


## An Analysis of Human Capital Development in the Indonesian Islamic Banking System

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### Abstract

The aim of this present study was to analyze human capital development in the Indonesian Islamic banking sector. This study mainly discussed the potential of Islamic bank employees' knowledge and skills improvement for strengthening their competitive advantages. The following research used a qualitative analysis method with primary data collection in the form of semi-structured interviews of HR manager's Islamic banks in Indonesia. The result indicated that, indeed, Islamic banks in Indonesia need to strengthen their competitive advantages by delivering effective training to improve employee competency. As mentioned, the finding of the study indicated that Islamic banks have to invest more in human capital development as the source of business value creation for increasing workforce productivity. In addition, the finding of this study contributes to further research to discuss the contemporary issue of human capital development in the Islamic banking industry.

**Keywords:** Human Capital Development, Indonesian Islamic Banking System, Employee, Competency

### ARTICLE INFO

*Article history:*

Received

August 12, 2022

Revised

October 20, 2022

Accepted

November 28,  
2022

Published by  
Website

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## INTRODUCTION

One of the managerial factors that have brought the main attention of Islamic financial scholars which is the impact of human capital development in the Indonesian Islamic banking sector to strengthen their competitive advantage through high-skilled workforce productivity. Most economists critically claim that the lack of effective human capital development is caused by instability in Islamic banking growth.

Accordingly, there were several studies investigated these cases, those were Rahajeng and Hasibuan (2020) on intellectual capital in Shariah banks; Din, et al (2020) on human capital investment state own Shariah banks; Asri (2017) on the effect of human resources in Islamic banking; Huda et al (2016) on the human resource development in Shariah financial industry; Setianto et al (2016) on the intellectual capital and Islamic banks performance in Indonesia. The gap of existing studies on human capital management which are different from human capital development. Indeed, comparative reviews have shown that there is less attention to analyzing the issue of human capital development, and for this reason, the present study explores

human capital development in Islamic banks for improving employee competency performance purposefully. It can be inferred from the comparison of previous studies that reviewed the issue of human resource management in the Islamic banking system which are conducted and examined by many scholars that mostly focused on fundamental investigation for the importance and principle of human capital development, rather than its significant impact on increasing Islamic bank labor force productivity (Asri, 2017). However, previous studies have contributed to the present study to analyze and discuss the contemporary issue of human capital management as a fundamental source for further research and development (Rahajeng and Hasibuan, 2020). An effective research action enables to deliver a solution that significantly has a positive impact for resolve and identify problem objectively (Din et al, 2020).

An economic model is a whole system that consists of its sub-system which is grown efficiently by the high-skilled workforce, and one of the effective sub-system that significantly impacts modern economic growth in the banking sector (Setianto & Sukmana, 2016). Indeed, the banking industry has a systemic role in the financial market that allocate saving and investing funds to provide product and services for promoting business industries. For this reason, after the conventional banking system going on collapses in the capitalistic system world, several Muslim countries launched to develop an alternative banking sector that is able to stabilize their national economy that has a different economic worldview from an Islamic perspective (Huda et al, 2016). Likewise, through the above argument claim, among Islamic countries, Indonesia is one of the largest Muslim societies in the world - starting from 1991 will promotes Islamic banking in contrast to the conventional banking system (Adam & Negara, 2015). In fact, despite robust growth in Indonesian Islamic banking in the last three decades, but Financial Services Authority (FSA/OJK) reported that the total market share of economics Shariah is up 9,03 % (including all Shariah financial institutions) in general, and in terms of the Islamic banking industry, market share contribution is 6,07 percent (FSA Report, 2019). The small size of the market share Islamic banking system and lack of financial growth has brought the attention of Indonesian scholars, experts, and policymakers to figure out the reasons of lacking Islamic banking development in their financial marketplace. (Bakir et al, 2015).

The practical challenges of Islamic banks are debatable issues among Indonesian economic scholars. There are different points of view experts on addressing the problem of Islamic banking in financial, educational, political, organizational, and other factors that caused small size market share (Setianto & Sukmana, 2016). A different factor is significantly considered in Islamic banks' failures, one of the critical factors that scholars argue is the lack of human capital development and employee competency to increase Islamic banks' productivity and strengthen their competitive advantages (Asri, 2017). In fact, logically it is clear that in growing any successful business model that does not matter which is the banking system or health care sector, employee's knowledge and skills that are the fundamental core values and will contribute to delivering innovative products or services for the high-demand of customers' need to have a profitable business (Iswanaji, 2018).

Based on the above statement, Yusuf has discovered that 73 percent of graduate talents from the Shariah Economy Educational Program in Indonesia need practical training to work on Islamic banks skilfully. In fact, there is a similar claim by the Financial Service Authority (FSA/OJK) which is a governmental agency that regulates the Indonesian banking sector predicted that to strengthen Indonesia's Islamic banking

system – the total financial asset must be increased from 6% to 15% in 2023, and to achieve this strategic goal – Islamic banks in Indonesia need 11,000 high-skilled professional Shariah banking experts to meet their demand workforce in the future (Yusuf, 2015). As well as, FSA also stated that currently Indonesian public and private educational institutions prepare and produce only 3,750 graduate talents annually in the field of Islamic economy program study which is really inadequate to support the strategy FSA foresight for Islamic banking stable growth in Indonesia. To prove this claim it is very important to pay attention to another study that has been emphasized previously (Adam & Negara, 2015).

To resolve this issue, Indonesian public institutions need to develop a curriculum for Islamic banking and finance study that should be coordinated and cooperated with the Islamic banking industry. Improving quality education in Islamic finance is not only for getting jobs, but also for improving quality of life, reducing poverty, and creating equal opportunity in reality. Thus, it needs strategies, assessment, planning, and implementation (Alarimy, 2015).

The modern century is the era of a knowledge-based economy, rather than a resource-based economy system, and to achieve this sustainable development goal only by improving Islamic finance quality education that will meet the Islamic bank's highly skilled demands labor marker and also will increase productivity and improve performance by well-trained and educated employees competency (Asri, 2017). This rethinking strategy will start by investing in education program study that graduate talents are very skillful and knowledgeable practically to figure out what is Islamic financial system and how it works in real practice. It is only possible by a “learning by doing” curriculum program study which is helpful for students that can understand what is going on in the current practice of Islamic banks in the real sector and engage them to find its challenges and opportunities not only theoretically, but also practically.

The human capital of Islamic banking is known as a set of knowledge, skills, creativity, and experiences that will strengthen their stability and create economic value and profitability. In the case of Islamic banking, the theoretical issue of human capital development is one of the more important and key engine factors that Sharia economic scholars discovered in their scientific studies critically. The comparative review of previous studies has shown that there is less attention to analyzing the issue of human capital development in Islamic banks. For this reason, the present study explores human capital development theory in the Islamic banking industry to improve employee competency performance purposefully. Furthermore, human capital development in Indonesian Islamic banking is one of the complicated issues, however, recent existing studies have emphasized this critical issue to bring the attention of scholars and experts for the reasons why additional research and innovation need to employ and find out an alternative and new thought of economic understanding that willing to accept investing on human capital.

## **METHOD**

This study used qualitative analysis with primarily collected data in the form of semi-structured open-ended interviews based on inductive analysis on the issue of human capital development in the Indonesian Islamic banking system. The primary source is interviews with human capital managers of Indonesian Islamic banking as credible respondents who will share their knowledge and experiences to find relevant answers to research questions. In this study which proposed to process a scientific

inquiry for analyzing the issue of human capital development in the Islamic banking system.

## **RESULT AND DISCUSSION**

While analyzing collected data from participants from interviews, the following section illustrates the main findings as evidence belonging to the issue of human capital development in Indonesian Islamic banking that consists of several factors which are explained to figure out the present result and discussion outcome. The most problematic issue in raising the economy throughout Indonesian Islamic Banking was employees' competency.

*“I have worked in many companies’ manager, I know that Indonesia has a big job marketplace, but finding high skilled talent for Shariah banks is problem. All graduate students after recruitment need practical training. There is gap between graduate knowledge and our labour demand. They need training before starting their job” - [PARTICIPANT: A]*

Additionally, another participant responded that human capital development for improving employee competency also has its unique risk.

*“Employees training for human capital development has risk of return, because when we make decision, it is very risky after training there is assessment to know that how employee’s performance improve to do their job tasks actively”, - [PARTICIPANT: B]*

Indeed, developing human capital for Islamic banks is not easy, but it is possible to find a strategic way to know how to solve this problem for strengthening their competitive advantages. According to participants for Islamic banks in Indonesia also there is another challenge. The jobs seekers from conventional banks need further training as well.

*“This is true if any candidate from conventional banks apply in our job vacancy to work in Shariah bank after hiring we provide training for them. They need training. Shariah banks is different. New employees even their experience in another sector have to understand it. Actually, finding and selecting right candidate in right place is very costly. During recruitment we pay this cost to select high skilled worker in job vacancy”, - [PARTICIPANT: C]*

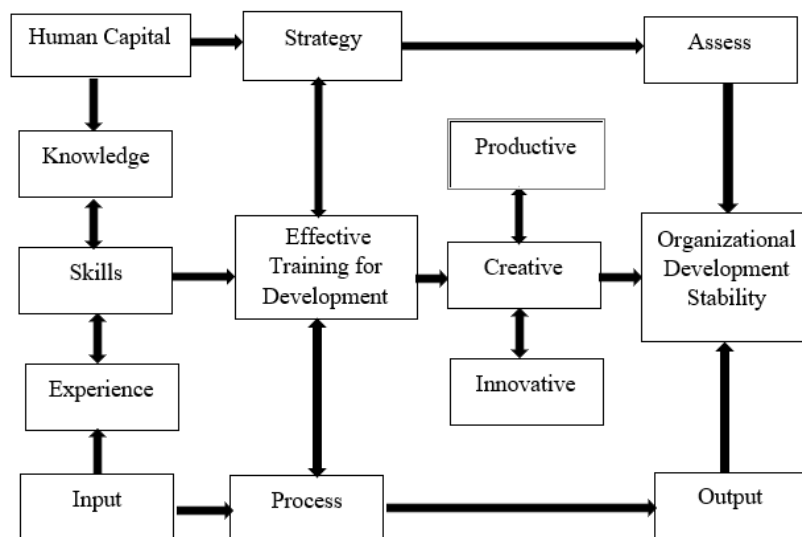
Moreover, respondents claimed that in modern business organizations, the impact of human capital development for stabilizing knowledge-based economy systems plays a vital role to increase their productivity, especially for the Islamic banking sector in Indonesia. Developing human capital in Indonesia is not easy because there are multiple cultural backgrounds that influenced the recruitment process in hiring competent talent. However they try to find a strategy that is helpful for them to resolve their problem in terms of improving employees' knowledge and skills which is the high demand for the Islamic banking system.

*“I think finding high skilled workforce is not only for our Shariah bank is problem, other organization also has this complicated challenge. We work hard to*

*find high skilled candidate, but it needs more effort and cost as well. So, delivering raining for Shariah bank is strategic to have a professional employee”, - [PARTICIPANT: D]*

Indeed, the effect of human capital on the knowledge-based economic system has shown a significant correlation, because economic growth without a high-skilled labor force and well-trained workers is absolutely impossible in the era of the rapidly growing knowledge-based economic system, due to the traditional economic system, the main factors of production were land and mostly physical capital, while the modern economic theory is based on knowledge, skills, creativity, and innovation that enable businesses to produce efficient goods and services. An economic model is a whole system that consists of its subsystem which grows efficiently by the high-skilled workforce, and one of the effective sub-system that significantly impact modern economic growth is the banking sector which is illustrated in **Figure 1**:

Figure 1. The Strategy of Human Capital Development



As detailed in the fundamental issue of human capital development in the background of the study, one of the main factors that enrich the stability of Islamic banking growth in Indonesia is their employees’ competency and high-skilled labor force. So, developing employees’ competency is only possible by delivering effective training that simultaneously improves the high-skilled Islamic banking workforce for achieving business goals. Another participant stated that:

*“In every business company, for example banking system or other sectors, investing on employees training depend on organizational culture. For some organization’s employees training is an opportunity and for others is a challenge. It is depending on supervisory style to lead employees and train them to be well – knowledge”, - [PARTICIPANT: E]*

Indeed, recent studies discovered that intellectual capital does not significantly impact Islamic banks' profitability and the reason for insignificant intellectual capital effects on Islamic banks is providing less training for improving employees’ competency.

*“In my view, there are two choices for Islamic banks in Indonesia; the one is to train employees more, and second is less, because labour force productivity only by training will be increased of any business train more employees, I think productivity will increase”, - [PARTICIPANT: F]*

Nowadays, one of the very important factors that mostly among participants argue and have critically analyzed is delivering training for Islamic banks to improve employees’ knowledge and skills effectively to be an expert in Islamic finance as illustrated in Figure 2.

Figure 2. Transformation Employees’ Competency Improvement



As stated, for promoting and developing Islamic banking in Indonesia numerous claims argued that to achieve this goal, first of all, Islamic finance quality education must be improved appropriately.

*“Yes, indeed there is gap between graduate shariah economy program study and practice of shariah banking, this is problem that talents supply doesn’t meet work demand, they need practical training to work well”, - [PARTICIPANT: G]*

Similarly, another participant confirms the above claim for the mentioned issue as stated:

*“In Indonesia there are many colleges and universities that today teach shariah banking or shariah economy program study, but we need high quality for talent development, and therefore, in my understanding well- educating and developing skill full talent competency increasing productivity is impossible to create business value”, - [PARTICIPANT: H]*

One of the complicated challenges Islamic banking system growth in Indonesia is improving financial literacy from an Islamic perspective and delivering professional program study of Islamic economics and finance to meet the high demand for skilled expertise and customers’ needs in Muslim society. To resolve this issue, Indonesian public institutions need to develop a curriculum for Islamic banking and finance study that should be coordinated and cooperated with the Islamic banking industry in terms of improving quality education and graduate talents who are skilfully meet the high demand of skilled workers in this field which is professionally able to increase productivity and promote Islamic financial literacy theoretically and practically which can be seen Figure 3.

Figure 3. Improving Quality Education of Islamic Finance Study



In fact, a critical study found that 73 % of graduate talents from the Shariah Economy Educational Program in Indonesia need practical training to work on Islamic banks skilfully (Yusuf, 2015). For example, a claim by the Financial Service Authority (FSA/OJK) which is a governmental agency that regulates the Indonesian banking sector predicted that to strengthen Indonesia's Islamic banking system - the total financial asset must be increased from 6% to 15% in 2023, and to achieve this strategic goal - Islamic banks in Indonesia need 11,000 high-skilled professional Shariah banking experts to meet their demand workforce in the future. As well, FSA also stated that currently, Indonesian public and private educational institutions prepare and produce only 3,750 graduate talents annually in the field of Islamic economy program study which is really inadequate to support the strategy FSA foresight for Islamic banking stability growth in Indonesia. For this reason, while interviewing one of the participants stated that:

*“Actually, for Shariah banks in Indonesia the big problem is finding graduate students that have good knowledge about shariah banks. And this relates to the quality of educational study. We really need it, but difficult when graduate students come from different major study and they don't understand shariah business model”, - [PARTICIPANT: I]*

A collaborative learning program for shariah economy study is perfect to prepare fresh graduate because they understand how the system work in practice not only in theory. Practically, Islamic banks in Indonesia have an internship program and annually hire several students to know more about shariah banking before getting a job.

*“I don't think shariah economy program study is not helpful but for improving quality of study, yes I think this very important, because shariah banking in Indonesia is growing every year and they need more talented labour force to join us and work together”, - [PARTICIPANT: J]*

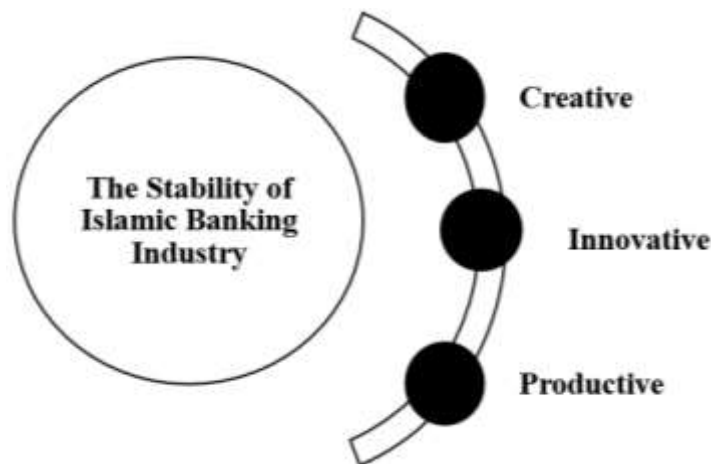
Presently, there are many public and private universities, colleges, and centers of education and training in Islamic finance in Indonesia that prepare and produce graduate talents annually.

*“In my opinion, one thing that is very attractive for us which is coordinating program study and job requirement performance to improve shariah finance and*

*economic study quality, and this strategy will work as I mentioned”,*  
[PARTICIPANT: K]

It is only possible through a “learning by doing” curriculum program study which is helpful for students that can understand what is going on in the current practice of Islamic banks in the real sector and engage them to find its challenges and opportunities. Indeed, improving the quality of education in Islamic finance is not only for getting jobs and graduate talents, but for improving quality of life, reducing poverty, and creating equal opportunity in reality. For this reason, several strategies must be assessed, planned, and implemented. Initially, this strategic process of an effective improvement of Islamic finance quality education requires a collaborative and relevant coordinated program study in which public institutions and Islamic banks cooperate to assess and predict human capital supply and demand that fulfill job performance and labor force productivity. In addition, this formulation also assists in finding out an effective training program study for talents that will be motivated and engaged to deliver excellent career development roadmap in collaboration between Islamic banks and educational institutions dynamically. Modern business is very innovative and changeable for being adaptive to this Islamic finance academicians trend. Islamic bank managers need to work very creatively for resolving those problems.

Figure 4. The Stability of Islamic Banks Workforce Productivity



The present study proposed to investigate the mentioned factor of human capital development in the Indonesian Islamic banking system and to evaluate new phenomena of integrative human capital development that significantly contributes to Islamic banks' workforce productivity and will make this alternative banking sector very uniquely in contrast to the conventional banks to be creative, innovative, and productive for strengthening their competitive advantages. The modern century is the era of a knowledge-based economy, rather than a resource-based economic system, and to achieve this sustainable development goal only by improving Islamic finance quality education that will meet the Islamic banks' highly skilled demands labor marker and also will increase productivity and improve performance by well-trained and educated employees competency. This rethinking strategy will start by investing in educational program study that graduate talents are very skillful and knowledgeable practically to figure out what is Islamic financial system and how it works in real practice.



These factors significantly considered Islamic banks failures, one of the critical factors that scholars argue is the lack of human capital development and employees' competency to increase Islamic banks' productivity and strengthen their competitive advantages. Certainly, this is the key engine of strengthening Islamic banking in Indonesia to be creative, innovative, productive, and able to compete in the financial market in the knowledge era.

There is a strategy to achieve this competitive advantage for Islamic banks in Indonesia, which is delivering effective training for their employees to be more creative, innovative, and productive in contrast to conventional banks for public awareness that creates this question of why doing business with Islamic bank is better to fulfill their needs. Achieving this strategy which makes Islamic banking corporate managers change their decision-making policy for real investing in employees training create value and increase productivity to deliver service and develop a new product that is satisfactory and resolve customers' problem and grow business profitability.

## **CONCLUSION**

We need to improve Islamic Banking employee competency by giving them effective training. The study finding indicated that Islamic banks need to invest more in human capital development as a source of business value creation to increase labor productivity through Shariah Economy Educational Programs, both theoretically and practically. For this reason, the following study suggests that it is only possible to provide a “learning by doing” curriculum program study which is helpful for talented graduates in understanding what is going on in the current practice of Islamic banks in the real sector. Achieving this valuable goal for improving the Islamic banking and finance education system requires a collaborative program study between public institutions and the Islamic banking sector to cooperate mutually to predict an effective supply and demand of human resources that fulfills performance and labor force productivity. In addition, this formulation also assists to find out an effective training program study for talents that will be motivated and engaged to deliver excellent career development roadmap in collaboration between Islamic banks and institutions which is discussed particularly that contributes to further research to inquiry the contemporary issue of human capital development in the Islamic banking industry.

## **ACKNOWLEDGEMENT**

The huge thanks we declared for everybody who has helped the author in finishing this study, especially for gaining graduation from Universitas Islam Negeri Syarif Hidayatullah Jakarta. This is a short text to acknowledge the contributions of specific colleagues, institutions, or agencies that aided the efforts of the authors.

## **AUTHOR CONTRIBUTION STATEMENT**

This article is written by Olimov Sayakhmad as the first author, Muhammad Said and Rini as the contributing author, as well as the second and third authors.

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