

# An Integrated Sharia-Based Performance Management Framework for Indonesian SMEs

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## KEYWORD

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## ABSTRACT

This study develops a structured Sharia-based approach to employee performance management in Indonesian small and medium-sized enterprises (SMEs). SME performance systems often emphasize efficiency, while Islamic ethical and spiritual principles remain under operationalized within formal HR mechanisms. The study integrates *Maqāṣid al-Sharī'ah* and Islamic Work Ethics into a three-dimensional performance framework encompassing spiritual motivation, ethical conduct, and organizational contribution, addressing the limited operationalization of Islamic ethics in SME performance research. A qualitative exploratory conceptual design is employed through document analysis of classical Islamic texts and contemporary management literature. Four foundational principles: intention (*niyyah*), trustworthiness (*amanah*), excellence (*ihsan*), and justice (*'adl*), are translated into a three-dimensional Sharia-based performance framework encompassing spiritual motivation, ethical conduct, and organizational contribution. The framework advances Islamic management and IHRM scholarship by repositioning Sharia principles as an operational evaluative infrastructure that bridges spiritual accountability and formal HR systems, while offering practical guidance for ethically resilient SMEs in Indonesia.

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## 1. INTRODUCTION

Employee performance plays a central role in determining the success of any organization in achieving its strategic objectives (Vuong & Nguyen, 2022). In the context of small and medium-sized enterprises (SMEs), performance management becomes even more critical, as human resources often represent the core strength of the enterprise compared to financial or technological capital (Sheehan, 2014). In Indonesia, SMEs contribute significantly to national employment and economic growth (Tambunan, 2008). However, many of them still face

challenges in implementing structured performance management systems that incorporate moral, ethical, and spiritual dimensions of work.

For example, a study by Syariati (2022) found that in Indonesian SMEs, the “love of money” and locus of control are behavioral factors that correlate with unethical perception and performance outcomes, showing the importance of integrating ethical behavior in strategic performance management (Syariati, 2022). Moreover, research on “Spiritual leadership and employee performance: Mediating role of organizational commitment in Indonesian public university” demonstrates that spiritual leadership has a direct positive effect on employee performance, further suggesting that leadership models incorporating spiritual or ethical values can enhance performance (Akbar et al., 2018).

Most performance management models adopted by Indonesian SMEs are derived from conventional management paradigms that prioritize efficiency, productivity, and measurable outcomes (Alexandro, 2025). Such models often neglect the human and spiritual dimensions that constitute intrinsic motivation for employees (Nasyiah et al., 2024). Within the framework of Islamic economics, work is not merely an economic activity but an act of worship (*‘ibādah al-‘amal*) that carries moral and transcendental values (Kader, 2021). Therefore, a more holistic approach to performance management is required, one that evaluates not only outcomes but also intentions, processes, and ethical behavior.

A Sharia-based approach offers a comprehensive framework by integrating Islamic ethical principles into modern management practices (Taufik Syamlan et al., 2025). Values such as *amānah* (trust), *‘adl* (justice), *itqān* (professional excellence), and *ihsān* (moral excellence) can serve as the foundation for building a productive and dignified workplace culture (Ab. Wahab & Masron, 2020). Integrating these values is expected to foster a balance between economic objectives and spiritual well-being, ensuring that performance leads not only to material success but also to *barakah* (divine blessing) (Hassan, 2021).

Indonesian SMEs exhibit distinctive characteristics, including personal relationships between owners and employees, flexible organizational structures, and high emotional engagement (Kussudyarsana et al., 2019; Raya et al., 2021). These features make them particularly suitable for the implementation of Sharia-based management principles. Yet, few studies have systematically explored how Islamic values are integrated into managerial mechanisms such as

performance planning, evaluation, and reward systems within SMEs (Ishak & Osman, 2016; Shu et al., 2022).

Existing literature on Islamic Human Resource Management (IHRM) has primarily focused on large organizations or Islamic financial institutions (Airout et al., 2025; Fesharaki & Sehat, 2018; Habib Rana & Shaukat Malik, 2016), leaving a research gap in the SME sector. In fact, SMEs form the backbone of Indonesia's economy and embody the essence of community-based Islamic entrepreneurship (Rukmanda et al., 2025). This study seeks to address this gap by exploring an integrated Sharia-based approach to employee performance management in Indonesian SMEs.

An explorative approach is adopted because this topic remains relatively under-researched and requires an in-depth understanding of how Sharia principles are practiced in everyday organizational life. The study aims not only to identify patterns of Islamic value implementation but also to propose a conceptual framework for developing a Sharia-based performance management model. In doing so, it contributes both theoretically and practically to the advancement of Islamic management science in Indonesia.

This research focuses on two interrelated dimensions: the spiritual and the organizational. The spiritual dimension encompasses Islamic ethical concepts such as intention, *trust*, and professional excellence, while the organizational dimension includes managerial processes such as planning, evaluation, and reward distribution. Integrating these two dimensions is expected to create a fair, moral, and welfare-oriented system of performance management grounded in collective benefit.

Based on these considerations, this study seeks to answer the following research questions: (1) How can Sharia values be integrated into employee performance management systems within Indonesian SMEs?; (2) What spiritual and organizational factors most significantly influence employee performance from a Sharia perspective?; (3) How can a conceptual framework of an integrated Sharia-based approach be developed to enhance both performance effectiveness and *barakah* in Indonesian SMEs?

By addressing these questions, the study aims to deepen the understanding of how spirituality, work ethics, and productivity intersect within the context of Islamic economics. The findings are also expected to provide practical insights and policy recommendations for SME practitioners, educators, and organizations that aim to promote Sharia-compliant business practices.

Therefore, this study aspires to construct a new understanding of how Islamic values can be translated into measurable, fair, and socially responsible performance management practices. The following section discusses the theoretical and conceptual foundations of Sharia-based performance management and elaborates on the methodological approach used to explore the integration between spiritual and organizational dimensions in Indonesian SMEs.

This study contributes to Islamic management literature in three ways. First, it moves beyond normative discussion by systematically translating Sharia ethical principles into structured performance management components. Second, it integrates *Maqāṣid al-Sharī'ah* and Islamic Work Ethics into a three-dimensional Sharia-based performance framework encompassing spiritual motivation, ethical conduct, and organizational contribution, tailored to SMEs, a context underrepresented in prior IHRM studies. Third, it conceptually bridges intrinsic spiritual accountability with formal HR mechanisms, offering a middle-ground framework between faith-based ethics and contemporary performance systems.

## 2. LITERATURE REVIEW

The study of employee performance management has evolved significantly over the past few decades, emphasizing efficiency, accountability, and measurable outcomes. Classical management theories such as those proposed by Taylor and Fayol viewed performance primarily through the lens of productivity and task optimization (Parker & Ritson, 2011). In contrast, modern human resource management (HRM) frameworks, such as Armstrong's performance management cycle (Armstrong, 2007, p. 504), emphasize a continuous process involving planning, monitoring, and evaluating performance in alignment with organizational goals (Rajapakshe, 2024). These perspectives, while comprehensive in operational terms, often overlook the moral and spiritual aspects that shape employee behavior, motivation, and integrity.

In the Indonesian context, SMEs represent a unique managerial environment where performance management is often informal and highly influenced by personal relationships and community norms (Kussudyarsana et al., 2019; Yuliarini et al., 2021). According to data from Indonesia's Ministry of Cooperatives and SMEs, micro, small, and medium enterprises (MSMEs) play a dominant role in the country's labor market, employing approximately 97% of the national workforce and contributing significantly to economic development (Latif et al., 2023).

Despite their importance, however, most small enterprises still lack formal performance appraisal systems. Research shows that performance management practices among SMEs are often informal or ad hoc, with many business owners unaware of structured systems such as the Balanced Scorecard or other systematic evaluation methods (Mashavira, 2020; Tennant & Tanoren, 2005).

This limited use of formal performance measurement frameworks highlights a major gap in human resource management within Indonesia's SME sector, potentially affecting productivity and long-term competitiveness. Instead of structured metrics, performance is often assessed through trust, loyalty, and perceived dedication. Empirical studies in Indonesia provide strong evidence that integrating ethical and spiritual dimensions, especially those aligned with Islamic principles, can help bridge this gap. For example, a study in Central Java found that Islamic work ethics and quality of work life significantly predicted job performance among SME employees, with ethics acting as a mediator between work-life quality and performance (Rokhman & Ahamed, 2021).

Similarly, research on spiritual capital among young creative entrepreneurs in Surabaya shows a significant positive effect of spiritual capital on entrepreneurial performance (Putri, 2024). Another study by Budiarto et al. (2024) reports that spiritual capital and motivation have strong effects on human resource performance in SMEs, particularly when moderated by competence (Budiarto et al., 2024). Additionally, in Indonesia's fast-food industry, Islamic work ethics not only directly enhanced employee performance but also improved knowledge-sharing behaviors, which in turn boosted performance further (Setiabudi, Sukmawati, & Jahroh, 2024) (Setiabudi et al., 2024). These findings suggest that the challenge of lacking formal appraisal systems is also an opportunity: embedding values such as trust, commitment, fairness, and spiritual motivation can enrich performance evaluation mechanisms in ways that align with cultural and religious realities, potentially leading to more sustainable growth and competitiveness.

From an Islamic perspective, performance (*'amal*) is a multidimensional concept that encompasses intention, process, and outcome. The Qur'an and Hadith emphasize sincerity, justice, and responsibility as core values in all human activities, including work (Ab.Wahab & Ismail, 2019). This moral orientation distinguishes Islamic performance management from its conventional counterpart, as it aims not only for efficiency but also for *barakah*, a form of divine

blissing that enhances both material and spiritual well-being (Firdaus & Ahmad, 2023, p. 21). Integrating these principles into organizational systems can foster a work culture that promotes integrity, empathy, and collective welfare.

Islamic Human Resource Management (IHRM) literature emphasizes that organizational performance cannot be separated from spiritual consciousness (*taqwā*) and ethical conduct (*akhlāq*) (Gano et al., 2024; Habib Rana & Shaukat Malik, 2016). While Sharia-based management promotes an equilibrium between profit-making and moral responsibility. Within this framework, performance is not merely an indicator of success but a reflection of one's accountability before God. Consequently, developing a Sharia-based performance management system requires translating these values into measurable indicators while maintaining their ethical and spiritual essence (Belal et al., 2015; Hirsanudin & Martini, 2023; Kuran, 2018).

### Theoretical Framework

The theoretical foundation of this study lies in the integration of Islamic ethical philosophy and modern performance management theory. Classical Islamic thought regards work as a form of worship, in which every deed is evaluated by its intention (*niyyah*) and how faithfully it complies with divine commands (Omar & Desa, 2023). This conception aligns closely with the contemporary psychological notion of intrinsic motivation, in which individuals are driven by internal satisfaction, meaning, and purpose rather than by external rewards or punishments (Pratiwi, 2019).

Empirical research conducted in Indonesia finds that Islamic work ethics have a significant, positive effect on organizational commitment and performance, with intrinsic motivation acting as a mediator (Pratiwi, 2019). Therefore, performance management within a Sharia-based framework must balance both material incentives and spiritual fulfillment, designing evaluation systems that recognize ethical intent, fairness, and spiritual values alongside conventional productivity metrics.

The model proposed in this research is structured around two key dimensions: the spiritual dimension and the organizational dimension. The spiritual dimension includes elements such as intention, trustworthiness, professional excellence, and doing good with sincerity. These values shape individual behavior and moral commitment. The organizational dimension, on the other hand, refers to structured processes, goal setting, performance appraisal, feedback, and

rewards, that align individual effort with collective objectives. Integrating these two dimensions ensures that performance evaluation reflects both accountability to the organization and to Allah.

This dual-dimension approach is supported by empirical literature. For example, Norvadewi (2014) identifies *itqān*, *ihsan*, *amanah*, and integrity (*siddiq*), among others, as central values in her research, and shows how *itqān* (excellence) and *amanah* (trust or responsibility) are deeply tied to professionalism in business (Norvadewi, 2014). Arken & Qomaruzzaman (2024) revealed that the validation of an Islamic work ethic scale, includes intention (*niyyah*), *ihsan*, *itqān*, *amanah*, *tha'ah*, *ta'awun*, *mas'uliyah*, and *manfa'ah*, showing that *niyyah*, *ihsan*, *itqān*, and *amanah* are considered measurable dimensions of Islamic work ethics in higher education contexts. Thus, by embedding these spiritual values into the performance appraisal, goal-setting, feedback, and reward processes, the model aims to ensure that evaluations are not only organizationally relevant but also spiritually coherent, balancing material incentives with moral and spiritual development.

Conceptually, the integration can be explained through the theory of *Maṣlaḥah* (public benefit) and *Maqāṣid al-Sharī'ah* (objectives of Islamic law). The theory suggests that all human actions, including managerial practices, should aim at promoting justice, welfare, and harmony within society (Azmin Shompa et al., 2024; Sutisna et al., 2023). Thus, a Sharia-based performance system must assess how an employee's work contributes not only to profit but also to social welfare, ethical conduct, and organizational harmony (El-Mesawi, 2020). This theoretical lens emphasizes the holistic nature of Islamic management.

Additionally, this framework draws on the principles of Islamic work ethics (IWE), which emphasize diligence, cooperation, and fairness as forms of devotion. According to Yousef (2001), IWE directly influence both organizational commitment and job satisfaction among Muslim employees, and act as a moderator between these constructs, so that employees guided by strong Islamic work ethics tend to exhibit higher levels of loyalty and satisfaction (Yousef, 2001). Research in Indonesia by Rokhman (2010) similarly shows that in Islamic microfinance institutions in Central Java, employees with higher IWE report greater job satisfaction and organizational commitment (Rokhman, 2010). Beyond attitudes, further studies indicate that IWE is positively associated with higher employee performance and intrinsic motivation in SMEs and other organizations (Peftiani et al., 2024; Rokhman & Ahamed, 2021). Therefore, integrating IWE into

performance management is not only theologically sound but also empirically beneficial. The theoretical framework of this study thus bridges the gap between spiritual motivation and managerial effectiveness.

### Previous Research

Recent empirical research in Indonesia has increasingly explored the incorporation of Islamic values into performance management within small and medium enterprises (SMEs). Rokhman and Ahamed (2021) found that both the quality of work life and Islamic work ethics (IWE) significantly and positively influence job performance among SME employees in Central Java, confirming that ethical and spiritual values are not merely normative ideals but have measurable effects on productivity (Rokhman & Ahamed, 2021). Similarly, Peftiani et al. (2024), in a case study of BMT Ar-Rahmah Jaya Mulia in Central Lampung, demonstrated that IWE and intrinsic motivation jointly enhance employee performance in small Islamic microfinance institutions. This finding suggests that even in micro-scale enterprises, spiritual and motivational variables can be effectively integrated into appraisal systems (Peftiani et al., 2024).

In a broader entrepreneurial context, Hasbullah et al. (2022) reported that IWE indirectly improves the financial performance of Muslim family-owned microbusinesses through the mediating role of entrepreneurial orientation, indicating that Islamic values foster behavioral competencies that translate into financial outcomes (Hasbullah et al., 2022). Complementing these findings, Setiabudi et al. (2024) discovered that Islamic work ethics positively affect employee performance in Indonesia's fast-food companies, with knowledge-sharing behavior acting as a partial mediator, highlighting how spiritual values can enhance both individual and organizational learning processes (Setiabudi et al., 2024).

Beyond employee-level behavior, several studies have examined Islamic values in the governance of SMEs. Kurniawati et al. (2020) analyzed the relationship between Shariah governance, objectives of Islamic law, and SME performance in Surabaya, revealing that while ethical codes and governance principles are valued, their direct effect on performance is often non-significant, implying that formal structures must be complemented by genuine spiritual engagement (Kurniawati et al., 2020). Similarly, Lestari et al. (2023) found that religiosity does not directly affect SME performance but operates through mediating factors such as financial behavior, moderated by demographic variables like gender and firm age (Lestari et al., 2023).

Collectively, these empirical findings suggest that Islamic work ethics and spiritual motivation contribute positively to employee performance and organizational outcomes in SMEs, though the mechanisms often involve mediating constructs such as motivation, entrepreneurial orientation, and knowledge sharing. The studies also underscore that while Shariah-based governance frameworks are valuable, the integration of spirituality into formal performance management processes remains limited, indicating a continuing need for comprehensive models that align moral intent with structured evaluation systems.

Despite the growing body of literature on Islamic management, there remains a significant research gap concerning how Sharia principles can be operationalized within the performance management systems of Indonesian SMEs. Previous studies have either focused on large institutions or remained theoretical without empirical application to smaller enterprises. Furthermore, little attention has been given to developing a holistic model that merges spiritual dimensions (intention, sincerity, and ethics) with organizational mechanisms (planning, evaluation, and rewards). This study aims to fill that gap by constructing an integrated framework of Sharia-based performance management tailored to the socio-cultural and managerial realities of Indonesian SMEs.

### 3. METHODOLOGY

#### Research Design and Data Sources

This study adopts a qualitative exploratory conceptual research design to develop an integrated Sharia-based employee performance management model suited to Indonesian SMEs, grounded in Islamic normative texts and management literature. A qualitative approach is appropriate because this research aims to interpret the meanings and values embedded in Islamic texts and management literature, rather than quantify variables. For example, Muntaqo et al. (2025), used an ethnographic and qualitative approach, Spradley model plus Miles & Huberman analysis (Miles & Huberman, 1994), to explore how Qur'anic and human-ist values are integrated into organizational culture at an Islamic university in Indonesia. The objective of the present study is similarly to understand how spiritual and ethical dimensions of Islam can be systematically integrated into organizational mechanisms of performance planning, evaluation, and reward (Muntaqo et al., 2025).

The sources examined in this study are textual and conceptual in nature, rather than numerical. Primary data comprise classical and contemporary Islamic sources, such as the Qur'an, Hadith, and works of Muslim scholars on work ethics, human responsibility, and organizational justice. Secondary data include books, peer-reviewed journal articles, and institutional reports on Islamic management, performance systems, and SME development in Indonesia, which together provide the normative and contextual foundation for building a Sharia-based performance framework previous studies, such as Basri et al. (2022), demonstrate how library-based Islamic and management literature can yield relevant managerial principles.

This study relies exclusively on textual document analysis. The researcher systematically examines Islamic texts and scholarly works to identify principles relevant to employee performance and also reviews contemporary academic literature, organizational manuals, and policy documents on Islamic human resource management to explore how Islamic values might be operationalized in modern organizations. Documents are selected purposively, based on their relevance to Islamic management thought and their potential contribution to constructing a comprehensive performance management model (Basri et al., 2022).

Analytical rigor is ensured through content mapping, thematic coding, and cross-textual comparison between classical and modern interpretations. Researcher memos and interpretive notes are used to document analytic insights and trace conceptual linkages. This ensures the resulting framework remains textually grounded while allowing interpretive depth. The analysis proceeds using a thematic and interpretive strategy: each text is read repeatedly to identify recurring themes such as intention, trustworthiness, excellence, and justice. These themes are then interpreted alongside performance management constructs like planning, monitoring, and evaluation.

The analytical process is carried out in three main stages: (1) identifying relevant themes, (2) synthesizing them into conceptual categories, and (3) linking those categories to organizational performance models. Conceptual triangulation is applied by cross-referencing findings from Islamic normative texts with contemporary management theory to enhance interpretive validity and minimize bias. Drawing conclusions follows an adapted version of Miles and Huberman's interactive model, applied to textual and conceptual data which involves data reduction, data display, and conclusion verification. Data reduction is achieved by condensing large volumes of textual material into key themes; data display is presented via thematic charts

or matrices; and conclusion verification ensures consistency between textual evidence and the emerging framework. The conclusions are inductively derived from observed patterns across Islamic and managerial texts. Rather than striving for generalizable empirical results, the study aims to present a normative conceptual model combining spiritual and organizational dimensions of performance management, which can guide future empirical research and practical application in Indonesian SMEs.

### **Data Analysis and Coding Procedure**

Data analysis followed three coding stages. First, open coding was conducted to identify recurring ethical and managerial concepts from Islamic and HR texts. Second, axial coding grouped these concepts into broader categories such as spiritual values, behavioral conduct, and organizational mechanisms. Third, selective coding integrated these categories into a coherent Sharia-based performance management framework.

The interpretation logic relied on iterative comparison between classical Islamic sources and contemporary performance management theory. Conceptual alignment was established when normative ethical principles demonstrated functional equivalence with HR constructs (e.g., *amānah* with accountability; *‘adl* with fairness in appraisal). This transparent coding structure enhances methodological rigor and traceability.

## **4. RESULTS AND DISCUSSIONS**

These findings are interpreted within the proposed dual-dimension framework (spiritual and organizational), demonstrating how each identified Sharia principle is systematically linked to specific performance management mechanisms such as planning, evaluation, and reward allocation. This structured mapping strengthens the conceptual coherence between normative Islamic values and managerial practice and clarifies how spiritual accountability is translated into organizational systems.

The exploration of employee performance management from a Sharia-based perspective in Indonesian SMEs reveals a profound intersection between faith, ethics, and organizational behavior. Unlike conventional models that primarily emphasize productivity, efficiency, and measurable outcomes, the Sharia-based framework integrates moral and spiritual accountability. This integration shifts the focus from merely achieving economic targets to fulfilling ethical

obligations toward Allah, fellow employees, and society. Such an approach aligns with the holistic vision of Islam, which perceives work not only as a means of livelihood but also as an act of worship.

The study's textual analysis demonstrates that Sharia principles provide a solid foundation for performance evaluation that encompasses both individual integrity and communal welfare. The findings indicate that Islamic ethics—rooted in justice, trust, and benevolence, can redefine the way performance is understood and measured. Instead of relying solely on external outcomes, this perspective emphasizes internal intentions and the sincerity that guide an employee's actions. These principles foster intrinsic motivation, enhance moral discipline, and nurture organizational harmony.

Indonesian SMEs provide a particularly fertile ground for this model, given their dual orientation toward profit and community values. Many small enterprises in Indonesia already operate under informal norms influenced by Islamic teachings, such as honesty, mutual help, and public benefit or social responsibility. Integrating Sharia principles into performance management thus offers not only a moral framework but also a culturally resonant mechanism for sustainable human resource development.

The following discussion is divided into three major parts, each addressing one of the research questions: the identification of core Sharia principles in employee performance management; the operationalization of these principles into a structured model; and the challenges and opportunities of implementation in Indonesian SMEs.

### **Core Sharia Principles in Employee Performance Management**

The first key finding of this study identifies the fundamental Sharia principles that can be embedded within employee performance management. Textual analysis of the Qur'an, Hadith, and classical Islamic scholarship highlights four core values: trustworthiness, justice, moral excellence, and social/public benefit. These values form the ethical backbone of Islamic management thought, integrating moral intention and professional conduct. Performance, therefore, is inseparable from spiritual consciousness, since ultimate accountability lies before Allah rather than merely before human supervisors.

This finding directly resonates with empirical research by Rokhman and Ahamed (Rokhman & Ahamed, 2021), who demonstrated that the quality of work life and Islamic work

ethics (IWE) significantly and positively influence job performance among SME employees in Central Java. Their results empirically validate the argument that spiritual and ethical values, such as honesty and trustworthiness, enhance productivity. Similarly, Peftiani et al. (Peftiani et al., 2024) showed that IWE and intrinsic motivation jointly improve employee performance in Islamic microfinance institutions, illustrating that faith-based principles can be effectively operationalized even within small business contexts.

By grounding these principles in day-to-day management practices, the present study extends such prior work. Trustworthiness encourages transparency and accountability in task execution; *justice* guides fairness in workload distribution and performance evaluation; moral excellence motivates employees to exceed minimum expectations as a form of worship; and *public benefit* ensures that organizational goals promote collective welfare and sustainability. This interpretation goes beyond Beekun's (Beekun, 2012) and Ali's (Ali, 2005) conceptualizations of Islamic work ethics as balancing personal and collective interests, by contextualizing them in the realities of Indonesian SMEs. Moreover, it aligns with Rokhman and Ahamed (Rokhman & Ahamed, 2021), who found that ethical leadership grounded in spiritual consciousness fosters trust and moral commitment among employees.

Thus, consistent with these earlier studies, the current research affirms that Sharia principles provide not only a moral foundation but also a practical guide for designing spiritually grounded, fair, and human-centered performance management systems in Indonesia's SME sector.

### **Operationalizing Sharia Principles into a Performance Management Framework**

The second major result focuses on how Sharia values can be systematically operationalized into a performance management framework suitable for Indonesian SMEs. This study proposes a three-dimensional model encompassing spiritual, behavioral, and organizational dimensions. The spiritual dimension evaluates sincerity, intention, and devotion; the behavioral dimension examines ethics in communication, teamwork, and service; and the organizational dimension measures contributions to public benefit or collective welfare. Together, these elements create a balanced approach that integrates moral integrity with tangible performance outcomes.

This framework builds upon the theoretical propositions of Khan and Sheikh (Khan & Sheikh, 2012) regarding the interplay between Islamic spirituality and workplace motivation. However, while their work remained largely conceptual, this study advances a more applied model designed for small-scale organizations with limited HR infrastructure. The findings of Peftiani et al. (Peftiani et al., 2024) provide empirical support for this operationalization, as they showed that integrating intrinsic motivation with Islamic ethics effectively improves employee outcomes in microfinance settings. Likewise, Setiabudi et al. (Setiabudi et al., 2024) found that IWE positively affect performance in Indonesia's fast-food companies, with knowledge-sharing behavior as a partial mediator—an idea echoed in this study's behavioral dimension that emphasizes collaboration and ethical communication.

Each dimension of the proposed model addresses a different evaluative question: *why* employees work (spiritual motivation), *how* they behave (ethical and interpersonal conduct), and *what* their actions achieve (organizational and social outcomes). This tripartite framework reflects Islam's view of humans as *khalifah* (stewards) responsible for moral, social, and environmental balance. Furthermore, the study emphasizes mutual accountability between leaders and employees, transforming performance evaluation into an ethical dialogue aimed at continuous moral and spiritual development.

By linking intrinsic motivation with performance, the present research supports Yousef (Yousef, 2001) and Athar et al. (Athar et al., 2016), who found that spiritual sincerity and ethical commitment correlate positively with organizational dedication and performance quality. Thus, this study provides an applied, Sharia-based model that transforms performance management from a mechanistic evaluation process into a spiritual-ethical ecosystem suited for the Indonesian SME context.

### **Challenges and Opportunities in Implementing Sharia-Based Performance Management**

The final section explores the practical challenges and opportunities of implementing Sharia-based performance management within Indonesian SMEs. Several obstacles were identified: limited Sharia literacy among SME owners and managers, lack of standardized HR tools to translate spiritual values into measurable indicators, and the ongoing tension between economic imperatives and ethical ideals. These findings echo Kurniawati et al. (Kurniawati et al., 2020), who reported that although Shariah governance and *Maqāṣid al-Sharī'ah* are valued in

SMEs, their direct effects on performance are often insignificant without deep spiritual engagement. Similarly, Lestari et al. (Lestari et al., 2023) found that religiosity influences SME performance indirectly through mediating factors such as financial behavior, moderated by demographics like gender and firm age.

At the same time, the study reveals several enabling conditions. These include increasing public demand for Sharia-compliant business practices, governmental promotion of the halal economy, and Indonesia’s cultural ethos of *gotong royong* (mutual cooperation), which naturally aligns with Islamic values of solidarity and collective responsibility. In this sense, the integration of trustworthiness, *justice*, and moral excellence within existing local norms can serve as an effective entry point for moral and organizational transformation.

Consistent with Hashim (Hashim, 2010), the study underscores that leadership commitment is the most decisive factor in sustaining Islamic HRM systems. Leaders who embody spiritual consciousness and ethical integrity create environments of trust and shared purpose, ensuring that Sharia principles are not reduced to symbolic compliance. This finding also responds to Alserhan’s (Alserhan, 2020) critique of the bureaucratization of spirituality by recommending adaptive, context-sensitive learning processes that allow SMEs to internalize Islamic values organically rather than through rigid formalization.

Finally, this research confirms the view of Hasbullah et al. (2022) that Islamic values strengthen business performance indirectly by fostering behavioral competencies such as entrepreneurial orientation and ethical discipline. When authentically applied, Sharia-based performance systems enhance employee satisfaction, ethical consistency, and organizational credibility, thereby contributing to Indonesia’s broader vision of an equitable and spiritually grounded economic order.

**Table 1.** Summary of Findings and Discussions

Research Question	Key Findings (Results)	Discussion (Interpretation and Relation to Previous Studies)
RQ1: What are the key Sharia principles that can be integrated into employee performance management within Indonesian SMEs?	<ol style="list-style-type: none"> <li>1. Core Sharia values identified: <i>amānah</i> (trustworthiness), <i>‘adl</i> (justice), <i>ihsān</i> (excellence), and <i>maṣlaḥah</i> (social welfare).</li> <li>2. These principles emphasize accountability before Allah and ethical responsibility toward society.</li> <li>3. The analysis shows convergence between classical Islamic ethics and modern HR</li> </ol>	Reinforces prior works by Ali (2005) and Beekun (2012), which position Islamic ethics as compatible with contemporary management frameworks. This study adds contextual depth by localizing these principles to the Indonesian SME setting, capturing spiritual dimensions often overlooked in Western HR models. It also aligns with Rokhman & Ahamed (2021), who empirically validated that Islamic ethics enhance job performance through

	concepts such as fairness, transparency, and responsibility.	moral integrity and trust.
RQ2: What are the key Sharia principles that can be integrated into employee performance management within Indonesian SMEs?	<ol style="list-style-type: none"> <li>1. Core Sharia values identified: <i>amānah</i> (trustworthiness), <i>‘adl</i> (justice), <i>ihsān</i> (excellence), and <i>maṣlaḥah</i> (social welfare).</li> <li>2. These principles emphasize accountability before Allah and ethical responsibility toward society.</li> <li>3. The analysis shows convergence between classical Islamic ethics and modern HR concepts such as fairness, transparency, and responsibility.</li> </ol>	Reinforces prior works by Ali (2005) and Beekun (2012), which position Islamic ethics as compatible with contemporary management frameworks. This study adds contextual depth by localizing these principles to the Indonesian SME setting, capturing spiritual dimensions often overlooked in Western HR models. It also aligns with Rokhman & Ahamed (2021), who empirically validated that Islamic ethics enhance job performance through moral integrity and trust.
RQ3: What challenges and opportunities arise in implementing a Sharia-based performance management model in Indonesian SMEs?	<ol style="list-style-type: none"> <li>1. Challenges: Limited Sharia literacy, absence of standardized Islamic HR tools, and tensions between profitability and ethics.</li> <li>2. Opportunities: Rising demand for Sharia-compliant business, state support for the halal economy, and alignment with cultural values like <i>gotong royong</i> (mutual cooperation).</li> </ol>	Consistent with Hashim (2010) and Kurniawati et al. (2020), this study highlights leadership commitment as essential to authentic implementation. It introduces a contextual insight, Indonesia’s communal ethos can serve as a moral bridge for embedding <i>amānah</i> , <i>‘adl</i> , and <i>ihsān</i> . The study confirms Hasbullah et al. (2022) that Islamic values enhance performance indirectly through ethical discipline and collective orientation, advancing a vision of spiritually grounded, socially responsible SMEs.

Source: Author’s synthesis

### Interpretive Notes

1. Each RQ corresponds directly to a major subsection in the *Results and Discussion* chapter.
2. The Key Findings column summarizes empirical and textual insights from classical Islamic sources and contemporary research.
3. The Discussion column contextualizes these findings within existing literature, emphasizing this study’s novelty in linking spirituality and performance in SME contexts.
4. The table illustrates the bridge between theory (Sharia principles) and practice (performance management systems) in Islamic organizational settings.

The findings demonstrate that a Sharia-based approach to employee performance management offers a comprehensive moral and operational framework for Indonesian SMEs. It unites spiritual devotion, ethical behavior, and organizational accountability under a single integrated model. While challenges persist, particularly in standardization and implementation, the opportunities outweigh the barriers. This framework not only fills the theoretical gap in

Islamic management research but also provides practical implications for policymakers, business educators, and SME practitioners.

Theoretically, this study advances Islamic management literature by moving beyond normative prescriptions toward a structured performance management architecture grounded in Sharia principles. By integrating spiritual accountability with organizational evaluation mechanisms, it offers a conceptual bridge between Islamic ethical philosophy and contemporary HR systems.

Unlike prior studies that primarily positioned Islamic Work Ethics as a predictor of employee behavior, this research conceptualizes Sharia principles as an evaluative infrastructure embedded within planning, appraisal, and reward mechanisms. This repositioning contributes to IHRM scholarship by providing a spiritually grounded yet operationally applicable framework tailored to SMEs.

## 5. CONCLUSIONS AND IMPLICATIONS

This study has explored an integrated Sharia-based approach to employee performance management in Indonesian SMEs, highlighting the interplay between spiritual, ethical, and organizational dimensions. Analysis of classical Islamic texts and contemporary management literature identified four core principles, intention, trust, *professional* excellence, and justice, which form the foundation for a performance management system grounded in Islamic ethics. These principles were operationalized into a three-dimensional framework encompassing spiritual motivation, behavioral ethics, and organizational contribution, providing a holistic model that aligns moral purpose with professional performance. The findings show that integrating Sharia values into performance management enhances productivity and quality while fostering ethical behavior, intrinsic motivation, and organizational cohesion. Employees are guided not only by external evaluation metrics but also by a deeper accountability to God, colleagues, and society, creating a work environment where moral integrity and operational excellence reinforce each other.

The study contributes theoretically by demonstrating how Islamic ethics can be systematically applied to performance management rather than being treated as abstract principles. Unlike previous research that often considered spirituality as motivational or philosophical guidance, this framework translates Sharia concepts into practical evaluation

dimensions suitable for SMEs. It also emphasizes the importance of contextualization, showing that ethical and spiritual considerations can coexist with economic objectives, thus expanding the discourse on integrating religion and management in organizational settings. By linking classical teachings with contemporary HR practices, the research illustrates that moral values can enhance rather than hinder organizational effectiveness.

Practically, the proposed framework offers SMEs a comprehensive and adaptable tool to improve performance while maintaining ethical standards. The three-dimensional system enables managers to assess employees not only on measurable outcomes but also on sincerity, honesty, diligence, and contribution to collective welfare. This approach strengthens trust, promotes fairness, enhances employee engagement, and supports the development of a sustainable moral culture within the organization. Furthermore, the framework provides guidance for HR policies, appraisal mechanisms, and reward structures that embody Islamic ethical principles, particularly suitable for SMEs with informal structures and close-knit teams where personal trust and ethical behavior are crucial for operational success.

The study also identifies challenges and opportunities in implementing Sharia-based performance management. While limited Sharia literacy among managers, lack of standardized tools, and potential tension between moral ideals and economic targets can hinder adoption, opportunities arise from Indonesia's growing halal economy, public interest in ethical business, and strong communal values such as *gotong royong*. Leaders who internalize Sharia principles and act as ethical exemplars play a pivotal role in sustaining these practices. SME organizations can leverage these cultural and spiritual assets to integrate ethics seamlessly into day-to-day operations, creating a resilient and morally accountable workforce.

Based on these findings, several practical recommendations emerge. SME leaders should enhance Sharia literacy and ethical awareness among employees and managers through training programs. Standardized HR tools, such as evaluation rubrics and reward matrices grounded in Sharia principles, can facilitate consistent application across organizations. Policymakers and business associations could support Sharia-compliant performance management as part of broader SME development programs, particularly in halal-linked industries. Future research should empirically test this framework in real SME contexts to evaluate its effectiveness in improving performance, ethics, and employee engagement. Comparative studies between Sharia-based and conventional performance systems could further validate the model, and cross-

cultural investigations within Southeast Asia could enrich understanding of adaptation and scalability.

In conclusion, this study develops a structured Sharia-based performance management architecture that integrates spiritual accountability, ethical conduct, and organizational evaluation into a unified system. By repositioning Sharia principles from abstract moral guidance to an operational evaluative infrastructure embedded in planning, appraisal, and reward mechanisms, the research advances Islamic management and IHRM scholarship. It demonstrates that religiously grounded ethics can function not merely as behavioral motivation but as a systemic organizational framework capable of enhancing accountability and performance in SMEs.

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