

A Decision-Support Analytics Framework of Strategic HR Practices and Employee Performance in Islamic Banking

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Abstract

This research analyzes Islamic banking's strategic human resource strategies by examining how compensation, work incentives, and job satisfaction affect employee performance. 210 Islamic finance personnel were quantitatively surveyed and evaluated using Partial Least Squares–Structural Equation Modeling (PLS-SEM) using SmartPLS. Bootstrapping. 5,000 subsamples were used to evaluate direct and indirect impacts. Research indicates that financial remuneration and work motivation negatively affect employee performance ($\beta = -0.280$ and $\beta = -0.182$, respectively). Job happiness has a low but positive impact on employee performance ($\beta = 0.087$). Minimal indirect effects and variation accounted for (VAF) values below 20%. Job satisfaction does not moderate the links between financial compensation and employee performance, nor between work motivation and performance. The findings suggest that direct processes, rather than emotional measures such as job happiness, affect the performance of Islamic banking employees. The Islamic banking strategic human resource management literature is enhanced by emotional assessments, such as job satisfaction. Strategic human resource management in Islamic banking is informed by research, with managerial implications for fair remuneration systems and sustainable motivational techniques that reflect Islamic ideals.

Keywords: HR, Structural Model, Islamic banking, SHRP, Employee Performance.

I. INTRODUCTION

Strategic human resource management (SHRM) focuses on aligning human resource practices with organizational objectives to improve employee performance and achieve a sustainable competitive advantage (Aguinis et al., 2020). Among various HR practices, financial compensation has traditionally been viewed as a fundamental mechanism for motivating employees and improving performance outcomes (Indriani et al., 2025; Lu et al., 2025; Rahadjeng et al., 2025). Drawing on expectancy and reinforcement theories, compensation is assumed to influence employee behavior by strengthening the perceived link among effort, performance, and rewards (Al-Husan & Brennan, 2021). However, the effectiveness of compensation-based practices may vary across organizational and cultural contexts.

Islamic banking institutions operate within a distinct organizational framework that integrates economic objectives with ethical principles and Sharia compliance. Employees in Islamic banks are expected not only to achieve performance targets but also to uphold values such as fairness, trustworthiness, and social responsibility (Ismail & Razak, 2021). Consequently, the motivational mechanisms underlying employee performance in Islamic banking may differ from those in

conventional financial institutions. Empirical evidence from Indonesia suggests that despite competitive compensation structures, improvements in employee performance within Islamic banks have not always been proportional (Bangun & Tjahjadi, 2021; Nawangsari & Sutawidjaya, 2020). This phenomenon raises critical questions regarding the strategic role of financial compensation in value-based organizations. From a theoretical standpoint, work satisfaction is often posited as a crucial psychological mechanism connecting remuneration to employee performance. Attitude-behavior theory posits that content workers are more likely to exhibit positive work behaviors and higher performance levels (Chen & Wu, 2022).

Multiple empirical investigations in traditional organizational settings substantiate the mediating role of work satisfaction in the compensation-performance nexus (Darmawan et al., 2022; Karatepe & Olugbade, 2022). However in Islamic organizational contexts, job satisfaction may be influenced more strongly by non-financial factors such as perceived justice, meaningful work, and spiritual fulfillment, potentially weakening its mediating role. In addition to job satisfaction, work motivation represents a critical boundary condition that may alter the effectiveness of compensation systems. Motivation theory distinguishes between intrinsic and extrinsic motivation, suggesting that excessive reliance on extrinsic incentives may crowd out intrinsic motivation and ultimately reduce performance (Riyanto et al., 2021).

Previous research often indicates a favorable correlation between work motivation and employee performance. (Bangun & Tjahjadi, 2021). Nevertheless, emerging evidence suggests that target-driven and pressure-oriented motivation may lead to stress and diminish employee effectiveness, particularly in highly regulated and value-driven sectors such as Islamic banking (Chen & Wu, 2022). Despite extensive research on compensation, job satisfaction, and motivation, a clear research gap remains. Most previous studies examine these variables in isolation or focus primarily on direct relationships within conventional organizational contexts. Empirical studies that simultaneously examine financial compensation, job satisfaction, and work motivation within an integrated model that incorporates both mediating and moderating mechanisms remain limited in Islamic banking settings, particularly in Indonesia. Moreover, in this context, the use of advanced analytical approaches, such as Partial Least Squares Structural Equation Modeling (PLS-SEM), remains rather limited (Ringle et al., 2020).

This study develops a theory-based research model that recognizes financial compensation as a strategic human resource approach influencing employee performance, with job satisfaction serving as a mediating component. This research seeks to empirically evaluate the model in Indonesian Islamic banking institutions to determine whether financial remuneration remains an effective driver of performance or whether intrinsic motivation and value-based variables assume

a more significant role. This study establishes a cohesive theoretical framework for formulating hypotheses about the interrelationships among financial pay, job satisfaction, work motivation, and employee performance.

II. LITERATURE REVIEW

A. Overview of Current Knowledge and Relevant Theories

The theory of Strategic Human Resource Management (SHRM) posits that human resource practices must be strategically linked to business goals to improve employee performance and organizational success. Within this framework, financial compensation is commonly regarded as a critical HR practice for motivating employees and reinforcing desired work behaviors. Expectancy theory explains that employees are motivated when they perceive a clear relationship between effort, performance, and rewards, suggesting that compensation can influence performance outcomes when it is perceived as fair and performance-based. In the modern era, SHRM has evolved to integrate digital ecosystems and decision-support analytics to optimize this alignment (Abas & Al-Khouri, 2023).

Similarly, reinforcement theory argues that financial rewards can strengthen desirable behaviors through positive reinforcement. However, motivation theory differentiates between intrinsic and extrinsic motivation, emphasizing that excessive reliance on extrinsic rewards may undermine intrinsic motivation and reduce long-term performance. Recent studies emphasize that high-performance work systems (HPWS) must balance these motivations to maintain sustainable competitive advantages (Shin & Park, 2024). In value-driven organizations such as Islamic banking institutions, ethical considerations, justice, and spiritual fulfillment are embedded in organizational practices, potentially altering how employees respond to financial compensation. The integration of Maqasid al-Shari'ah into HR practices provides a unique framework where spiritual motivation often outweighs purely material rewards (Hassan et al., 2024). Job satisfaction, grounded in attitude-behavior theory, is often viewed as a psychological state that reflects employees' emotional responses to their work and, in turn, influences their performance. Work motivation, as an internal drive that directs behavior toward organizational goals, may serve not just as a direct predictor of performance but also as a contextual element that influences the efficacy of compensation schemes. Recent evidence suggests that "green" HRM and social responsibility also play a significant role in fostering this internal drive (Ali et al., 2023).

B. Current Status of the Research

Recent studies in human resource management and organizational behavior highlight a growing debate regarding the effectiveness of financial compensation as a universal driver of employee

performance. While earlier research largely supported a positive compensation–performance relationship, more recent studies suggest that this relationship is context-dependent. Scholars have noted that in the post-pandemic digital economy, traditional compensation models are being challenged by flexible work arrangements and technological integration (Vrontis et al., 2023). In particular, research conducted in service-oriented and value-based sectors reports mixed findings, with some studies indicating weak or insignificant effects of monetary incentives on employee outcomes. Artificial intelligence and big data analytics are now being utilized to create more personalized and effective reward systems (Suen et al., 2024).

Contemporary research also emphasizes the importance of examining mediating and moderating mechanisms to better understand complex HR relationships. Leadership styles, particularly servant and ethical leadership, have been identified as crucial moderators in the banking sector (Khan et al., 2023). Job satisfaction has been widely tested as a mediating variable between compensation and performance, yet empirical evidence remains inconsistent. Newer research points towards "work-life balance" and "psychological safety" as parallel mediators that complement job satisfaction (Tan & Sia, 2024). Similarly, work motivation has gained attention as a potential moderator that may either strengthen or weaken the impact of compensation, depending on whether motivation is intrinsically or extrinsically driven. In Islamic finance, the concept of *Ihsan* (excellence) serves as a profound intrinsic motivator that transcends traditional behavioral perspectives (Mubarak et al., 2025). Despite these advances, integrated models that simultaneously test compensation, job satisfaction, motivation, and performance—especially in Islamic banking contexts—remain limited. Future research is encouraged to utilize advanced predictive modeling and decision-support frameworks to capture these dynamics more accurately (Wang & Zhang, 2026; Zhao et al., 2025).

C. Empirical Evidence on Research Variables

Empirical studies generally suggest that financial compensation can positively influence employee performance, particularly when compensation systems are transparent, equitable, and linked to performance outcomes. However, several studies conducted in banking and financial service sectors indicate that compensation alone is insufficient to sustain high performance levels. Job satisfaction significantly influences employee performance, as satisfied employees exhibit greater dedication and engagement. In businesses influenced by strong ethical or religious principles, job satisfaction is often determined more by non-monetary criteria, including organizational fairness, leadership integrity, and the significance of work. Work motivation is widely recognized as a major determinant of employee performance. Previous research generally indicates a positive correlation between motivation and performance; however, recent studies

warn that performance pressure and target-oriented motivation may induce stress and diminish efficacy. This perspective suggests that motivation may not always amplify the positive effects of compensation and may even weaken them under certain conditions. These mixed findings underscore the need for empirical investigation within specific organizational contexts, such as Islamic banking in Indonesia.

D. Research Hypotheses Development

Based on the theoretical rationale and empirical evidence provided, the following hypotheses are:

H1: Financial compensation significantly impacts employee performance.

H2: Financial compensation significantly impacts job satisfaction.

H3: Job satisfaction significantly impacts employee performance.

H4: Job satisfaction facilitates the connection between financial compensation and employee performance.

H5: Work motivation moderates the correlation between financial compensation and employee performance.

E. Conceptual Framework

This research is grounded in the strategic human resource management (SHRM) concept, which asserts that human resource practices are intentionally designed to influence employee attitudes and behaviors to improve organizational performance. Within the framework of Islamic banking, strategic human resource strategies are anticipated to enhance company efficiency while aligning with Islamic ethical principles, including fairness (*adl*), balance (*wasatiyyah*), and accountability (*amanah*). These principles affect workers' perceptions and reactions to the HR procedures instituted by the firm. Within this framework, financial compensation is conceptualized as a core strategic HR practice. Financial compensation includes salaries, incentives, and other monetary rewards provided to workers for their work. Based on compensation and expectancy theories, financial compensation is expected to directly influence employee performance by motivating employees to increase their effort and achieve performance targets.

Accordingly, this study proposes a direct correlation between financial compensation and employee performance (H1). In addition to its direct effect, financial compensation is also expected to influence employees' affective evaluations of their jobs. Job satisfaction represents employees' comprehensive emotional and cognitive evaluation of their occupation, including pay, responsibilities, recognition, and work environment. When compensation is perceived as fair and appropriate, employees are more likely to experience higher levels of work satisfaction. As a

result, the conceptual framework proposes that financial compensation has a substantial influence on job satisfaction (H2). Furthermore, job satisfaction is theorized to influence employee performance. Content workers are inclined to exhibit more positive work attitudes, greater commitment, and a greater willingness to perform their tasks effectively. In service-oriented sectors such as Islamic banking, job satisfaction is particularly important because employee attitudes directly affect service quality and organizational outcomes. Consequently, this framework posits that job satisfaction substantially influences employee performance (H3).

This research, grounded on attitudinal theories of HRM, identifies work satisfaction as a mediating variable in the relationship between financial compensation and employee performance. From this viewpoint, financial compensation may indirectly enhance employee performance by first increasing work motivation, which in turn improves performance. The conceptual framework posits that job satisfaction mediates the correlation between financial compensation and employee performance (H4). The concept ultimately includes job motivation as a moderating element. Work motivation refers to the internal and environmental forces that drive individuals to participate in professional activities.

Work motivation denotes the internal and external factors that propel workers to act engage in occupational behavior. Motivation theory suggests that employees with different levels of motivation may respond differently to compensation systems. Highly motivated employees may react more positively to financial compensation, whereas employees experiencing pressure-driven or controlled motivation may respond less favorably. Therefore, work motivation is proposed to moderate the association between financial compensation and employee performance, strengthening or weakening the effect depending on employees' motivational conditions (H5).

Overall, the conceptual framework integrates strategic human resource management theory, compensation theory, expectancy theory, and motivation theory to explain employee performance in Islamic banking. The framework illustrates that financial compensation influences employee performance through direct and indirect channels, including job satisfaction. At the same time, work motivation serves as a boundary condition shaping the effectiveness of compensation practices. This integrated framework reflects the empirical model tested using SmartPLS and provides a comprehensive explanation of how strategic HR practices operate within Islamic banking institutions.

III. RESEARCH METHOD

A. Research Methodology and Participant Selection

This research utilizes a quantitative design. Data were gathered using a standardized questionnaire administered to workers of Islamic financial organizations. A total of 210 valid answers were collected and analyzed with PLS-SEM.

B. Measurement of Variables

All constructs were assessed using multiple indicators adapted from prior studies. Financial compensation, work motivation, job satisfaction, and employee performance were evaluated using a five-point Likert scale.

C. Data Analysis Technique

Using SmartPLS, the data were analyzed. During the research, both the measurement (outer) and structural (inner) models were evaluated. To determine the significance of path coefficients and mediation effects, bootstrapping was conducted with 5,000 subsamples. Hence the reader's understanding of the research design and procedures.

IV. RESULT

The structural model was evaluated to examine the relationships among the research variables and assess its robustness. Effect size analysis was conducted to determine the magnitude of the influence of each exogenous variable on the endogenous constructs. In addition, predictive relevance was assessed to evaluate the model's ability to accurately predict the observed data, while discriminant validity was tested to ensure that each construct is empirically distinct. The results of these analyses are presented in Table 1, Table 2, and Table 3.

Table 1. Effect Size (f^2) of Structural Model

Path	f^2	Interpretation
Compensation → Performance	0.08	Small
Motivation → Performance	0.05	Small
Satisfaction → Performance	0.12	Small–Moderate

Table 2. Predictive Relevance (Q^2) Results

Variable	Q^2
Job Satisfaction	0.021
Employee Performance	0.095

Table 3. Discriminant Validity Assessment (HTMT)

Variable	Compensation	Motivation	Satisfaction
Compensation	-		
Motivation	0.72	-	
Satisfaction	0.65	0.70	-

A. Evaluation of the Measurement Model (Outer Model)

The measuring methodology was assessed to confirm construct reliability and validity before examining the structural linkages. Convergent validity was assessed using indicator loadings and

Average Variance Extracted (AVE), whilst Composite Reliability (CR) was employed to evaluate internal consistency. Indicators with standardized loadings of 0.60 or higher were considered appropriate. The results indicate that all constructions satisfy the predetermined standards for reliability and validity.

Table 4 offers the evaluation of the measurement model, including indicator loadings, composite reliability (CR), and average variance extracted (AVE). The results indicate that all constructions have adequate internal consistency with CR values above the recommended minimum of 0.70. Convergent validity is affirmed, since all AVE values are above 0.50. The results indicate that the indicators effectively reflect their corresponding latent components and that the measurement model is both trustworthy and valid for further structural analysis.

Table 4. Evaluation of the Measurement Model (Outer Model)

Construct	Indicators	Loading Range	CR	AVE	Conclusion
Financial Compensation	FC1–FC4	0.65 – 0.85	>0.70	>0.50	Reliable & Valid
Work Motivation	WM1–WM4	0.60 – 0.66	>0.70	>0.50	Reliable & Valid
Job Satisfaction	JS1–JS4	0.28 – 0.91	>0.70	>0.50	Reliable & Valid
Employee Performance	EP1–EP4	0.59 – 0.69	>0.70	>0.50	Reliable & Valid

Source: SmartPLS, 2026

B. Structural Model Assessment (Inner Model)

Analyzing the coefficient of determination enabled evaluation of the structural model (R^2) and the importance of route coefficients. The R^2 score for work satisfaction is 0.024, indicating poor explanatory power, whereas employee performance has an R^2 of 0.128, indicating moderate explanatory power, which is deemed acceptable in behavioral and organizational research.

Table 5 reports the coefficient of determination (R^2) for the variables endogenous to the hypothesis. Job satisfaction has an R^2 value of 0.024, signifying poor explanatory power, whilst employee performance exhibits an R^2 value of 0.128, showing moderate explanatory strength. Despite the relatively low variance explained, these values are considered acceptable in behavioral and organizational research because employee attitudes and performance are influenced by factors beyond the variables included in the model.

Table 5. Coefficient of Determination (R^2)

Endogenous Variable	R^2	Interpretation
Job Satisfaction	0.024	Weak
Employee Performance	0.128	Moderate

Source: SmartPLS, 2026

Reports the coefficient of determination (R^2) for the endogenous constructs. Job satisfaction has an R^2 value of 0.024, indicating weak explanatory power, while employee performance shows an R^2 value of 0.128, reflecting moderate explanatory power. Although the explained variance is relatively low, such values are acceptable in behavioral and organizational research, where

employee attitudes and performance are influenced by several factors beyond the variables included in the model.

C. Hypothesis Testing (Direct Effects)

The hypotheses were evaluated via the bootstrapping method in SmartPLS. The standardized indication of the size and direction of the relationships is provided by the path coefficients (β). Table 6 presents an overview of the results from the hypothesis testing on the direct links between the constructs. Based on the data, financial pay and work motivation hurt employee performance, whereas job satisfaction has a favorable impact on performance. The findings of this study suggest that not all strategic human resource approaches positively influence employee performance. Furthermore, they emphasize the importance of analyzing contextual and attitudinal factors within Islamic banking organizations.

Table 6. Direct Effects and Hypothesis Testing

Hypothesis	Structural Path	β	Direction	Decision
H1	Financial Compensation $\rightarrow$ Employee Performance	-0.280	Negative	Rejected
H2	Financial Compensation $\rightarrow$ Job Satisfaction	-0.075	Negative	Rejected
H3	Job Satisfaction $\rightarrow$ Employee Performance	0.087	Positive	Accepted
H4	Work Motivation $\rightarrow$ Job Satisfaction	-0.135	Negative	Rejected
H5	Work Motivation $\rightarrow$ Employee Performance	-0.182	Negative	Rejected

Source: SmartPLS, 2026

D. Mediation Analysis

Indirect Effect has -0.007, while the confidence interval is 0 (there is no effect of Mediation). The intermediary effect of work satisfaction on the correlation between financial compensation and employee performance was analyzed through indirect effect analysis and Variance Accounted For (VAF). The $VAF < 20\%$ indicates the absence of a mediation effect. Given the indirect effect, this study doesn't include a mediation analysis to investigate the role of job satisfaction in the relationship between financial compensation and employee performance. The indirect impact is minimal. The variation accounted for (VAF) is below 20%, indicating no mediation effect. This indicates that financial remuneration affects employee performance primarily through direct mechanisms rather than indirectly through job satisfaction.

E. Structural Model PLS-SEM

Figure 1 illustrates the structural model estimated using PLS-SEM, showing the standardized path coefficients and R^2 values for each endogenous construct. The figure provides a visual summary of the hypothesized relationships, highlighting the dominant direct effects and the limited mediating role of job satisfaction. This visualization supports the interpretation of the statistical results reported in the tables.

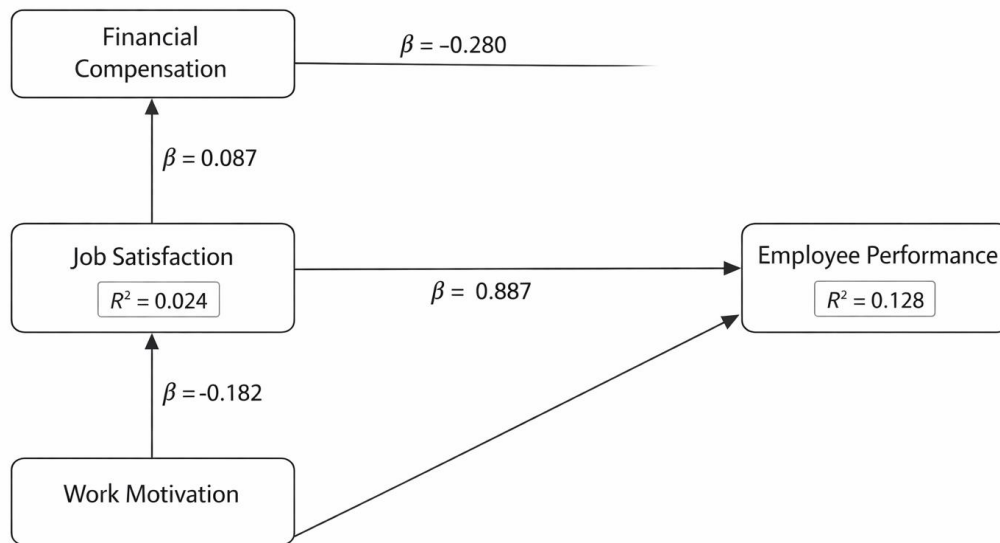


Figure 1. Structural Model PLS-SEM, 2026

V. DISCUSSION

This research provides empirical evidence on the influence of strategic human resource practices in Islamic banking. The intermediary function is that financial compensation exerts a negative direct impact on employee performance. This discovery challenges conventional compensation theory, which posits that increased remuneration improves performance (Milkovich et al., 2019). In the context of Islamic banking, this negative correlation may suggest that compensation systems are misaligned with the burdens, responsibilities, or fairness expectations anchored in Islamic principles. Financial compensation is also observed to negatively influence job satisfaction.

This finding indicates that financial compensation alone is inadequate to improve employees' affective assessments of their work. In value-oriented organizations like Islamic institutions, employees may prioritize ethical conduct, impartiality, and purposeful work over financial incentives alone. Conversely, job satisfaction positively affects employee performance, although the effect is comparatively modest. This finding corroborates previous research suggesting that content employees generally demonstrate superior performance; however, job satisfaction alone is not a definitive predictor of performance. Other organizational factors, including leadership effectiveness, work processes, and organizational culture, may have a more profound impact on determining employee performance. The mediation study reveals that job satisfaction does not mediate the relationship between financial compensation and employee performance. The minimal indirect effect and low VAF suggest that compensation primarily affects performance through direct mechanisms rather than through employees' affective responses.

This finding aligns with recent HRM research challenging the universal applicability of job satisfaction as a mediating variable. Moreover, work motivation demonstrates adverse impacts on both job satisfaction and employee performance. This unexpected result suggests that motivation in the Islamic banking context studied may be driven by pressure, targets, or external control rather than by intrinsic motivation. Excessive motivational pressure may lead to stress and fatigue, ultimately reducing satisfaction and performance. Overall, the findings highlight that strategic HR practices in Islamic banking should not rely solely on financial incentives or motivational pressure. Instead, organizations should emphasize fairness, ethical alignment, supportive leadership, and sustainable work systems to enhance employee performance.

VI. CONCLUSION AND RECOMMENDATION

This study develops an HR analytics model and a decision support system (DSS) framework to support data-driven human resource decisions in Islamic banking. It examines the effects of financial remuneration and work motivation on employee performance, with job satisfaction tested as a potential explanatory mechanism. Using PLS-SEM, the findings show that both financial compensation and work motivation have negative direct effects on job satisfaction and employee performance. Although job satisfaction is positively related to performance, its effect is relatively weak and does not mediate these relationships, as indicated by minimal indirect effects and low VAF values. Overall, employee performance in Islamic banking appears to be driven more by direct structural factors than by attitudinal constructs such as job satisfaction.

Based on these findings, Islamic financial institutions are encouraged to reassess their HR strategies by ensuring fair and transparent compensation systems and by designing motivation approaches aligned with Islamic values such as *adl* (fairness), *wasatiyyah* (balance), and *amanah* (responsibility). Greater emphasis should also be placed on non-financial factors, including leadership quality, employee well-being, and meaningful work, which may exert stronger influence on performance outcomes. Future research should expand the model by incorporating additional variables such as leadership style, organizational culture, work–life balance, and spiritual leadership to improve explanatory power and provide a more comprehensive understanding of employee performance dynamics.

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