EMPLOYEE FLOURISHING, ISLAMIC HUMAN CAPITAL, AND EMPLOYEE PERFORMANCE: THE MEDIATING ROLE OF INNOVATIVE WORK BEHAVIOUR

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Abstract

This study examines the effects of employee flourishing and Islamic human capital on employee performance, with innovative work behavior as a mediating variable. A quantitative approach was employed using a survey method involving 246 employees of Toserba Sunan Drajat across East Java. The data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results indicate that employee flourishing and Islamic human capital have positive and significant effects on employee performance and innovative work behavior. Innovative work behavior also shows a positive and significant effect on employee performance. Furthermore, innovative work behavior significantly mediates the relationship between employee flourishing and employee performance, as well as between Islamic human capital and employee performance. This study contributes to human resource management literature by clarifying the behavioral mechanisms linking employee flourishing and value-based human capital to performance in a competitive retail context.

Keywords: Employee Flourishing, Islamic Human Capital, Innovative Work Behaviour, Employee Performance

INTRODUCTION

The development of the business world in Indonesia shows increasingly competitive dynamics, both in the industrial and service sectors. Fiercer competition requires every organization to not only survive, but also be able to continuously improve its competitiveness. In this context, human resources are seen as a strategic asset that plays a central role in driving productivity, organizational effectiveness, and long-term performance sustainability (Deng et al., 2023; Kim & Jung, 2022; Peethambaran & Naim, 2024). Employee performance is an important indicator of organizational success because it represents the accumulation of individual work behaviors that contribute directly to the achievement of organizational goals (Camelie et al., 2023; Krijgsheld et al., 2022; Zhang et al., 2023). Therefore, managing factors that can improve employee performance has become a strategic issue in human resource management studies.

As the complexity of work demands increases, organizations are not only required to improve technical and structural aspects, but also to pay attention to the psychological well-being of their employees. One concept that is gaining attention in contemporary literature is employee flourishing. This concept is rooted in positive psychology and describes an individual's optimal well-being, which includes positive emotions, work engagement, healthy social relationships, meaning in work, and meaningful achievements (Diener et al., 2010; Ryff & Singer, 2000; Seligman, 2011). Employees who are flourishing tend to have better motivation, energy, and psychological resilience, enabling them to work more productively and adaptively in the face of work pressure (Law et al., 2020; Nur'aini & Mulyana, 2024; Peethambaran & Naim, 2024).

In addition to psychological conditions, the quality of human capital is also an important determinant in improving employee performance. The human capital approach views employees not merely as factors of production, but as valuable assets that can be developed to create organizational competitive advantage (Becker, 1964; Kistyanto et al., 2020; Ningsih et al., 2020; Peethambaran & Naim, 2024). In the context of value-based organizations, human capital development emphasizes not only competence and skills, but also the integration of ethical and moral values in work behavior. This approach is believed to strengthen employee commitment, responsibility, and performance orientation in a sustainable manner (Hadjri et al., 2019; Hashi & Bashiir, 2009).

On the other hand, the dynamics of business competition, particularly in the retail sector, require organizations to encourage adaptive and innovative work behaviors. Innovative work behavior is understood as the behavior of individuals in generating, developing, and implementing new ideas that are beneficial for improving work effectiveness and organizational performance (Babu et al., 2024; Hughes et al., 2018; Jong & Hartog, 2007; Muchiri et al., 2020). Innovative work behavior is an important mechanism that links positive psychological conditions and human capital quality with employee performance. Employees who are psychologically well and supported by a good human resource development system tend to be more daring, creative, and proactive in completing their work (Yasa et al., 2021).

This phenomenon has become increasingly relevant in the context of the growth of the modern retail sector in Indonesia, particularly in East Java. Data from the Central Statistics Agency shows a significant increase in the number of minimarkets and supermarkets over the past decade, indicating increasingly fierce competition in the retail trade sector (Darmawan, 2025). This condition requires retail organizations to strengthen the quality of their human resources in order to maintain performance and competitiveness amid

aggressive market expansion. However, business growth and branch expansion are not always accompanied by stable employee performance, thus creating internal challenges in human resource management.

Previous studies show that the effects of employee flourishing and human capital quality on employee performance still produce mixed findings. A number of studies have found that employee flourishing has a positive effect on performance through increased motivation, work engagement, and resilience (Peethambaran & Naim, 2024; Redelinghuys et al., 2018), but other studies have shown inconsistent effects in certain work contexts (Marques-Quinteiro et al., 2021). Similarly, although Islamic Human Capital has been proven to contribute to improved performance through the internalization of work values and ethics (Hadjri et al., 2019), the mechanisms through which this influence is actualized in work behavior have not been widely studied.

Based on the above description, this study is important to comprehensively examine the relationship between employee flourishing, human capital quality, and employee performance, considering the role of innovative work behavior as a mediating variable. This study is expected to contribute empirically to the development of human resource management literature, particularly in understanding the psychological and behavioral mechanisms underlying employee performance in the context of competitive and value-based retail organizations.

REVIEW OF LITERATURE

Relationship between Two or More Variables

Employee flourishing is a concept of well-being that has developed from positive psychology and describes the optimal condition of individuals in emotional, psychological, and social aspects. Diener et al. (2010) and Seligman (2011) explain that flourishing is not only related to subjective happiness, but also includes work engagement, meaning in life, positive relationships, and meaningful achievements. In an organizational context, employees who are flourishing tend to have higher work energy, motivation, and psychological resilience.

Unlike the conventional concept of human capital, which focuses on knowledge, skills, and technical abilities, Islamic Human Capital (IHC) is a construct that places moral and spiritual values at the core of human resource development. Hadjri et al. (2019) define Islamic Human Capital as the quality of human resources formed through the internalization of Islamic values in organizational practices, including aspects of trustworthiness, honesty, responsibility, justice, and worship orientation at work.

Innovative work behavior (IWB) is understood as individual behavior in generating, developing, and implementing new ideas that are useful for improving organizational performance (Babu et al., 2024; Janssen, 2000). Meanwhile, Jong & Hartog (2007) define innovative work behavior as planned actions by individuals to introduce or apply new ideas, products, processes, or procedures to their roles, units, or organizations.

Various studies such as Rothmann et al. (2018) and Redelinghuys et al. (2019) show that employees with high levels of flourishing demonstrate better performance, both in terms of in-role performance and organizational citizenship behavior. These findings confirm that positive emotional, psychological, and social conditions in the workplace not only reduce employees' desire to leave the organization, but also improve their work quality. Therefore,

the following hypothesis can be developed: H1: Employee flourishing has a positive and significant effect on employee performance.

The alignment of employees' Islamic values with those applied by the organization can increase motivation, loyalty, and sincerity at work (Hadjri et al., 2019; Mahridi, 2022; Pratama, Mochklas, et al., 2024). The integration of Islamic values encourages employees to contribute optimally through increased professionalism, discipline, and the creation of ideas that are beneficial to the achievement of organizational goals. Therefore, the formulation is: H2: Islamic human capital has a positive and significant effect on employee performance.

Employee flourishing plays a strategic role in enhancing innovative work behavior (Dehghanizadeh et al., 2025; Hunsaker, 2022). Flourishing conditions reflected in engagement, optimism, and organizational support create a psychological space that encourages employees to be more creative and bold in expressing new ideas. Therefore, this hypothesis is formulated: H3: Employee flourishing has a positive and significant effect on innovative work behavior.

Employees who possess competencies, knowledge, and work attitudes based on Islamic values tend to be able to complete tasks more creatively, effectively, and efficiently (Chandraningtyas et al., 2024; Pratama, Kamaluddin, et al., 2024). This condition not only improves the quality of work completion but also encourages the optimal utilization of organizational resources. Therefore: H4: Islamic human capital has a positive and significant effect on innovative work behavior.

The company provides space for them to explore ideas, generate new ideas, and implement creative solutions (Babu et al., 2024; Rahman et al., 2020; Siregar & Suma, 2024). This opportunity encourages employees to be more committed to completing tasks optimally, thereby improving performance and enabling the achievement of individual and organizational goals. Therefore, the following hypothesis can be proposed: H5: Innovative work behavior has a positive and significant effect on employee performance.

Positive emotional conditions encourage the emergence of creative ideas and improvements in work methods, enabling employees to display innovative behavior that leads to improved performance (Yasa et al., 2021). Employees who are in a state of flourishing tend to have the psychological readiness to think creatively, seek solutions, and improve work methods, which is then reflected in the quality of task execution and work effectiveness. Therefore, H6: Employee flourishing has a positive effect on employee performance through innovative work behavior.

Islamic work values such as amanah, sidq, ihsan, and istiqamah are important foundations that encourage proactive work behavior and the creation of ideas for improvement within organizations (Wahab & Masron, 2020). These values are an integral part of Islamic Human Capital and play a role in facilitating innovative behavior among employees, which in turn will improve employee performance. H7: Islamic human capital has a positive effect on employee performance through innovative work behavior.

RESEARCH METHOD

This study uses a quantitative approach with an explanatory research design that aims to test the causal relationship between research variables. A quantitative approach was chosen because it allows for objective measurement of variables and testing of hypotheses through statistical analysis (Creswell, 2012). This study was conducted at Sunan Drajat Department Store in East Java, with a research population of 246 employees who were active

during the research period. The sampling technique used was probability sampling, so that each member of the population had an equal opportunity to become a research respondent.

Data collection was conducted using a structured questionnaire with a five-point Likert scale, ranging from strongly disagree (1) to strongly agree (5). The employee flourishing variable was measured using eight items developed by Diener et al. (2010), namely (a) Purpose and meaning; (b) Supportive relationships; (c) Engagement; (d) Contribution to others; (e) Competence; (f) Good person; (g) Optimism; and (h) Respect. The Islamic human capital variable was measured based on four items that reflect the internalization of Islamic work values in organizations, including (a) work experience; (b) Islamic motivation; (c) Islamic business training; (d) Islamic education as formulated by Rafiki et al. (2014). Furthermore, innovative work behavior is measured using indicators developed by Jong & Hartog (2010), which include (a) idea exploration; (b) idea formation; (c) idea promotion; (d) idea implementation. Employee performance is measured based on the indicators of contextual performance and task performance as used in the study by Jyoti & Choudhary (2024).

Data analysis was performed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software. This technique was used because it is capable of testing structural relationships between latent variables simultaneously and is suitable for predictive research models (Hair et al., 2019). The analysis stages included testing the measurement model through construct validity and reliability tests, as well as testing the structural model to assess the direct and indirect effects between variables. The testing of the mediating role of innovative work behavior was carried out using the bootstrapping procedure to determine the significance of indirect effects in the research model.

RESULTS AND DISCUSSION

Inferential Analysis Using SEM-PLS

Inferential analysis in this study was conducted to examine the relationship between latent variables in the research model, namely the effect of employee flourishing and Islamic Human Capital on employee performance with innovative work behavior as a mediating variable. The analytical approach used was Structural Equation Modeling with the Partial Least Squares method (SEM-PLS), as it is suitable for research with complex structural models, relatively limited sample sizes, and does not require normal data distribution. SEM-PLS analysis consists of two main stages, namely the evaluation of the measurement model (outer model) to test the validity and reliability of the indicators that form the latent variables, and the evaluation of the structural model (inner model) to test the causal relationship between variables in the research model.

Measurement Model Evaluation (Outer Model)

The measurement model (outer model) was evaluated to ensure that the research indicators were able to represent the latent variables being measured. All constructs in this study used reflective indicators covering employee flourishing, Islamic Human Capital, flourishing, innovative work behavior, and employee performance. Overall, the measurement model consisted of 32 indicators, which were then tested for validity and reliability.

The initial stage of model measurement evaluation was conducted through convergent validity testing by examining the outer loading values of each indicator. Based

on the results of data processing using SmartPLS, all indicators in the variables of employee flourishing, Islamic Human Capital, innovative work behavior, and employee performance had outer loading values above 0.50 (Ghozali & Latan, 2015). These results indicate that all indicators have met the convergent validity criteria and are valid in representing the measured constructs, so that no indicators need to be removed at the measurement model evaluation stage.

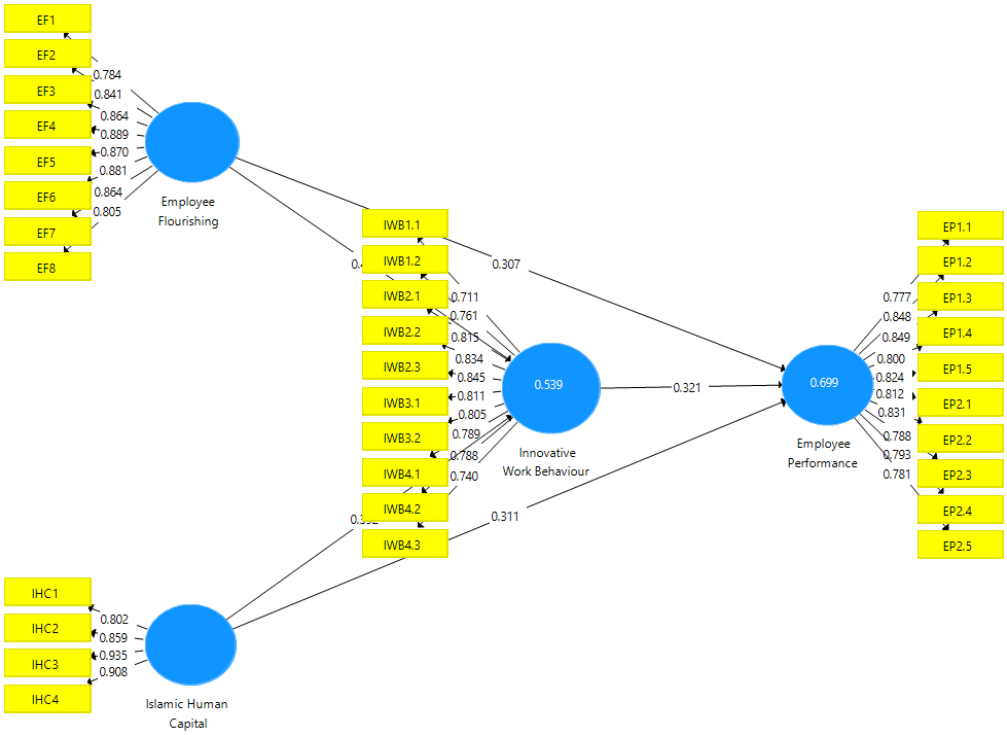

Figure 1.
Final Model after Measurement

Discriminant validity testing was conducted to ensure that each construct in this study was clearly distinguishable from other constructs. Discriminant validity was evaluated by comparing the Average Variance Extracted (AVE) square root values with the correlations between latent variables. The analysis results showed that all AVE values for each variable were greater than their correlations with other variables. In addition, all AVE values were above the minimum threshold of 0.50 (Hair et al., 2017). These findings indicate that each construct was able to accurately represent the measured variables and had adequate discriminant validity.

Table 1.
Discriminant Validity

Variabel	AVE	EF	EP	IWB	IHC
EF	0,723	0,850			
EP	0,657	0,746	0,811		
IWB	0,626	0,680	0,741	0,791	
IHC	0,770	0,707	0,746	0,677	0,878

Source: Data processed (2025)

Reliability testing was conducted to assess the internal consistency of the indicators in measuring each research construct. Reliability evaluation was performed using composite reliability and Cronbach's alpha values. The test results showed that all research variables had composite reliability values above 0.70 and Cronbach's alpha values above 0.60 (Hair et al., 2017). These findings indicate that all constructs in this study meet the reliability criteria and are consistent in measuring the variables under study.

Table 2.

Reliability

Variabel	Cronbach's Alpha	Composite Reliability	Keterangan
EF	0,945	0,954	Reliabel
EP	0,942	0,950	Reliabel
IWB	0,933	0,943	Reliabel
IHC	0,899	0,930	Reliabel

Source: Data processed (2025)

Structural Model Evaluation (Inner Model)

The structural model (inner model) was evaluated by looking at the coefficient of determination (R-square/R^2) to assess the ability of independent variables to explain dependent variables. The analysis results show that the innovative work behavior variable has an R^2 value of 0.539, which means that employee flourishing and Islamic Human Capital are able to explain 53.9% of the variation in innovative work behavior. Furthermore, the employee performance variable has an R^2 value of 0.699, which indicates that employee flourishing, Islamic Human Capital, and innovative work behavior together can explain 69.9% of the variation in employee performance. This value indicates that the research model has strong explanatory power.

Table 3.
R-Square

Variabel	R^2	R Square Adjusted
Employee Flourishing	-	
Islamic Human Capital	-	
Innovative Work Behavior	0,539	0,535
Employee Performance	0,699	0,695

Source: Data processed (2025)

Predictive relevance evaluation (Q-square/Q^2) was conducted to assess the predictive ability of the structural model in explaining endogenous variables. The Q^2 calculation was based on the coefficient of determination (R^2) value of the endogenous variables in the research model (Ghozali & Latan, 2015). The calculation results show a Q^2 value of 0.225, which is positive ($Q^2 \geq 0$). This finding indicates that the research model has good predictive ability and is relevant in explaining the relationship between the variables studied. The Q-Square calculation in this study is presented as follows:

$$Q_{p^2} = 1 - \left(\sqrt{1} - R1^2\right) x \left(\sqrt{1} - R1^2\right)$$
$$Q_{p^2} = 1 - \left(\sqrt{1} - 0{,}539^2\right) x \left(\sqrt{1} - 0{,}699^2\right)$$
$$Q_{p^2} = 1 - \left(\sqrt{0{,}842}\right) x \left(\sqrt{0{,}715}\right)$$
$$Q_{p^2} = 1 - (0{,}917 \; x \; 0{,}845) = \mathbf{0,225}$$

The Goodness of Fit (GoF) index was evaluated to assess the overall suitability of the research model (Ghozali & Latan, 2015). The GoF value was obtained from the square root of the product of the average communality value and R-square. Based on the calculation results, a GoF value of 0.655 was obtained. This value indicates that the research model has a high level of suitability, so it can be concluded that the structural model and measurement model in this study have met the criteria for good feasibility.

Table 3.
Indeks Goodness of Fit

Variabel	Communality	R^2
Employee Flourishing	0,723	-
Islamic Human Capital	0,770	-
Innovative Work Behavior	0,626	0,539
Employee Performance	0,657	0,699
Jumlah	2,776	1,238
Rata-rata	0,694	0,619
Indeks (GoF)	0,655	

Source: Data processed (2025)

In the second stage, the evaluation continued by testing the significance and relevance of the relationships between constructs. This was done by testing the path coefficients using bootstrapping. A relationship was considered significant if the t statistic was ≥ 1.96 and the p value was ≤ 0.05 (Hair et al., 2017).

Table 4.
Hypothesis Testing Results

Relationships Between Variables	Original Sample	t-statistics	p-values	Description
Employee Flourising → Employee Performance	0,307	3,327	0,001	Accepted
Islamic Human Capital → Employee Performance	0,311	3,617	0,000	Accepted
Employee Flourising → Innovative Work Behavior	0,402	3,360	0,001	Accepted
Islamic Human Capital → Innovative Work Behavior	0,392	4,023	0,000	Accepted
Innovative Work Behavior →Employee Performance	0,321	3,556	0,000	Accepted
Employee Flourising → Innovative Work Behavior →Employee Performance	0,129	3,003	0,003	Accepted
Islamic Human Capital → Innovative Work Behavior →Employee Performance	0,126	2,247	0,025	Accepted

Source: Data processed (2025)

The hypothesis testing results show that employee flourishing has a positive and significant effect on employee performance with a coefficient value of 0.307, t-statistic of 3.327, and p-value of 0.001. In addition, Islamic Human Capital also has a positive and

significant effect on employee performance with a coefficient of 0.311, t-statistic of 3.617, and p-value of 0.000. These findings indicate that employee psychological well-being and value-based human capital quality contribute directly to improved employee performance.

Furthermore, employee flourishing has a positive and significant effect on innovative work behavior (β = 0.402; t = 3.360; p = 0.001), as does Islamic Human Capital (β = 0.392; t = 4.023; p = 0.000). Innovative work behavior itself has been proven to have a positive and significant effect on employee performance with a coefficient of 0.321, a t-statistic of 3.556, and a p-value of 0.000.

Furthermore, the results of the indirect effect test show that innovative work behavior significantly mediates the relationship between employee flourishing and employee performance (β = 0.129; t = 3.003; p = 0.003), as well as mediating the relationship between Islamic Human Capital and employee performance (β = 0.126; t = 2.247; p = 0.025). Thus, innovative work behavior acts as a mediating mechanism that explains the conversion of psychological well-being and value-based human capital into improved employee performance.

The Effect of Employee Flourishing on Employee Performance

The test results show that employee flourishing has a positive and significant effect on employee performance, with a coefficient value of 0.307, t-statistic of 3.327, and p-value of 0.001, thus accepting the first hypothesis. This finding indicates that the higher the level of employee psychological well-being, the better the performance produced.

The results of this study are in line with the findings of Peethambaran & Naim (2024), who stated that employees with high levels of flourishing tend to have better work motivation, commitment, and psychological resilience, enabling them to perform optimally. Similar findings were also reported by (Redelinghuys et al., 2019), who emphasized that flourishing conditions contribute positively to work performance, both in the execution of core tasks and in work behaviors that support organizational effectiveness.

In the context of Toserba Sunan Drajat, the positive influence of employee flourishing on performance shows that employee psychological well-being plays an important role in maintaining stability and quality of performance. However, these findings also indicate that flourishing plays a more dominant role in encouraging work attitudes and behaviors, while maximizing technical performance requires adequate organizational systems and practices. This is in line with the Positive Organizational Scholarship perspective, which emphasizes that the impact of positive psychological conditions on performance will be optimal if supported by a conducive work environment and system (Cameron, 2008; Spreitzer & Cameron, 2012).

The Effect of Islamic Human Capital on Employee Performance

The test results show that Islamic Human Capital has a positive and significant effect on employee performance, with a coefficient value of 0.311, a t-statistic of 3.617, and a p-value of 0.000, thus accepting the second hypothesis. These findings indicate that the stronger the internalization of Islamic-based human capital, the higher the employee performance.

The results of this study are in line with the findings of Hadjri et al. (2019), which state that Islamic Human Capital contributes to improved performance through the strengthening of the values of trustworthiness, honesty, and responsibility at work. Similar findings were also reported by Ningsih et al. (2020), as well as Pratama, Mochklas, et al. (2024) and Yuliar (2021),), who emphasized that the integration of Islamic values in work

behavior can improve discipline, loyalty, and task effectiveness, thereby having a positive impact on employee performance.

In the context of Toserba Sunan Drajat, the significant influence of Islamic Human Capital on performance shows that Islamic values have served as the foundation for employee ethics and work ethic. Values such as trustworthiness, honesty, and responsibility encourage employees to maintain discipline, compliance with work rules, and service quality, even under operational pressure. However, optimizing technical performance still requires the support of managerial factors and adequate work systems so that Islamic values can be actualized more effectively in achieving work targets (Hadjri et al., 2019; Ningsih et al., 2020).

The Effect of Employee Flourishing on Innovative Work Behaviour

The test results show that employee flourishing has a positive and significant effect on innovative work behavior, with a coefficient value of 0.402, t-statistic of 3.360, and p-value of 0.001, thus accepting the third hypothesis. These findings indicate that optimal psychological well-being encourages employees to be more open, creative, and ready to engage in innovative work behavior.

The results of this study are in line with the findings of Koroglu & Ozmen (2022) which state that positive psychological conditions, including well-being and emotional support, play an important role in bringing about innovative behavior in the workplace. Employees who are flourishing tend to have higher psychological energy, creativity, and courage to generate and develop new ideas. Similar findings were also reported by Masyhuri et al. (2021), who showed that psychological well-being and work spirituality enhance innovative work behavior by strengthening intrinsic motivation and work engagement.

In the context of Toserba Sunan Drajat, the influence of employee flourishing on innovative work behavior shows that employees who are in a positive psychological state tend to have the cognitive readiness to seek and develop ideas for work improvement. However, these results also indicate that the role of flourishing is more dominant in the idea exploration stage, while the ability to fight for and realize ideas is still influenced by contextual organizational factors. These findings are in line with the Positive Organizational Behavior perspective, which emphasizes that positive psychological resources encourage readiness to innovate, but optimal innovation realization requires social support, collective self-confidence, and adequate room for experimentation (Luthans et al., 2007).

In the context of Toserba Sunan Drajat, the influence of employee flourishing on innovative work behavior shows that employee psychological well-being plays a major role in stimulating cognitive readiness for innovation, such as the emergence of ideas for improving work methods and services. However, the realization of innovative behavior to the stage of advocating and implementing ideas is still influenced by the work context and organizational support. This shows that employee flourishing provides energy and internal readiness, but the optimal actualization of innovation requires social support, collective self-confidence, and adequate room for experimentation.

The Effect of Islamic Human Capital on Innovative Work Behaviour

The test results show that Islamic Human Capital has a positive and significant effect on innovative work behavior, with a coefficient value of 0.392, t-statistic of 4.023, and p-value of 0.000, thus accepting the fourth hypothesis. These findings indicate that the internalization of Islamic values in employees plays an important role in encouraging innovative work behavior.

The results of this study are in line with the findings of Isa & Muafi (2022), which show that the quality of human capital, which includes competence, knowledge, and work values, contributes significantly to the formation of innovative behavior. Similar findings were also presented by Pratama, Mochklas, et al. (2024), who emphasized that value-based human capital can enhance innovation capability by strengthening motivation and work orientation. In this context, Islamic Human Capital as human capital rooted in the values of trustworthiness, responsibility, and a blessing orientation serves as a psychological and moral foundation that encourages employees' readiness to think and act innovatively.

However, the influence of Islamic Human Capital on innovative work behavior is more dominant at the stage of cognitive awareness and internal motivation to innovate, while the realization of innovation to the stage of fighting for and implementing ideas is still greatly influenced by organizational support. This finding shows that Islamic values have shaped employees' innovative intentions and orientation, but the operational actualization of innovative behavior requires adequate structural mechanisms, room for experimentation, and managerial support. This is in line with Chandraningtyas et al. (2024) who state that spiritual capital and individual internal values play a strong role in the early stages of innovation, while the success of innovation implementation depends on a conducive work environment.

The Effect of Innovative Work Behaviour on Employee Performance

The test results show that innovative work behavior has a positive and significant effect on employee performance, with a coefficient value of 0.321, t-statistic of 3.556, and p-value of 0.000, thus accepting the fifth hypothesis. These findings indicate that the higher the innovative work behavior exhibited by employees, the better their performance.

The results of this study are consistent with the findings of Babu et al. (2024), which state that innovative work behaviors, such as generating new ideas, evaluating alternative solutions, and implementing work process improvements, contribute directly to increased employee effectiveness and productivity. Similar findings were also presented by Rahman et al. (2020), who emphasized that innovative work behavior plays an important role in driving optimal performance, especially in work environments that demand high adaptability and flexibility.

In the context of Toserba Sunan Drajat, the positive influence of innovative work behavior on performance shows that innovative employee behavior mainly contributes to improvements in work quality, process efficiency, and operational service adjustments. However, the contribution of innovative behavior to the achievement of more complex technical performance is still greatly influenced by system support, work procedures, and organizational facilities. This shows that innovative work behavior has a significant impact on performance when supported by a work context that allows innovative ideas to be realized consistently.

The Mediating Role of Innovative Work Behaviour in the Effect of Employee Flourishing on Employee Performance

The test results show that innovative work behavior significantly mediates the effect of employee flourishing on employee performance, with an indirect effect coefficient value of 0.129, a t-statistic of 3.003, and a p-value of 0.003, thus accepting the sixth hypothesis. These findings indicate that employee psychological well-being not only has a direct impact on performance, but also works through innovative work behavior as a mediating mechanism.

The results of this study are in line with the findings of Yasa et al. (2021), which state that innovative behavior plays an important mediating role in the relationship between job satisfaction and employee performance. Positive psychological conditions encourage employees to be more creative, engaged, and open to improving work methods, which ultimately leads to improved performance. These findings are also reinforced by Tenney et al. (2016), who emphasize that subjective well-being affects performance through behavioral pathways, such as increased creativity, motivation, and quality of work interactions, which are key elements of innovative work behavior.

In the context of Toserba Sunan Drajat, these findings indicate that employee flourishing serves as a psychological foundation, while innovative work behavior becomes a behavioral mechanism that translates these conditions into productive work actions. Employees who are flourishing tend to have the psychological readiness to seek solutions, improve work processes, and adjust their work methods, which in turn contributes to improved quality and effectiveness of performance.

The Mediating Role of Innovative Work Behaviour in the Effect of Employee Flourishing on Employee Performance

The test results show that innovative work behavior significantly mediates the influence of Islamic Human Capital on employee performance, with an indirect influence coefficient value of 0.126, a t-statistic of 2.247, and a p-value of 0.000, thus accepting the seventh hypothesis. This finding shows that Islamic values internalized by employees not only have a direct impact on performance, but also work through innovative work behavior as a channeling mechanism.

The results of this study are in line with Wahab & Masron (2020), which confirms that Islamic work values such as amanah, ihsan, and istiqamah encourage proactive work behavior and the creation of ideas for improvement within organizations. This finding is reinforced by Isa & Muafi (2022), who show that value-based human capital plays an important role in shaping innovative behavior, which in turn contributes to improved performance. In addition, Yasa et al. (2021) also emphasize that innovative behavior is the main channel through which psychological conditions and work values influence performance achievement.

In the context of Toserba Sunan Drajat, these findings indicate that Islamic Human Capital serves as the foundation for work values and ethics, while innovative work behavior becomes the behavioral mechanism that translates these values into improvements in employee work methods and performance. Islamic values encourage a readiness for improvement and a focus on progress, which are then gradually realized through innovative initiatives before impacting performance improvement.

CONCLUSION

This study contributes to the development of human resource management and organizational behavior literature by examining the relationship between employee flourishing, Islamic Human Capital, innovative work behavior, and employee performance in the context of value-based retail. The main findings indicate that employee flourishing and Islamic Human Capital have a positive and significant effect on employee performance, both directly and indirectly through innovative work behavior. These results confirm that employee psychological well-being and the quality of Islamic value-based human capital not only shape attitudes and work ethic, but also encourage innovative work behavior, which

plays an important role in improving the effectiveness and quality of performance. Furthermore, the mediating role of innovative work behavior indicates that behavioral mechanisms are key in translating positive psychological conditions and Islamic work values into tangible performance achievements. From a theoretical perspective, these findings reinforce the view that psychological factors and internal values of individuals serve as strategic resources that influence performance through innovative behavior. Practically, the results of this study suggest the importance of managing employee well- s and strengthening Islamic work values accompanied by the creation of a work environment that supports innovation, so that employee performance can be improved sustainably.

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