



Islamic Human Capital

A New Concept for Islamic Business Organizations

Rita Mutiarni^(✉), Ubud Salim, Eko Ganis Sukoharsono, and Mintarti

University of Brawijaya, Malang, Indonesia
rita.dewantara@gmail.com

Abstract. As one of the countries with the largest Muslim population globally, Indonesia is trying to overcome poverty by driving the community's economy through various economic institutions, one of which is sharia cooperatives. But unfortunately, even though the majority of the Indonesian population is Muslim, sharia cooperatives are less attractive to the public and have a slow performance compared to conventional cooperatives. Various previous studies stated that the main problem in the management of sharia cooperatives is the ability of their human resources or commonly known as human capital. This paper tries to present a new view of human capital from the point of view of the Islamic religion called Islamic human capital.

Keywords: Sharia cooperatives · Human capital · Islamic human capital

1 Introduction

In 2020, the number of dynamic cooperatives in Indonesia was 127,124, and the lion's share (22,464 units) were in East Java. Indeed in spite of the fact that it has the title of the area with the most elevated number of cooperatives, incidentally, the number of destitute individuals in East Java is still tall. Concurring to the Central Bureau of Measurements (2020), the East Java area has 39,886,300 individuals and 4,585,970 (11.5%) of the entire populace living in destitution. The conundrum of numerous cooperatives and the tall destitution rate is without a doubt a genuine concern since usually not taking after the cooperative's objective, specifically the community's welfare. The marvel that exists in cooperatives in society is that their management isn't ideal since of the picture inborn in cooperatives, specifically teach locked in within the social division or Socio-enterprise [1]. With this image as a socio-enterprise, most cooperative management still uses simple management and tends to be static and less innovative to keep up with developments [2]. Many studies have found that the main problem in the management of Islamic cooperatives is the low quality of human resources, in this case, cooperative management. These deficiencies impact the ability of Islamic cooperatives to achieve optimal performance in an increasingly digital business world. If the cooperative has outstanding human resources, they are likely to make more effective and efficient decisions for the cooperative. These results will lead to the success of the cooperative. In organizational asset management, human resources are the central element in the organization's

intellectual capital [3]. Human capital is seen as a critical element in the dimension of intellectual capital. Human capital management is a crucial element in organizational success [4]. The human capital components consist of competence (i.e., education, professional skills, experimental knowledge, and knowledge), attitudes (i.e., motivation, leadership, behavior patterns), and intellectual intelligence (i.e., innovation, creativity, flexibility, adaptability) [5]. This paper tries to present a new concept of human capital from an Islamic point of view, named Islamic human capital. It is hoped that the new concept of human capital will add insight, especially for Islamic cooperatives, to improve their organizational performance. Facts in the field show that, although the majority are Muslim, sharia cooperatives with a profit-sharing system are less prevalent in the community and only occupy 23.95%. Many studies revealed the many advantages of sharia cooperatives compared to conventional cooperatives but these Islamic institutions still encounter various obstacles [6].

2 Discussions

The main problem of many countries worldwide in the economic field is poverty alleviation. Various efforts were made by the countries concerned. However, one agreed upon to alleviate poverty was cooperation and a strong will among the poor to help each other [7]. Here is the basic principle of cooperatives. Cooperatives are formed on the principle of togetherness to solve problems, create new sources of income, increase work productivity, and increase skills and the economy, which in turn will have an impact on sustainable economic development [8]. Indonesia is one of the countries in the world that is still struggling to overcome poverty. Based on national survey data in March 2016, 10.86% of the population (28.1 million) were poor. One of the government's efforts is to activate Micro, Small, and Medium Enterprises (MSMEs) because this type of business dominates Indonesia's number of business units. For this government effort to be successful, it must be synergy from various parties to support the development of MSMEs in Indonesia, including support through the capital. So far, the image attached to the public regarding access to capital is that of a Bank. This condition is because banking institutions are considered capable of meeting the capital needs of business actors.

However, not all capital needs of entrepreneurs can be met by the banking sector (bankable). Non-bank financial institutions can exploit this gap to meet business actors' capital needs, especially MSMEs, including cooperatives. However, the previous study found evidence that microfinance institutions reduce poverty at the macro level, while micro evidence suggests otherwise. It was also found no evidence that microfinance institutions will reduce poverty or increase household income [9]. In microfinance, the recipient of a loan or microcredit has to pay interest on a micro-loan. The average interest rate can often be higher than the rate charged by commercial banks and other financial institutions in more competitive countries. As a result, there is a continuous transfer of resources from the poor to micro-credit providers. The gap between Islamic cooperatives with their sharia concept can play a more profound role in alleviating poverty [10]. Numerous studies on poverty alleviation with an approach to Islamic values have proven that if done properly and correctly, Islamic cooperatives can be a solution to alleviating poverty problems, especially in Muslim countries. The pioneers who contributed to research to reduce poverty by introducing an Islamic value system include. It

underlies research on cooperation and cooperatives within an Islamic framework [11]. Cooperatives are usually discussed in the context of *Takaful* (Islamic insurance) and microfinance. However, there is also discourse on Islamic banking as a cooperative [12].

Human resources and science have created added value and competitive advantage in modern companies. Knowledge has become a new engine in the development of a business. Companies' consideration is presently more centered on information resources as a shape of intangible resources for competitive advantage. Customary capital, such as normal assets, monetary assets, and other physical resources in a knowledge-based administration framework, gets to be less basic than knowledge-based and innovative capital. Utilizing science and innovation will be a way to utilize other assets productively and financially, which is able give an advantage in competing. For companies to outlive, they must rapidly alter their procedure from a labor-based commerce to a knowledge-based commerce so that the company can ended up a science-based company [13].

The development of the new economy "new economy" controlled by information and knowledge, brings increased awareness and understanding of companies' intellectual capital. Intellectual Capital (IC) is one of the approaches used in measuring and measuring knowledge assets. The term IC was first introduced in 1969 by John Kenneth Galbraith and then further developed by Peter F. Drucker in 1993.

Human Capital (HC) is the knowledge of an organization represented by the ability of its employees [14]. Workers produce Mental Capital (IC) through their competence, states of mind, and mental deftness. Competence incorporates abilities and instruction, whereas viewpoints incorporate components of work representative behavior. Mental nimbleness permits a individual to alter hones and think of inventive arrangements to fathom issues within the organization [14].

The Skandia Navigator shows that intellectual capital is divided into 2 (two) major groups, namely internal organizational factors represented by Human Capital and external factors represented by Structural Capital. This shows that the human capital element is the most important to color organizational performance from the inner side compared to other aspects.

Islamic human capital is an adaptation of human capital by incorporating Islamic elements in its implementation. Human capital is the knowledge of an organization which is represented by the knowledge of its employees, including 1) Knowledge, 2) Attitude, 3) Personal ability (Intellectual ability), 4) Skills and Expertise [14].

As a country with a Muslim majority population, the concept and application of Islamic rule have become commonplace for the community, including applying Islamic rules in political, economic, and social system activities [15]. Islamic practices or ethics in work deserve to be involved because they contribute positively to organizational performance and welfare and lead to the Muslim community's prosperity [16].

Islam views work as a religious obligation and a form of worship to Allah, and a sincere and dedicated endeavor that encourages individuals to benefit themselves, others, and society. Prophet Muhammad S.A.W. highlighted two aspects of successful work quality and quantity. He (PBUH) stated that "Allah blesses a person who perfects his craft" and "Allah loves a person who learns how to do his job and does it right". Likewise, Muhammad (SAW) said, "The best works are those that yield benefits" and "The best of people are those that benefit others." In addition, the Prophet emphasized

that challenging work led to the elimination of sins and stressed that “work is worship” [16].

Islam has explicit rules regarding work activities. The Islamic work ethic can significantly influence Muslims, economic development, and organizational commitment of Muslim societies. It has played an essential role in the development of world Islam since the Prophet Muhammad [16]. In addition, Islamic work ethics can be a comprehensive and vital element in political, economic, and social systems. Islamic work ethics contributes positively to organizational performance and welfare [16]. So, it can be concluded that Islamic work ethics or rules derived from the Quran and Sunnah are crucial for Muslim societies’ development and prosperity. Their organizations are like Islamic cooperatives. In the concept of an Islamic work ethic based on the Qur’an and the Sunnah of the Prophet Muhammad S.A.W., previous researchers [17]. Yousef, 2000, Yousef, 2000) summarized them into 1) honesty, 2) flexibility, 3) fairness, 4) hard work, 5) dedication to work, 6) work creativity, 7) responsibility, 8) fair reward system, 9) persistence, 10) innovation at work, 11) skill acquisition and technology for excellence and performance improvement, and 12) cooperation and consultation to overcome barriers. Adapting from the concept of human capital proposed, Islamic human capital is human capital that incorporates Islamic elements in it. Islamic human capital is a set of skills and expertise, attitudes, and intellectual abilities based on honesty, hard work, dedication to work, acting creatively, and being responsible. This is a new concept of human capital based on Islamic religion, namely Islamic human capital.

3 Conclusion

Long before the concept of a modern work ethic was introduced, Islam, which was born 14 centuries ago, introduced it first. However, the idea of Islam tends to be seen as religious teaching for the need to worship God (Allah S.W.T.) and has not been widely studied for its application in the business world. The truth of the concept of ethics in business has only been studied scientifically after several large companies have succeeded in implementing spiritual ethics in their work, whether they realize that the idea has been taught in Islam since the 14th century. Islam views work as a religious obligation and a form of worship to others. As a sincere and dedicated endeavor, God encourages individuals to benefit themselves, others, and society. Islam has explicit rules regarding work activities. The Islamic rules can significantly influence Muslims, economic development, and the organizational commitment of Muslim communities. In addition, Islamic rules can be a comprehensive and essential element in political, economic, and social systems. For organizations, Islamic rules contribute positively to organizational performance and welfare [16]. So it can be concluded that Islamic rules derived from the Quran and Sunnah are significantly implemented in all business concepts, especially for the development and prosperity of Muslim societies and their organizations.

References

1. Thompson, J., & Doherty, B. (2006). The diverse world of social enterprise: A collection of social enterprise stories. *International Journal of Social Economics*, 1(1), 1–16.

2. Borda-Rodriguez, A., & Vicari, S. (2014). Rural co-operative resilience: the case of Malawi. *Journal of Co-operative Organization and Management*, 2(1), 43–52.
3. Drucker, P. F. (1993). The rise of the knowledge society. *Wilson Quarterly*, 17(2), 52–72.
4. Bontis, N., Keow, W. C. C., & Richardson, S. (2000). Intellectual capital and business performance in Malaysian industries. *Journal of Intellectual Capital*, 1(1), 21–33.
5. Bontis, N. (1998). Intellectual capital: An exploratory study that develops measures and models. *Management Decision*, 1(1), 45–65.
6. Hadisumarto, W. B. M. C., & Ismail, A. G. B. (2010). Improving the effectiveness of Islamic micro-financing: Learning from BMT experience. *Humanomics*.
7. Simmons, R., Birchall, J., Doheny, S., & Powell, M. (2007). Citizen governance: Opportunities for inclusivity in policy and policy making? *Policy & Politics*, 35(3), 457.
8. Wanyama, F. O., Develtere, P., & Pollet, I. (2008). Encountering the evidence: Cooperatives and poverty reduction in Africa. In *Working papers on social and co-operative entrepreneurship WP-SCE* (pp. 2–8).
9. Karlan, D. S., & Zinman, J. (2009). Expanding microenterprise credit access: Using randomized supply decisions to estimate the impacts in Manila.
10. Agbola, F. W., Acupan, A., & Mahmood, A. (2017). Does microfinance reduce poverty? New evidence from Northeastern Mindanao, the Philippines. *Journal of Rural Studies*, 50, 159–171.
11. Beik, I. S., & Purnamasari, I. (2011). Empirical role of Islamic cooperatives in financing micro and small scale entrepreneurs in Indonesia. Case study of KOSPIN Jasa Syariah Pekalongan. In *Islamic finance conference. Qatar* (pp. 1–27).
12. Al-Muharrami, M. S., & Hardy, M. D. C. (2013). *Cooperative and Islamic banks: What can they learn from each other?* International Monetary Fund.
13. Sveiby, K. E. (1997). The intangible assets monitor. *Journal of Human Resource Costing & Accounting*, 1(1), 30–45.
14. Bontis, N. (2000). Managing organizational knowledge by diagnosing intellectual capital. *Knowledge Management: Classic and Contemporary Works. MIT Press. Cambridge*, 1(1), 65–78.
15. Abeng, T. (1997). Business ethics in Islamic context: Perspectives of a Muslim business leader. *Business Ethics Quarterly*, 7(3), 47–54.
16. Ali, A. J., & Al-Owaihian, A. (2008). Islamic work ethic: a critical review. *Cross Cultural Management: An International Journal*, 1(1), 43–64.
17. Kumar, N., & Rose, R. C. (2010). Examining the link between Islamic work ethic and innovation capability. *Journal of Management Development*, 1(1), 23.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

