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The Influence of Islamic Leadership, Compensation, and Human Relations on Employee Performance: A Study of Employees of Singkong Keju D-9 in Salatiga City

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ABSTRACT

Employee performance is a key factor in organizational success, including in micro, small, and medium enterprises (MSMEs), which face intense competition and complex human resource management. This study analyzes the effects of Islamic leadership, compensation, and human relations on the performance of employees of Singkong Keju D-9, a cassava-snack MSME in Salatiga City, Indonesia. Using a quantitative approach, data were collected through a questionnaire from 92 of the company's 120 employees, a sample size determined with the Krejcie and Morgan table, and analyzed with partial least squares structural equation modeling (PLS-SEM) in SmartPLS. Islamic leadership ($\beta = 0.579$, $p < 0.001$) and compensation ($\beta = 0.326$, $p < 0.001$) have positive and significant effects on employee performance, whereas the effect of human relations is positive but not significant ($\beta = 0.099$, $p = 0.444$). The three variables explain 89.7% of the variance in employee performance. Improving employee performance in this MSME therefore depends more on Islamic leadership and fair, sustainable compensation than on human relations.

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Introduction

Micro, small, and medium enterprises (MSMEs) are the backbone of the Indonesian economy, contributing more than 60% of gross domestic product (GDP) and absorbing about 97% of the national workforce (UKMIndonesia.id, 2025). Their growth is supported by digital technology and government empowerment programs such as business digitization, easier access to capital, and entrepreneurship training. At the same time, MSMEs face challenges, including a limited understanding of digital technology, limited access to capital, and increasing

competition due to globalization.

Labor policy is another important concern for MSMEs. The government raised the provincial and regency/city minimum wages by 6.5% for 2025 (Kementerian Ketenagakerjaan Republik Indonesia, 2024), but wages in micro and small enterprises are set by agreement between employers and workers (Bisnis.com, 2024). This gives micro and small enterprises flexibility in determining compensation, but it may also cause dissatisfaction if employees do not consider their compensation fair. An important question therefore arises: how can such enterprises manage compensation so that it continues to motivate employees and maintain performance without following the minimum wage standards that apply to larger companies?

Compensation must be managed effectively in organizations of every size, and empirical studies in Indonesian MSMEs show that it significantly affects employee performance (Fernanda & Sagoro, 2016; Mediaty et al., 2023). Besides compensation, leadership plays an important role in shaping employees' behavior, attitudes, and performance. Singkong Keju D-9 in Salatiga, founded by Hardadi in 2010, has grown into a well-known local snack brand with around 110 employees (UKMIndonesia.id, n.d.). Based on the authors' interviews, the owner builds a religious, disciplined, and humanistic work culture: Muslim employees are expected to pray when the call to prayer sounds while operations are covered by non-Muslim employees or those who are unable to participate, and the company instills sincerity, generosity, respect for parents, the maintenance of social ties, patience, and consistency. These values are summarized in the motto "Worship While Working" and are realized through regular study sessions, Qur'an classes, worship training, and an Umrah pilgrimage for high-performing employees.

Besides motivation and job satisfaction, Islamic leadership plays an important role in improving employee performance (Wijayanti & Wajdi, 2012). Leadership is the way a leader influences the behavior of the team so that its members are willing to collaborate and work efficiently to achieve organizational goals. A leader who provides direction and support can increase work motivation and job satisfaction and thereby improve performance. In Islam, good leadership is leadership that adheres to the Qur'an and Hadith and reflects the qualities of *shiddiq* (truthfulness), *amanah* (trustworthiness), *tabligh* (communication), and *fathanah* (wisdom) (Wijayanti & Wajdi, 2012).

Although Islamic leadership values have been applied in the work culture of Singkong Keju D-9, internal problems that affect employee performance still occur. According to interviews with a member of the company's staff responsible for public relations and human resources, these problems include theft, minor offenses, abuse of authority, and fights between employees that have led to dismissals. Miscommunication also often occurs because of differences in employees' educational levels, which cause uneven understanding of work instructions. These conditions indicate that working relationships among employees are not yet fully harmonious, which affects the effectiveness and quality of their work.

Table 1 shows that total absences in the production department increased from 198 in 2019 to 234 in 2020 and 261 in 2021, or from 2.64 to 2.72 and 3.03 absences per employee. The absence rate rose steadily in the packing section, whereas in the peeling and frying sections it fluctuated. Because attendance is an important indicator of productivity and work effectiveness, this upward trend suggests that employee performance requires attention, and it is important to examine factors that may influence it, such as Islamic leadership, compensation, and human relations. The data cover 2019–2021 because attendance was recorded manually and was not continuously documented in later years.

Table 1. Absences in the Production Department, 2019–2021

	Number of employees			Absences			Absence rate (%)		
Section	2019	2020	2021	2019	2020	2021	2019	2020	2021
Peeling	25	26	26	65	78	76	0.97	1.12	1.09
Frying	15	20	20	41	40	66	1.02	0.75	1.14
Packing	35	40	40	92	116	119	0.98	1.08	1.11
Total	75	86	86	198	234	261			

Source: company attendance records.

Research Gap and Novelty

Previous studies have found that Islamic leadership (Harjoni et al., 2023; Wijayanti & Wajdi, 2012) and compensation (Fernanda & Sagoro, 2016; Mediaty et al., 2023) improve employee performance, whereas the evidence on human relations is mixed: Ananda (2025) found a significant effect on employee performance, but Lengkey et al. (2023) found a positive but not significant effect. Most of these studies examine financial institutions, public agencies, or general MSMEs. This study examines the three factors together in a food-processing MSME whose owner explicitly applies Islamic values in daily management, does not follow the regional minimum wage, and offers non-financial religious rewards such as the Umrah program.

Literature Review and Hypotheses Development

Theoretical Foundations

This study draws on attribution theory and expectancy theory. Attribution theory explains how people infer the causes of their own and others' behavior (Heider, 1958; Kelley, 1973). Employees who attribute their leader's behavior to sincere, fair, and trustworthy intentions, or who attribute the compensation they receive to fair treatment, are more likely to respond with positive work attitudes and behavior. Expectancy theory states that people are motivated to exert effort when they believe that effort will lead to good performance and that good performance will lead to valued outcomes (Vroom, 1964).

Islamic Leadership and Employee Performance

Islamic leadership is leadership guided by the Qur'an and Hadith and characterized by truthfulness, trustworthiness, clear communication, and wisdom (Wijayanti & Wajdi, 2012). Leaders who display these qualities build credibility and trust and create an ethical and conducive work climate, which encourages employees to work in a more disciplined and responsible way. Wijayanti and Wajdi (2012) and Harjoni et al. (2023) found that Islamic leadership has a positive and significant effect on employee performance.

H1: Islamic leadership has a positive effect on employee performance.

Compensation and Employee Performance

Compensation consists of the financial and non-financial rewards that employees receive in return for their contributions. Adequate and proportional compensation serves not only as a financial reward but also as a form of organizational appreciation, and, according to expectancy theory, it strengthens the link between performance and valued outcomes (Vroom,

1964). Fernanda and Sagoro (2016) found that compensation positively affects the performance of MSME employees, and Mediaty et al. (2023) found that compensation significantly affects employee performance in a small bakery business.

H2: Compensation has a positive effect on employee performance.

Human Relations and Employee Performance

Human relations refer to the quality of interpersonal interaction in the workplace, including communication, cooperation, and mutual respect among employees and between employees and leaders. Harmonious working relationships can increase cooperation and reduce conflict, thereby supporting performance. Ananda (2025) found that human relations significantly affect employee performance, whereas Lengkey et al. (2023) found a positive but not significant effect.

H3: Human relations have a positive effect on employee performance.

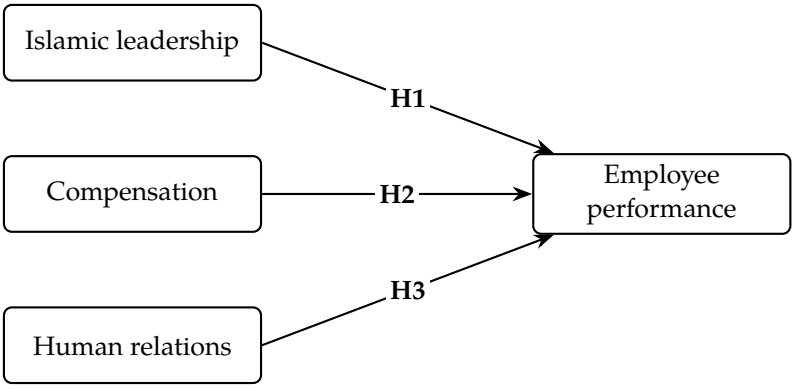


Figure 1. Research Framework

Method

Population and Sample

The population consists of all 120 employees of Singkong Keju D-9 in Salatiga. Based on the Krejcie and Morgan (1970) table, the minimum sample for a population of 120 is 92, and 92 employees participated as respondents. This sample size also satisfies Roscoe's (1975) guideline that sample sizes between 30 and 500 are appropriate for most behavioral research and that, in multivariate research, the sample should be at least ten times the number of variables.

Data Analysis

Data were collected through a questionnaire and analyzed with partial least squares structural equation modeling (PLS-SEM) in SmartPLS (Hair et al., 2022). In the measurement model, convergent validity is established when outer loadings are at least 0.70 and the average variance extracted (AVE) exceeds 0.50; discriminant validity is assessed through cross-loadings, the Fornell–Larcker criterion, and heterotrait–monotrait (HTMT) ratios below 0.90; and construct reliability is established when composite reliability and Cronbach's alpha are at least 0.70. Multicollinearity is absent when the variance inflation factor (VIF) is below 5, and linearity is supported when quadratic effects are not significant ($p > 0.05$) (Hair et al., 2022).

In the structural model, R^2 and adjusted R^2 measure the explanatory power of the independent variables, $Q^2 > 0$ indicates predictive relevance, and the effect size f^2 is interpreted as

small (0.02), medium (0.15), or large (0.35) (Cohen, 1988; Hair et al., 2022). Hypotheses were tested by bootstrapping; a path is significant if $t > 1.96$ and $p < 0.05$ (two-tailed).

Results

Measurement Model and Model Quality

The instruments met the validity and reliability criteria described above. The structural model has an R^2 of 0.897 for employee performance, meaning that Islamic leadership, compensation, and human relations together explain 89.7% of the variance in employee performance, while the remaining 10.3% is explained by factors outside the model. Following Hair et al. (2022), this explanatory power is substantial.

Effect Size

Table 2 shows the effect sizes (f^2) of the independent variables on employee performance.

Table 2. Effect Size (f^2) on Employee Performance

Path	f^2	Category
Islamic leadership → employee performance	0.498	Large
Compensation → employee performance	0.228	Medium
Human relations → employee performance	0.008	Negligible (< 0.02)

Islamic leadership has the largest effect size (0.498), indicating that it makes a large contribution to explaining employee performance. Compensation has a medium effect size (0.228). The effect size of human relations (0.008) is below the 0.02 threshold for a small effect, so removing human relations from the model would barely change the explained variance in employee performance.

Hypothesis Testing

Table 3 presents the bootstrapping results.

Table 3. Path Coefficients and Hypothesis Testing

	Path	O	M	SD	t	p	Decision
H1	Islamic leadership → employee performance	0.579	0.582	0.096	6.036	< 0.001	Supported
H2	Compensation → employee performance	0.326	0.333	0.073	4.461	< 0.001	Supported
H3	Human relations → employee performance	0.099	0.092	0.130	0.765	0.444	Not supported

Note: O = original sample (path coefficient); M = sample mean; SD = standard deviation; $t = |O/\text{SD}|$.

Islamic leadership has a positive and significant effect on employee performance ($O = 0.579$, $t = 6.036$, $p < 0.001$), so H1 is supported: the better leadership based on Islamic values is implemented, the higher employee performance is. Compensation also has a positive and significant effect ($O = 0.326$, $t = 4.461$, $p < 0.001$), so H2 is supported. Human relations have a positive but not significant effect ($O = 0.099$, $t = 0.765$, $p = 0.444$), so H3 is not supported: better relationships among employees and with supervisors tend to be associated with higher performance, but the effect is not statistically significant.

Discussion

The Effect of Islamic Leadership on Employee Performance

Islamic leadership has the strongest effect on employee performance ($O = 0.579$, $f^2 = 0.498$). Leadership based on the values of *shiddiq*, *amanah*, *fathanah*, and *tabligh* fosters credibility, trust, and an ethical and conducive work climate, which encourages employees to work in a more disciplined, responsible, and optimal way. From the perspective of attribution theory (Kelley, 1973), a fair and trustworthy leader who sets an example according to Islamic values leads employees to make positive attributions about the leader's intentions, which encourages better work behavior. Expectancy theory (Vroom, 1964) adds that role modeling, fairness, and consistency strengthen employees' belief that their effort will be recognized and rewarded.

At Singkong Keju D-9, religious values are reflected in daily work activities, such as the owner's own example in practicing religious values, timely congregational prayers for male employees, weekly study sessions, and free *iftar* meals for the community during Ramadan. Leadership is therefore oriented not only toward achieving work targets but also toward character building and strengthening employees' spirituality, which creates a work environment that is both productive and meaningful. This finding is consistent with Wijayanti and Wajdi (2012) and Harjoni et al. (2023), who found that Islamic leadership has a positive and significant effect on employee performance.

The Effect of Compensation on Employee Performance

Compensation has a positive and significant effect on employee performance ($O = 0.326$, $f^2 = 0.228$). Compensation serves not only as a financial reward but also as organizational appreciation for employees' contributions, and adequate and proportional compensation encourages employees to work better, which improves both the quality and the quantity of their work. From the perspective of attribution theory, when employees judge that the compensation they receive is fair and commensurate with their contributions, they form positive attributions toward the company, which improves their work attitudes, commitment, and performance. Expectancy theory likewise states that employees are motivated to perform well when they are confident that good performance will be rewarded with outcomes they value (Vroom, 1964).

According to the authors' interviews, compensation at Singkong Keju D-9 is still below the minimum wage of Salatiga City, but management is committed to continuing adjustments and improvements. The company also provides non-financial compensation, such as an annual free Umrah program with a registration mechanism and rice assistance during Ramadan. These forms of recognition complement financial compensation and help explain why compensation has a significant effect on performance despite the relatively low wage level. This finding is consistent with Fernanda and Sagoro (2016) and Mediaty et al. (2023).

The Effect of Human Relations on Employee Performance

Human relations have a positive but not significant effect on employee performance ($O = 0.099$, $p = 0.444$), and their effect size is negligible ($f^2 = 0.008$). This finding is consistent with Lengkey et al. (2023), who also found a positive but not significant effect, but differs from Ananda (2025). Good human relations, such as effective communication, teamwork, and the exchange of ideas, do not necessarily lead to a significant increase in performance. The quality of interpersonal relationships in this company appears to be limited to basic interactions and has not yet developed into deeper trust, commitment, and alignment with organizational

goals.

This result is consistent with the problems described in the Introduction: theft, minor offenses, abuse of authority, conflicts that led to dismissals, and miscommunication due to differences in education indicate that working relationships do not yet fully reflect trust, honesty, and responsibility. Good relationships do not automatically translate into high performance unless they are accompanied by a clear work system, effective supervision, and individual awareness of work responsibilities. From the perspective of expectancy theory, when human relations are not linked to the reward system or to performance achievements, their influence on performance is weak (Vroom, 1964). Human relations may therefore function as a supporting factor rather than as a main driver of performance in this company.

Conclusion and Recommendation

This study concludes that the performance of Singkong Keju D-9 employees is mainly influenced by Islamic leadership and compensation. Islamic leadership has the strongest positive and significant effect, indicating that applying Islamic leadership values encourages more disciplined, responsible, and productive work behavior. Compensation also has a positive and significant effect, indicating that a fair and proportional reward system, including non-financial religious rewards, supports employee performance. Human relations have a positive but not significant effect, indicating that good working relationships alone are not sufficient to improve performance without a goal-oriented and achievement-based work system. Together, the three variables explain 89.7% of the variance in employee performance. The company should therefore continue to strengthen Islamic leadership, manage compensation fairly and gradually raise it toward the regional minimum wage, and direct human relations toward productive, performance-oriented cooperation supported by clear work procedures and supervision.

This study has several limitations. It focuses only on the employees of one MSME in Salatiga City, so the results mainly represent the internal conditions of that organization. It uses only three independent variables, so other factors may also affect employee performance. Perception-based questionnaires may be interpreted differently by different respondents, and the cross-sectional design cannot capture long-term dynamics. Future research should involve more organizations, add variables such as work discipline and job satisfaction, and use longitudinal data.

Authors' Declaration

The authors contributed substantially to the conception and design of the research. The first author was responsible for data collection and analysis, while the second author provided guidance, validation, and contributions to the interpretation and discussion of the results. Both authors were involved in drafting, revising, and refining the manuscript and have read and approved the final version of the article.

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