.

Next, The results of the multiple linear regression for testing hypotheses in this investigation, conducted using SPSS version 26, are as follows:

**Table 6: Result of Multiple Linier Regression**

Model	Coefficients <sup>a</sup>		Standardized Coefficients Beta	t	Sig.
	B	Unstandardized Coefficients Std. Error			
1	(Constant)	1.256	1.815	.692	.492
	<i>Islamic Human Capital</i>	.630	.070	.766	9.028
	Compensation	.043	.043	.085	1.002
					.320

Source: data processed

The outcomes of the hypothesis testing, as delineated in Table 6 above, are as follows:

The hypothesis test between Islamic Human Capital management (X1) and employee productivity (Y) reveals a significant value of 0.00, which is below the threshold of 0.05. Consequently, the null hypothesis is rejected, underscoring that Islamic Human Capital management plays a crucial role in enhancing employee productivity, thereby strengthening the study's implications.

The hypothesis test regarding remuneration (X2) and employee productivity (Y) reveals a significance value of 0.320, which exceeds 0.05. It indicates that, contrary to expectations, compensation does not significantly influence employee productivity, helping the audience feel assured about the clarity of the findings. Furthermore, the findings of the correlation coefficient and the coefficient of determination in this investigation are as follows:

## DISCUSSION

The analysis highlights that Islamic Human Capital management plays a crucial role in staff development and productivity enhancement. Islamic Human Capital is perceived as an investment capable of generating substantial returns when effectively managed. It is not only a fundamental asset but also has the capacity to enhance, expand, and develop over time. Consequently, every organization requires Islamic Human Capital Management (IHCM) to improve human competency and staff productivity. Organizations that manage their human capital effectively will generate greater value and strengthen their competitive edge. At Istana Laundry Samarinda, Islamic Human Capital is a primary emphasis for enhancing staff productivity, notwithstanding variations in knowledge, skills, and capacities. Istana Laundry cultivates proficient and competitive personnel through employee development initiatives (Syarif, 2021).

Effective Islamic Human Capital management, as per the Resource-Based Theory (RBT), emphasizes that managing internal resources, such as employee skills and knowledge, is essential for achieving a competitive advantage. Resource-Based Theory posits that firms can get a lasting competitive advantage by acquiring resources that are valued, scarce, inimitable, and non-substitutable (Syarif et al., 2024). In this context, human capital, encompassing employee skills, knowledge, and experience, is among the most vital resources. When organizations effectively manage their human capital through efficient training, a supportive workplace, and an equitable reward and incentive system, employees will feel valued and be encouraged to increase their productivity. This effective management enhances the value of human capital and makes it difficult for competitors to copy, as each individual possesses distinct talents and experiences that cannot be duplicated. The conclusions of this study align with those of Humaerah et al. (2023) who asserted that Islamic Human Capital positively influences employee productivity. This study, however, contradicts the findings of Ulum et al. (2020) which indicated that Islamic Human Capital adversely affects employee productivity.

Moreover, the preceding analysis indicates that remuneration alone does not significantly enhance employee productivity. Compensation is a component of Islamic Human Capital management designed to improve total employee productivity. Each individual within an organization has an inherent inclination to be remunerated for their services. When employees see equitable compensation from the organization, their motivation and productivity will increase, leading to enthusiastic, efficient performance. At Istana Laundry Samarinda, employees often notice income disparities, which fosters a negative image of their remuneration (Syarif, 2019). The pay mechanism employed by Istana Laundry, based on the number of jobs completed daily, fails to provide a comprehensive boost in employee productivity. Consequently, a thorough assessment of compensation is essential regularly.

Within the framework of Resource-Based Theory (RBT), employee remuneration should encompass not only financial factors but also other elements that affect employee productivity. A corporation that prioritizes only financial pay is considered incapable of effectively managing its human resources, as it neglects factors that can augment employee worth and productivity within its resource framework. Consequently, organizations must ensure that their remuneration structures align with employees' requirements and preferences while advancing the firm's overarching objectives and strategies. The findings of this study correspond with those of Berlian & Rafida (2022) which indicated that remuneration does not influence employee productivity. These results, however, contradict the findings of Lestari *et al.* (2021), Ramadhan *et al.* (2023) which indicated that salary positively influences employee productivity.

## CONCLUSION AND SUGGESTION

To foster a sense of responsibility and commitment among HR personnel, it is essential to highlight that ongoing training programs and a supportive work environment are crucial for boosting employee productivity. Well-managed Islamic Human Capital, such as through practical training and a supportive work environment, can improve employee competence and productivity. Conversely, compensation at Istana Laundry failed to enhance employee productivity. Although compensation is an integral part of Islamic Human Capital management, an inconsistent compensation system has created negative perceptions among employees and hindered productivity growth. To improve overall employee productivity, Istana Laundry is advised to continue strengthening its Islamic Human Capital management through ongoing training programs and creating a conducive work environment.

Furthermore, the compensation system needs to be evaluated and adjusted to be fairer and better aligned with employee contributions. Compensation should not only be monetary but also include non-monetary benefits that enhance employee motivation and well-being.

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